

Annual Report

MWRC Holdings Ltd

For the year ended 30 June 2021

Contents

3	Directors Report
5	Statement of Comprehensive Revenue and Expense
6	Statement of Financial Position
7	Statement of Changes in Equity
8	Statement of Cash Flows
9	Statement of Accounting Policies
14	Notes to the Performance Report

Directors Report

MWRC Holdings Ltd

For the year ended 30 June 2021

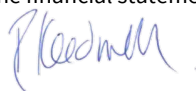
Chair's Report

During this financial year we have lined tenants up for the final space in Te Ao Nui and expanded our investment portfolio to include an additional property, 7 Victoria Ave. Revaluations on our investment properties all returned good results with an overall increase in the portfolio value of \$844k.

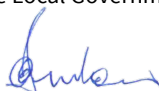
We received an extra dividend from CentrePort during the year which we have used to purchase 7 Victoria Ave and are planning on using to further expand our investments to ensure we can continue to provide good returns to the Council.

Financial Statements

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



R J Keedwell



A L Benbow

Date: 17 January 2022

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	
A L Benbow	
Scanpower Limited	- Director
R J Keedwell	
Has not further interests to disclose.	

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 \$16,163 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 2021.

Signed on behalf of the Board of Directors:



R J Keedwell



A L Benbow

Date: 17 January 2022

Statement of Comprehensive Revenue and Expense

MWRC Holdings Ltd

For the year ended 30 June 2021

	NOTES	2021	2021 SOI	2020
Revenue				
Rents		1,915,349	1,922,000	1,244,664
Interest	1	472	13,000	6,290
Dividends		4,615,385	1,384,800	1,153,846
Gain on Investment property revaluation		844,007	-	-
Total Revenue		7,375,214	3,319,800	2,404,800
Expenses				
Administration Costs	2	201,041	90,719	177,090
Directors Fees		-	10,000	7,500
Finance Costs	1	538,798	539,000	541,013
Rental Expenses	3	282,424	60,082	77,864
Victoria Avenue Development	4	234,976	342,000	237,415
Loss on Investment Property revaluation		-	-	190,981
Subvention Payment to Council	5	311,740	-	-
Total Expenses		1,568,979	1,041,801	1,231,863
Surplus/(deficit) before tax		5,806,235	2,277,999	1,172,937
Income tax expense				
Income tax expense	5	346,819	-	67,830
Surplus/(deficit) after tax		5,459,416	2,277,999	1,105,107
Surplus/(deficit) attributable to MWRC Holdings Ltd		5,459,416	2,277,999	1,105,107
Surplus/(deficit) after distributions		5,459,416	2,277,999	1,105,107
Other comprehensive revenue and expense				
Revaluation of Financial Assets to fair value	9	-	-	31,000,000
Total comprehensive revenue and expense		5,459,416	2,277,999	32,105,107
Total comprehensive revenue and expense attributable to:				
MWRC Holdings Ltd		5,459,416	2,277,999	32,105,107

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 2021

	NOTES	30 JUN 2021	2021 SOI	30 JUN 2020
Assets				
Current Assets				
Cash and cash equivalents	6	3,839,756	1,680,000	1,407,856
Debtors and Accruals	7	248,010	-	16,832
Income Tax Receivable	7	70	68,000	2,076
Other Current Assets	8	199,096	236,000	399,096
Total Current Assets		4,286,932	1,984,000	1,825,859
Non-Current Assets				
Other Financial Assets	9	70,000,000	39,000,000	70,000,000
Investment Property	11	29,770,000	28,627,000	27,150,000
Total Non-Current Assets		99,770,000	67,627,000	97,150,000
Total Assets		104,056,932	69,611,000	98,975,859
Liabilities				
Current Liabilities				
Creditors and Accrued Expenses	12	3,224,170	2,683,000	2,173,502
Goods and services tax	12	29,682	-	17,685
Provisions		311,740	-	-
Borrowing and other financial liabilities	13	-	-	-
Total Current Liabilities		3,565,592	2,683,000	2,191,186
Non-Current Liabilities				
Borrowing and other financial liabilities	13	17,000,000	17,000,000	17,000,000
Deferred Tax Liability	5	347,251	-	-
Total Non-Current Liabilities		17,347,251	17,000,000	17,000,000
Total Liabilities		20,912,843	19,683,000	19,191,186
Net Assets		83,144,089	49,928,000	79,784,673
Equity				
Contributed Capital	14	31,500,000	31,500,000	31,500,000
Accumulated Funds	14	7,026,088	4,065,000	3,666,672
Reserves	14	44,618,001	14,363,000	44,618,001
Total Equity		83,144,089	49,928,000	79,784,673

