Annual Report

MWRC Holdings Ltd
For the year ended 30 June 2020

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Directors Report

MWRC Holdings Ltd
For the year ended 30 June 2020

Chair's Report

Work on the construction of Te Ao Nui has now been completed and these financial accounts reflect the impact of that, both in terms of operational returns and increased asset base. The costs to construct Te Ao Nui were $24.3M against the projected cost of $25M. A conservative valuation of $24M reflecting the current market conditions impacted by COVID-19 plus allowing for the untenanted space has been used for these financial statements.The shareholding in CentrePort Ltd shows a significant increase of $31M, moving from $39M to $70M, driven by further certainty in the long term capital expenditure plan, a greater positive outlook for port operations and increased cash from insurance proceeds received to date. This is offset by 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 $17M of the approved $17M had been received.

North Street has progressed as expected making a surplus of $248k, slightly ahead of the year end forecast position by $30k due to the timing of the rental review being earlier than expected and some operational cost savings. The valuation for the North Street building came in at $3.15 million, which is a slight increase from prior years.

The Victoria Avenue development is complete at year end with tenants in most of the building. Due to COVID-19 there was a delay in one of the tenants moving into the building which combined with delays in filling the last two spaces resulted in a lower surplus of $255k against the budget of $531k.

Overall MWRCH is showing a surplus of $1.2M,compared to a budget of $1.7M. Most of this variance relates to the reduced rental income as a result of the untenanted space. Dividends have been received from CentrePort in line with budget and we have been able to declare a dividend to our shareholder of $1.25M.

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: 30 November 2020

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.	
I A Wilson (ceased as at 7 April 2020)	
Corporate Involvements Ltd	- Director/Sahreholder
Levno Ltd	- Director
Wilson Trusts Partnership	- Trustee/Beneficiary
E B Gordon (ceased as at 8 April 2020)	
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 $15,693 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 2020.

Signed on behalf of the Board of Directors:

R J Keedwell

A L Benbow

Date: 30 November 2020

Statement of Comprehensive Revenue and Expense

MWRC Holdings Ltd
For the year ended 30 June 2020

	NOTES	2020	2020 SOI	2019
Revenue				
Rents		1,244,664	1,552,611	248,371
Interest	1	6,290	19,992	94,439
Dividends		1,153,846	1,154,000	923,077
Gain on Investment property revaluation		-	-	13,761
Total Revenue		**2,404,800**	**2,726,603**	**1,279,648**
Expenses				
Administration Costs	2	177,090	384,150	179,013
Directors Fees		7,500	10,000	10,000
Finance Costs	1	541,013	431,120	263,478
Rental Expenses	3	77,864	54,958	47,941
Other expenses		-	23,000	-
Subvention Payment to Council		-	-	(280,212)
Victoria Avenue Development	4	237,415	132,000	464,577
Loss on Investment Property revaluation		190,981	-	-
Total Expenses		**1,231,863**	**1,035,228**	**684,797**
Surplus/(deficit) before tax		**1,172,937**	**1,691,375**	**594,851**
Income tax expense				
Income tax expense	5	67,830	-	(87,019)
Surplus/(deficit) after tax		**1,105,107**	**1,691,375**	**681,870**
Surplus/(deficit) attributable to MWRC Holdings Ltd		**1,105,107**	**1,691,375**	**681,870**
Surplus/(deficit) after distributions		**1,105,107**	**1,691,375**	**681,870**
Other comprehensive revenue and expense				
Revaluation of Financial Assets to fair value	9	31,000,000	-	11,700,000
Total comprehensive revenue and expense		**32,105,107**	**1,691,375**	**12,381,870**
Total comprehensive revenue and expense attributable to:				
MWRC Holdings Ltd		32,105,107	1,691,375	12,381,870

