Annual Report

MWRC Holdings Ltd
For the year ended 30 June 2019

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Directors Report

MWRC Holdings Ltd
For the year ended 30 June 2019

Chairman's Report

Following the successful bid to build the Inland Revenue building in Victoria Avenue in the previous financialyear, these financial accounts now reflect the impact of that successful outcome. There has been a significant increase in the asset base due to the work in progress for the building, which currently sits at $18.5M of a total projected cost of $25M, plus the recent revaluation of the shareholding in CentrePort Ltd. This is offset by the introduction of debt in the form of the loan from Horizons Regional Council, which was approved as part of the Horizons Consultation process and adoption of the Councils Long-term Plan. At year end $15M of the approved $17M had been received.

North Street has progressed as expected making a surplus of $206k, slightly ahead of the year end forecast position by $16k due to the timing of the rental review being earlier than expected. The valuation for the North Street building came in at $3.05 million, which is no change from prior years.

The Victoria Avenue development is tracking as planned with the project approximately 80% complete at year end. In addition to the $18.7M costs incurred in the development to date, there are additional costs relating to the development that are not being capitalised, such as the ground lease and project management costs. Currently the net impact of these is ($320k).

Overall MWRCH is showing a profit of $595k,compared to a budget of $531k. Dividends have been received from CentrePort in line with budget, however the subvention payment to Council for 2018 was less than expected resulting in a favorable variance of $280k.

Financial Statements

The financial statements required by section 66 of the Local Government Act 2002 (LGA(2002)), are attached.

________________________ ___________________________

E B Gordon I A Wilson

Date: 23 September 2019

Registered Office

C/o Horizons Regional Council

11-15 Victoria Avenue
Palmerston North

Auditors

Audit New Zealand on behalf of the Controller and Auditor General.

All Directors listed their interests in the register on being appointed to the company.

The following interests were registered at balance date:

Director	
I A Wilson	
Corporate Involvements Ltd	- Director/Shareholder
Levno Ltd	- Director
Wilson Trusts Partnership	- Trustee/Beneficiary
E B Gordon	
Bruce Gordon Contracting Ltd	- Director
E.B. Gordon Ltd	- Director and 100% Shareholder

The Companies Act 1993 requires disclosure of the amount of donations, audit fees, fees for other services from the auditor, and the number of employees of the company who received remuneration and other benefits above $100,000 per annum, in brackets of $10,000. For this financial year, no staff were employed by MWRCH. The audit fee was $7,298 GST exclusive to Audit New Zealand. There were no audit fees for other services and no donations made.

Directors' Insurance

The company has arranged Directors' and Officers' liability insurance cover for $2 million with QEB Insurance(International) Limited and IAG NZ Limited to indemnify the Directors' against loss as a result of actions undertaken by them as Directors and employees provided they operate within the law. This disclosure is made in terms of Section 162 of the Companies Act 1993.

Directors' use of Company Information

The Board received no notices during the year from Directors requesting use of company information received in their capacity as Directors which would not have otherwise been available to them.

Statement of Responsibility

In terms of the Local Government Act 2002, the Board of Directors is responsible for the preparation of MWRC Holdings Limited's financial statements and to assist the company meet its objectives and any other requirements in its Statement of Intent (SOI).

The Board of Directors of MWRC Holdings Limited has the responsibility for establishing, and has established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board of Director’s opinion, these financial statements fairly reflect the financial position and operations of MWRC Holdings Limited for the year ended 30 June 2019.

Signed on behalf of the Board of Directors:

__________________________ __________________________

E B Gordon	I A WIlson

Date: 23 September 2019

Statement of Comprehensive Revenue and Expense

MWRC Holdings Ltd
For the year ended 30 June 2019

	NOTES	2019	2019 SOI	2018
Revenue				
Rents		248,371	233,520	233,520
Interest	1	94,439	10,204	14,647
Dividends		923,077	923,202	461,539
Gain on Investment property revaluation		13,761	-	-
Total Revenue		**1,279,648**	**1,166,926**	**709,706**
Expenses				
Administration Costs	2	179,013	193,142	175,629
Directors Fees		10,000	10,000	10,000
Finance Costs	1	263,478	413,000	3,987
Rental Expenses		47,941	20,000	20,986
Subvention Payment to Council		(280,212)	-	393,195
Feasibility Study - New Business		-	-	249,385
Victoria Avenue Development	3	464,577	-	11,927
Total Expenses		**684,797**	**636,142**	**865,110**
Surplus/(deficit) before tax		**594,851**	**530,784**	**(155,404)**
Income tax expense				
Income tax expense	4	(78,823)	-	8,090
Surplus/(deficit) after tax		**673,674**	**530,784**	**(163,494)**
Surplus/(deficit) attributable to MWRC Holdings Ltd		**673,674**	**530,784**	**(163,494)**
Surplus/(deficit) after distributions		**673,674**	**530,784**	**(163,494)**
Other comprehensive revenue and expense				
Revaluation of Financial Assets to fair value	8	11,700,000	-	-
Total comprehensive revenue and expense		**12,373,674**	**530,784**	**(163,494)**

