

VBASE LIMITED

STATEMENT

OF INTENT

Year Ending 30 June 2019

Make life
more eventful.

Horncastle
ARENA 

+

 HAGLEY
OVAL

+

 CHRISTCHURCH
TOWN HALL

+

AIR FORCE
MUSEUM
of New Zealand

+

amj
stadium

vbase 



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1.0 INTRODUCTION

This Statement of Intent (SOI) is prepared by Vbase Ltd (Vbase) in accordance with Section 64(1) of the Local Government Act 2002.

The SOI specifies the objectives, nature and scope of the activities to be undertaken by Vbase, and the performance targets and other measures by which the performance of the company may be judged. It covers the three financial years ending 30 June 2019, 2020 and 2021.

The process of negotiation and determination of an acceptable SOI is a public and legally required expression of the accountability relationship between Vbase and its shareholder, the Christchurch City Council (Council).

The SOI is reviewed annually with Council. Vbase is a Council Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002 and it is a fully owned subsidiary of Council.

Vbase is a venue management company that owns, manages and operates major venue assets on behalf of the City of Christchurch.

Prior to the earthquake in February 2011, the model of governance and management provided by Vbase to own and manage a number of major venue assets provided an effective and efficient method to provide a diverse mix of high quality venues delivering economic, social and cultural benefit to the Christchurch.

The earthquakes had a devastating impact on the Vbase business model with a number of venues lost or put out of commission. On 1 July 2011, as a direct result of the February 2011 earthquake, Vbase entered into an agreement with the Council to have its business managed in-house by the Council. The model that the company has been forced to work under has resulted in Vbase agreeing to operate venues owned by third parties on a non-commercial basis in addition to suffering the commercial loss of its own venues.

This agreement with Council will expire on 30 June 2018 but is likely to be extended for a short period of time while Council and Vbase work together to transition the company to directly managing its own business operations once more.

2.0 DIRECTORY

Address:	Vbase Limited PO Box 13144 Christchurch 8041
Registered Office:	53 Hereford Street Christchurch 8011
Directors:	Tim Scandrett – Chair Paul Lonsdale Paul Munro



3.0 OBJECTIVES

3.1 VISION AND VALUES

OUR STORY

We are memory makers.

As the largest venue and event company in Christchurch, we have an important role to play in making our city a more vibrant place.

Because when we succeed, Christchurch succeeds.

Organisers trust Vbase to deliver amazing events. Guests come to these events to enrich their lives and build memories that make up the great highlights of life. We deliver these through our portfolio of Christchurch's most unique and iconic venues. Most importantly our awesome team are dedicated to making sure every guest has an amazing experience to remember.

VISION

We make life more eventful.

VALUES

At Vbase we live by five key values:

Act as One

We are one team with a single vision. Every success and every challenge is shared by all.

Bring the Energy

Love what you do. Energy is inspiring and infectious.

Explore New Ways

Embrace new ideas and constantly search for creative ways to enhance each experience.

Show the Respect

People always remember how you make them feel.

Own the Experience

Deliver with pride and be the best.

3.2 OUR CURRENT VENUE PORTFOLIO

VENUE					
TYPICAL EVENTS	Concerts & Performances, Trade & Expos, Dinners & Cocktails, Conferences & Conventions	Dinners & Cocktail, Special Events, Sports	Trade & Expos, Dinners & Cocktails, Conferences & Conventions	Sport, Large Concerts	Concerts & Performances, Conferences & Conventions Dinners & Cocktails
CAPACITY	Up to 8,888	Up to 230	Up to 1,500	Up to 30,000 (concerts) Up to 22,000 (sport)	Up to 2,200

3.3 THREE YEAR OBJECTIVES

BUSINESS MODEL

During the SOI period Vbase will begin the transition to direct management of its business operations. This will reflect the end of the agreement under which Council has managed the day to day business of Vbase.