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 2020

	NOTES	30 JUN 2020	2020 SOI	30 JUN 2019
Assets				
Current Assets				
Cash and cash equivalents	6	1,407,856	511,000	4,977,162
Debtors and Accruals	7	16,832	-	71,024
Goods and Services tax	7	-	-	471,282
Income Tax Receivable	7	2,076	-	31,155
Other Current Assets	8	399,096	-	312,228
Total Current Assets		**1,825,859**	**511,000**	**5,862,852**
Non-Current Assets				
Other Financial Assets	9	70,000,000	27,300,000	39,000,000
Investment Property	11	27,150,000	28,299,000	21,550,000
Deferred Tax Asset	5	-	(19,000)	67,830
Total Non-Current Assets		**97,150,000**	**55,580,000**	**60,617,831**
Total Assets		**98,975,859**	**56,091,000**	**66,480,683**
Liabilities				
Current Liabilities				
Creditors and Accrued Expenses	13	2,173,502	1,922,000	2,551,117
Goods and services tax	13	17,685	-	-
Borrowing and other financial liabilities	14	-	-	-
Total Current Liabilities		**2,191,186**	**1,922,000**	**2,551,117**
Non-Current Liabilities				
Borrowing and other financial liabilities	14	17,000,000	17,000,000	15,000,000
Total Non-Current Liabilities		**17,000,000**	**17,000,000**	**15,000,000**
Total Liabilities		**19,191,186**	**18,922,000**	**17,551,117**
Net Assets		**79,784,673**	**37,169,000**	**48,929,566**
Equity				
Contributed Capital	15	31,500,000	31,500,000	31,500,000
Accumulated Funds	15	3,666,672	3,568,000	3,811,565
Reserves	15	44,618,001	2,101,000	13,618,001
Total Equity		**79,784,673**	**37,169,000**	**48,929,566**

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 2020

	2020	2020 SOI	2019
Equity			
Balance at 1 July	48,929,566	36,687,000	36,547,696
Total Comprehensive Revenue and Expense for the year	32,105,107	1,874,000	12,381,870
Dividends Paid	(1,250,000)	(1,392,000)	-
Balance at 30 June	**79,784,673**	**37,169,000**	**48,929,566**

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 2020

	2020	2019
Cash Flows from Operating Activities		
Dividends	1,153,846	923,077
Interest Received	6,290	94,410
Other Income	1,261,242	248,011
Income tax received/(paid)	28,796	(31,155)
Subvention payments	-	(116,361)
Interest Paid	(417,841)	(263,478)
Payments to suppliers	(2,396,823)	(752,504)
GST	481,556	(92,322)
Total Cash Flows from Operating Activities	**117,066**	**9,677**
Cash Flows from Financing Activities		
Proceeds from loans borrowed from other parties	2,000,000	15,000,000
Total Cash Flows from Financing Activities	**2,000,000**	**15,000,000**
Cash Flows from Investing Activities		
Payments to purchase investment property	(5,599,505)	(14,260,732)
Retentions held in trust	(86,868)	(312,228)
Total Cash Flows from Investing Activities	**(5,686,373)**	**(14,572,960)**
Net Increase/ (Decrease) in Cash	**(3,569,306)**	**436,717**
Cash Balances		
Cash and cash equivalents at beginning of period	4,977,162	4,540,445
Cash and cash equivalents at end of period	1,407,856	4,977,162
Net change in cash for period	(3,569,306)	436,717

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 2020

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 2020 , and were authorised for issue by the Board of Directors on 30 November 2020 .

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 2020

	NOTES	2020	2019

1. Interest Revenue and Finance Costs

	NOTES	2020	2019
Interest revenue from term deposits, call accounts and use of money interest		6,290	94,439
Finance Costs			
Interest on borrowings from parent (Horizons Regional Council)		541,013	263,478
Total Finance Costs		**541,013**	**263,478**
Net Finance Costs		(534,722)	(169,039)

2. Administration Expenses

	NOTES	2020	2019
Consulting and accounting fees		153,353	142,134
Insurance		-	23,163
Audit Fees		15,693	7,298
Other administration		8,044	6,418
Total Administration Expenses		**177,090**	**179,013**

3. Rental Expenses

	NOTES	2020	2019
Cleaning		14,208	-
Legal expenses		8,682	-
Light, Power, Heating		7,776	-
Rates		18,731	14,573
Repairs and Maintenance		28,468	33,058
Security		-	310
Total Rental Expenses		**77,864**	**47,941**

4. Victoria Avenue Development

	NOTES	2020	2019
Project Management		-	228,767
Ground Lease		132,000	132,000
Local Authority Rates		-	21,159
Insurance		102,915	82,651
Technical		2,500	-
Total Victoria Avenue Development		**237,415**	**464,577**

	NOTES	2020	2019

5. Tax

Components of tax expense		
Current Tax	-	-
Deferred Tax	67,830	(87,019)
Total Components of tax expense	**67,830**	**(87,019)**

Relationship between tax expense and accounting surplus		
Net surplus/(deficit) before tax)	1,172,937	594,851
Tax and Tax Adjustments		
Tax at 28%	328,422	166,558
Non-deductible expenditure	29,516	87,198
Non-assessable income	(28,000)	(82,313)
Other Items	(146,097)	-
Gross up effect of imputation credits	125,641	100,512
Tax credit arising from imputation credits	(448,718)	(358,974)
Tax loss derecognised	207,066	-
Tax expense for the year	**67,830**	**(87,019)**

No subvention payment required this year as there are enough imputation credits to satisfy the total tax liability.

Deferred Tax Liability

Deferred tax assets/(liabilities	**Investment Property**	**Financial Instruments**	**Provisions**	**Tax Losses**	**Total**
Balance at 1 July 2018	(19,189)	-	-	-	(19,189)
Charged to surplus or deficit	(6,102)	-	-	93,121	87,019
Charged to other comprehensive revenue and expense	-	-	-	-	-
Balance at 30 June 2019	(25,291)	-	-	93,121	67,830
Charged to surplus or deficit	18,432	-	4,394	116,410	139,236
Decognition of tax asset	-	-	-	(207,066)	(207,066)
Balance at 30 June 2020	(6,859)	-	4,394	2,465	-

Tax losses of $739,521 have been derecognised because it is not probable that future tax profits will be available to offset these losses (2019: Nil).

Tax losses of $8,803 are still recognised as they are offset by deferred tax liabilities (2019 : $332,575)

	NOTES	2020	2019
6. Cash and cash equivalents			
Cash at bank and on hand		1,407,856	4,977,162
Total Cash and cash equivalents		**1,407,856**	**4,977,162**

	NOTES	2020	2019
7. Receivables and Accruals			
GST Refund Due		-	471,282
Income Tax Receivable		2,076	31,155
Debtors and Accruals			
Prepayments		1,773	56,804
Accrued Revenue		4,562	2,643
Accounts Receivable		10,497	11,578
Total Debtors and Accruals		**16,832**	**71,024**
Total Receivables and Accruals		**18,908**	**573,461**

	NOTES	2020	2019
8. Other Current Assets			
Retentions Held in Trust		399,096	312,228
Total Other Current Assets		**399,096**	**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	2020	2019
9. Other financial assets			
Unlisted shares in CentrePort Ltd (23.08% shareholding). Recognised at fair value.		70,000,000	39,000,000

	NOTES	2020	2019
Made up of			
Balance at 1 July		39,000,000	27,300,000
Less impairement		-	-
Plus Fair Value gain on revaluation		31,000,000	11,700,000
Balance at 30 June		70,000,000	39,000,000

Overview

The Directors' have increased the carrying value of the Company's 23.08% shareholding in CentrePort as at 30 June 2020 after receiving independent valuation advice from PwC. The new valuation reflects an $31 M increase (in2019 there was an $11.7 M increase). This uplift results from greater certainty in the long-term capital expenditure plan currently being planned by CentrePort, a decrease in the Company's WACC, increased cash from insurance proceeds received and a minor adjustment in the minority discount applied.

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 orotherwise 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 byCentrePort:

• 2021 – 2023 Statement of Intent (SOI)

• FY 2020 Q3 shareholder reports.

• 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:

• Capital expenditure required to rebuild and redevleop the port may be greater or lesser than expected and timings are uncertain.

•There is still considerable uncertainty surrounding the implications of COVID-19 on CentrePort's financial performance or the economy as a whole. The cruise industry is under significant pressure with an extended ban on cruise ships entering New Zealand and the significance of the impact of this on CentrePort's cruise revenue and short-term operations is difficult to estimate.

Assumptions

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

•A valuation date as at 30 June 2020.

•All capital expenditure forecasts areas per the forecast financial statements contained within the 2020 SOI prepared by CentrePort, and other documentation provided to shareholders, as well as discussions with management.

•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 6.2%

•Terminal year capital expenditure estimate of $24m

The upper bound range of the previously applied minority doscount range of 30-40% has decreased as a result of the shareholders working co-operatively in the discussion of future regeneration plans. 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) utilisedto determine the DCF of the port operations ranged from 5.9% to 6.4% across the10-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 areduction of $4.5m or 7.0%. 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 $6.2m or 8.3%.
- If the value of CentrePort's commercial propertyinterests was to decrease by $10m, the value decrease would be $1.5m or 2.3%.If the value were to increase by $10m, the value increase would be $1.6m or 2.1%.
- If the capital expenditure forecasts were to decrease by 5% from those assumed in the valuation (with no flow on changes to revenueor cost), the value impact would be an increase of $2.6m or 3.5%. If the capitalexpenditure forecasts were to increase by 5% from those assumed in thevaluation, the value impact would be a decrease of $2.4m or 3.7%.
- If the discount rate applied for the minority interest was to decline to 5%, to 25%, the value increase would be $5.0m or 7.1%. If the discount rate applied for the minority interest was to increase to 5%, to 40%, the value increase would be $5.4m 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.

