

Timaru District Holdings Limited

Annual Report for the Year Ended 30 June 2020

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2020 ANNUAL REPORT

The directors are pleased to present the annual report for Timaru District Holdings Limited for the year ended 30 June 2020.

On behalf of the Board:



Ian R Fitzgerald
Chairman
11 November 2020



Richard Lyon
Director
11 November 2020

DIRECTORY

Directors

Ian R. Fitzgerald (Chairman)

Richard L. Lyon (Deputy Chairman)

Nigel W. Bowen

Registered Office

*2 King George Place
TIMARU*

Postal Address

*P O Box 522
TIMARU
Telephone: (03) 687 7200*

Auditor

*Audit New Zealand, Christchurch
On behalf of the Auditor-General*

Bankers

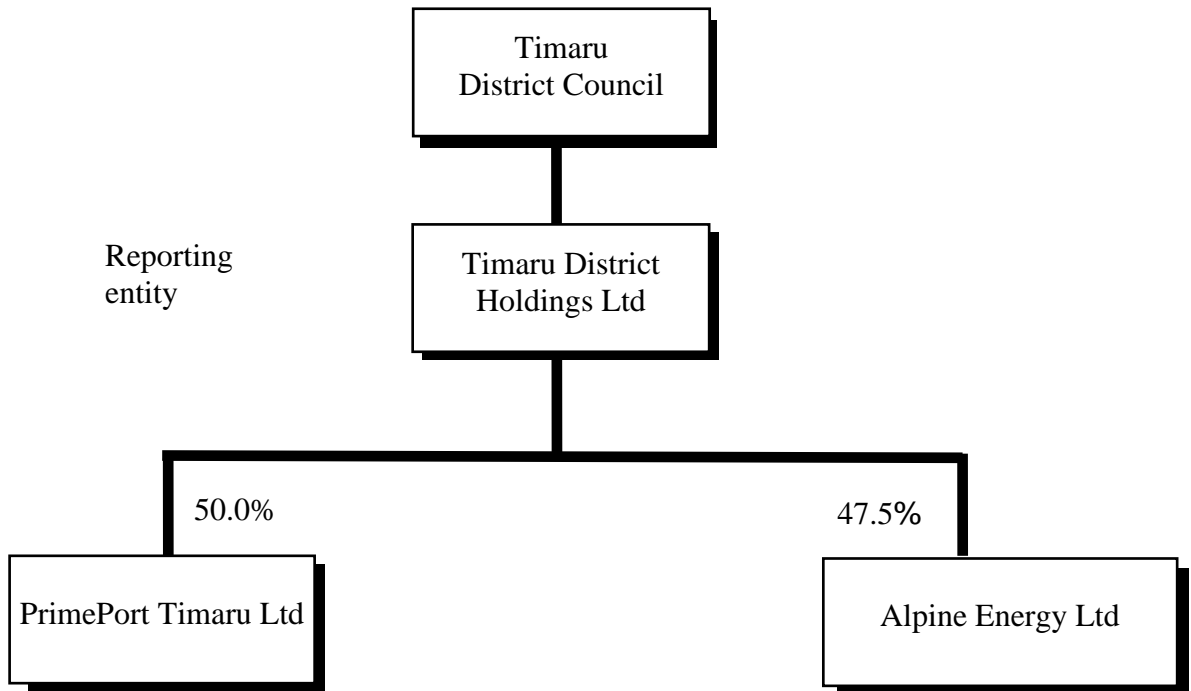
*Bank of New Zealand
Stafford Street
TIMARU*

*ANZ
Riccarton Road
CHRISTCHURCH*

Solicitors

*Buddle Findlay
CHRISTCHURCH*

ORGANISATIONAL STRUCTURE



TIMARU DISTRICT HOLDINGS LIMITED

ANNUAL REPORT 2019/20

CHAIRMAN'S REPORT

I have pleasure in presenting the Annual Report of Timaru District Holdings Limited (TDHL) for the year ended 30 June 2020.

Timaru District Council established TDHL in October 1997 with the prime objective of providing an improved level of governance on behalf of the Council in respect of investment in various companies.

In the years following TDHL divested itself of some of the companies and currently its investments comprise 50% shareholding in PrimePort Timaru Limited (PrimePort), 47.5% shareholding in Alpine Energy Limited (Alpine Energy) and a commercial property portfolio.

This year brought unprecedented challenges to the world through the COVID-19 epidemic and subsequent lockdowns. Although a clearer understanding of the long-term impacts will be gained as the year progress, the impact on TDHL, its subsidiaries and numerous tenants has been minimal.

PrimePort achieved an after-tax profit of \$5.6 million, an increase of \$1.6 million on the previous year. With a reset of tariffs and focus on the upgrades and maintenance program, PrimePort is well positioned for future.

Alpine Energy returned a record profit of \$21.64 million. It is expected that there will be a substantial reduction of dividends received from Alpine Energy Limited, largely attributable to regulations that limit the amount of revenue lines companies can earn. These regulations are put in place by the Commerce Commission and apply for a five year period starting 1 April 2020.

The work program from the Timaru District Council periodic review of TDHL's governance structure has been implemented through an updated Statement of Intent, a review of the Board composition, updated Constitution, and the appointment of 3 new Directors. The make-up of the TDHL Board will comprise three independent directors (including the Chair) and two Councillor directors.

The review also recommended that TDHL: strengthen policies, procedures and mechanisms for engagement with its shareholder; and that a better public understanding of the nature and role of TDHL be developed through a clearer separate identity. To achieve this, a dedicated General Manager has been employed by the Board. This role will also focus creating a closer working relationship with subsidiaries and address the increasingly complex commercial transactions that arise from the property portfolio.

The 2019/20 year has seen significant and unprecedented challenges, from which TDHL has emerged stronger and more resilient. I would like to acknowledge the contribution my fellow directors have made to TDHL's continued success as well as the dedication and professionalism of the management team.

FINANCIAL PERFORMANCE

TDHL's after tax operating surplus was \$14.4 million for the year ended 30 June 2020.

Results for the Year Ended 30 June 2020

	Actual 2020 \$000	Budget 2020 \$000	Actual 2019 \$000
<i>Operating Income</i>			
Alpine Energy Limited Dividend	4,711	4,711	4,711
PrimePort Timaru Limited Dividend	850	700	650
Property Rentals	2,688	2,516	2,544
Share of Associate Surplus	6,156	3,000	4,173
Investment property revaluations	1,874	806	3,729
Other	282	113	258
	<u>16,561</u>	<u>11,846</u>	<u>16,065</u>
Financial costs	(1,250)	(1,539)	(1,587)
Other Operating Expenditure	(953)	(1,022)	(1,200)
Operating Surplus	14,358	9,285	13,277
Tax benefit / (charge)	0	(246)	121
Net Surplus after Income Tax attributable to Shareholders	<u>14,358</u>	<u>9,039</u>	<u>13,398</u>

The principal activity of TDHL is to operate as a successful business. It does this through its own Statement of Intent negotiated each year with its sole shareholder the Timaru District Council and through its Statements of Corporate Intent negotiated with its associated entities.