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

MWRC Holdings Ltd

For the year ended 30 June 2021

	2021	2021 S0I	2020
Equity			
Balance at 1 July	79,784,673	49,005,000	48,929,566
Total Comprehensive Revenue and Expense for the year	5,459,416	3,023,000	32,105,107
Dividends Paid	(2,100,000)	(2,100,000)	(1,250,000)
Balance at 30 June	83,144,089	49,928,000	79,784,673

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 2021

	2021	2020
Cash Flows from Operating Activities		
Dividends	4,615,385	1,153,846
Interest Received	472	6,290
Other Income	1,838,300	1,261,242
Income tax received/(paid)	2,076	28,796
Interest Paid	(673,497)	(417,841)
Payments to suppliers	(532,637)	(2,396,823)
GST	(87,941)	481,556
Total Cash Flows from Operating Activities	5,162,158	117,066
Cash Flows from Financing Activities		
Proceeds from loans borrowed from other parties	-	2,000,000
Dividends Paid	(1,250,000)	-
Total Cash Flows from Financing Activities	(1,250,000)	2,000,000
Cash Flows from Investing Activities		
Payments to purchase investment property	(1,676,383)	(5,599,505)
Retentions received from trust	200,000	-
Retentions paid to trust	(3,875)	(86,868)
Total Cash Flows from Investing Activities	(1,480,258)	(5,686,373)
Net Increase/ (Decrease) in Cash	2,431,900	(3,569,306)
Cash Balances		
Cash and cash equivalents at beginning of period	1,407,856	4,977,162
Cash and cash equivalents at end of period	3,839,756	1,407,856
Net change in cash for period	2,431,900	(3,569,306)

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 2021

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 2021, and were authorised for issue by the Board of Directors on 17 January 2022.

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 than 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 MWRC 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:

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

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 11
- Estimating the fair value of the CentrePort Investment – Note 9

Critical judgements in applying accounting policies

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

- Fair value of the Investment Property – Note 11
- Fair value of the CentrePort Investment – Note 9
- 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 2021

	NOTES	2021	2020
1. Interest Revenue and Finance Costs			
Interest revenue from term deposits, call accounts and use of money interest		472	6,290
Finance Costs			
Interest on borrowings from parent (Horizons Regional Council)		538,798	541,013
Total Finance Costs		538,798	541,013
Net Finance Costs		(538,326)	(534,722)
	NOTES	2021	2020
2. Administration Expenses			
Consulting and accounting fees		181,145	153,353
Audit Fees		16,163	15,693
Other administration		3,733	8,044
Total Administration Expenses		201,041	177,090
	NOTES	2021	2020
3. Rental Expenses			
Cleaning		40,227	14,208
Legal expenses		21,527	8,682
Light, Power, Heating		23,874	7,776
Rates		91,633	18,731
Repairs and Maintenance		105,163	28,468
Total Rental Expenses		282,424	77,864
	NOTES	2021	2020
4. Victoria Avenue Development			
Ground Lease		132,000	132,000
Insurance		102,976	102,915
Technical		-	2,500
Total Victoria Avenue Development		234,976	237,415

	NOTES	2021	2020
5. Tax			
Components of tax expense			
Current Tax		(432)	-
Deferred Tax		347,251	67,830
Total Components of tax expense		346,819	67,830
Relationship between tax expense and accounting surplus			
Net surplus/(deficit) before tax)		5,806,235	1,172,937
Tax and Tax Adjustments			
Tax at 28%		1,625,746	328,422
Non-deductible expenditure		784	29,516
Non-assessable income		(257,600)	(28,000)
Other Items		(432)	(146,097)
Gross up effect of imputation credits		316,802	125,641
Tax credit arising from imputation credits		(1,131,415)	(448,718)
Tax loss derecognised		-	207,066
Tax losses utilised		(207,066)	-
Tax expense for the year		346,819	67,830

The proposed subvention payment to Council is \$311,740 (2020 - nil). The company has provided for a subvention payment of \$311,740 to eliminate its estimated tax liability for the current year.

