

STATEMENT OF PRINCIPLES AND OBJECTIVES
NGATI RUANUI HOLDINGS CORPORATION LIMITED

2006/2009

BACKGROUND

- A. Ngati Ruanui Holdings Corporation Limited (**NRHC**) is a wholly-owned subsidiary of Ngati Ruanui Group Management Limited (**NRGM**). NRGM is wholly-owned by Te Runanga o Ngati Ruanui Trust (**Te Runanga**).
- B. Te Runanga received certain assets and incurred certain obligations pursuant to the Deed of Settlement between the Crown and Ngati Ruanui dated 12 May 2001 (the **DoS**). On 4 June 2003 the DoS became unconditional and Settlement Redress was transferred to Ngati Ruanui. NRHC has been established to use prudently on behalf of Te Runanga the assets and business activities of Te Runanga allocated to it and to administer them and its liabilities by operating as a profitable and efficient business.
- C. Pursuant to Te Runanga's Amalgamated Deed of Trust (**ADoT**) 19 February 2006, NRGM is required to settle, in consultation with the Directors of NRHC a Statement of Principles and Objectives (**SPO**). The SPO is to relate to a period of three financial years, although Te Runanga can amend this period.
- D. In determining the content of the 2006 SPO, Te Runanga and the Directors of NRHC must have certain criteria listed in sub-para 3.1 of Schedule 4 of the Trust Deed. Te Runanga is developing trust fund allocation policies for the 2006/2007 and subsequent financial years.
- E. Te Runanga has approved this SPO.

1. Asset Aggregation

1.1 Trust Deed

Paragraph 3.1(a) of Schedule 4 of the ADoT provides that Te Runanga and the Directors of NRHC will seek to restrict excessive aggregation of assets by NRHC by selecting nationally or internationally recognised industrial classifications and designating aggregation limits within that classification with the aim of providing it with the best means of monitoring and preventing the excessive aggregation of its assets.

1.2 Relevant considerations

NRGM notes that:

- (a) It is proposed that initially most of the cash settlement amount under the DoS (the **Cash Settlement Amount**) will be fund managed by fund managers appointed by Te Runanga;
- (b) Any fund manager so appointed to manage the Cash Settlement Amount (or part of it) should be required to ensure that it is invested in:
 - (i) Conservative investments; and
 - (ii) A range of assets to spread portfolio risk and avoid excessive aggregation;
- (c) It is proposed that initially the only DoS assets that may be transferred to NRHC or any of its subsidiaries (the **NRGM Group**) from Te Runanga will be the commercial redress properties under the DoS (that were purchased on a commercial basis);
- (d) Te Runanga may require NRHC to monitor and, if necessary, exercise its rights and obligations under:
 - (i) The Deed of Right of First Refusal over Crown-owned land in the DoS (the **RFR Deed**).
- (e) Exercising any rights under the RFR Deed may require:
 - (i) Te Runanga or NRGM to provide funding to NRHC on a case by case basis;
 - (ii) NRHC to mortgage any commercial redress properties that are transferred to it by Te Runanga; or
 - (iii) NRHC to be provided with sufficient capital funding;
- (f) NRGM will need to agree with NRHC what operational funds will be required for the 2006/2007 financial year.

1.3 Recommendations

In view of the above, NRGM, considers that:

- (a) Provided that any fund manager is directed to manage the Cash Settlement Amount under the DoS (or part of it) on a conservative basis, spreading portfolio risk, NRHC need not adopt asset classifications and associated aggregation limits for the 2006/2007 financial year;
- (b) Te Runanga vest or transfer the commercial redress properties under the DoS that were purchased on a commercial basis in the NRHC Group, which will be responsible for ensuring those particular properties provide a commercial return;

- (c) Te Runanga of the 2006/2007 financial year either:
- (i) Maintain in its reserves some of the Cash Settlement Amount for operational purposes (including for purchasing any suitable properties offered under the RFR Deed);
 - (ii) Provide or arrange NRHC with sufficient capital funding from time to time as may be required for operational purposes (including for purchasing any suitable properties offered under the RFR Deed);
 - (iii) Agree that NRHC be entitled to mortgage any properties transferred to it by Te Runanga to provide capital funding to be used for operational purposes (including for purchasing any suitable properties offered under the RFR Deed); or
 - (iv) Implement a combination of any of the above recommendations.

2. Debt to Equity Ratio

2.1 Trust Deed

Sub-clause 3.1(b)(i) of Schedule 4 of the ADoT provides that Te Runanga and the Directors of NRDC will have regard to policies that Te Runanga may from time to time adopt in respect of the ratio of debt to equity which is to be fixed on the basis of prudent commercial practice for a business of a comparable nature.

2.2 Relevant Considerations

NRGM notes that:

- (a) It is proposed that initially most of the Cash Settlement Amount under the DoS will be fund managed by fund managers appointed by Te Runanga;
- (b) Te Runanga may require NRHC to monitor and, if necessary, exercise its rights and obligations under:
 - (i) The Deed of Right of First Refusal over Crown-owned land in the DoS (the **RFR Deed**).
- (c) Exercising any rights under the RFR Deed may require NRHC to mortgage any commercial redress properties that are transferred to it by Te Runanga;

2.3 Recommendations

In view of the above, NRGM, considers that:

- (a) In the event that:

- (i) NRHC is required to monitor and, if necessary, exercise any rights or obligations under the RFR Deed;
- (ii) No capital funding is provided by Te Runanga;
- (iii) Te Runanga transfers the commercial redress properties (or some of them) to NRHC; and
- (iv) NRHC is required to mortgage any commercial redress properties transferred to it in order to exercise rights under the RFR Deed,

NRHC adopt a debt to equity ratio of 50%;

- (b) Any debt to equity ratio would apply until the end of the 2006/2007 financial year or until the Cash Settlement Amount is transferred to NRHC, whichever is earlier; and
- (c) An agreed portion of the Cash Settlement Amount not be transferred to NRHC until NRHC has reviewed and reported to Te Runanga on the appropriate debt to equity ratio for NRHC after receipt of the Cash Settlement Amount by NRHC.

3. Maintenance of cash flow

3.1 Trust Deed

Sub-clause 3.1(b)(ii) of Schedule 4 of the ADoT provides that Te Runanga and the Directors of NRHC will have regard to policies that Te Runanga may from time to time adopt in respect of the maintenance of cash flow adequate to meet the anticipated requirements of NRGM and Ngati Ruanui Development Corporation Limited (**NRDC**).

3.2 Relevant Considerations

NRGM notes:

- (a) It is proposed that initially most of the Cash Settlement Amount under the DoS will be fund managed by fund managers appointed by Te Runanga;
- (b) It is proposed that initially the only DoS assets that may be transferred to the NRHC Group from Te Runanga will be the commercial redress properties under the DoS (that were purchase on a commercial basis); and
- (c) It is unlikely that the assets of NRHC will be sufficient to generate funds to maintain cash flow for NRGM and NRDC.

3.3 Recommendations

In view of the above, NRGM, considers that:

- (a) NRHC should not be responsible for maintaining adequate cash flow to meet the anticipated requirements of NRGM and NRDC for the 2006/2007 financial year; and
- (b) Te Runanga, through NRGM, should maintain sufficient cash from the Cash Settlement Amount under the DoS to maintain cash flow for NRGM, NRHC and NRDC for the 2006/2007 financial year, such amounts to be determined by NRGM in conjunction with NRHC and NRDC.

4. Security

4.1 Trust Deed

Sub-clause 3.1(b)(iii) of Schedule 4 of the Trust Deed provides that Te Runanga and the Directors of NRHC will have regard to policies which Te Runanga may from time to time adopt in respect of the giving of security over assets.

4.2 Relevant considerations

NRGM notes that:

- (a) It is proposed that initially the only tangible assets that may be transferred to NRHC from Te Runanga will be the commercial redress properties under the DoS (that were purchased on a commercial basis);
- (b) Te Runanga may require NRHC to monitor and, if necessary, exercise its rights and obligations under:
 - (i) The Deed of Right of First Refusal over Crown-owned land in the DoS (the **RFR Deed**)
- (c) Exercising any rights under the RFR Deed may require NRHC to mortgage any commercial redress properties that are transferred to it by Te Runanga; and
- (d) The debt to equity ratio that NRGM is recommending for NRHC for the 2006/2007 financial year is 50%.

4.3 Recommendations

In view of the above, NRGM, considers that NRHC should grant security in respect of its assets as and if required, provided that the debt to equity ratio of NRHC does not exceed 50%.

5. Employment of Independent Consultants

5.1 Trust Deed

Sub-clause 3.1(b)(iv) of Schedule 4 of the ADoT provides that Te Runanga and the Directors of NRHC will have regard to policies which Te Runanga may from time to time adopt in respect of the employment of independent consultants to advise on the utilisation of funds available for investment.

5.2 Relevant considerations

NRGM notes;

- (a) It is proposed that initially most of the Cash Settlement Amount under the DoS will be fund managed by fund managers appointed by Te Runanga;
- (b) It is proposed that initially the only DoS assets that may be transferred to the NRHC Group from Te Runanga will be the commercial redress properties under the DoS (that were purchase on a commercial basis); and
- (c) NRHC's functions and operations in the 2006/2007 financial year is likely to be limited.

5.3 Recommendations

In view of the above, NRG M, having consulted with the Directors of NRHC, considers that given the potentially limited role for NRHC in the 2006/2007 financial year, most of the tasks undertaken by NRHC will be undertaken by independent consultants.

6. Other considerations

6.1 Trust Deed

Sub-clause 3.1(b)(v) of Schedule 4 of the ADoT provides that Te Runanga and the Directors of NRHC will have regard to policies which Te Runanga may from time to time adopt in respect of any other matters Te Runanga considers appropriate.

6.2 Relevant considerations

NRGM notes that Te Runanga has not provided any further policies which are relevant to the operations of NRHC for the 2006/2007 financial year.

6.3 Recommendations

No further recommendations required.

7. Consultation on future plans

7.1 Process

NRGM understands that Te Runanga intends to consult with, and seek input from the members of Ngati Ruanui on the development of the strategic direction of Te Runanga. Such a consultative process would involve NRHC (and NRDC). The process itself is yet to be determined, but it is likely that the policies and directives arising out of the process will be incorporated into any future SPO for NRHC.

Ngaonepu Huka Kahukuranui

Director Ngati Ruanui Group Management Limited