One of its prime objectives is to maximise the return from, and the value of the associated trading companies to the Timaru District Council.

The directors of TDHL monitor the activities of PrimePort and Alpine Energy during the year to ensure that those companies adhere to their respective Statements of Corporate Intent.

All Statements of Corporate Intent were reviewed to ensure that they reflected the policies and objectives of the Timaru District Council, the sole shareholder of TDHL.

TDHL directors take a number of steps to keep themselves well informed of all matters relating to the activities of Alpine Energy and PrimePort, such as receiving regular reports and briefings from the governing body and executive management of the respective companies. At the same time TDHL kept its sole shareholder, Timaru District Council, informed of all matters of substance affecting the company as associate companies by way of quarterly reports to the Council.

Timaru District Holdings Limited was able to pay the forecast dividends to its shareholder due to expected cash inflows being received and maintains a strong balance sheet.

Commercial property portfolio

TDHL owns and operates the portfolio of commercial properties located surrounding the Timaru port. These properties are utilised to compliment the activities of the port and its users.

The sale of the Showgrounds site has been the subject of considerable public interest. The agreement with the purchaser is progressing as anticipated with the proposed development still subject to resource consent approval.

Property portfolio for the year ended 30 June	2020	2019
	\$000	\$000
Rental revenue	2,688	2,544
Direct Operating expenses	(673)	(685)
Contribution to Net Surplus before taxation	2,014	1,859
Value of Investment Property portfolio	47,482	45,490

Alpine Energy Limited

TDHL has a 47.5% shareholding in Alpine Energy Limited.

The principal activity of Alpine Energy is electricity distribution to households and businesses in the South Canterbury region via its electricity distribution network. The group, comprising Alpine Energy Limited and its subsidiary and associated entities also undertakes asset management and contracting services. Alpine Energy achieved another satisfactory result for the year ended 31 March 2020.

Reliability of supply regulatory thresholds were met for the year which is important as it confirms the underlying condition of the assets and services provided.

The summarised results for the year are noted below. A more detailed review of Alpine Energy's performance can be found in its published Annual Report for the year ended 31 March 2020.

RESULTS FOR THE YEAR ENDED 31 MARCH 2020		
	Group	
	2020	2019
	\$000	\$000
Operating Surplus Before Tax	29,093	19,465
Income Tax	(7,456)	(5,715)
Net Surplus after Income Tax attributable to the Shareholders	21,637	13,750

PrimePort Timaru Limited

TDHL has a 50% shareholding in PrimePort Timaru Limited with the other 50% shareholding held by Port of Tauranga Limited. The principal activity of PrimePort is the efficient and cost effective transfer of commodities between land and water transport systems.

Notwithstanding a decrease in cargo volumes due to a sharp drop in log exports, PrimePort managed to increase profits for the year ended 30 June 2020. PrimePort also continued to progress its extensive maintenance and development plans, in spite of the impact of the lockdown.

The summarised results for the year are set out below. A more detailed review of the PrimePort's performance can be found in its published Annual Report for the year ended 30 June 2020.

	Parent	
	2020	2019
	\$000	\$000
Revenue	24,189	22,917
Operating expenses	16,189	17,299
Net Surplus before taxation	7,999	5,618
Taxation	(2,376)	(1,576)
Net Surplus after taxation	5,623	4,042

Conclusion

The 2019/20 year has been another successful year for Timaru District Holdings Limited. Satisfactory results have been achieved by both PrimePort and Alpine Energy while the TDHL property portfolio continues to generate positive returns for the company.

Ian R Fitzgerald
Chairman

TIMARU DISTRICT HOLDINGS LIMITED
STATUTORY INFORMATION
For the year ended 30 June 2020

Directors

Timaru District Holdings Limited
Ian R. Fitzgerald (Chairman)
Richard L. Lyon (Deputy Chairman)
Nigel W. Bowen
Damon J. Odey (ceased 23 October 2019)
Richie J. Smith (ceased 31 October 2019)
Kerry M. Stevens (ceased 23 October 2019)

Entries made in the interests register

The following entries were recorded in the interests registers of the Company:

Ian R Fitzgerald

Burleigh Evatt – Director
Ngai Apa kit e Ra To Investments Committee – Member
Matavai Niue Limited – Chairman
Niue Development Bank – Chairman
Telecom Niue – Director
Public Trust – Chairman
Ministry of Social Development Audit & Risk committee (Member)
Ministry of Foreign Affairs and Trade Audit and Risk Committee - Member
Land Information New Zealand ASaTS Project– Independent Member
World of Wearable Art Limited - Director

Richard L Lyon

Timaru District Council – Councillor

Nigel W. Bowen

Timaru District Council – Mayor
South Canterbury Ale House Limited - Director

Damon J Odey

Timaru District Council – Mayor
PrimePort Timaru Limited - Director
Parr and Co Limited – Director
Diverse Management Limited – Director
Yedo Investments Limited – Director
Air and Power Industrial Limited – Director
Parr Dairy Limited – Director
Nomad Management Limited – Director

Richie J Smith

AGPAC Limited - Director
Donaghys Crop Packaging NZ GP 2017 Limited - Director
Empak NZ 2019 GP Limited - Director
Hilton Haulage GP Limited – Director
Richie Smith Limited – Director
Lands and Survey South Limited – Director
Lands and Survey (Auckland) Limited – Director
Lands and Survey Queenstown Limited – Director
Maniototo Holdings Limited – Director
New Zealand Post Limited – Director
New Zealand Post Trustees Limited - Director
Land and Survey Limited – Director
Lake Tekapo Village Motel Limited – Director
Walk On Limited - Director
Puketeraki Limited – Director

Plasback NZ 2019 GP Limited – Director
 PolyFabrics Australia NZ GP 2018 Limited - Director
 M2M NZ Limited – Director
 Waka Capital Limited – Director

Kerry M Stevens

Timaru District Council – Councillor

- Interest in transactions
 All transactions with Directors were entered into during the normal course of business and at normal terms and condition
- Use of company information
 During the year there were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would otherwise have been available to them.
- Shareholding by directors
 There are no shareholdings held by directors.
- Remuneration and other benefits to directors.

Timaru District Holdings Limited	<u>2020</u>	<u>2019</u>
Ian R Fitzgerald (Chairman)	\$31,414	\$23,060
Richard L Lyon (Deputy Chairman)	\$18,000	\$18,000
Nigel W. Bowen	\$11,492	\$0
Damon J Odey	\$6,231	\$29,350
Richie J Smith	\$6,000	\$18,000
Kerry M. Stevens	\$6,231	\$18,000
	\$79,368	\$106,410

- Indemnity and Insurance: Directors and Employees
 Timaru District Holdings Limited
 The Company has entered into an agreement to indemnify all Directors, Company Secretary, and Executive Officer, against loss resulting from the actions which arise out of the performance of their normal duties as director or advisor.

