

2016 Annual General Meeting

CEO's Report

I would like to thank the Directors of MGI for selecting me for the role of General Manager. I commenced a little over 1-year ago on 2 November 2015 and it has been a very busy time. Key achievements include:

- The establishment of the new office in Glenavy;
- Recruitment of Matthew Gill as an irrigation system operator and Helen Anderson as the Company Administrator;
- The design and implementation of a new shareholder registry system and an accounts system;
- Operations completed the winter maintenance campaign and have continued to deliver water at one of the highest levels of reliability of any scheme in New Zealand.
- Addressing the legal compliance issues under the Financial Reporting Act and the Financial Markets Conduct Act. These activities have allowed us to issue a backlog of shares and to initiate the new reporting and audit requirements.
- Various improvements to the business administration systems and the reduction of operating costs in a number of telecommunications and administrative areas, and reduced use of external consultants as we self-perform many functions in-house.
- Development of key relationships with Hunter Downs Water and the scoping of the contractual terms that will allow both companies to realise significant value in the future.

The business has been challenged with significant increases in legal and financial compliance costs due to changes in legislation. An example of this is that MGI has to report to a higher standard under the Financial Reporting Act. We have used the financial year ending 31 July 2016 as the “transition year” to bring in the new accounting standards and perform all the comparative assessments that were required the first time a company adopts the NZ IFRS reporting standard. This why the Financial Statements look a bit different than they have in previous years and there is a fair bit more accounting jargon contained in them.

Waimate Accountants have successfully transitioned MGI's accounts to the new reporting standard and the new auditor BDO has given us a unmodified audit opinion. The greatest surprise for the Directors and I was the treatment of the swap contracts as part of the Waihao Downs loan facility. The accounting standard requires that this “unrealised liability” is included as an expense on the Profit and Loss statement, even though no expenditure has actually occurred. Along with the normal depreciation this additional \$1.188M liability has a significant deleterious effect on our profit and loss. I have restructured the Profit and Loss statement somewhat in my report to highlight that the earnings before interest, tax, depreciation and amortisation (EBITDA) is actually $-\$(267,166)$. I have also shown the budget forecast for the next 2-years where, subject to any decisions to increase water fees, the EBITDA is forecast to improve to nearly break-even on a cash basis, which is our budget target.

MORVEN GLENAVY IKAWAI IRRIGATION COMPANY LIMITED CEO REPORT

Statement of Profit or Loss (CEO Summary)

	Group FY16 Actual \$	Parent FY16 Actual \$	Forecasts	
			Group FY17 Budget \$	Group FY18 Forecast \$
Revenue				
Irrigation Water Charges	\$1,404,446	\$1,337,017	\$1,518,987	\$1,557,510
Additional Water	\$154,245	\$154,245	\$100,000	\$0
Rental Income	\$775	\$775	\$10,620	\$775
Electricity Recovered	\$198,933	\$79,275	\$1,144,306	\$1,144,306
Interest Recovered			\$1,322,729	\$1,322,729
WDI Shared Cost Contribution		\$61,392		
Other Operating Income	\$19,260	\$15,700	\$33,449	\$26,452
Total Revenue	\$1,777,659	\$1,648,404	\$4,130,092	\$4,051,772
Other Income				
Interest Received	\$49,574	\$48,591	\$59,000	\$59,000
Dividends Received	\$3,192	\$3,192	\$2,400	\$2,400
	\$52,766	\$51,783	\$61,400	\$61,400
TOTAL INCOME	\$1,830,425	\$1,700,187	\$4,191,492	\$4,113,172
Less Expenses				
Audit Fees	\$19,978	\$19,978	\$25,000	\$13,000
Consent & Approval Costs	\$32,547	\$32,547	\$21,000	\$20,000
Consultancy	\$44,660	\$44,660	\$25,000	\$10,000
Contribution Costs	\$90,912	\$90,912	\$103,244	\$85,000
Directors Fees	\$87,500	\$75,000	\$85,000	\$85,000
I.N.Z Membership	\$34,826	\$32,186	\$36,986	\$36,986
Insurance	\$26,535	\$25,286	\$44,940	\$44,940
Interest			\$1,322,729	\$1,322,729
Kiwisaver Contributions	\$5,854	\$5,854	\$13,602	\$12,087
Legal	\$34,723	\$34,723	\$50,000	\$26,000
Maintenance	\$561,761	\$561,761	\$428,000	\$443,000
Other Costs	\$69,687	\$64,740	\$226,152	\$186,152
Other Electricity	\$6,415	\$6,415	\$3,750	\$3,750
Pump Station Electricity	\$202,264	\$79,276	\$1,144,306	\$1,144,306
Quality & Monitoring	\$71,221	\$71,221	\$86,840	\$86,840
Rates	\$31,763	\$31,763	\$35,000	\$20,000
Secretarial & Accounting	\$137,290	\$94,119	\$90,000	\$40,000
Employee Benefits	\$554,199	\$554,200	\$554,350	\$424,093
Strategy & Farm Plans	\$49,014	\$48,599	\$65,000	\$75,000
Vehicle	\$36,442	\$36,442	\$40,000	\$40,000
Sub-total Expenses	\$2,097,591	\$1,909,682	\$4,400,899	\$4,118,883
Earnings before Loan Interest, Tax, Depreciation and Amortization	-\$ (267,166)	-\$ (209,495)	-\$ (209,408)	-\$ (5,711)
Less Tax, Depreciation and Amortization				
Depreciation	\$242,502	\$242,502		
Unrealised Liability of Swap Loans	\$1,188,542			
Loss on disposal of fixed asset	\$40,817	\$40,817		
	\$1,471,861	\$283,319		
TOTAL EXPENSES	\$3,569,452	\$2,193,001		
Profit/(Loss) after Income Tax	-\$ (1,739,027)	-\$ (492,814)		
Current Assets - Cash Reserves				
Cash and Cash Equivalents	\$648,063	\$448,539		
Term Deposits	\$1,224,729	\$1,224,729		
Total Cash Reserves	\$1,872,792	\$1,673,268		



The underlying cash reserves of MGI are still very strong, at \$1.87M at 31 July 2016. The strong cash reserves of the Company has afforded the Directors some flexibility when making decisions about the water fees charged to shareholders. Fees were held at the same level for FY17 and the underlying cash reserves and anticipated income from further share capital were both key considerations in this decision. The budget forecast is to bring MGI back to a break-even position on a cash basis after 31 July 2017 (in the FY18 year). The Statement of Financial Position shows that while cash reserves were drawn over the last 3-years, the total asset value of MGI has increased significantly by \$27.1M to become \$38.7M. Most of this increase in asset value is attributable to Waihao Downs, the new office building and the upgrade of Ikawai Flats.

	Group 2014	Group 2015	Group 2016
Current Assets			
Cash and Cash Equivalents	\$4,918,151	\$1,397,677	\$648,063
Term Deposits	\$1,522,858	\$1,124,729	\$1,224,729
Other	\$93,013	\$433,006	\$148,478
	\$6,534,022	\$2,955,412	\$2,021,270
Non-Current Assets	\$5,005,411	\$19,825,214	\$36,671,674
TOTAL ASSETS	\$11,539,433	\$22,780,626	\$38,692,944

Craig Evans

General Manager