Early in the period of this SOI, Vbase will therefore work with the Shareholder to develop a new business model, which will be influenced by the potential future venue portfolio that the Shareholder wishes Vbase to manage. This is expected to see Vbase become the exclusive operator of the key venue assets directly or indirectly owned by Council, and a move away from operating venues owned by third parties unless there is a commercial benefit in doing so.

Vbase will work with the Shareholder to determine what the ‘future state’ of Vbase should be and once this is confirmed Vbase will embark on a restructuring process as appropriate to be able to transition to the future state as expediently as possible.

One of the drivers of the new business model is to ensure that Vbase becomes a self-sustaining profitable venture. It should be noted that profitable in this sense is made up of profit before tax on the company’s commercial activities as well as profits forgone as a result of meeting the costs of the Shareholder’s non-commercial requirements of the company. This will include community discounts, economic impact to the city, and maximising venue utilisation. Nonetheless the aim will be for the company to become cash flow positive as the business model changes.

The transition to a new business model and future state will take time. While the company will work as expediently as possible to become self-sustaining, this will be dependent on the decisions taken by the Shareholder as to what the business model is and what portfolio of venues Vbase will be responsible for.

Becoming self-sustaining with a positive cash flow may not be practically achievable within the timeframe of this SOI.

In the short term Vbase will work with the Shareholder to quantify the magnitude of any financial support that may be required until such time as the company can become self-sustaining. The forecast financial support required from the shareholder for this SOI period has been entered in the relevant financial years in the form of either an equity injection if the support is capital in nature, or an operating grant by the Shareholder.

GOVERNANCE

The current Vbase Board of Directors have been appointed on an interim basis. Once the new business model has been determined by the Shareholder this will enable the Board to make recommendations on the future governance structure of the organisation. This will need to be implemented within the first year of the SOI.

Vbase aspires to ensure that best practice governance is exercised by the company and while the appointment of directors is important, it is also recognised that a best practice governance manual and set of governing policies will need to be developed for the company. There will also be a number of other legal and other administrative matters that the 'new' Board will need to progress, such as a review of the company constitution. In developing the appropriate governing frameworks, the 'new' Board will need to take cognisance of guidelines and principles provided by organisations such as the Institute of Directors and Financial Markets Authority.

PERFORMANCE METRICS

With a change to a new business model there is likely to be some impact on the meaningfulness of the current performance metrics that the company reports against.

In the period of the SOI Vbase will therefore develop a set of performance metrics that are concise and meaningful based on the new business model. Vbase will work with the Shareholder to ensure that these are a suitable measure of the quantity and quality of its activities, services and outcomes (both financial and non-financial).

COMMUNITY OUTCOMES

Council has a strategic direction that has underpinned the 2019-29 Long Term Plan. This identifies seventeen community outcomes and six strategic areas which Vbase is mindful of.

The way in which Vbase will support these is summarised as follows

- Attracting events to the city will support a **strong sense of community** and an **active participation in civic life**. By attracting and delivering a mixture of events this will support the people of Christchurch in **celebrating our identity through arts, culture, heritage and sport**
- The events that Vbase acquires and delivers add to a **vibrant and central city, suburban and rural areas** by bringing people into Christchurch from far and wide for events, which also supports a **great place for people, business and investment**.

- Vbase will support the ongoing development of great venue infrastructure, which combined with quality events, will provide a **21st century garden city that we are proud to live in** as well as **modern and robust city infrastructure and community facilities**.
- Vbase has strong health, safety and wellbeing programmes and resources in place for not only our staff, but our contractors and suppliers as well as our guests. This will support **safe and healthy communities**.
- The environment is important to Vbase, and we have a number of environmental initiatives such as the minimisation of waste. Across the business Vbase continues to look at ways to improve sustainability and also encourages our contractors and suppliers to do the same. Our efforts therefore support the **sustainable use of resources**.

VALUE FOR MONEY

Vbase has for some time operated on a commercial basis to contract events to the portfolio of venues, but in doing so has also had to bear in mind the community outcomes required by the Shareholder. As such Vbase has consistently had to forgo commercial revenue for some events to ensure that, for example, utilisation of the venues is maximised, community groups have access to venues they would otherwise not be able to afford to hire, and economic or social benefit to the city is maximised.