Dividends

Dividends of 9.2 cents per share were paid during the year.

Employee's remuneration

The company does not have any employees.

Donations

During the year Timaru District Holdings Limited made no donations. (2019: \$Nil).

Changes in Accounting Policies

NZ IFRS 16 Leases

Timaru District Holdings Limited has adopted the requirements for NZ IFRS 16 for the first time for their annual reporting period commencing 1 July 2019. The impact of adopting NZ IFRS 16 is disclosed in Note 1.

Auditors' Remuneration

During the year the following amounts were payable to the auditors of the company:

<u>Company</u>	<u>Audit Work</u>	<u>Other Services</u>
Timaru District Holdings Limited	\$16,486	\$0

STATEMENT OF OBJECTIVES AND PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

The principal activity of the company is to operate as a successful business.

The objectives of the company for this financial year are specified in the Statement of Intent which was approved by the shareholders. These objectives are listed below and the performance achieved during the financial year.

Objective

To maximise the return from, and the value of, the subsidiary and associate and joint venture trading companies to the Timaru District Council, as the shareholder in Timaru District Holdings Limited.

Achievement:

(i) **Alpine Energy Limited**

The Alpine Energy Group's results for the 2019/20 financial year are as follows;

Performance Measure	Target	Actual
Ratio of shareholders equity to total assets	52%	51%
Ratio of net profit after tax to shareholders' equity	12.9%	14.7%
Net Tangible assets per share	\$7.52	\$7.25
Earnings per fully paid share	50.2 cps	52.4 cps
Dividend per fully paid share	24.0 cps	24.0 cps

(ii) **PrimePort Timaru Limited**

PrimePort Timaru continues to grow in the changing operating environment. They achieved a strong operating surplus for the 2019/20 year.

Performance Measure	Target	Actual
Return on total assets	4.16%	Yes
Return (after tax) on shareholders' funds	6.66%	Yes
Ratio of shareholders' funds to total assets	0.62	Yes
Net Tangible assets per share	\$7.01	Yes
Earnings per fully paid share	\$0.47	Yes
Dividend per fully paid share (proposed)	\$0.00	Yes

Achievement:

Returns, in the form of dividends, from Alpine Energy and PrimePort increased from the previous year.

Objective

To ensure insofar as it is lawfully able, that the Statements of Intent of each of the Company's subsidiaries and associates reflects the policies and objectives of the Timaru District Council and Timaru District Holdings Limited in the area of activity or operation of that subsidiary or associate.

Achievement:

All Statements of Intent were reviewed and considered to be in line with Timaru District Council policies and objectives.

Objective

To monitor the activities of the companies to ensure that the respective Statements of Intent are adhered to.

Achievement:

All Statements of Intent were adhered to during the year.

Objective

To keep the Timaru District Council informed of matters of substance affecting the group.

Achievement:

The Timaru District Council was informed on a quarterly basis on the performance of the Company and its associates. Presentations were also made to the Council on various matters.

Objective

To ensure that regular reporting of results from the associate companies occurs to the Holding Company.

Achievement: Monthly summary reports were received from Alpine Energy Limited and PrimePort Timaru Ltd.

Objective

To approve Statements of Intent, after reference to Council, for each of TDHL's associates through which the performance (particularly the financial performance) will be monitored, and to confer with each company on their long term strategic direction.

Achievement: Timaru District Holdings Limited has after reference to the Timaru District Council approved all Statements of Intent.

Timaru District Holdings Limited has been kept informed of Alpine Energy Limited's and PrimePort Timaru Limited's long term strategic direction.

Objective

To liaise with Alpine Energy Ltd and PrimePort Timaru Ltd and the other shareholders in these companies on the development of strategic options for the future of these companies.

Achievement: Timaru District Holdings Limited has held discussions with these companies regarding strategic options.

Objective

To undertake strategic asset purchases, partner with external parties, or assist future developments in the district.

Achievement: Timaru District Holdings Limited continues to take a proactive approach with an outlook to pursue opportunities where considered appropriate. Timaru District Holdings Limited is actively engaging with external parties on current and future projects and will continue to do so.

Objective

To obtain a commercial return and build long term strategic value from the port property portfolio, but to have regard to working in conjunction with PrimePort to ensure operations contribute to the Port business as far as practicable.

Achievement: The commercial focus on the port property portfolio is formalised and advanced through regular engagement and the development of a strategic plan. The cooperative working relationship with PrimePort has seen the realisation of several significant projects in the past, with major joint initiatives an ongoing work stream for the foreseeable future. This engagement and cooperation clearly supports the commercial return of the Port and property as can be seen in the annual performance of the PrimePort and the return on property

Objective

To achieve a return on investment of 7% or greater on the leasable port property portfolio held for investment purposes and property held for non-financial reasons to achieve good community outcomes. Ensure that all lease renewals are completed in a timely manner.

Achievement: Average return for the leasable port properties was 8.6%. The majority of lease renewals were completed in a timely manner, with those not identified through a portfolio-wide review and initiated immediately.

Objective

To review the TDHL investment portfolio for options to diversify and de-risk its exposure to any single industry.

Achievement: Timaru District Holdings Limited continually reviews its investment portfolio, specifically around the tradeable property assets. This included a Property Deep Dive session in December 2019 followed by financial forecasting to test different market scenarios and risks on the whole portfolio. This work reinforced the ongoing for need for review and assessment which will continue with added focus.

Objective

To continue debt reduction subject to no major investments being undertaken.

Achievement: Loans of \$2.5 million were repaid during the year.

Timaru District Holdings Limited performance targets**Performance Targets**

	Target	Adjusted Target**	Actual	Achieved	Adjusted Actual*	Achieved*
Net profit after tax to shareholders funds	7%	8%	12%	Yes	12%	Yes
Net tangible assets per share	11.53	115.25	3.96	No*	122.70	Yes
Earnings per fully paid share	8.23	9.04	0.46	No*	14.36	Yes
Dividends paid per full paid share	2.85	2.85	0.09	No*	2.85	Yes
Shareholder funds to total assets	77%	77%	78%	Yes	78%	Yes

*A Taxable Bonus Share Issue of \$30 million was declared on 29 June 2019. This increased the Timaru District Council's Shareholding in Timaru District Holdings Limited. The Targets for the 2020 year were prepared based on the shareholding prior to the Taxable Bonus Issue. This directly affected the above ratios and has resulted in some of the Targets for the 2020 year not being met. An Adjusted Actual column has been added eliminating the effect of the Taxable Bonus Issue showing all performance targets being met.

