



Report 04.588
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Committee Policy, Finance and Strategy
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WRC Holdings Group - 2004 Financial Statements

1. Purpose

To receive the audited financial statements of WRC Holdings Ltd, Port Investments Ltd and Pringle House Ltd for the year ended 30 June 2004.

2. Background

On 14 September 2004 the directors of WRC Holdings Ltd, Port Investments Ltd and Pringle House Ltd adopted the 2004 financial statements of the three companies. These financial statements are attached as **Attachments 1, 2 and 3** of this report.

All three companies have received unqualified audit reports from Audit New Zealand.

The financial statements of WRC Holdings Ltd include a provision for dividend which requires shareholder approval (refer report 04.580 on this order paper).

The financial statements of the WRC Holdings Group, including CentrePort, have been consolidated into the Council's 2003/04 annual report due for adoption by the Council (refer report 04.589 on this order paper).

3. Comment

The financial statements of Pringle House Ltd and Port Investments Ltd incorporate financial information of those companies only, whereas the WRC Holdings Ltd financial statements include both parent company and consolidated financial information.

4. Overview Financial Statements

4.1 Pringle House Ltd

The financial statements of Pringle House Ltd reflect similar results to past years, including another write up in the value of the Regional Council Centre building.

The net surplus for the year (after payment of subventions of \$470,000 to the Council) of \$691,000 compares to a budgeted net surplus of \$156,000. The main reason for this favourable variance is the unbudgeted \$725,000 write up in the value of the Regional Council Centre.

There is no dividend payable to WRC Holdings Ltd as there is a small net deficit of \$34,000 if the \$725,000 revaluation gain is excluded. It is the policy of Directors not to pay revaluation gains as dividends.

4.2 Port Investments Ltd

The financial statements of Port Investments Ltd show a net surplus for the year of \$425,000. The surplus is significantly lower than last year, primarily due to lower than expected dividends from CentrePort.

The financial statements include a dividend payable to WRC Holdings Ltd of \$424,729, being 100% of its 2003/04 net surplus excluding revaluation gains.

4.3 WRC Holdings Ltd

The parent company's financial statements show a net surplus for the year of \$1,014,000.

This result is in line with the budgeted surplus of \$1,036,000. However, the unbudgeted increase in the value of the investment in Pringle House Ltd of \$691,000 (due to the write up in the value of the building) masks the reduced dividend revenue flowing through from CentrePort.

The parent company's financial statements include a dividend payable to the Council of \$322,712, being 100% of its 2003/04 net surplus excluding revaluation gains. The dividend is subject to approval by the Council as shareholder.

The WRC Holdings Group consolidated financial statements show a net surplus after taxation of \$31,415,000. This is significantly higher than the budgeted net surplus after tax of \$4,787,000 and reflects the revaluation of investment properties carried out at 30 June 2004 as noted below in the following table.

5. Financial performance against the Statement of Intent

	Actual 2004 \$000	Target 2004 \$000	Actual 2003 \$000
Net Profit Before Tax	5,178	7,384	6,485
Tax	(1890)	(2597)	(2088)
	<u>3,288</u>	<u>4,787</u>	<u>4,397</u>
Increase in Investment Properties	28,127	-	545
Net Profit	31,415	4,787	4,942
Increase in Revaluations Properties	40,581	-	-
Total	<u>71,996</u>	<u>4,787</u>	<u>4,942</u>
Return on Total Assets	6.6%	10.5%	10.9%
Return on Shareholders Funds	58.7%	21.1%	29.1%
Dividends \$000	323	1,036	788

The reduction in net profit before tax when compared with target and the previous year is primarily due to the reduction in CentrePort profits. The decrease is due to lower margins, restructuring costs, insurance and fixed asset write downs. Further detail is given in the CentrePort report (refer Report 04.579).

CentrePort revalued its land and investment properties by \$67.1 million based on an independent valuation. WRC Holdings have taken \$27.4 million of this increase which relates to investment properties through the earnings statement. The remaining \$0.7 million (total of \$28.1 million) is due to the revaluation of the Regional Council Centre building.

The other \$40.6 million of the CentrePort valuation has been accounted for in the Statement of Equity. In other words \$28.1 million has been treated as profits for the year, the remainder has not.

This treatment is in accordance with our accounting policies, but it does differ from the accounting treatment in CentrePort. In CentrePort, none of the revaluation has been included in profits for the year, all of it has been accounted for in the movements of equity.

Both methods are permitted by the New Zealand Accounting Standards.

However, once the international accounting standards come into force in a couple of years, the WRC Holdings treatment will be mandatory.

Return on total assets is lower than target because earnings are lower for the year and the average asset value is significantly higher due to asset revaluations during the year.

The return on the parent shareholder equity is higher than target due to the increase in the value of investment properties. Average parent shareholder equity has also increased due to the revaluation of assets.

A consequence of the reduced net surplus after tax of the WRCHL Group is a reduced dividend payment to the parent shareholder (Greater Wellington Regional Council). However, Greater Wellington also benefited from increased subvention payments of \$0.3 million.

6. Communications

Copies of the audited financial statements will be sent to the companies' bankers as is required. No other communication is considered necessary.

7. Recommendation

That the Committee recommend to Council that it:

- (1) receive the report and note its contents.*
- (2) receive the 2003/04 financial statements of Pringle House Ltd and Port Investments Ltd.*
- (3) approve, as sole shareholder, the 2003/04 financial statements of WRC Holdings Ltd.*

Report prepared by:

Barry Turfrey
Chief Financial Officer

- Attachment 1:** Pringle House Ltd – 2003/04 financial statements
- Attachment 2:** Port Investments Ltd – 2003/04 financial statements
- Attachment 3:** WRC Holdings Ltd – 2003/04 financial statements