10. Financial Instrument Categories

	NOTES	2020	2019
Financial Assets			
Loans & Receivables			
Cash and Cash Equivalents	6	1,407,856	4,977,162
Receivables	7	125,710	573,462
Total Loans & Receivables		**1,533,566**	**5,550,624**
FV through Comprehensive revenue and expenses			
CentrePort unlisted shares	9	70,000,000	39,000,000
Total FV through Comprehensive revenue and expenses		**70,000,000**	**39,000,000**
Financial Liabilities			
Payables	13	2,160,929	2,551,117
Borrowings from Horizons	14	17,000,000	15,000,000
Total Financial Liabilities		**19,160,929**	**17,551,117**
Total Financial Instrument Categories		**52,372,637**	**26,999,507**

	NOTES	2020	2019

11. Investment Property

28 North Street, Palmerston North			
Balance 1 July		3,050,000	3,050,000
Development Costs for the year		-	-
Renovations		-	-
Revaluation as at 30 June to reflect fair value		100,000	-
Total 28 North Street, Palmerston North		**3,150,000**	**3,050,000**
17-23 Victoria Avenue, Palmerston North			
Balance 1 July		18,500,000	2,765,267
Development Costs for the year		5,790,981	15,720,973
Renovations		-	-
Revaluation as at 30 June to reflect fair value		(290,981)	13,760
Total 17-23 Victoria Avenue, Palmerston North		**24,000,000**	**18,500,000**
Total Investment Property		**27,150,000**	**21,550,000**

The North Street property applies the fair value model for valuing the property and is valued at $3,150,000 as at 30 June 2020. 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.

The Victoria Avenue property applies the fair value model for valuing the property and is valued at $24,000,000 as at 30 June 2020. 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.

Impact of COVID-19

The current Covid-19 pandemic has created significant market uncertainty. These valuations are current as at the date of valuation only. The value assessed here in may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as at the date of valuation).

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 6.06%.

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

	NOTES	2020	2019
Capital Commitments			
Buildings		-	4,782,046
Total Capital Commitments		**-**	**4,782,046**

	NOTES	2020	2019
Rental Information			
Rental Revenue		1,300,047	248,371
Direct Operating Expenses - property generates rental revenue		47,198	47,631

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	2020	2019
Operating leases			
Not later than one year		247,185	247,185
Later than one year and not later than five years		721,058	968,423
Later than five years		-	-
Total Operating leases		**968,243**	**1,215,608**

The Victoria Avenue property 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.

The future lease payments to be collected are as follows;

	NOTES	2020	2019
Operating Leases			
Not later than one year		1,499,659	-
Later than one year and not later than five years		6,061,462	-
Later than five years		4,342,621	-
Total Operating Leases		**11,903,742**	**-**

	NOTES	2020	2019
12. Provisions			
Opening Balance		-	396,573
Additional provisions made during the year		-	-
Unused provision reversed		-	(280,212)
Payments made during the year		-	(116,361)
Total Provisions		-	-

	NOTES	2020	2019
13. Creditors and Accrued Expenses			
GST Payable		17,685	-
Accounts Payable		347,916	173,768
Accrued Retentions		399,096	312,228
Accrued Dividends		1,250,000	-
Sundry Accruals		176,490	2,065,121
Total Creditors and Accrued Expenses		**2,191,187**	**2,551,117**

Creditors and accrued expenses includes retentions held of $399,096 (2019 - $312,228) related to construction contracts in progress.

	NOTES	2020	2019
14. Borrowings and other financial liabilities			
Term Portion		17,000,000	15,000,000
Total Borrowings and other financial liabilities		**17,000,000**	**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, plus a margin of 0.25%.

	NOTES	2020	2019

15. Equity

	NOTES	2020	2019
Accumulated Funds			
Balance at 1 July		3,811,565	3,129,695
Surplus/(deficit) for the year		1,105,107	681,870
Less Dividend paid		(1,250,000)	-
Balance at 30 June		**3,666,672**	**3,811,565**
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**
Revaluation Reserve			
CentrePort Shares			
Balance at 1 July		13,618,001	1,918,001
Gain/(Loss) on revaluation	9	31,000,000	11,700,000
Balance at 30 June		**44,618,001**	**13,618,001**
Total Equity		**79,784,673**	**48,929,566**

Number of Shares Issued

	NOTES	2020	2019
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**

16. 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:

Commitments to lease land

	NOTES	2020	2019
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		3,603,419	3,735,419
Total Commitments to lease land		**4,263,419**	**4,395,419**

17. Retentions

	NOTES	2020	2019
Opening Retentions		312,228	31,645
Retentions Recognised		86,868	280,583
Retentions Released		-	-
Closing Retentions		**399,096**	**312,228**

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.

18. Contingent Liabilities and Guarantees

There were no contingent liabilities and guarantees that would be considered material at year end.

(2019 - 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.)

19. 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 (resigned April 2020), Rachel Keedwell and Allan Benbow are not paid salaries by MWRCH with their Horizon salaries deemed to cover their responsibilities as directors of MWRCH. Ian Wilson the independent director was paid $7,500 this year (resigned March 2020).

20. Explanations of major variances against budget

Explanations for major variations (+/- 10%) from MWRCH's SOI for 2019-20 are as follows:

Statement of Comprehensive Revenue and Expense

- Rental and Interest Revenue are both less than budget due to delays in getting tenants into the building, which are impacting cash flow to invest. In the latter half of the year the COVID-19 pandemic also caused a dip in interest rates on standard savings accounts and term deposits.
- Operational Expenditure was overall on budget with underspends in Administration expenses off set with overspends in Finance Costs and the operational expenses relating to the Victoria Avenue Development which were unable to be capitalised such as insurance.

Statement of Financial Position

- The year-end Cash and Cash Equivalents was higher than budget due to receiptof a dividend from Centreport Ltd on the 30th of June of $577k.
- Other Current Finanical Assets is made up of Retentions held in Trust that were not budgeted for. These get paid out at the end of the liability period.
- Other Non-Current Financial Assets are the Centreport Shares which were valued substantially upwards above initial estimates.

21. Subsequent Events After Balance Date

There were no events that have occured after the balance date that would have a material impact on the Annual Report. (Last Year -Nil).

22. Performance Targets

The targets are to:

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

	Actual 2020 $000	SOI 2020 $000	Actual 2019 $000
Net Profit After Tax (NPAT)	1,105	300	682
Dividend/subvention payment	(1,250)	(1,392)	-
Dividend as percentage of NPAT	113.12%	65%	(0%)

2.Operate within agreed budgets

Overall revenue is below budget due to delays in tenants moving in due to COVID-19 lockdown. Overall expenditure is slightly over budget with overspends in Victoria Ave operational costs and finance costs offset by savings in administration expenses

3. Maintain the following financial performance targets

	Actual 2020 $000	**SOI 2020 $000**	**Actual 2019 $000**
Net Profit Before Tax	1,173	300	595
Income Return on Total Assets *	1.42%	0.81%	1.14%
Dividend and subvention Payment	(1,250)	(1,392)	(116)
Capital Growth on Investments **	60.45%	0.36%	83%

* 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 on Other Financial Assets and Investment Property, as a percentage of the opening balances on these assets.

23. Implications of COVID-19

The COVID-19 pandemic and resulting lockdown has caused little impact to MWRCH's financial performance. The pandemic caused a delay with work on one unoccupied area of the building and resulted in the delay of that being tenanted. However the lease agreement was in place and the area occupied by year end. While the pandemic may impact the ability to find tenants for the remaining unoccupied areas this is had to confirm. Post balance date an agreement to lease has been confirmed for the café space.

There was also a decline in interest rates during the latter half of the financial year due to the COVID-19 pandemic - a trend seen on both interest rates on borrowings and investments.
There is uncertainty surrounding the impact of COVID-19 on the Investments of MWRCH, however considerations have been made by the respective independent Valuers when determining the latest valuations for these assets. Refer to notes 9 and 11 for further detail.

24. 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 2020 this date was extended to 30 November 2020 under the Covid-19 Response (Further Management Measures) Legislation. While the Board has completed and approved the annual report by 30 November 2020, the audit opinion has been signed in December.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of MWRC Holdings Limited Limited's financial statements and performance information for the year ended 30 June 2020

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 6 to 26, that comprise the statement of financial position as at 30 June 2020, 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 6 to 26:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2020; 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 2020.

Our audit was completed on 10 December 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the company. 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.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the company as set out in notes 9, 11, 20 and 23 to the financial statements and page 25 of the performance information.

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.

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 2 to 5, 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