The accompanying notes form part of these financial statements; all figures are exclusive of GST unless otherwise stated

Explanations of major variances against budget are provided in the notes.

Statement of Financial Position

MWRC Holdings Ltd
As at 30 June 2019

	NOTES	30 JUN 2019	2019 SOI	30 JUN 2018
Assets				
Current Assets				
Cash and cash equivalents	5	4,977,162	1,013,000	4,540,445
Debtors and Accruals	6	71,024	-	7,688
Goods and Services tax	6	471,282	-	161,289
Income Tax Receivable	6	31,155	3,000	14,556
Other Current Assets	7	312,228	-	-
Total Current Assets		**5,862,852**	**1,016,000**	**4,723,978**
Non-Current Assets				
Other Financial Assets	8	39,000,000	27,300,000	27,300,000
Investment Property	10	21,550,000	20,150,000	5,815,267
Deferred Tax Asset	4	59,634	-	-
Total Non-Current Assets		**60,609,635**	**47,450,000**	**33,115,267**
Total Assets		**66,472,487**	**48,466,000**	**37,839,244**
Liabilities				
Current Liabilities				
Creditors and Accrued Expenses	12	2,551,117	209,000	875,786
Provisions	11	-	-	396,573
Borrowing and other financial liabilities	13	-	-	-
Total Current Liabilities		**2,551,117**	**209,000**	**1,272,359**
Non-Current Liabilities				
Borrowing and other financial liabilities	13	15,000,000	11,000,000	-
Deferred Tax Liability	4	-	11,000	19,189
Total Non-Current Liabilities		**15,000,000**	**11,011,000**	**19,189**
Total Liabilities		**17,551,117**	**11,220,000**	**1,291,548**
Net Assets		**48,921,370**	**37,246,000**	**36,547,696**
Equity				
Contributed Capital	14	31,500,000	31,500,000	31,500,000
Accumulated Funds	14	3,803,369	3,828,000	3,129,695
Reserves	14	13,618,001	1,918,000	1,918,001
Total Equity		**48,921,370**	**37,246,000**	**36,547,696**

The accompanying notes form part of these financial statements; all figures are exclusive of GST unless otherwise stated.

Explanations of major variances against budget are provided in the notes.

Statement of Changes in Equity/Net Assets

MWRC Holdings Ltd
For the year ended 30 June 2019

	2019	2019 SOI	2018
Equity			
Balance at 1 July	36,547,696	36,715,000	30,611,190
Total Comprehensive Revenue and Expense for the year	673,674	531,000	(163,494)
Revaluation reserves	11,700,000	-	-
New Capital Introduced	-	-	6,100,000
Balance at 30 June	**48,921,370**	**37,246,000**	**36,547,696**
Total Comprehensive Revenue and Expense Attributable to			
MWRC Holdings Ltd	673,674	531,000	(163,494)

The accompanying notes form part of these financial statements; all figures are exclusive of GST unless otherwise stated.

Explanations of major variances against budget are provided in the notes.

Statement of Cash Flows

MWRC Holdings Ltd
For the year ended 30 June 2019

	2019	2018
Cash Flows from Operating Activities		
Dividends	923,077	461,539
Interest Received	94,410	14,647
Other Income	248,011	233,880
Income tax received/(paid)	(31,155)	(4,834)
Payments to suppliers	(793,225)	(472,784)
GST	(402,554)	(64,444)
Total Cash Flows from Operating Activities	**38,564**	**168,004**
Cash Flows from Financing Activities		
Proceeds from loans borrowed from other parties	16,000,000	-
Repayments of loans borrowed from other parties	(1,000,000)	(1,000,000)
Capital introduced/received	-	6,100,000
Cash Flows from Other Investing and Financing Activities	(39,333)	-
Subvention payments	(116,361)	(116,218)
Total Cash Flows from Financing Activities	**14,844,306**	**4,983,782**
Cash Flows from Investing Activities		
Payments to purchase investment property	(14,446,153)	(2,099,439)
Total Cash Flows from Investing Activities	**(14,446,153)**	**(2,099,439)**
Net Increase/ (Decrease) in Cash	**436,717**	**3,052,347**
Cash Balances		
Cash and cash equivalents at beginning of period	4,540,445	1,488,098
Cash and cash equivalents at end of period	4,977,162	4,540,445
Net change in cash for period	436,717	3,052,347

The accompanying notes form part of these financial statements; all figures are exclusive of GST unless otherwise stated.

Explanations of major variances against budget are provided in the notes.

Statement of Accounting Policies

MWRC Holdings Ltd
For the year ended 30 June 2019

MWRC Holdings Limited (MWRCH) is a Council Controlled Trading Organisation (CCTO),owned 100% by Horizons Regional Council (HRC). MWRCH was incorporated on 14 December 2009 and commenced trading on 15 December 2009. MWRCH was primarily incorporated for the purposes of managing the investments of HRC and has designated itself a Public Benefit Entity (PBE) for Financial Reporting purposes, in keeping with the designation of the shareholder.

The financial statements are those of MWRCH, for the year ended 30 June 2019 , and were authorised for issue by the Board of Directors on 23 September 2019 .

Basis of Preparation

The Financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of MWRCH have been prepared in accordance with the requirements of the Local Government Act 2002, which include the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZGAAP).

The financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) for a Tier 2 entity. MWRCH is not publicly accountable and expenditure is not higher than $30 million. These financial statements comply with PBE standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar.

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Specific accounting policies for major categories of revenue are outlined below:

Other Revenue

Other forms of revenue including fees, charges, and other revenues are recognised on a percentage of completion of the transactions as at the reporting date.

Dividends received are recognised when the right to the payment is established.

Interest revenue is recognised using the effective interest method. Interest revenue on an impaired financial asset is recognised using the original effective interest rate.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the term of the lease.

Expenditure

Expenditure is recognised on an accrual basis when the service was provided, or the goods received.

Income Tax

Income tax expense may comprise both current and deferred tax and is calculated using tax rates that were enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which MWRCH expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination or transactions recognised in other comprehensive revenue and expense, or directly in equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, on demand or call deposits, other short-term deposits with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities, in the Statement of Financial Position.

Trade and Other Receivables

Trade and other receivables are initially stated at their face value, less any provision for impairment.

Other Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which MWRCH commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and MWRCH has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive revenue and expense.

The classification of a financial asset depends on the purpose for which the instrument was acquired. MWRCH has the following assets:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater that 12 months after the balance date, which are included in non-current assets.

After initial recognition, they are measured at amortised cost, using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

Fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above.

They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. MWRCH includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value with gains and losses recognised in other comprehensive revenue and expense.

On de-recognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to the surplus or deficit.

Impairment of Financial Assets

Financial assets are assessed for evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

Loans and receivables

Impairment is established when there is evidence that the Company will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership,or liquidation and default in payments are indicators that the assets is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables,the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, local authority stock, government bonds, and community loans, are recognised directly against the instrument's carrying amount.

Financial assets at fair value through other comprehensive revenue and expenses

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties or the debtor, probability that the debtor will enter into bankruptcy, and default in payments are objective indicators that the assets is impaired.

If impairment evidence exists for investments at fair value through other comprehensive revenue and expense, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Equity instrument impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, all investment property is measured at fair value at each reporting date. Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

Payables

Short term creditors and other payables are recorded at their face value.

Borrowings

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless MWRCH has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing Costs

All borrowing costs are recognised as an expense in the period in which they are incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "financial costs".

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of reserves.

The components of equity are:

- investment revaluation reserves;
- accumulated funds; and
- contributed capital.

Investment Revaluation Reserves

These reserves relate to the revaluation of MWRCH's investment in CentrePort Limited. This reserve comprises the cumulative net change in the fair value through other comprehensive revenue and expense.

Goods and Services Tax (GST)

These financial statements are presented net of GST, except for receivables and payables which are inclusive of GST. Where GST paid is not recoverable, due to it relating to exempt items, the GST inclusive amount is recognised as part of the related asset or expense including the GST relating to investing and financing activities.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or recovered from, the IRD is recognised as an item in operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Critical Accounting Estimates and Assumptions

In preparing these financial statements, estimates and assumption have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Estimating the fair value of the Investment Property – Note 10
- Estimating the fair value of the CentrePort Investment – Note 8

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

- Fair value of the Investment Property – Note 10
- Fair value of the CentrePort Investment – Note 8
- CentrePort is not an associate due to its minority shareholding and has therefore been accounted for as fair value – Note 8

Notes to the Performance Report

MWRC Holdings Ltd
For the year ended 30 June 2019

	NOTES	2019	2018

1. Interest Revenue and Finance Costs

	NOTES	2019	2018
Interest revenue from term deposits, call accounts and use of money interest		94,439	14,647
Finance Costs			
Interest on borrowings from parent (Horizons Regional Council)		263,478	3,987
Total Finance Costs		**263,478**	**3,987**
Net Finance Costs		(169,039)	10,661

2. Administration Expenses

	NOTES	2019	2018
Consulting and accounting fees		142,134	118,360
Insurance		23,163	6,495
Audit Fees		7,298	7,196
Other administration		6,418	43,578
Total Administration Expenses		**179,013**	**175,629**

3. Victoria Avenue Development

	NOTES	2019	2018
Project Management		228,767	-
Ground Lease		132,000	-
Local Authority Rates		21,159	11,092
Insurance		82,651	836
Total Victoria Avenue Development		**464,577**	**11,927**

4. Tax

	NOTES	2019	2018
Components of tax expense			
Current Tax		-	-
Deferred Tax		(78,823)	8,090
Total Components of tax expense		**(78,823)**	**8,090**
Relationship between tax expense and accounting surplus			
Net surplus/(deficit) before tax)		921,781	(155,404)
Tax and Tax Adjustments			
Tax at 28%		258,099	(43,513)
Non-deductible expenditure		-	77,513
Non-assessable income		(78,460)	-
Gross up effect of imputation credits		100,512	10,077
Tax credit arising from imputation credits		(358,974)	(35,987)
Tax expense for the year		**(78,823)**	**8,090**

No subvention payment required this year as there are enough imputation credits to satisfy the total tax liability. (2018 - $396,573).

Deferred Tax Liability

Deferred tax assets/(liabilities	Investment Property	Financial Instruments	Other Provisions	Total
Balance at 1 July 2017	(13,805)	-	1,986	(11,099)
Charged to surplus or deficit	(6,104)	-	(1,986)	(8,090)
Charged to other comprehensive revenue and expense	-	-	-	-
Balance at 30 June 2018	(19,189)	-	-	(19,189)
Charged to surplus or deficit	(6,104)	-	84,927	78,823
Charged to other comprehensive revenue and expense	-	-	-	-
Balance at 30 June 2019	(25,293)	-	84,927	59,634

5. Cash and cash equivalents

	NOTES	2019	2018
Cash at bank and on hand		4,977,162	4,540,445
Total Cash and cash equivalents		**4,977,162**	**4,540,445**

6. Receivables and Accruals

	NOTES	2019	2018
GST Refund Due		471,282	161,289
Income Tax Receivable		31,155	14,556
Debtors and Accruals			
Prepayments		56,804	7,688
Sundry Receivables		2,643	-
Accounts Receivable		11,578	-
Total Debtors and Accruals		**71,024**	**7,688**
Total Receivables and Accruals		**573,462**	**183,532**

7. Other Current Assets

	NOTES	2019	2018
Retentions Held in Trust		312,228	-
Total Other Current Assets		**312,228**	**-**

Retentions held are in a bank account managed by Council.Retentions are expected to be paid at the end of the 12 month defect liability period.

	NOTES	2019	2018

8. Other financial assets

Unlisted shares in CentrePort Ltd (23.08% shareholding). Recognised at fair value.		39,000,000	27,300,000

Impact of the 2016 Kaikoura Earthquake on investments

Overview

CentrePort's property and port assets sustained significant damage during the 14 November 2016 (Kaikoura) earthquake. CentrePort is the single largest investment that MWRC Holdings Ltd owns and represents 80% of the $49 million of MWRC Holdings Ltd net assets at 30 June 2019.

The Directors' have increased the carrying value of the Company's 23.08% shareholding in CentrePort as at 30 June 2019 after receiving independent valuation advice from PwC (In 2018 there was no change).

