

**Statement of Intent (“SOI”) for Far North Holdings Ltd (“FNH”)
For the 3 years ending 30 June 2012**

FNH’s Objectives

The main purpose of FNH is to invest in, develop, operate and divest “strategic businesses”, being businesses/assets that create high priority infrastructure needed by the Far North district, which are not being created in any substantial way by the private sector, and which deliver value to FNH’s shareholder (and therefore ratepayers) in the form of either new or improved facilities that benefit the maximum number of ratepayers.

Within the context of its main purpose as outlined above, FNH’s objectives are to operate within the constraints of its existing capital and provide its shareholder with “an adequate return” on its existing shareholder’s funds, while operating in accord with sound business practices, the requirements of being a good employer, and with a sense of social and environmental responsibility.

“An adequate return” is a financial return on investment (“ROI”) that exceeds FNH’s weighted average cost of borrowings. FNH holds some strategic assets such as wharves, boat launching ramps and jetties which it is acknowledged do not yield an adequate ROI, but these assets will nevertheless be retained because they provide other benefits to communities. These assets are described as “community assets.” In recognition of the fact that community assets do not produce an adequate ROI, the book value of these assets is deducted from shareholder’s funds before the overall ROI is calculated.

Governance

The board of FNH will adopt the following approach to its fiduciary responsibilities to ensure good governance:

- it will prepare a statement of intent setting out its strategic goals and obtain the shareholder’s agreement to this statement.
- It will define its organisation structure and individual accountabilities by preparing clear job descriptions which are a dissection of its corporate objectives.
- It will set corporate budgets for earnings and cash flow and individual performance targets, delegate both responsibility and authority to its employees, and hold regular meetings to monitor progress towards these goals and prepare reports to its shareholder and to ratepayers as required.

Nature and Scope of Activities

FNH currently has a portfolio of businesses/assets some of which are strategic in the sense they create necessary infrastructure (as defined below) and others of which are

not. During the period covered by this Statement of Intent (“SOI”), FNH plans to sell its non-strategic assets and become an investor in only strategic businesses/assets and its existing portfolio of community assets.

FNH will consult with its shareholder to identify generic areas of new high priority infrastructure and then invest in those sectors as opportunities arise. Because of its capital constraints, investing in new sectors will require FNH to recycle its existing capital by divesting, either partially via joint ventures or via a full divestment, some or all of its existing investments in strategic assets, most likely to a private sector operator, after it has begun to operate the business and before the completion of the development, with appropriate covenants to ensure long-term public access/benefit and project completion by the purchaser within a sensible time-frame.

In normal circumstances, divestment of existing strategic assets may occur when the business viability is proven, when around 75% of the development profit can be realised, leaving some upside for the incoming joint-venturer or purchaser. FNH is effectively trading off any remaining development profit against the benefits to FNH of being able to recycle its capital, and expand the total infrastructural facilities within the Far North. FNH will try to align the lead-time of divestment with timing of the reinvestment opportunities that arise.

The cash proceeds from divestment can be either reinvested in the next highest priority infrastructural sector needed by the Far North district, or applied to reduce rate collections/ improve or expand council’s core services, although it should be understood that the latter application of funds will permanently reduce FNH’s financial capacity to reinvest.

FNH will consult with its shareholder with a view to the rationalisation and swapping of assets between FNH and FNDC during the 2009/10 financial year, so as to more closely synchronise the assets held with its main purpose.

Sale of Non-strategic Assets

Application of the above concepts to FNH’s current portfolio of assets will result in the following transactions involving its non-strategic assets:

- FNH will sell FNDC occupied buildings in Kaikohe and Kaitaia to either a third party investor or to FNDC.
- Properties with minimal development or strategic potential will be sold to third party investors for cash, including, the Austin Street site in Opuia and the Memorial Hall in Cobham Road.
- The Selwyn Road site will be divested by a land exchange with the New Zealand Fire Service site on Williams Road.
- The Houhora Telecom land is to be sold to either FNDC or the Crown.
- The Kaikohe airport site, having no short-term development potential and currently used for recreation aviation purposes, will be designated as an

airport and then either be sold to FNDC or a community based airport company or retained by FNH and classified as a “community asset” not yielding an adequate ROI.

- FNH will re-classify its holdings of wharves, boat launching ramps and jetties that it owns or manages as “community assets”, including the Waitangi stone jetty and boat ramp, the Russell pontoon (to be leased back to FNH), the Mill Bay jetty, the wharf at Totara North the Clansman wharf in Whangaroa, Unahi land and wharf and Pukenui wharf.