**The calculation methodology used for the Actuals and Adjusted Actuals is different from that used for the Targets. An Adjusted Target column has been added using the same calculation methodology used for the Actuals and Adjusted Actuals eliminating this effect.

Timaru District Holdings Limited

Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	2020 \$000	2019 \$000
Revenue			
Dividends			
Alpine Energy Limited		4,711	4,711
PrimePort Timaru Limited		850	650
Interest		38	73
Property rentals	2	2,688	2,544
Investment property revaluations	8	1,874	3,729
Share of Associate Surplus	9	6,156	4,173
Gain on changes in fair value of derivative financial instruments		244	185
		16,561	16,065
Expenses			
Operational expenses	3	953	1,200
Interest on Timaru District Council loan		562	727
External finance costs		688	860
		2,203	2,788
OPERATING SURPLUS/(DEFICIT) BEFORE TAX		14,358	13,277
Tax Expense/(Benefit)	4	0	(121)
OPERATING SURPLUS/(DEFICIT) AFTER TAX		14,358	13,398
<i>Operating Surplus/ (Deficit) attributable to:</i>			
Timaru District Holdings Limited		14,358	13,398
TOTAL COMPREHENSIVE INCOME		14,358	13,398
<i>Total Comprehensive Income attributable to:</i>			
Timaru District Holdings Limited		14,358	13,398

The accompanying accounting policies and notes form part of these financial statements.

Timaru District Holdings Limited

Statement of Changes in Equity

For the year ended 30 June 2020

	2020	2019
	\$000	\$000
Total Comprehensive income	14,358	13,398
Dividends declared	(2,850)	(32,750)
Shares Issued	0	30,000
Transaction with owners	<u>(2,850)</u>	<u>(2,750)</u>
Equity at the beginning of year	111,188	100,539
Equity at end of year	<u><u>122,696</u></u>	<u><u>111,188</u></u>

The accompanying accounting policies and notes form part of these financial statements.

Timaru District Holdings Limited

Statement of Financial Position

As at 30 June 2020

	Notes	2020 \$000	2019 \$000
EQUITY			
Share capital	5	31,000	31,000
Retained Earnings	5	91,696	80,188
Total Equity		122,696	111,188
REPRESENTED BY:			
ASSETS			
Current assets			
Cash and cash equivalents	7	1,668	1,468
Other financial assets	7	1,000	500
Receivables and Prepayments	6	2,006	2,075
Total current assets		4,674	4,043
Non-current assets			
Investment properties	8	47,482	45,490
Investments in associates	9	105,405	99,249
Total non-current assets		152,887	144,739
Total assets		157,561	148,782
LIABILITIES			
Current liabilities			
Payables and accruals	11	1,089	1,074
Derivative financial instruments		195	293
Current portion of term loans	12	22,181	22,181
Total current liabilities		23,465	23,548
Non-current liabilities			
Term loans	12	11,400	13,900
Derivative financial instruments		0	146
Total non-current liabilities		11,400	14,046
Total liabilities		34,865	37,594
NET ASSETS		122,696	111,188

The accompanying accounting policies and notes form part of these financial statements.

For and on behalf of the Board:



Ian Fitzgerald
Chairman
November 2020



Richard Lyon
Director
November 2020

Timaru District Holdings Limited

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	2020 \$000	2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		2,757	2,569
Dividends received		5,561	5,359
Interest received		38	73
		8,356	8,001
Cash was disbursed to:			
Payments to suppliers and employees		(938)	(1,045)
Interest Paid		(1,250)	(942)
		(2,188)	(1,987)
Net cash inflow/(outflow) from operating activities	13	6,168	6,014
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from realisation of investments		0	1,500
		0	500
Cash was applied to:			
Purchase of fixed assets		(118)	(2,330)
Purchase of investments		(500)	(500)
		(618)	(2,830)
Net cash inflow/(outflow) from investing activities		(618)	(1,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds from term loan		0	1,500
		0	1,500
Cash was applied to:			
Dividends paid		(2,850)	(2,750)
Repayment of loans		(2,500)	(2,500)
		(5,350)	(5,250)
Net cash inflow/(outflow) from financing activities		(5,350)	(3,750)
Net increase in cash held		200	934
Add opening cash		1,468	534
Closing cash balance		1,668	1,468
Made up of:			
Cash and cash equivalents		1,668	1,468
Closing cash balance		1,668	1,468

The accompanying accounting policies and notes form part of these financial statements.

TIMARU DISTRICT HOLDINGS LIMITED STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

Reporting entity

Timaru District Holdings is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The company is wholly owned by Timaru District Council. The company began operation on 29 October 1997.

The entity consists of Timaru District Holdings Limited, and associated entities, PrimePort Timaru Limited (50%) and Alpine Energy Limited (47.50%). All entities are incorporated in New Zealand.

Basis of preparation

The financial statements of Timaru District Holdings Limited have been prepared in accordance with the requirements of the Companies Act 1993, the Local Government Act 2002 and New Zealand International Financial Reporting Standards.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

For the purposes of complying with NZ GAAP, the Company is eligible to apply Tier-2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards – Reduced Disclosure Regime ("NZ IFRS RDR") on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of Timaru District Holdings Limited is New Zealand dollars.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed.

Accounting policies

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied. The accounting policies have been applied consistently to all periods presented in these financial statements.

Changes in Accounting Policies

NZ IFRS 16 Leases

Timaru District Holdings Limited has adopted the requirements for NZ IFRS 16 for their annual reporting period commencing 1 July 2019. The impact of adopting NZ IFRS 16 is disclosed in Note 1.

Associate companies

These are companies in which Timaru District Holdings Limited has a significant influence over commercial and financial policy decisions.

Timaru District Holdings Limited holds a 50% shareholding in PrimePort Timaru Limited and a 47.50% shareholding in Alpine Energy Limited, and participates in their commercial and financial policy decisions.

The interest in the associate companies has been reflected in the financial statements on an equity accounting basis, which shows the share of surplus/deficits in the statement of comprehensive income and the share of post-acquisition increases/decreases in net assets in the statement of financial position.

Goods and Services Tax

All items in the financial statements are exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense. Timaru District Holdings Limited became registered for GST in January 2007 and all parent transactions prior to this time were recorded inclusive of GST.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the provision of services, excluding Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

i. Sales of goods

Revenue from sale of goods is recognised when ownership is transferred.

ii. Sales of Services

Revenue from the rendering of services is recognised over time in the profit or loss based on the percentage of completion of the service performed at balance date.

iii. Rental and Sub-lease income

Rental and sub-lease income is recognised on a straight line basis over the term of the lease.

iv. Interest Income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate

v. Dividend Income

Dividend income is recognised net of imputation credits when the right to receive payment is established.

No revenue is recognised if there are significant uncertainties regarding recovery of consideration due.