Deferred Tax Liability

Deferred tax assets/(liabilities)	Investment Property	Financial Instruments	Provisions	Tax Losses	Total
Balance at 1 July 2019	(25,291)	-	-	93,121	67,830
Charged to surplus or deficit	18,432	-	4,394	116,410	139,236
Charged to other comprehensive revenue and expense	-	-	-	-	-
Derecognition of tax asset	-	-	-	(207,066)	(207,066)
Balance at 30 June 2020	(6,859)	-	4,394	2,465	-
Charged to surplus or deficit	(340,392)	-	(4,394)	(2,465)	(347,251)
Derecognition of tax asset	-	-	-	-	-
Balance at 30 June 2021	(347,251)	-	-	-	(347,251)

Tax losses of \$nil have been derecognised because it is not probable that future tax profits will be available to offset these losses (2020 : \$739,521).

Tax losses of \$nil are still recognised as they are offset by deferred tax liabilities (2020 : \$8,803).

	NOTES	2021	2020
6. Cash and cash equivalents			
Cash at bank and on hand		3,839,756	1,407,856
Total Cash and cash equivalents		3,839,756	1,407,856

	NOTES	2021	2020
7. Receivables and Accruals			
Income Tax Receivable		70	2,076
Debtors and Accruals			
Prepayments		1,427	1,773
Accrued Revenue		-	4,562
Accounts Receivable		246,584	10,497
Total Debtors and Accruals		248,010	16,832
Total Receivables and Accruals		248,080	18,908

One of the tenants of 17 Victoria Avenue has contested some of the charges for their leased area. At 30 June, this was unresolved and there was no indication from MWRCH's lawyer that this should be impaired as negotiations were underway with the tenant to resolve this issue without prejudice.

	NOTES	2021	2020
8. Other Current Assets			
Retentions Held in Trust		199,096	399,096
Total Other Current Assets		199,096	399,096

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	2021	2020
9. Other financial assets			
Unlisted shares in CentrePort Ltd (23.08% shareholding). Recognised at fair value.		70,000,000	70,000,000

	NOTES	2021	2020
Made up of			
Balance at 1 July		70,000,000	39,000,000
Less impairment		-	-
Plus Fair Value gain on revaluation		-	31,000,000
Balance at 30 June		70,000,000	70,000,000

Overview

The Directors' have kept the carrying value of the Company's 23.08% shareholding in CentrePort as at 30 June 2021 after receiving independent valuation advice from PwC.

Impact of the 2016 Kaikoura Earthquake on investment

The November 2016 earthquake created a significant level of uncertainty about the future business operations of CentrePort, as well as the capital expenditure that will be required to reinstate the Company's assets or otherwise expended to develop the Port.

CentrePort is continuing to provide more certainty on its future business operations in the preparation of a Master "Regeneration Plan" for their development of the Port and has commenced discussions with its shareholders in relation to these plans. Capital expenditure forecasts remain subject to some uncertainty whilst the Regeneration Plan process is ongoing.

The valuation advice for port operations was determined using a discounted cash flow methodology based on the following information provided by CentrePort:

- 2022 – 2024 Statement of Intent (SOI)
- Forecasts on operational and capital expenditure.
- Shareholder reports provided by CentrePort.
- High level discussions with CentrePort management.

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:

- Disruption due to the COVID-19 pandemic and New Zealand's response.
- The Capital Expenditure required to rebuild and redevelop the port is very material to the indicative valuation, uncertainty remains with regards to the timing and quantum of expenditure.