FNH will use some of the cash generated by the divestments outlined above for an immediate purpose. It intends to invest \$1.4 million in a new 4 unit building on the Opuia Wharf with an estimated return of 8%.

Remaining Strategic Assets

After the divestment of non-strategic assets, FNH will have strategic businesses/assets as follows:

- Opuia waterfront assets including the Harbour Board building, Opuia Cruising Club platform, powder store building, industrial estate buildings on Beechy Street and Lyon Street, the new retail building, marina and associated building including adjacent land areas, quarantine building, vacant land in Baffin Street, the hilltop site, the Opuia wharf, the Colenso triangle land used for disposing of dredgings from Opuia and Ashby’s boatyard and associated buildings.
- Paihia waterfront assets including the Maritime building, Paihia wharf, a 50% interest in the Aquarium restaurant/bar building and the property on SH11 intended to be used for disposal of dredgings from the planned Paihia waterfront development.
- Paihia property assets being the enlarged Williams Road carpark and the adjacent MOE site.
- Okiato and Opuia vehicular ferry ramps.
- Community assets, being the airport assets of Bay of Islands Airport, Kaikohe Airport (unless sold to FNDC) including the management rights at Kaitaia airport and its holdings of wharves, boat launching ramps and jetties.

The Opuia assets will be considered as the first candidate for divestment but only once FNH and FNDC have agreed on the next highest infrastructural priority for the district. In this regard FNDC has suggested that the development of the Paihia Central Business District and waterfront, the securing of sources of aggregate for roading purposes and the securing of landfill sites are likely to be high priority infrastructural assets.

FNH is to investigate the feasibility of investments in these sectors and jointly with FNDC determine whether investment in these sectors should be made by FNH.

The Paihia waterfront and Williams Road assets will need considerable further investment before they are at a maturity where divestment is logical, although a joint venture with the private sector could considerably accelerate this process. In this respect FNH is to undertake all steps necessary to prepare the assets for their best use and fit for purpose so as to encourage private sector joint venture capital investment into these assets.

In assessing divestment options FNH will consider the sale by prospectus of part or all of any given asset or group of assets to the general public, thereby making possible investment in these assets by the community.

Where FNH holds strategic assets that do not provide an adequate return, the Directors shall annually consider if the reason for holding these assets is still valid.

Consolidated Shareholders' Funds and Total Assets

Consolidated shareholders funds which includes share capital, reserves and retained earnings, are estimated to be \$41 million at 30 June 2009, whilst total assets, which include current assets, fixed assets and the investment in Paihia Maritime Properties Ltd, is estimated to be \$55 million. The ratio of FNH's consolidated shareholders funds to total assets is 75%. This ratio will increase if FNH buys back some of the shares in FNH held by FNDC or if FNH acquires new assets financed with debt, and decrease if assets are sold for more than book value. Until the structure of the transactions to divest non-strategic assets is known, it is not possible to predict the ratio of shareholders funds to total assets.

Accounting Policies

FNH's current accounting policies are set out in the notes to its annual financial statements at 30 June 2009. There are no material changes in accounting policies envisaged over the period covered by this SOI.

Performance Targets

FNH's operating profit is expected to exceed \$0.8 million per annum during the period of this SOI. Non-operating profits, being revaluation increments and/or realised gains on the sale of fixed assets, are unable to be predicted but historically have averaged between \$2 million and \$3 million per annum. However, it is probable that the global financial crisis which emerged in late 2008 will interrupt this trend. No revaluation increments and decrements are assumed for the period of this SOI.

Distributions to Shareholders

During the period of this SOI, FNH will distribute 50% of its operating profit by way of dividend. The remaining operating profit and all the non-operating profits will be reinvested by FNH.

Information to Shareholders

During the period covered by this SOI, FNH will provide quarterly reports to its shareholder in November, February, May and an annual report in August. FNH will provide details of its forecasts of earnings, cash flow, and balance sheet structure, if requested by its shareholder. FNH will, in addition, meet informally with FNDC as required by either FNH or its shareholder, to deal with any other matter of mutual interest.

Transactions with Far North District Council

In transactions with Far North District Council for the provision of goods and/or services, FNH will seek trading terms and conditions applicable to external customers.

Acquisition of Shares

If FNH wishes to acquire shares in another company or organisation, it will advise its shareholder at least 30 days in advance.

Estimated Value of Shareholders Investment in FNH

The estimated value of the shareholders investment in FNH at 30 June 2009 is \$41 million. Subject to the possibility of share buy backs, the investment is expected to increase by \$0.4 million per annum; being the predicted operating profits less dividends with no revaluation increments or decrements on its fixed assets.