Expenses

From 1 July 2019, lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the term of the lease.

Prior to 1 July 2019, operating lease payments were recognised in the profit or loss on a straight-line basis over the term of the lease.

All borrowing costs, except for those relating to a qualifying asset, are recognised as an expense in the period they are incurred using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current taxation 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. Current tax is calculated using rates that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences. 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 can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current tax and deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

Cash and cash equivalents

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Accounts receivable

Accounts receivable are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

The company applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses trade receivables have been grouped based on shared credit risk characteristics and days past due.

Investments

Investments, except those in associate companies, are stated at cost less any impairment losses. Any decreases are recognised in the profit or loss.

Investment in associate companies are accounted for using the equity method. Under this method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit and loss and other comprehensive income of the investee after the date of acquisition.

Investment properties

Land and buildings held to earn rental income or for capital appreciation or both are deemed port related investment property. This includes land held for a currently undetermined use that is not owner-occupied property or for short term sale.

Investment property is valued at the end of each financial year. Valuation is at fair value as determined by a qualified independent valuer. They are recorded at valuation and are not subject to annual depreciation. Variation in value is recorded in the profit or loss.

Non-Current assets intended for Sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction within the next financial year. Non-current assets held for sale are valued at the lower of carrying amount and fair value to sell less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

Accounts Payable

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and the risks specific to the liability.

Financial instruments

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

i. Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate

method. Foreign exchange gains and losses are presented in other gains and losses and impairment expenses in other expenses.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

ii. Impairment

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Leases

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the entity.

Prior to 1 July 2019, leases of property, plant and equipment were classified as either finance leases or operating leases.

Lease income from operating leases where the entity is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The entity did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting *NZ IFRS 16 Leases* from 1 July 2019.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 January 2009, all other borrowing costs are recognised as an expense in the period in which they are incurred. A qualifying asset is defined as a separate asset where the construction period exceeds twelve months and costs in excess of one million dollars.

Impairment

The carrying amount of the company's assets are reviewed each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. If the estimated recoverable amount of an asset not carried at revalued amount, is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss. Estimated recoverable amount of receivables is calculated as the present value of estimated cash flows discounted at their original effective interest rate. Receivables with short duration are not discounted. Other assets estimated recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount.

For assets not carried at revalued amount, the reversal of an impairment is recognised in the profit or loss.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in profit or loss, a reversal of the impairment loss is recognised in profit or loss.

Statement of cash flows

Cash and cash equivalents means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the company invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company. Dividends paid are included in financing activities. Loans raised and paid are netted off when they are part of the rollover of money market borrowings covered in the company's long-term finance facilities.

The GST component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Critical accounting estimates and assumptions

In preparing these financial statements, Timaru District Holdings Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements 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.

Impact of COVID-19

The World Health Organisation declared a global pandemic on 11 March 2020 due to the outbreak and spread of COVID-19. Measures to prevent transmission of the virus were gradually introduced in New Zealand including limiting the movement of people. On 25 March 2020, New Zealand moved into Alert Level 4 - Eliminate, requiring all non-essential businesses to close and people instructed to stay at home except for essential activities until 27 April 2020.

The team was able to work remotely from home and keep the operations running as normal during the lockdown period. Rent relief of \$7K has been granted to support the tenants having difficulties paying rent effected by the lockdown. The overall impact on the operations of the company has been minimal.

Investment properties held by the company were independently valued as at 30 June 2020 by Ian Fairbrother VP (Urban) FNZIV, FPINZI, a registered valuer with Telfer Young (Canterbury) Limited. The valuation report has indicated that a greater degree of uncertainty is attached to the valuation of the investment properties due to severe market disruption and lack of transactional data as a result of COVID-19 (Note 8).

An impairment assessment has been completed for the Company's investment in associate entities, Alpine Energy Limited and PrimePort Timaru Limited as at 30 June 2020. No impairment loss is required to be recognised due to COVID-19 based on the results of the assessment (Note 9).

In summary, management and the board have considered the impact of COVID-19 on the Company's operations and the relevant balances and disclosures in the financial statements. Overall, the financial impact of COVID-19 on the Company has been minimum for the year ended 30 June 2020.

TIMARU DISTRICT HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED
30 JUNE 2020

Note 1: Changes in Accounting Policies

NZ IFRS 16 Leases

Timaru District Holdings Limited has adopted the requirements of NZ IFRS 16 in the year to 30 June 2020. NZ IFRS 16 replaces the principles of NZ IAS 17. NZ IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of right-of-use asset and a lease liability at commencement for all lease except for short-term leases and leases of low-value assets when such recognition exemptions are adopted. The requirements for lessor accounting remained largely unchanged.

Timaru District Holdings Limited did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16. The company has elected not to reassess whether a contract is or contains a lease at the date of initial application. Accordingly, for contracts entered into before the transition date, the company relied on its assessment made applying NZ IAS 17 and IFRIC 4 determining whether an arrangement contains a lease.

Note 2: Revenue

	2020	2019
	\$000	\$000
Property Rentals	2,688	2,544
Other Income		
Dividends	5,561	5,361
Share of Associate Surplus	6,156	4,173
Investment Property revaluations	1,874	3,729
Other	282	258
Total Other Income	<u>13,873</u>	<u>13,521</u>
Total Revenue	<u>16,561</u>	<u>16,065</u>

Disaggregation of revenue recognition, the company derives revenue from the transfer of goods and services over time and at a point in time:

Timing of revenue recognition

At a point in time	8,287	7,978
Over time	8,274	8,087
	<u>16,561</u>	<u>16,065</u>

Note 3: Operational expenses

	2020	2019
	\$000	\$000
Directors' fees	79	106
Audit fees - annual accounts audit	16	14
Holding company operating costs	843	1,080
Bad debts written off	15	0
	<u>953</u>	<u>1,200</u>

Note 4: Taxation

	2020	2019
	\$000	\$000
Surplus/(deficit) before taxation	14,358	13,277
Prima facie taxation at 28%	4,020	3,718
Plus/(less) taxation effect of:		
Non taxable income	(2,282)	(3,766)
Recognition of tax losses	(182)	(53)
Tax impact of Imputation Credits	(1,557)	(1,501)
Non taxable expenditure	0	49
Prior period adjustment	0	(121)
Tax expense/ (Benefit)	<u>0</u>	<u>(121)</u>

	2020	2019
	\$000	\$000
Comprising:		
Prior Period adjustment	0	(121)
	<u>0</u>	<u>(121)</u>

Future tax benefit /(deferred taxation)		
Opening balance	0	(121)
Temporary Differences		
Others	0	121
Closing balance	<u>0</u>	<u>0</u>

	2020	2019
	\$000	\$000
Imputation credit account		
Balance as at 1 July	1,970	12,620
Credits attached to dividends received	2,163	2,085
Credits attached to dividends paid	(1,108)	(12,736)
Balance at 30 June	<u>3,024</u>	<u>1,970</u>

Note 5: Equity

◇ (a) Share capital

	2020	2019	2020	2019
	Shares	Shares	\$000	\$000
Opening balance	49,550,000	19,550,000	31,000	1,000
Issues during the year	0	30,000,000	0	30,000
Balance at 30 June	49,550,000	49,550,000	31,000	31,000

All shares have been fully paid (no par value).