Historically, Vbase has measured the total quantity of community discounts provided in any given year. However, in situations where Vbase acquires and delivers an event which has an element of 'public good' there has been little evaluation of the value of total benefits to the local community for that particular event. During the course of this SOI Vbase will consider how such an evaluation model can be developed which will provide this information for both Vbase and the Shareholder.

RELATIONSHIP WITH CHRISTCHURCHNZ

The establishment of a combined tourism, events and economic development entity, ChristchurchNZ, has been welcomed by Vbase and is viewed as being complimentary to the activities of the company. ChristchurchNZ will secure events for the city and deliver the destination, while Vbase will secure events for our venues and deliver the event experience.

Our two organisations need to work closely together and that has already happened in developing the Christchurch Major Events Strategy and on events like international cricket, the U19 Cricket World Cup and the 2018 Manly versus Warriors NRL match at the Temporary Addington Stadium.

During the period of this SOI Vbase will continue to strengthen its working relationship with ChristchurchNZ for the success of the city.

COMMERCIAL PARTNERSHIPS

During the period of this SOI a number of key partnerships will come to the end of their term. In particular this includes naming rights for Horncastle Arena, the catering services provide by Spotless and the ticketing services provide by Ticketek.

Vbase will develop plans for each of these partnerships to either work through renewals with the incumbent or to establish new partnerships.

4.0 NATURE AND SCOPE OF ACTIVITIES

Vbase manages a diverse mix of venues which deliver economic, social and cultural benefit to Christchurch. It's activities comprise of two key functions:

- venue management; and
- event management services.

Vbase undertakes these functions based on the following:

- Vision, leadership and culture that makes Vbase an attractive employer.
- Commitment to service leadership and delivery of outstanding client and guest experience.
- Centralised management and operations with one team, system, and process to secure, plan and deliver events to the venue portfolio.
- Scale of operations that enable casual event staff recruitment and training to be managed in-house.
- A critical mass of venues that enable Vbase to successfully compete in all major event market segments, directing clients to the best venue to suit their event, and being able to provide customised solutions across a portfolio of venues.

In addition to the above Vbase is also making an active contribution to the post-earthquakes rebuild and provides community support by making it possible for community groups to access the venues.

4.1 VENUE MANAGEMENT

HORNCASTLE ARENA

This venue is owned by Vbase and is used for large scale entertainment, cultural, exhibition and sporting events. In the absence of the Town Hall it is also fulfilling the role of a performing arts theatre in a reduced intimate mode setting.

CHRISTCHURCH TOWN HALL

The Town Hall is owned by Vbase. In June 2015 Council passed a resolution to repair it to 100% of New Building Standards. Construction work commenced on site in July 2015 and Vbase continues to support the project to ensure it is fit for purpose when it re-opens in early 2019. In May 2018 the Council approved a further \$11.6 million increase to the \$140.6 million repair budget bringing the budget total to \$152.2 million. The budget is being funded by Vbase from the insurance settlement and issuing additional equity to Council.

LANCASTER PARK

Demolition of the stands has commenced with the completion due mid to end of 2019. Vbase are working with Council to transfer ownership of the site, and the demolition project, back to Council for which Vbase will make a lump sum payment to Council to complete the demolition works.



TEMPORARY ADDINGTON STADIUM

The assistance provided by Vbase in the development and continued management of the Temporary Stadium Addington was part of its, and Council's, commitment to the community to provide a rugby stadium after the earthquakes.

Vbase provides venue and event management services under a Management Services Agreement with the venue owner, the Christchurch Stadium Trust. The agreement is for a non-specified term and renews automatically each year.

AIR FORCE MUSEUM

In February 2013 Vbase entered into a Management Services Agreement with Air Force Museum for the acquisition and management of events at this facility. The original agreement ended in January 2016, however renewals have been negotiated with the RNZAF Museum Trust Board which sees the agreement extended until December 2019.