Assumptions

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

- A valuation date as at 30 June 2021.
- All capital expenditure forecasts areas per the forecast financial statements contained within the 2021 SOI prepared by CentrePort, the 2021 Regeneration Investment Summary and other documentation provided to us.
- 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 WACC of 5.6% - 7.3%.
- Terminal year capital expenditure estimate of \$24m
- Investment property reduction

A discount of 30-35% 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 5.6% to 7.3% 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 \$6.8m or 9.7%. 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 \$8.4m or 11.9%.
- If the value of CentrePort's commercial property interests was to decrease by \$10m, the value decrease would be \$1.6m or 2.3%. If the value were to increase by \$10m, the value increase would be \$1.6m or 2.3%.
- If the capital expenditure forecasts were to decrease by 5% from those assumed in the valuation (with no flow on changes to revenue or cost), the value impact would be an increase of \$3.8m or 5.4%. If the capital expenditure forecasts were to increase by 5% from those assumed in the valuation, the value impact would be a decrease of \$3.8m or 5.4%.
- The minority discount rate applied to the shareholding range was 30% to 35%. If the midpoint of that discount range was to decline by 5%, the value of the valuation midpoint would increase by \$4.9m or 7.4%. If the minority discount was to increase from its midpoint by 5%, the value decrease would be \$5.0m or 7.5%.

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.

	NOTES	2021	2020
10. Financial Instrument Categories			
Financial Assets			
Loans & Receivables			
Cash and Cash Equivalents	6	3,839,756	1,407,856
Receivables	7	246,584	18,908
Total Loans & Receivables		4,086,340	1,426,764
FV through Comprehensive revenue and expenses			
CentrePort unlisted shares	9	70,000,000	70,000,000
Total FV through Comprehensive revenue and expenses		70,000,000	70,000,000
Financial Liabilities			
Payables	12	3,089,762	2,191,187
Borrowings from Horizons	13	17,000,000	17,000,000
Total Financial Liabilities		20,089,762	19,191,187
Total Financial Instrument Categories		53,996,578	52,235,577

	NOTES	2021	2020
11. Investment Property			
28 North Street, Palmerston North			
Balance 1 July		3,150,000	3,050,000
Development Costs for the year		-	-
Renovations		-	-
Revaluation as at 30 June to reflect fair value		520,000	100,000
Total 28 North Street, Palmerston North		3,670,000	3,150,000
17-23 Victoria Avenue, Palmerston North			
Balance 1 July		24,000,000	18,500,000
Development Costs for the year		675,993	5,790,981
Renovations		-	-
Revaluation as at 30 June to reflect fair value		324,007	(290,981)
Total 17-23 Victoria Avenue, Palmerston North		25,000,000	24,000,000
7 Victoria Avenue, Palmerston North			
Balance at 1 July		-	-
Purchase Costs for the year		1,100,000	-
Renovations		-	-
Revaluation as at 30 June to reflect fair value		-	-
Total 7 Victoria Avenue, Palmerston North		1,100,000	-
Total Investment Property		29,770,000	27,150,000

The North Street property applies the fair value model for valuing the property and is valued at \$3,670,000 as at 30 June 2021. 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 Telfer Young who has the relevant professional qualifications and recent experience. There are no known restrictions to the realisability of the investment property.

The property at 17-23 Victoria Avenue applies the fair value model for valuing the property and is valued at \$25,000,000 as at 30 June 2021. 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 Telfer Young who has the relevant professional qualifications and recent experience. There are no known restrictions to the realisability of the investment property.

The property at 7 Victoria Avenue applies the fair value model for valuing the property and is valued at \$1,100,000 as at 30 June 2021. In determining the fair value 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 Telfer Young who has the relevant professional qualifications and recent experience. There are no known restrictions to the realisability of the investment property.

Impact of COVID-19

Disruption to the economy and an increase in general economic uncertainty has been evident from when the COVID-19 pandemic reached New Zealand in early 2020.

Throughout the country, prices across most commercial property sectors have been impacted by the pandemic. The risk of a re-emergence of COVID-19 in the community continues to be an ongoing threat and an increase in Alert Levels could have a

considerable effect on businesses. The level of risk will differ across different commercial property classes, with those not able to operate to full capacity during lower Alert Levels being the most affected.

In particular those properties associated with hospitality and travel have been impacted.