CentrePort's property and port assets sustained significant damage during the 14 November 2016 (Kaikoura) earthquake. CentrePort has significant material damage and business interruption insurance cover. The earthquake's impact on CentrePort's cash flows this year and over the period of its forecasts is material. In particular the extent of the Company's future capital spend on port operating assets. The valuation advice for port operations was determined using a discounted cash flow methodology based on the following information provided by CentrePort:

• 2020 to 2022 Statement of Intent (SOI)

• previously provided forecast statements in the 2019 to 2028 10 year plan model

• guidance on to forecast longer term capital expenditure

• forecast operations revenue

The carrying value of the Company's 23.08% shareholding in CentrePort as at 30 June 2019 has been increased.

As noted earlier CentrePort's property and port assets sustained significant damage during the earthquake. CentrePort has received significant funds from its material damage and business interruption insurance cover. The remainder of the insurance proceeds related to the earthquake are expected to be received in FY20.

The earthquake's impact on CentrePort's cash flows this year and over the period of its forecasts is material. In particular the extent of the Company's future capital spend on port operating assets remains a matter of considerable uncertainty and with a very material impact on the valuation of the Council's shareholding.

The valuation advice for port operations was determined using adiscounted cash flow methodology based on the following information provided byCentrePort:

• 2020 – 2022 Statement of Intent (SOI)

• previously provided forecast statements in the 2019 to 2028 10 year plan model

•guidance on to forecast longer term capital expenditure

• forecast operations revenue

An asset based approach was used for the commercial property interests.

Uncertainties in the valuation advice

The Directors' note that there are key uncertainties highlighted in the fair value valuation advice they have received. Those uncertainties include:

• The extent of insurance proceeds may be greater or lesser than expected, and be received earlier to later than forecast by CentrePort

• Capital expenditure may be greater or lesser than expected and at the time of the preparation of the CentrePort forecasts

• there was significant uncertainty as to the future spend arising from CentrePort’s desire to build resilience into the port’s infrastructure

• CentrePort's future operating performance may be better or worse than expected over the forecast period.

Assumptions

The independent valuation advice is based on the following key assumptions:

•In material respects, most key forecasts assumptions are as per the SOI and 10-year plan prepared by CentrePort.

•An annual maximum capital expenditure spend of $102 million in any one year.

•CentrePort will continue to provide port services at its current site and consistent with its current scale and scope of operations.

•A valuation date as at 30 June 2019

•Mid period cash-flow timing

•A tax rate of 28%, with tax being paid in the year incurred

•A nominal terminal growth rate of 2.0%

•A discount range of 6.1% to 6.7%.

The valuation assessment assumes 2% annual growth, if annual growth is 1%, then the valuation would decrease by $6.7m or $17.1%. If annual growth is 3% then the valuation would increase by $10.3m or 26.3%.

A discount of 35% has been applied due to MWRCH’s minority shareholding. MWRCH has little control over CentrePort’s operations as the other shareholder Greater Wellington has a majority shareholding of greater than 75%. This discount reflects the lower value this shareholding has since it has limited ability to influence strategy setting, dividend policy and the right to refuse the transfer of shares.

Sensitivity Analysis

Sensitivity analysis has been completed where changes in key inputs to assumptions would significantly change the fair value. The change to the valuation from changing these inputs has been estimated as follows:

• The weighted average cost of capital (WACC) utilised to determine the DCF of the port operations ranged from 6.1% to 6.7% across the 10-year forecast period. If the WACC was increased by 0.5% for every time period, the impact on the value of the Council's shareholding would be a reduction of $4.4m or 11.2%. If the WACC was reduced by 0.5% for every time period the impact on the value of the shareholding would be an increase of $5.7m or 14.4%.

• If the value of CentrePort's commercial property interests was to vary by $10m, the value impact would be $1.5m or 3.8%

• If the capital expenditure forecasts were to decrease by 5% from those assumed in the valuation, the value impact would be an increase of $4.0m or 10.0%. If the capital expenditure forecasts were to increase by 5% from those assumed in the valuation, the value impact would be a decrease of $4.0m or 10.0% .

• If the discount rate applied for the minority interest was to vary by 5% (to 30% or 40%) the value impact would be $3.0m or 7.7%

The valuation advice including calculating the discount rate has been carried out by an independent third party (PWC) with experience in valuing investments of this type.

9. Financial Instrument Categories

	NOTES	2019	2018
Financial Assets			
Loans & Receivables			
Cash and Cash Equivalents	5	4,977,162	4,540,445
Receivables	6	573,462	183,532
Total Loans & Receivables		**5,550,625**	**4,723,978**
FV through Comprehensive revenue and expenses			
CentrePort unlisted shares	8	39,000,000	27,300,000
Total FV through Comprehensive revenue and expenses		**39,000,000**	**27,300,000**
Financial Liabilities			
Payables	12	2,551,117	875,786
Borrowings from Horizons	13	15,000,000	-
Total Financial Liabilities		**17,551,117**	**875,786**
Total Financial Instrument Categories		**26,999,507**	**31,148,191**

10. Investment Property

	NOTES	2019	2018
Balance 1 July		5,815,267	3,050,000
Development Costs for the year		15,720,973	2,765,267
Renovations		-	-
Revaluation as at 30 June to reflect fair value		13,760	-
Total Investment Property		**21,550,000**	**5,815,267**

The North Street property applies the fair value model for valuing the property and is valued at $3,050,000 as at 30 June 2019. In determining the fair value the valuers have utilised an income capitalisation approach referred to the lease of the property. Yields are derived from analysis of comparable sales in the market. The property was valued by an independent registered valuer Blackmores Group who has the relevant professional qualifications and recent experience. There are no known restrictions to the realisability of the investment property

Key assumptions in the valuation include:

- Future net rental revenue will be maintained for the medium term.
- No extra ordinary maintenance costs will be incurred or impact upon rental revenue for the medium term.
- Net income capitalised at a 7.0% discount rate for valuation determination.

While the development at 23 Victoria Avenue is still in progress, the development has been independently valued at fair value as at 30 June 2019, being near 80% complete as at that date. The valuation reporting reflects the same.

The amount of contractual commitments for the acquistion of investment property is:

	NOTES	2019	2018
Capital Commitments			
Buildings		4,782,046	2,667,544
Total Capital Commitments		**4,782,046**	**2,667,544**

	NOTES	2019	2018
Rental Information			
Rental Revenue		248,371	233,520
Direct Operating Expenses - property generates rental revenue		47,631	20,986

Operating leases as lessor

The North Street property is leased under an operating lease. It is for a non-cancellable term of nine years from 1 June 2015. The future lease payments to be collected are as follows:

	NOTES	2019	2018
Operating leases			
Not later than one year		247,185	234,000
Later than one year and not later than five years		968,423	934,000
Later than five years		-	234,000
Total Operating leases		**1,215,608**	**1,402,000**

	NOTES	2019	2018
11. Provisions			
Opening Balance		396,573	119,596
Additional provisions made during the year		-	396,573
Payments made during the year		(396,573)	(119,596)
Total Provisions		**-**	**396,573**

	NOTES	2019	2018
Made up of:			
Provisions		-	396,573

12. Creditors and Accrued Expenses

	NOTES	2019	2018
Accounts Payable		173,768	733,278
Accrued Retentions		312,228	31,645
Income in Advance		-	360
Sundry Accruals		2,065,121	110,504
Total Creditors and Accrued Expenses		**2,551,117**	**875,786**

Creditors and accrued expenses includes retentions held of $312,228 (2018 - $31,645) related to construction contracts in progress.

13. Borrowings and other financial liabilities

	NOTES	2019	2018
Term Portion		15,000,000	-
Total Borrowings and other financial liabilities		**15,000,000**	**-**

The loan is from Horizons. Interest is being charged to MWRCH at the same rate as what Horizons pays for its own long term borrowing.

14. Equity

	NOTES	2019	2018
Accumulated Funds			
Balance at 1 July		3,129,695	3,293,189
Surplus/(deficit) for the year		673,674	(163,494)
Less Dividend paid		-	-
Balance at 30 June		**3,803,369**	**3,129,695**
Authorised Capital (56,100,000 shares issued and fully paid)			
Balance at 1 July		31,500,000	25,400,000
Movement - Issued Capital		-	6,100,000
Balance at 30 June		**31,500,000**	**31,500,000**
Revaluation Reserve			
CentrePort Shares			
Balance at 1 July		1,918,001	1,918,001
Gain/(Loss) on revaluation		11,700,000	-
Balance at 30 June		**13,618,001**	**1,918,001**
Total Equity		**48,921,370**	**36,547,696**

Number of Shares Issued

	NOTES	2019	2018
Opening Number of Shares Issued		56,100,000	50,000,000

	NOTES	2019	2018
Additional Shares Issued		-	6,100,000
Closing Number of Shares Issued		**56,100,000**	**56,100,000**

15. Operating Lease Commitments

The land situated at 17-23 Victoria Avenue, is leased by MWRC Holdings Ltd under an operating lease. The lease was signed 17 October 2017 and is for a non-cancellable term of 35 years. The future lease payments to be made are as follows:

	NOTES	2019	2018
Commitments to lease land			
Not later than one year		132,000	132,000
Later than one year and not later than five years		528,000	528,000
Later than five years		3,735,419	3,960,000
Total Commitments to lease land		**4,395,419**	**4,620,000**

	NOTES	2019	2018
16. Retentions			
Opening Retentions		31,645	-
Retentions Recognised		280,583	31,645
Retentions Released		-	-
Closing Retentions		**312,228**	**31,645**

A separate bank account has been set up in the Council for the recording and recognition of the retentions. Retentions are expected to be paid at the end of the 12 month defect liability period.

17. Contingent Liabilities and Guarantees

MWRC Holdings Ltd has entered into an agreement with a future tenant and the agreement contains construction timelines which are required to be met. Should these not be met there is potential liability for the company (there were no contingent liabilities or guarantees in 2018).

18. Related party transactions

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Council and Group would have adopted in dealing with the party at arm's length in the same circumstances.

Related party disclosures have also not been made for transactions with entities within the Group (such as dividends paid and received), where the transactions are consistent with the normal operating relationships between the entities and are on normal terms and conditions for such Group transactions.

Key management personnel

There are no employees employed by MWRCH. All functions are performed by Horizons staff with their costs invoiced to MWRCH. Similarly Bruce Gordon is not paid a salary by MWRCH with his Horizons salary deemed to cover his responsibilities as Chairman of MWRCH. Ian Wilson the independent director is paid $10,000 per year.

19. Explanations of major variances against budget

Explanations for major variations (+/- 10%) from MWRCH's SOI for 2018-19 are as follows:

Statement of Comprehensive Revenue and Expense

- Interest revenue is significantly higher than budgeted due to increased cash balances throughout the year. These related to cash secured for the property build which was invested in short term deposit to maximize returns.

- Other revenue of $119,150 relates to the on charging to Inland Revenue for the fit out of their dedicated lease space in the Victoria Avenue property. The costs associated with this is included in the Victoria Avenue Development costs.

- The Subvention Payment to Council is a negative expense due to $396,573 being accrued for the 2018 year, however this was subsequently adjusted and $116,361 actually paid.

- Victoria Avenue Development costs relate to those costs associated with the property that fall outside the capital project, such as the ground lease and internal project management.

Statement of Financial Position

- Current assets are above budget by 472%. The main variance is due to the timing of the loans from Horizons to meet cash flow requirements.

- Payables and accruals are higher than budgeted with the main driver being payables for Victoria Avenue Development for June that were unbudgeted.

20. Subsequent Events After Balance Date

There were no events that have occured after the balance date that would have a material impact on the Performance Report. (Last Year -MWRC Holdings Ltd negotiated a construction contract with McMillan Lockwood for the development at 23 Victoria Avenue, Palmerston North which was signed on the 14th of August 2018.

21. Performance Targets

The targets are to:

1. Provide a minimum cash return on investment to Council of 65% NPAT

	Actual 2019 $000	SOI 2019 $000	Actual 2018 $000
Net Profit After Tax (NPAT)	674	531	(163)
Dividend/subvention payment	-	-	(393)
Dividend as percentage of NPAT	(0%)	(0%)	(241%)

These targets have been met. The Directors moved that no dividend be declaredfor the current year but rather cash be retained to ensure completion of the Victoria Avenue development. Once complete this will generate positive returns for the Shareholder.

2. Operate within agreed budgets

3. Maintain the following financial performance targets

	Actual 2019 $000	**SOI 2019 $000**	**Actual 2018 $000**
Net Profit Before Tax	674	531	(155)
Income Return on Total Assets	1.46%	1.29%	(0.41%)
Dividend and subvention Payment	-	-	(393)
Capital Growth on Investments	83%	(0.00%)	(0.00%)

Net profit before tax is above budget due to additional interest revenue offset by costs associated with Victoria Avenue.

Return on Total Assets is in line with budget.

Capital Growth on Investments is above budget due to the significnt increase in the value of the CentrePort shareholding.