◇ (b) Retained earnings

	2020	2019
	\$000	\$000
Retained earnings at 1 July	80,188	99,539
Net operating surplus/(deficit)	14,358	13,398
Dividends Declared	(2,850)	(32,750)
Retained earnings at 30 June	91,696	80,188

As at 30 June 2020, no dividends have been declared that have not yet been paid (2019: \$nil).

Note 6: Receivables and prepayments

	2020	2019
	\$000	\$000
Trade debtors	122	146
Prepayments	0	42
	<u>122</u>	<u>188</u>
Amount owing by associates	1,885	1,887
Total receivables and prepayments	2,006	2,075

Trade debtors are non-interest bearing and receipt is normally on 30 day terms, therefore their carrying value approximates their fair value.

Trade debtors are shown net of impairment losses arising from the likely non-payment of a small number of customers. As at 30 June 2020 all overdue receivables had been assessed for impairment and appropriate provisions applied. The ageing of receivables for the company is as follows:

	2020			2019		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due – under 30 days	2,006	0	2,006	2,011	0	2,011
Past due – 30 to 60 days	0	0	0	59	0	59
Past due – 60 to 90 days	0	0	0	5	0	5
Past due – over 90 days	0	0	0	0	0	0
	<u>2,006</u>	<u>0</u>	<u>2,006</u>	<u>2,075</u>	<u>0</u>	<u>2,075</u>

The provision for impairment has been determined using an expected credit loss model. The movement in the provision for impairment is as follows:

	2020	2019
	\$000	\$000
Balance as at 1 July	0	0
Additional provisions made during the year / (provisions released)	15	0
Trade debtors written off during period	(15)	0
	<u>0</u>	<u>0</u>

Note 7: Cash and cash equivalents and other financial assets

	2020	2019
	\$000	\$000
Cash and cash equivalents		
Cash	1,668	1,468
	<u>1,668</u>	<u>1,468</u>

	2020	2019
	\$000	\$000
Other financial assets		
Short term investments	1,000	500
	<u>1,000</u>	<u>500</u>

Other financial assets are short term deposits with terms over 90 days. The carrying amount of short term deposits approximates their fair value. There were no impairment provisions for the short term investments.

Note 8: Investment Property

Investment Properties

	2020	2019
	\$000	\$000
Opening balance	45,490	39,431
Net gain / (loss) from fair value adjustment	1,874	3,729
Acquisitions	118	2,330
	<u>47,482</u>	<u>45,490</u>
Land at valuation	43,278	41,310
Building at valuation	4,204	4,180
	<u>47,482</u>	<u>45,490</u>

Investment properties held by the company were independently valued as at 30 June 2020 by Ian Fairbrother VP (Urban) FNZIV, FPINZI, a registered valuer with Telfer Young (Canterbury) Limited. The valuation report has indicated that a greater degree of uncertainty is attached to the valuation of the investment properties due to severe market disruption and lack of transactional data as a result of COVID-19.

(i) *Amounts recognised in profit or loss for investment properties*

	2020	2019
	\$000	\$000
Rental income from operating leases	2,688	2,544
Direct operating expenses from property that generated rental income	(560)	(589)
Direct operating expenses from property that did not generate rental income	(114)	(96)
Fair value gain recognised in other income	1,874	3,729
	<u>3,888</u>	<u>5,588</u>

(ii) *Measuring investment property at fair value*

Investment property held by the company was independently valued as at 30 June for the 2020 financial year by Ian Fairbrother VP (Urban) FNZIV, FPINZI, a registered valuer with Telfer Young (Canterbury) Limited. The valuation is based on fair value. In determining fair value, Mr Fairbrother has used the rental capitalisation approach. This method uses unobservable inputs (level 3 as defined by NZ IFRS 13). This method is based upon assumptions including future rental income and appropriate discount rates. The valuations have been completed in accordance with International valuation standards by an experienced valuer with extensive market knowledge in the types of investment property owned by the company.

Where property is leased as land and buildings generally on short term lease terms, the property has been valued at freehold land value. Where land is subject to a ground lease, the property has been valued at the lessor's interest in the land.

(iii) *Contractual obligations*

There are no investment properties where title is restricted. There are no current contractual obligations to purchase, construct or develop investment property.

(iv) *Leasing arrangements*

The investment properties are leased to tenants under operating leases with rental payments (monthly).

Ground lease terms and conditions vary widely with a number of perpetually renewable leases. Rent review terms also vary between 1 year to 21 years.

The future aggregate minimum lease payments to be collected under non-cancellable operating lease are as follows.

	2020	2019
	\$000	\$000
Operating lease receivables		
Non-cancellable operating lease receivables		
Within 1 year	2,228	2,111
Between 1 and 2 years	1,902	1,946
Between 2 and 5 years	4,749	3,028
Later than 5 years	30,274	22,022
	<u>39,153</u>	<u>29,107</u>

Note 9: Investments in associate companies

The interest in the associate companies has been reflected in the financial statements on an equity accounting basis, which shows the share of surplus/deficits in the statement of comprehensive income and the share of post-acquisition increases/decreases in net assets in the statement of financial position.

An impairment assessment has been completed for the Company's investment in associate entities (Alpine Energy Limited and PrimePort Timaru Limited) as at 30 June 2020. No impairment loss is required to be recognised due to COVID-19 based on the results of the assessment (Note 9).

PrimePort Timaru Ltd

Principal activity: Port operator
 Ownership: 50.0% (2019: 50.0%)
 Balance date: 30 June

Results of Associate

	2020	2019
	\$000	\$000
Share of Operating Surpluses before tax	4,000	2,809
Taxation	<u>(1,188)</u>	<u>(788)</u>
Share of Operating Surplus	2,812	2,021
Share of Other Comprehensive Income	<u>(271)</u>	<u>573</u>
Share of Total Recognised Revenues and Expenses	<u>2,541</u>	<u>2,594</u>

Interest in Associate

	2020	2019
	\$000	\$000
Balance at Beginning of Year	28,599	26,655
Recognised Revenues and Expenses	2,541	2,594
Dividends	<u>(850)</u>	<u>(650)</u>
Balance at End of Year	<u>30,290</u>	<u>28,599</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	<u>2,541</u>	<u>2,594</u>
	2,541	2,594
Dividends Paid	<u>(850)</u>	<u>(650)</u>
Share of Retained Surpluses	<u>1,691</u>	<u>1,944</u>

Summarised financial information of PrimePort Timaru Limited presented on a gross basis

	2020	2019
	\$000	\$000
Current Assets	5,028	5,470
Non Current Assets	86,900	84,738
Current Liabilities	3,862	3,160
Non Current Liabilities	26,729	29,092
Revenues	24,189	22,917
Profit or loss from continuing operations	5,623	4,042
Other Comprehensive Income	(542)	1,146
Total Comprehensive Income	5,081	5,188

Alpine Energy Ltd

Principal activity: Electricity Distribution
 Ownership: 47.50% (2019: 47.50%)
 Balance date: 31 March

Results of Associate

	2020	2019
	\$000	\$000
Share of Operating Surpluses before tax	13,819	9,246
Taxation	<u>(3,542)</u>	<u>(2,715)</u>
Share of Operating Surplus	10,278	6,531
Revaluation Reserve movements	<u>(1,102)</u>	<u>409</u>
Share of Total Recognised Revenues and Expenses	<u>9,176</u>	<u>6,940</u>

Interest in Associate

	2020	2019
	\$000	\$000
Balance at Beginning of Year	70,650	68,421
Recognised Revenues and Expenses	9,176	6,940
Dividends	(4,711)	(4,711)
Balance at End of Year	<u>75,115</u>	<u>70,650</u>
Movements in Reserves		
Share of Recognised Revenues and Expenses	9,176	6,940
	9,176	6,940
Dividends Paid	(4,711)	(4,711)
Share of Retained Surpluses	<u>4,465</u>	<u>2,229</u>

Summarised financial information of Alpine Energy Limited presented on a gross basis

	2020	2019
	\$000	\$000
Current Assets	24,584	17,878
Non Current Assets	299,027	282,892
Current Liabilities	27,214	17,867
Non Current Liabilities	144,456	140,363
Revenues	91,308	79,651
Profit or loss from continuing operations	21,637	13,750
Other Comprehensive Income	(2,319)	861
Total Comprehensive Income	19,318	14,611

Dividends of \$4,711,394 were received during the year including \$1,884,558, which related to 2019. A further \$1,884,558 was receivable at the end of the year.

Note 10: Bank overdraft

There is no bank overdraft facility in place, although a borrowing facility is in place that can be drawn upon at any time.

Note 11: Payables and accruals

	2020	2019
	\$000	\$000
Trade creditors and accruals	202	198
Interest payable	753	746
Revenue in advance	134	130
Total payables and accruals	<u>1,089</u>	<u>1,074</u>

Trade creditors are non-interest bearing and are normally settled on a 30-day basis, therefore the carrying value approximates their fair value.

Note 12: Term loans

	2020	2020	2019	2019
	Current	Non-current	Current	Non-current
	\$000	\$000	(Restated)	(Restated)
			\$000	\$000
Commercial Bills	-	11,400	-	13,900
Loans from Timaru District Council	22,181	-	22,181	-
	<u>22,181</u>	<u>11,400</u>	<u>22,181</u>	<u>13,900</u>

* See Note 20 for details regarding the restatement as a result of an error.

Effective Interest rates

Loans from Timaru District Council	2.06% to 2.99% (2019: 3.16% to 3.35%)
Wholesale Money Market	1.29% to 2.44% (2019: 2.44% to 2.86%)

Wholesale money market borrowing of \$11.4M is on fixed interest rate of 1.29% until September 2020. The interest rate applied to the wholesale money market borrowings is reviewed every 3 months by reference to the bank bill bid rate for that period. The average interest rate on the wholesale money market borrowing during the year is 1.93%.

Loans from Timaru District Council have no fixed repayment terms and are repayable within 90 days after notice by the Council seeking repayment of the outstanding amount. The interest rate applied is linked to the bank bill rate for the period plus basis points agreed with the Council.

Of the wholesale money market borrowings, \$8.5M is subject to interest rate swaps.

Maturity dates of the interest rate instruments within the long term facility are:

	2020 \$000	2019 \$000
Less than one year	8,500	3,000
One to two years	0	8,500

Security

Timaru District Holdings Limited commercial bills are secured by a first ranking general security agreement over all property of the company. Loan from Timaru District Council to the Company is secured by Debenture over the company's assets.

Liquidity Risk

Liquidity risk is the risk that the company will have difficulty raising funds to meet commitments as they fall due. The company's short term liquidity is managed by ensuring that there are sufficient committed financing facilities to cover at least \$1 million in excess of anticipated peak borrowing requirement as determined by cash flow forecasts. The maximum amount that can be drawn against borrowing facilities is \$19 million (2019: \$19 million).

Note 13: Reconciliation of net surplus/(deficit) after taxation with net cash flow from operating activities

	2020 \$000	2019 \$000
Net surplus/(deficit) after taxation	14,358	13,398
Associated entity surpluses	(6,156)	(4,173)
	<u>8,202</u>	<u>9,225</u>
<i>Add/(less) non-cash items:</i>		
Loss/(gain) on fair value of derivatives	(244)	(185)
Increase/(decrease) in deferred taxation	-	(121)
	<u>(244)</u>	<u>(306)</u>
	7,958	8,920
<i>Add/(less) items classified as investment activity:</i>		
(Gain) on fair value of Investment property	(1,874)	(3,729)
Total investing activity items	<u>(1,874)</u>	<u>(3,729)</u>
<i>Add/(less) movements in working capital items:</i>		
(Increase)/decrease in receivables and prepayments	69	681
Increase/(decrease) in payables and employee entitlements	15	143
Working capital movement – net	<u>84</u>	<u>822</u>
Net cash (outflow)/inflow from operating activities	<u>6,168</u>	<u>6,014</u>

Note 14: Contingent assets and liabilities

No contingent assets or contingent liabilities exist at balance date for Timaru District Holdings Limited (2019: Nil)

PrimePort Timaru Limited has the following contingent liability as at 30 June 2020 (2019: Nil) as a result of the Don Wong 701 catching fire and the burnt out vessel being laid up at PrimePort since 9 April 2018. The contingent liability arises as a result of the vessel needing to be laid up at PrimePort potentially until later December 2021, while its owners comply with preparation and cleaning conditions of the dumping permit issued by the Environment Protection Authority.

Alpine Energy Limited group has contingent liabilities of \$11.55M as at 31 March 2020 in the form of performance and import guarantees to cover ongoing project work (2019: \$5.68m).

Note 15: Commitments

Timaru District Holdings Limited has the following commitment as at 30 June 2020 (2019: Nil). A contract has been signed for sale of the Showgrounds property. The sale is conditional upon the purchaser completing a satisfactory due diligence.

Note 16: Related parties transactions

Timaru District Holdings Limited, PrimePort Timaru Limited and Alpine Energy Limited are considered to be related parties of Timaru District Council.