In general terms, industrial properties are likely to be the least affected commercial property class, with offices moderately affected, and retail/hospitality the most affected.

Given the quality of the subject property assets and current tenure we consider that the risks associated with COVID-19 are expected to be relatively low in comparison to other commercial properties.

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 6.0% discount rate for valuation determination.
- Yield of 4.20% - 6.00%.

	NOTES	2021	2020
Rental Information			
Rental Revenue		1,915,349	1,300,047
Direct Operating Expenses - property generates rental revenue		196,797	47,198

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	2021	2020
Operating leases			
Not later than one year		247,185	247,185
Later than one year and not later than five years		473,873	721,058
Later than five years		-	-
Total Operating leases		721,058	968,243

The property at 17-23 Victoria Avenue is leased under an operating lease. The following tenants have the following non-cancellable terms in place;

Objective Corporation Solutions NZ Limited for a term of seven years from 1 May 2020.

Horizons Regional Council for a term of five years from 6 December 2019.

Inland Revenue for a term of nine years from 27 September 2019.

Palmerston North City Council for a term of ten years from 6 December 2019.

Amyjen Restaurant for a term of six years from 28 December 2020.

The future lease payments to be collected are as follows;

	NOTES	2021	2020
Operating Leases			
Not later than one year		1,646,738	1,499,659
Later than one year and not later than five years		6,269,888	6,061,462
Later than five years		3,074,605	4,342,621
Total Operating Leases		10,991,231	11,903,742

The property at 7 Victoria Avenue is leased under an operating lease. It is a non-cancellable term of six years from 5 July 2012 with one right to renewal of four years. The future lease payments are to be collected as follows;

	NOTES	2021	2020
Operating Leases			
Not later than one year		43,600	-
Later than one year and not later than five years		-	-
Later than five years		-	-
Total Operating Leases		43,600	-

	NOTES	2021	2020
12. Creditors and Accrued Expenses			
GST Payable		29,682	17,685
Accounts Payable		198,332	347,916
Accrued Retentions		199,096	399,096
Accrued Dividends		2,100,000	1,250,000
Income in Advance		134,408	-
Sundry Accruals		592,334	176,490
Total Creditors and Accrued Expenses		3,253,852	2,191,187

Creditors and accrued expenses includes retentions held of \$199,096 (2020 - \$399,096) related to construction contracts in progress.

	NOTES	2021	2020
13. Borrowings and other financial liabilities			
Term Portion		17,000,000	17,000,000
Total Borrowings and other financial liabilities		17,000,000	17,000,000

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, plus a margin of 0.25%.

	NOTES	2021	2020
14. Equity			
Accumulated Funds			
Balance at 1 July		3,666,672	3,811,565
Surplus/(deficit) for the year		5,459,416	1,105,107
Less Dividend paid		(2,100,000)	(1,250,000)
Balance at 30 June		7,026,088	3,666,672
Authorised Capital (56,100,000 shares issued and fully paid)			
Balance at 1 July		31,500,000	31,500,000
Movement - Issued Capital		-	-
Balance at 30 June		31,500,000	31,500,000
Reserves			
CentrePort Shares			
Balance at 1 July		44,618,001	13,618,001
Gain/(Loss) on revaluation	9	-	31,000,000
Balance at 30 June		44,618,001	44,618,001
Total Equity		83,144,089	79,784,673
	NOTES	2021	2020

Number of Shares Issued

Opening Number of Shares Issued	56,100,000	56,100,000
Additional Shares Issued	-	-
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	2021	2020
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		3,471,419	3,603,419
Total Commitments to lease land		4,131,419	4,263,419
	NOTES	2021	2020

16. Retentions

Opening Retentions	399,096	312,228
Retentions Recognised	-	86,868
Retentions Released	(200,000)	-
Closing Retentions	199,096	399,096

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

There were no contingent liabilities and guarantees that would be considered material at year end. (2020 - Nil)

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 Rachel Keedwell and Allan Benbow are not paid salaries by MWRCH with their Horizon salaries deemed to cover their responsibilities as directors of MWRCH.