HADLEE PAVILION, HAGLEY OVAL

In October 2014 Vbase entered a Management Services Agreement with the Canterbury Cricket Trust for the exclusive venue and event management of this building. The term of the Agreement is for ten years. Vbase has previously had arrangements with Council to manage all international cricket matches at Hagley Oval.

4.2 EVENT MANAGEMENT

Vbase carries out the full life cycle of event management services as shown in the diagram below.



The company's team of Business Development staff work to attract events to the venues to deliver social and economic benefits to the people of Christchurch. Vbase also has the expertise and resources to successfully plan and deliver these events. This involves a team of event planners who work with our clients as well as both our front and back of house staff. As well as hosting the events, Vbase has its own catering department.

4.3 CONTRIBUTION TO REBUILD

Vbase understands that all events undertaken must maintain a high level of quality outcomes. This will help to maintain Christchurch as a quality destination and emphasise our commitment to clients during the rebuild period and beyond.

In addition to day to day management of venues, including operations and commercialisation, the Vbase team has significant level of expertise in the development of sporting, entertainment and cultural venues – including stadiums, arenas and convention centres. Vbase is therefore able to provide assistance and expert advice to the Shareholder in the development or rebuild of venue assets.

4.4 COMMUNITY SUPPORT

An important set of activities the company undertakes is delivering benefit to the community in which we operate. Along with providing assistance with the development of temporary and new venues during the earthquake recovery Vbase supports the community in the following ways:

VENUE DISCOUNTS

At the request of Council, Vbase provides support to community organisations by offering venue rental discounts. These can only be applied to the venues that Vbase owns (i.e Horncastle Arena and the Town Hall) unless a venue owner gives specific permission in the case of an event at a managed venue.

The venue rental discounts allow community groups to access venues they would not otherwise be able to afford. It is proposed that for the 2019 financial year that Vbase provides total discounts of \$200,000 to groups meeting the criteria that Vbase set. This is \$100,000 more than provided for in the previous SOI but is reflective of a later opening date for the Town Hall. In future years there will not be the opportunity to deliver the same level of discounts as has been provided in recent years as a number of the 'resident' community hirers will move from Horncastle Arena to the Town Hall. As rental rates for the Town Hall are proportionally lower than Horncastle Arena, the community discount available will therefore reduce in the 2020 and 2021 financial years in accordance with the previous SOI.

In providing these discounts it should be noted that Vbase will not make a commercial return on these events, they are instead a cost to the business and negatively impact on financial performance.

SPONSORSHIPS

The Vbase sponsorship portfolio allows the company to actively demonstrate our commitment to the local community through Vbase venues and event management. In recent years our commitments have covered a range of charitable and not-for-profit sectors including health, children, business and sport.

In recognition of these solid and successful relationships the company has entered into long-term sponsorship agreements that offer profiling for Vbase as well as returning benefits to these organisations and their efforts in the community.

Vbase regularly receives a number of requests for sponsorship and as much as we would like to assist everyone it is simply not possible to do so. Vbase will, however, continue to review its sponsorship portfolio on an annual basis.

5.0 GOVERNANCE

Subject always to the provisions in relation to acquisitions and disposals and other significant transactions set out in section 10.0 below, the Board is responsible for the strategic direction and control of the activities of the company. The Board guides and monitors the business and affairs of Vbase on behalf of the Shareholder, to whom it is accountable.

The primary function of the Board is to ensure that Vbase meets its objectives and requirements as listed in the SOI. Additionally, the Board has obligations under the Local Government Act 2002 to deliver an annual SOI and relevant half-yearly and annual reports to the Shareholder.

Appointments to the Board are confirmed by Council resolution.

As noted in section 3.3, the adoption of a new business model and transition to a new future state will require a more permanent governance structure to be put in place during the early period of this SOI.

6.0 PERFORMANCE TARGETS

6.1 FINANCIAL PERFORMANCE TARGETS

Vbase's key financial objective is to be as financially sustainable as soon as possible. It is acknowledged that assets such as town halls, entertainment and sporting arenas, and stadia do not provide a normal commercial level of return on the value of the assets.

Vbase earns revenue from venue rental, food and beverage, commercial rights, sponsorship, equipment hire, ticketing and other categories. Major expense items are food and beverage materials, service and management fees, business development, facilities costs, interest, insurance and depreciation.

The financial performance targets for Vbase are as follows:

	2018/19	2019/20	2020/21
	\$000	\$000	\$000
Direct operating income	16,331	18,169	16,300
Direct Operating expenses	11,546	13,120	12,423
Net operating overheads and fixed costs	7,371	7,590	7,815
EBITDA	(2,586)	(2,541)	(3,938)
Net profit / (deficit) after tax	(26,655)	(7,387)	(8,510)

RATIO OF SHAREHOLDER FUNDS TO TOTAL ASSETS

The forecast ratio of Shareholder funds to total assets for the next three years is:

	2018/19	2019/20	2020/21
Percentage	73%	72%	71%

FORECAST CAPITAL STRUCTURE

The forecast capital structure for the next three years is:

	2018/19	2019/20	2020/21
	\$000	\$000	\$000
Issued shares and other equity instruments	234,471	234,471	234,471
Debt	14,485	14,485	14,485
Total Assets	201,148	192,999	183,538

For accounting purposes, Vbase values its buildings at optimised depreciated replacement cost and depreciates all buildings, plant and equipment. The value attached to buildings is reviewed annually for the preparation of the financial statements and have been incorporated into the Vbase budget.

EQUITY BY COUNCIL

The following equity injections are forecast to be made by the Shareholder.

	2018/19	2019/20	2020/21
	\$000	\$000	\$000
Equity injection by Council	44,835	-	-

The forecast equity requirement for 2019 is to fund the repair of the Town Hall and capital expenditure costs.

FACILITIES REBUILD

The forecast capital expenditure on the repair and rebuild of the Vbase's owned venues is detailed below.

	2018/19	2019/20	2020/21
	\$000	\$000	\$000
Facilities rebuild/repair			
Town Hall repairs	29,537	-	-
Arena	2,800	1,000	700
	32,337	1,000	700

The Town Hall repairs incurred during this SOI period are being funded from shareholder equity. The Arena is being funded by a mixture of existing cash on deposit and equity.

6.2 OPERATIONAL PERFORMANCE TARGETS

In addition to the above financial performance measures, Vbase will report to the Shareholder on a quarterly basis the progress against each of the objectives stated in section 3.3. Vbase will also use the following measures to assess its operational performance:

OBJECTIVE AND STRATEGY	PERFORMANCE MEASURE		
	2018/2019	2019/2020	2020/2021
1. Health and Safety - Vbase will be a safe place to work and visit			
Provide leadership, policies and practices to clients, contractors and sub-contractors	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions
Continue to improve health and safety processes	Annual health and safety audit completed	Annual health and safety audit completed	Annual health and safety audit completed
Minimise the total recordable injury frequency rate (TRIFR) for employees - based on 200,00 hrs worked	Annual employee TRIFR less than 12	Annual employee TRIFR less than 11	Annual employee TRIFR less than 10
2. Venue Utilisation			
High utilisation of Horncastle Arena	At least 100 event days are delivered at Horncastle Arena	At least 60 event days are delivered at Horncastle Arena	At least 70 event days are delivered at Horncastle Arena
Attract events at the temporary stadium outside of the standard Super 15 and provincial rugby fixtures	At least 1 major event is delivered at the temporary stadium	At least 1 major event is delivered at the temporary stadium	At least 1 major event is delivered at the temporary stadium
High utilisation of Air Force Museum	At least 100 events are delivered at Air Force Museum	At least 44 events are delivered at Air Force Museum	N/A*
High utilisation of Hagley Oval Pavilion within the constraints of use	At least 50 event days are delivered at Hagley Oval Pavilion	At least 50 event days are delivered at Hagley Oval Pavilion	At least 50 event days are delivered at Hagley Oval Pavilion
High utilisation of the Christchurch Town Hall for Performing Arts	At least 12 events are delivered at the Town Hall **	At least 120 events are delivered at the Town Hall	At least 150 events are delivered at the Town Hall