Related party transactions and balances

<i>Shareholder</i>	2020	2019
	\$000	\$000
Services provided to Timaru District Council	2	2
Services received from Timaru District Council	794	1,087
Rates paid to Timaru District Council	343	330
Amounts owing to Council (interest)	737	727
Amounts owing to Council (other)	131	94
Loan owing to Council	22,181	22,181

Timaru District Holdings Limited paid dividends of \$2,850,000 to Timaru District Council during the year (2019: 32,750,000).

Remuneration paid to Timaru District Holdings Limited key management personnel totalled \$79,368 (2019: \$106,410). Key management personnel are directors.

The amounts owing to associates are disclosed in Note 11. The amounts receivable from associates are disclosed in Note 6.

Timaru District Holdings Limited is a wholly owned subsidiary of the Timaru District Council.

Parties Associated with Directors

No directors or senior management have entered into related party transactions with the company. No related party debts have been written off or forgiven during the year.

Associated Entities**Alpine Energy Limited**

	2020	2019
	\$000	\$000
Services provided to associate by Timaru District Holdings Ltd	1	0
Services provided by associate to Timaru District Holdings Ltd	0	22
Amounts owing by associate to Timaru District Holdings Ltd	1,885	1,885
Amounts owing by Timaru District Holdings Ltd	0	22

PrimePort Timaru

	2020 \$000	2019 \$000
Services provided to associate by Timaru District Holdings Ltd	64	64
Services provided by associate to Timaru District Holdings Ltd	0	0
Amounts owing by associate to Timaru District Holdings Ltd	5	3
Amounts owing by Timaru District Holdings Ltd	0	0

Note 17: Financial instruments

Timaru District Holdings Limited is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable, trade creditors, shares in associate companies, and loans.

The company has a series of policies providing risk management for interest rates and the concentration of credit.

The company is risk averse and seeks to minimise exposure from its treasury activities. Its policies do not allow any transactions that are speculative in nature to be entered into. Information used to measure and manage risk includes staff experience, market commentary, strategic planning, financial planning and forecasting, financial reporting, operating and management systems, and risk management audits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The weighted average interest rate on the company's investment is:

		2020	2019		
Short term deposits		1.375%	3.25%		
Repricing maturities (\$000)	Less than 6 mths	6-12 mths	1-2 yrs	2-5 yrs	Total
Short term deposits	500	500	0	0	1,000

The directors do not consider there is any significant exposure to interest rate risk on its investments.

Loan liabilities are shown in Note 12.

The company has variable rate long term borrowings to fund ongoing activities. Swaps have been entered to manage interest rate fluctuation risks. The principal or contract amounts of interest rate swaps outstanding as at 30 June are as follows:

	2020 \$000	2019 \$000
Interest rate swaps		
Less than one year	8,500	3,000
One to two years	0	8,500

The carrying value of the financial assets and liabilities are recorded at estimated fair value as described in the accounting policies and notes. The Mark to Market valuation is determined by the bank at the close of business at balance date.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Cash flow hedging

Cash flow hedges cover:

Foreign exchange – No significant foreign exchange transactions took place in the financial year.

Interest rate swaps – managing interest rate risks up to 1 year with the impact of the hedge taken up in the profit or loss as they occur.

Interest rate swaps are taken up to lock in interest rates over future periods avoiding interest rate fluctuations.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the company causing the company to incur a loss.

Financial instruments, which potentially subject the company to risk, consist principally of cash and short-term investments and trade receivables.

The company invests in high credit quality financial institutions, local and government stock and limits the amount of credit exposure to any one financial institution. Accordingly, the company does not require any collateral or security to support financial instruments with organisations it deals with.

Note 18: Financial assets and liabilities

Fair Value

The company carries certain financial assets and financial liabilities at fair value. In accordance with NZ IFRS 13 – Fair Value Measurement, the company uses various methods in estimating the fair value of its financial instruments. The methods comprise:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value measurement of Investment Properties is Level 3 as per Note 8.

The carrying value of financial assets and liabilities are as follows:

	2020	2019
	\$000	\$000
Financial assets as per balance sheet		
<i>Measured at amortised cost:</i>		
Cash and cash equivalents	1,668	1,468
Other financial assets – short term deposits	1,000	500
Receivables	2,006	2,075
Total financial assets	4,674	4,043

GST receivable and prepayments do not meet the definition of a financial asset and have been excluded from the above table.

Financial liabilities as per balance sheet

Measured at amortised cost:

Payables and accruals	1,089	1,074
Current portion of term loans	22,181	22,181
Term loans	11,400	13,900
	<u>34,670</u>	<u>37,155</u>

Measured at FVPL:

Derivatives	195	439
	<u>195</u>	<u>439</u>
Total financial liabilities	34,865	37,594

GST payable, fringe benefit taxes and employee entitlements do not meet the definition of a financial liability and have been excluded from the above table.

Note 19: Capital management

The company's capital is its equity, which comprises issued shares, retained earnings and revaluation reserves. Equity is represented by net assets. Section 5 of the Port Companies Act 1988 states that the principal objective of every port company shall be to operate as a successful business. PrimePort Timaru's principal objective is to operate as a successful business, exploiting opportunities and managing risk thereby ensuring the maintenance and growth in equity. Alpine Energy's objective when managing capital is to safeguard the ability to continue as a going concern in order to provide returns to shareholders, consumers and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Note 20: Correction of error and prior period restatement

During the preparation of the 2019/20 financial statements, an error has been discovered regarding the classification of liabilities. The loans from Timaru District Council were incorrectly classified as a non-current liability rather than a current liability (Note 12). This error resulted in an understatement of current liabilities for the 2018/19 year and a corresponding overstatement of non-current liabilities.

The error has been corrected by restating each of the affected financial statements line items for the prior period as follows:

Statement of financial position (extract)	30 June 2019 \$000	Adjustment \$000	30 June 2019 (Restated) \$000
Non-current liabilities			
Term loans	36,081	(22,181)	13,900
Total non-current liabilities	36,227	(22,181)	14,046
Current liabilities			
Current portion of term loans	0	22,181	22,181
Total current liabilities	1,347	22,181	23,548

Independent Auditor's Report

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

The Auditor-General is the auditor of Timaru District Holdings Limited (the company). The Auditor-General has appointed me, John Mackey, 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 14 to 35, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that include other explanatory information; and
- the performance information of the company on pages 11 to 13.

In our opinion:

- the financial statements of the company on pages 14 to 35:
 - 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.
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on pages 11 to 13 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 11 November 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 on page 23 to the financial statements. We draw specific attention to the following matter due to the significant level of uncertainty caused by Covid-19:

- ***Investment property***

Note 8 on page 27 describes the greater degree of uncertainty highlighted by the valuer, related to estimating the fair values of the company's Investment property.

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 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 2 to 10, 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.



John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand