Crowe Horwath.
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Hokotehi Moriori Trust

Financial Report 2017

This financial report comments on the financial results for the Hokotehi Moriori Trust ("HMT") Group for the 12 months ended 30 June 2017. The HMT Group results incorporates the results of HMT itself, Kopi Holdings (covering the Kaingaroa and Henga farms and the Henga lodge), Hokotehi Settlement Quota Holding Company (quota income) and Te Keke Tura Moriori Identity Trust.

Overall, the HMT Group achieved a net operating surplus for the year ended 30 June 2017 of $298,604 compared to $116,809 for the previous year, an increase of 156%. Taking into account the revaluation of the quota holdings, the comprehensive surplus was $6,808,627 compared to a surplus of $857,928 last year, which is a significant improvement.

Key components of the result are as follows:

Income

Material changes in revenue between the years is as follows:

- Government grants received up by $267,000 – this is largely a result of increased claims from the Office of Treaty Settlements to fund Treaty of Waitangi costs incurred by HMT;
- ACE income up by $404,000 – increased revenue from the additional crayfish quota purchased during the year (see below);
- Rental income up by $43,000 reflecting a full year of leasing the Henga Lodge to the Memorial Park Alliance;
- Farming income down by $153,000 – the reduction in farming income is due to a couple of factors. Firstly, returns from wool were very low over the past year which had an impact of $68,000 on current year's farming revenue. Secondly, the value at which livestock on hand is accounted for at year end was reduced to more accurately reflect current market values. This adjustment had a one-off impact on the current year results which is an accounting adjustment only and did not affect cash returns achieved;
- Interest income, which is generated principally through Te Keke Tura Moriori Identity Trust, was down by $78,000 due to lower interest rates available in the market on surplus funds.

Expenses

Material changes in expenses between the years is as follows:

- Wages down by $77,000 due principally to a reduction in payments relating to overhead wages;
- Other overhead expenses up by $214,000. The increase in overhead expenses is largely a result of additional expenditure incurred in relation to Treaty negotiations. Note that these expenses are covered by Office of Treaty Settlement reimbursements which were up correspondingly during the year as well;

- Interest expense was up by $66,000 during the year due to the additional debt taken on by Kopi Holdings Limited in purchasing the crayfish quota during the year.

Purchase of Cra6 quota

The 2017 financial statements were significantly impacted on by the decision made by the trustees to exercise the option granted in 2009 by Aotearoa Fisheries Limited for the purchase of 5,617,222 shares of crayfish quota for $9.3 million. This purchase has had a number of direct effects on the financial statements as follows:

- ACE gross income increased by $526,000;
- Interest costs increased by $90,000 due to the additional loans taken out to purchase the quota;
- Overall debt and the value of quota (before revaluations) increased by $9.3 million.

One other significant financial impact was the revaluation of the quota at year end. While there was a general uplift in the valuation of quota there was a significant revaluation of the quota purchased during the year which helped contribute to the overall revaluation of all quota stocks of $6.5 million.

Conclusion

The HMT Group had an excellent year overall from a financial perspective. Group-wide comprehensive income, including the revaluation of quota, increased from $857,928 in 2016 to $6,808,627 in 2017. The Group has a number of revenue streams which is providing some diversity to help even out overall earnings on a year-by-year basis. It is pleasing to note that while this year was tougher for the farming operations compared to last year, the overall Group's results were still nevertheless ahead of last year due to contributions from other areas. It is important that this diversity is maintained to assist in alleviating undue concentrations of risk that could impact on the Group's finances.

Hughes

Haydn Hughes
Principal