OBJECTIVE AND STRATEGY	PERFORMANCE MEASURE		
	2018/2019	2019/2020	2020/2021
3. Deliver Outstanding Service Delivery			
Event Owner (Client) satisfaction	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year
Event Customer (Guest) satisfaction	Minimum 600 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year	Minimum 600 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year	Minimum 600 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year
4. Community Benefit			
Facilitate access to venues for local community and charitable organisations	Total venue discounts equal \$200,000	Total venue discounts equal \$100,000	Total venue discounts equal \$100,000
Secure events that bring visitors to the city to generate positive economic impact	In consultation with ChristchurchNZ, establish a methodology for measurement of the annual estimated economic impact of events across the Vbase portfolio of venues	Implement the methodology established to measure the annual estimated economic impact of events	Improve the annual estimated economic impact of events by 2%
Secure events that will encourage high usage of the venues	Visitors to venues exceed 500,000	Visitors to venues exceed 550,000	Visitors to venues exceed 600,000
5. Environmental Considerations			
Ensure recycling of waste is undertaken at events	Recycling undertaken at 97% of events	Recycling undertaken at 97.5% of events	Recycling undertaken at 97.5% of events
Minimise the amount of general waste at Horncastle Arena	27% of waste by weight is recycled	28% of waste by weight is recycled	29% of waste by weight is recycled

* The management contract with Air Force Museum expires in December 2019.

** The Town Hall is currently expected to re-open at in March 2019.

7.0 ACCOUNTING POLICIES

In 2018 Vbase reviewed its operations and objectives and determined that for the purposes of the New Zealand Accounting Standards Framework that it was a Public Benefit Entity (PBE).

Vbase is considered 'large' for the purposes of the New Zealand's financial reporting regime. As a result, it applies Tier 1 PBE Standards. This tier of accounting standards requires the full application with generally accepted accounting practice in New Zealand ("NZ GAAP")

8.0 DISTRIBUTIONS

During the period of this SOI Vbase will not return capital funds to its Shareholder.

9.0 INFORMATION TO BE REPORTED TO THE SHAREHOLDER

NO SURPRISES

Vbase will operate on a 'no surprises' basis in respect of significant Shareholder related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations. Any sensitive issue that could result in media attention or issues will be communicated to the Shareholder as soon as possible.

The Board aims to ensure that the Shareholder is informed of all major developments affecting the company's state of affairs, while at the same time recognising commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Shareholder through periodic reports, occasional briefings, regular reports and informal updates on important issues.

LOCAL GOVERNMENT ACT 2002 REPORTING REQUIREMENTS

Vbase will provide information requested by the Shareholder in accordance with the requirements of the Local Government Act 2002.

An annual report will be submitted to the Shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the Shareholder.

Half yearly reports will also be provided to the Shareholder. These reports will contain unaudited information and comply with NZ PBE IPSAS 34.

The SOI will be submitted to the Shareholder for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where it is necessary due to significant changes revised forecasts will be submitted to the Shareholder.

OTHER REPORTING

Quarterly reports will also be provided to the Shareholder, which will include the financial and non-financial performance of the company.

10.0 ACQUISITION/DIVESTMENT AND OTHER SIGNIFICANT TRANSACTIONS POLICY

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long term strategic and commercial objectives of Vbase.

When the subscription, acquisition or divestment is considered by Directors to be significant to Vbase's business operations, it will be subject to consultation with the Shareholder.

Major transactions as defined in the Companies Act 1993, s129(2), will be subject to Shareholder approval by special resolution. The Board shall obtain the Shareholder's prior written approval before taking any action or decision or making any proposal in relation to any of the following matters:

- Entry into any arrangement, contract or transaction outside the ordinary course of Vbase's business or otherwise than on arm's length terms.
- Entry into any arrangement, contract or transaction for the purchase of materials, works and/or services for an amount exceeding \$500,000 where such materials, works and/or services are not budgeted for in Vbase's annual budget and plan.
- The giving of notice of termination of any arrangements, contracts or transactions which are material to Vbase's business, or materially varying any such arrangements, contracts or transactions.

Where Vbase decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management of that subsidiary. Control of any subsidiary is exercised by Vbase directors and management.

11.0 COMPENSATION SOUGHT FROM COUNCIL

At the request of the Shareholder, Vbase may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Vbase may from time to time provide venue or event management services to Council or for the benefit of Council or Christchurch as a whole. Previous examples include Cricket World Cup and Fifa U20 World Cup. On such occasions Vbase will agree with Council any appropriate charges or reimbursement for the services provided. Future examples could include a subsidy to assist with the costs to operate the Town Hall.

Currently Vbase has entered into a number of arrangements which originated immediately post-earthquake to provide stadium and conference facilities until the new conference centre and stadium were built and the Town Hall repaired. These arrangements do not provide Vbase a normal commercial return. The provision of these services allows events to be held in the city which provide a significant economic benefit to the city and region. There are also holding costs associated with some non-operating venues. The cost of Vbase of these arrangements is estimated below:

AMI Addington Stadium	\$0.55 million per annum
Community Discount	\$0.20 million per annum
Holding costs for the Town Hall	\$0.25 million per annum
Total	\$1.0 million per annum

The SOI contains the following financial support by the Shareholder:

	2019	2020	2021
	\$m	\$m	\$m
Operating grant	1.0	1.0	-
Arena capital expenditure	2.55	-	-
Town Hall repair	42.3	-	-
Total	45.85	1.0	-

12.0 ESTIMATE OF COMMERCIAL VALUE

The Shareholder has recorded the value of its investment in Vbase Ltd in its accounts at 30 June 2017 as \$71.4 million and this is considered an appropriate estimation of the commercial value of the Company.

13.0 APPENDIX 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary is set out in a form consistent with the form in which accounting policies will be set out in Vbase's financial statements. No financial statements are included with this SOI.

1. STATEMENT OF COMPLIANCE

The financial statements of Vbase Limited (the 'Company') have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with Tier 1 Public Benefit Entity Accounting (PBE) Standards (including PBE FRS 46 – First time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs).

2. BASIS OF FINANCIAL STATEMENT PREPARATION

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002: Part 6 Section 98 and Section 111, and Part 3 of Schedule 10, which includes the requirement to comply with NZ GAAP.

The Company is a Tier 1 PBE entity and has elected to report in accordance with Tier 1 PBE Accounting Standards. The Company must report under Tier 1 PBE Accounting Standards as it is considered 'large' for reporting purposes. A 'large' PBE reporting entity is one that has expenses over \$30 million in the reporting period.

As a result of the new accounting standards it will follow various PBE External Reporting Board, International Public Sector Accounting Standards Board, International Financial Reporting, International Accounting and Financial Reporting standards (IPSAS, IFRS, IAS and FRS) that have effective dates of 1 July 2017 including PBE FRS 46 – First time Adoption of PBE Standards by Entities Previously Applying NZ IFRS's.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets.

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

In preparing the financial statements management will be required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3. FINANCIAL ASSETS

Term deposits with maturities greater than 90 days are measured at cost and have been designated as loans and receivables.

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment (see impairment policy 10). Balances are categorised as either non-exchange transactions or exchange transactions.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to the other party in exchange

A non-exchange transactions transaction is defined as one that is not an exchange transaction. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

5. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and in current liabilities on the statement of financial position.

7. PROPERTY, PLANT AND EQUIPMENT

The buildings are shown at fair value, based on periodic valuations, less subsequent accumulated depreciation.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Valuations are performed with sufficient regularity, but at least every 3 years, to ensure revalued assets are carried at a value that is not materially different from fair value.

The Company is required to account for revaluations of property, plant and equipment (PPE) on an asset by asset basis. Increases in the carrying amounts arising on revaluation of an asset are credited, through comprehensive income, to equity under the heading revaluation reserve. However, the net revaluation increase shall be recognised in the statement of profit or loss to the extent it reverses a net revaluation decrease of the same asset previously recognised in the statement of profit of loss. A revaluation decrease is charged as an expense in profit and loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve from previous revaluations of that asset.

When the Company revalue's its assets it assumes in the absence of specific information to the contrary that the original useful life of the asset is unchanged.

All other PPE are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of an item of PPE is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive revenue and expense during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

Assets subject to depreciation include:

Operational Assets:

Site works	50 yrs
Building shell fit-out	5-100 yrs
Furniture, fittings, plant and equipment	1-15 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if that asset's carrying amount is greater than its estimated recoverable amount in accordance with the requirements of PBE IPAS 26 *Impairment of Cash-Generating Assets*.

Gains and losses on disposals are determined by comparing proceeds against the carrying amount of the asset and are included in the statement of profit or loss. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

8. DISTINCTION BETWEEN CAPITAL AND REVENUE EXPENDITURE

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in PPE as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the PPE of the Company.

9. INTANGIBLE ASSETS

Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

Amortisation

An intangible asset with a finite useful life is amortised on a straight-line basis over the period of that life. The asset is reviewed annually for indicators of impairment, and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses. Estimated useful life of computer software is 1-10 years.

10. IMPAIRMENT

The carrying amounts of the Company's assets, other than inventories (see Inventories policy 5) and deferred tax assets (see Income Tax policy 18), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

Impairment losses on PPE are recognised through comprehensive income. Impairment losses on revalued assets offset any balance in the asset revaluation reserve for that class of assets, with any remaining impairment loss being posted to comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to other comprehensive income and increases the asset revaluation reserve for that asset. However, to the extent that an impairment loss for that asset was previously recognised in the profit and loss, a reversal of the impairment loss is also recognised in the profit and loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

11. TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

12. SHARE CAPITAL

Ordinary share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it provides for mandatory redemption by the issuer for a specific amount at a specific date (or gives the holder the right to require such redemption from the issuer), or if it gives the holder the right to put it back to the issuer for cash or another financial asset. Dividends are recognised in the statement of comprehensive revenue and expense as interest expense.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

13. INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive revenue and expense over the period of the borrowings on an effective interest basis.

14. PROVISIONS

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of expenditures, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

15. OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Payments made under operating leases are recognised in the statement of comprehensive revenue and expense on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive revenue and expense as an integral part of the total lease expense.

16. REVENUE

Revenue is measured at the fair value of consideration received...

Services rendered

Revenue from services rendered is recognised in the statement of comprehensive revenue and expense in proportion to the stage of completion of the transaction at the statement of financial position date.

Interest income

Interest income is recognised in the statement of comprehensive revenue and expense as it accrues, using the effective interest method.

Other income

Other income includes revenue from the reimbursement of venue operating expenses as well as rental revenue and revenue from the sale of investments.

Council operating grant

Revenue from Council operating grants is measured at the fair value of the assets (cash) transferred over to the Company at the time of transfer.

Vested asset revenue

Revenue from vested asset funding is measured at the fair value of the assets (cash or property) transferred over to the Company at the time of transfer.

17. FINANCING COSTS

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

The interest expense component of finance lease payments is recognised through the statement of comprehensive revenue and expense using the effective interest rate method.

Interest payable on borrowings is recognised as an expense through the statement of comprehensive revenue and expense as it accrues unless the interest relates to borrowings directly attributable to the acquisition, construction or production of a *qualifying asset* in which case it will be capitalised into the cost of the asset.

A *qualifying asset* is an asset that takes a substantial period of time to get ready for its intended use or sale. The Company considers a *qualifying asset* to be acquisition or construction of property, plant and equipment where construction costs exceed \$50 million and the construction is greater than 2 years in duration

18. INCOME TAX

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised through comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill which is not deductible for tax purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

19. GOODS AND SERVICES TAX

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.