19. Explanations of major variances against budget

Explanations for major variations (+/- 10%) from MWRCH's SOI for 2020-21 are as follows:

Statement of Comprehensive Revenue and Expense

- Interest revenue was significantly less than budget due to very low interest rates.
- Dividend revenue was significantly higher than budget due to CentrePort declaring a special one-off dividend.
- Expenditure was higher than budget due to high administration and rental expenses such as consulting and repairs and maintenance for things such as pest prevention (some of this was recovered through tenants' operational expenditure contributions and is disclosed in rental income)

Statement of Financial Position

- Cash and cash equivalents is higher than budgeted because of the additional dividend received from CentrePort.
- Debtors and Accruals are higher than budget due to ongoing negotiations with tenants which we have invoiced and are awaiting on a resolution. We expect to receive these funds in the following financial year.
- Other current assets is less than budget due to the timing of retention releases.
- Other financial assets are higher than budget due to a large increase in the value of our CentrePort shares at the end of the previous financial year, after the budget was completed. This also affects the reserves.
- Investment Property is higher than budget due to the purchase of 7 Victoria Avenue during the year.
- Creditors and Accruals are higher than budgeted due to the accrual of the subvention payment at year end which was not planned for an increase in income in advance relating to invoices raised during the financial year. This was also not budgeted for.

20. Subsequent Events After Balance Date

On 18th August 2021, New Zealand entered a Level 4 lockdown. Due to the nature of the company's operations it is not expected this will have a significant effect on the company. Any affect is not yet known. (Last Year -Nil).

On 30th August 2021, the company entered into a sale and purchase agreement to purchase 40 Bowen Street, Feilding for \$1,900,000.

The final space in Te Ao Nui has been tenanted by Horizons Regional Council beginning July 2021.

On 1 September 2021 Horizons Regional Council agreed to contribute \$364,809 plus GST towards the construction costs of Te Ao Nui building on Victoria Ave.

On 13 September 2021, the company entered into a sale and purchase agreement to purchase 184 Grey Street, Palmerston North for \$800,000.

21. Implications of COVID-19

The implications of COVID-19 during the year being reported on were minimal. The ongoing effects relate to declining interest rates and potential impacts on valuation of investments. Considerations have been made by the respective independent valuers when determining the latest valuations for these assets. Refer to Notes 9 & 11 for further detail.

22. Legislative Compliance

Section 67 of the Local Government Act requires the Company to complete its Annual Report within 3 months of balance date. For the year ended 30 June 2021 this date was extended to 30 November 2021 under the Covid-19 Response (Further Management Measures) Legislation. Due to delays this report was signed off on 17 January 2022.

Performance Targets

The targets are to:

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

	Actual 2021 \$000	SOI 2021 \$000	Actual 2020 \$000
Net Profit After Tax (NPAT)	5,459	2,278	1,105
Dividend/subvention payment	2,412	2,100	1,250
Dividend as percentage of NPAT	44.19%	92.19%	113.12%

2. Operate within agreed budgets

Overall revenue is well above budget due to extra dividends received from CentrePort. Overall expenditure is over budget due to additional consultancy and repairs and maintenance costs. For more details refer to note 19.

3. Maintain the following financial performance targets

	Actual 2021 \$000	SOI 2021 \$000	Actual 2020 \$000
Net Profit Before Tax	5,806	2,278	1,173
Income Return on Total Assets *	5.72%	2.70%	1.42%
Dividend and subvention Payment	2,412	2,100	1,250
Capital Growth on Investments **	2.70%	1.10%	60.45%

* Income return on total assets is calculated using net profit before tax as a percentage of average total assets

** Capital growth on investments is calculated on the net movement for the year in Other Financial Assets and Investment Property, as a percentage of the opening balances on these assets.

Independent Auditor's Report

To the readers of MWRC Holdings Limited's financial statements and performance information for the year ended 30 June 2021

The Auditor-General is the auditor of MWRC Holdings Limited (the company). The Auditor-General has appointed me, Debbie Perera, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 5 to 24, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on page 25.

In our opinion:

- the financial statements of the company on pages 5 to 24:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2021; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Standards Reduced Disclosure regime; and
- the performance information of the company on page 25 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2021.

Our audit was completed on 27 January 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures,

and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.



Debbie Perera
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand