# VBASE LIMITED ANNUAL REPORT

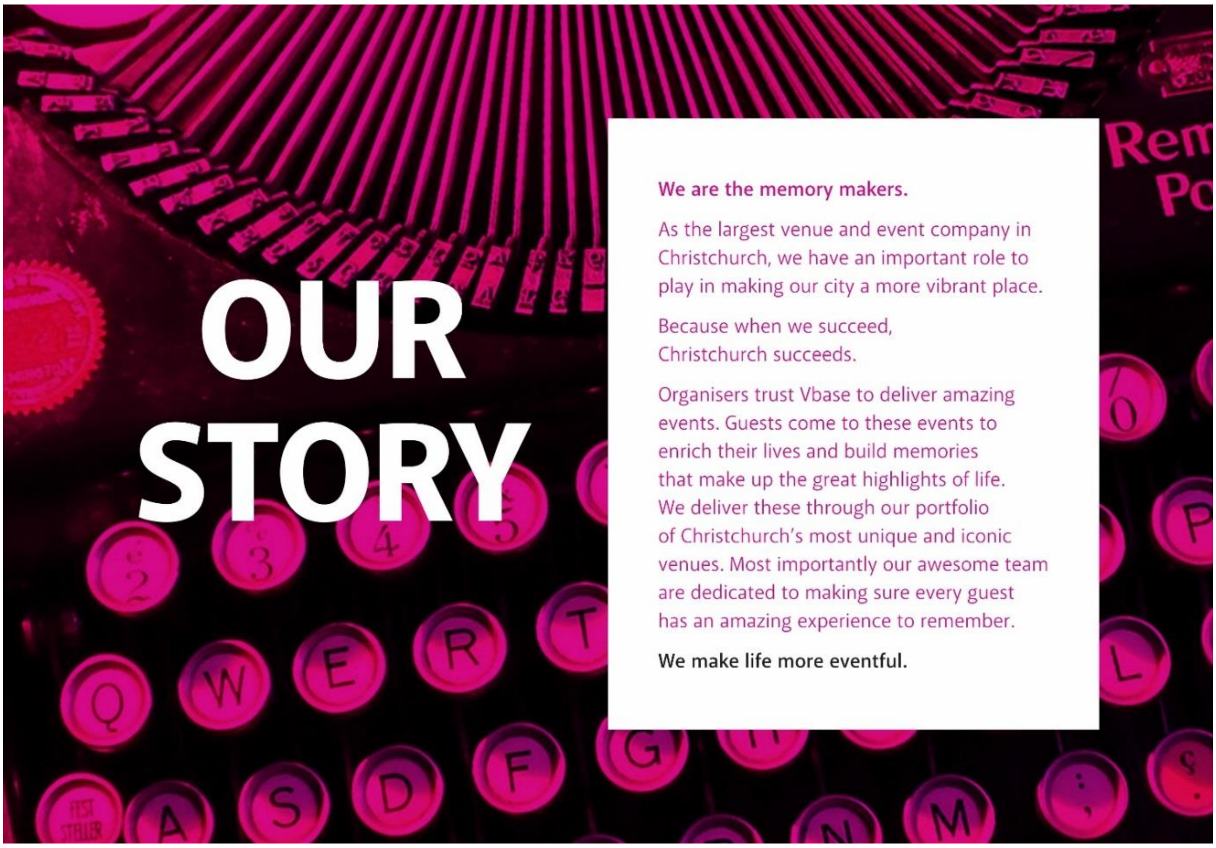
## FOR THE YEAR ENDED 30 JUNE 2017

Make life more eventful.

vbase

CONTENTS

| | Page |
|---|---|
| Chairman & General Manager's Report | 2 |
| Business and Financial Overview | 5 |
| Statement of Profit or Loss and Other Comprehensive Income | 6 |
| Statement of Changes in Equity | 7 |
| Statement of Financial Position | 8 |
| Statement of Cash Flows | 9 |
| Statement of Service Performance | 10 |
| Notes to the Financial Statements | 14 |
| Directory and Statutory Information | 38 |
| Audit Report | 40 |



# CHAIRMAN & GENERAL MANAGER'S REPORT

**The company secured and delivered 473 events across our diverse venue portfolio during the year. Despite that being less than last year, attendance figures have remained similar with 634,920 guests experiencing our venues and friendly service.**

The events hosted have included small meetings, training and seminars, cocktail receptions, sporting events (indoor and outdoor), ticketed concerts and performing arts, tradeshows and exhibitions, conventions, conferences, and gala dinners. The company has continued to successfully do this under challenging financial conditions and also in the context of the uncertainties associated with recovery and regeneration from the 2010 and 2011 earthquakes.

Vbase estimates the economic benefit delivered to Christchurch from hosting conferences and conventions in our venues is around $12.3 million. While no economic impact assessments have been carried out for ticketed events we would expect that the economic benefit from these would be much more.

## HORNCASTLE ARENA

The past twelve months has seen both some of the busiest and quietest periods for the Arena in recent years. In summary, the Arena has hosted 300,826 guests at 84 events made up of 41 ticketed events, 19 expos or trade shows, 3 conferences with the balance consisting of graduations, prizegivings, gala dinners, corporate events and other cultural events.

The Arena has once again hosted a variety of events, welcoming back repeat clients such as home, gift, caravan & boat expos through to community milestones of graduations and prizegivings.

In March the Arena celebrated the largest dinner Christchurch has hosted since 2009 with 1,600 guests attending a glamourous gala dinner for the St Andrew's College centenary. In another first we also welcomed Singularity University to Christchurch to put us amongst cities like Toronto, Berlin, Tokyo and Milan where this international summit has been held.

On the ticketed front, the range was just as diverse, and included the Canterbury Tactix home games, Joseph Parker's boxing, The Pixies, Don Henley, Blondie and Cyndi Lauper, Simple Minds, and Disney on Ice proving a favourite again in August.

December through to February allowed for some essential maintenance to go ahead and with its 20-year anniversary approaching it is critical we continue to maintain the Arena's physical structure. In the past year we have undertaken several projects of significance to ensure the venue remains not only safe for our guests and team, but also remains in a competitive position to continue bringing events to Christchurch. With costs in excess of $1.6 million these works have included items such as roof strengthening, fascia replacements and new fire doors, chiller and food unit replacements, modern LED lighting, 4G cell systems and other IT upgrades. The maintenance program for the Arena will continue to progress steadily with more key projects to be completed in the near future.

Our relationship with naming rights partner, Horncastle, remains strong and we thank them for their ongoing support during the year.

## AMI STADIUM

Without doubt the highlight for AMI Stadium this year was securing and delivering the Bruce Springsteen concert on 21 February, the eve of the sixth anniversary of the Christchurch earthquakes. 30,000 people attended this sell-out event and we thank Frontier Touring, one of our regular clients, for bringing this event to Vbase.

With rugby as a key user of the stadium there were seven Mitre 10 cup matches, one Ranfurly Shield Challenge and nine Super Rugby matches. In September the All Blacks played a test match against South Africa and at the end of the year we finished with the British and Irish Lions playing the Crusaders in front of a capacity crowd.

Additionally, Vbase supported a number of community events including local rugby league finals, junior league and secondary touch rugby throughout the year.

## AIR FORCE MUSEUM

The Air Force Museum continues to be a great asset for Christchurch acting as a temporary convention centre and hosting 11 conferences and 18 exhibitions throughout the year. These high value events bring much needed economic benefit to Christchurch through the high visitor spending.

In addition there were 130 other events held at the venue including school balls, banquets, cocktail functions, meetings, roadshows and expos.

vbase

## HAGLEY OVAL

Vbase has a management services agreement with the Canterbury Cricket Trust to operate the Hadlee Pavilion and continued to provide event management services for international cricket events at Hagley Oval.

The stunning Hagley Oval and Hadlee Pavilion has firmly established itself as one of New Zealand's premier cricket grounds in the short time since it opened in September 2014. This past summer, the Oval hosted the NZ Black Caps in two tests and two one day internationals involving Pakistan, Bangladesh and South Africa. In total, there were a total of 26 domestic and international cricket matches held at the venue during the year.

Excluding community events and events held by the venue owner, there were 73 event days recorded at the Hadlee Pavilion during the year.

Vbase also provided $35,444 in community discounts for this venue in conjunction with the Canterbury Cricket Trust.

## ILEX CAFÉ AND EVENTS

Our agreement with Council to manage the function room at the Botanic Gardens Visitor Centre came to an end in May. Up to this time Vbase delivered 80 events with the venue proving popular for weddings, dinners, cocktail and breakfast functions.

During the year we have continued to operate ilex Café and Duck.Duck (the summer food kiosk adjacent the paddling pool and playground). Despite our management agreement ending, Vbase has agreed a temporary extension which will see us exit these venues in October 2017.

## CHRISTCHURCH TOWN HALL

Restoration work has continued on the Town Hall during the year and the end of the financial year signalled the two year milestone since construction commenced. With at least another year to go, this highlights the level of complexity of the project. Nonetheless the project team, including Hawkins as main contractor, are working hard on site to deliver a key piece of the city's venue infrastructure.

As owner of the building Vbase has remained actively involved with the steering group overseeing construction.

Towards the end of the year we attended the Meetings trade show in Auckland and were able to provide the conventions and conference industry with an update on progress, and have now commenced taking enquiries for bookings in 2019.

## HEALTH AND SAFETY

It has been over a year since the new Health and Safety at Work Act was introduced. At the beginning of the year Vbase recruited a Health and Safety Co-ordinator, which was a new role to provide oversight and support to all staff in ensuring the continuation of, and improvement to, a positive health and safety culture.

With this role, an active health and safety committee and positive support from the Board and senior management the systems at Vbase are working well, though we never take that for granted and are always looking for continuous improvement.

## INFORMATION TECHNOLOGY

During the course of the year the company has undertaken a major project to transition IT services provided by Christchurch City Council over to Spark.

This has included the IT network, application services, and end user hardware across our venue portfolio with these services being provided for our day to day business needs as well as for event requirements.

The project was successfully completed by the end of the year and we look forward to working with Spark to develop the digital experience for our clients and guests.

vbase

## INDUSTRY RECOGNITION

In December 2016, the company was once again rewarded at the Entertainment Venues Association of New Zealand end of year awards. Vbase was presented with the Excellence in Customer Service Award for the second consecutive year which is great recognition from our industry peers to be delivering the best customer service in venue management in New Zealand. At these awards our General Manager was presented with not only Venue Executive of the Year, but also Supreme Venue Person of the Year.

During the course of the year our General Manager has also continued to be acknowledged as an industry leader by being invited to speak at international venue and event management conferences in Tokyo and Sydney, as well as speaking at a national conference in New Plymouth.

## SPONSORSHIPS AND COMMUNITY CONTRIBUTION

We have three selected "flagship" events where we sponsor the venue in its entirety as well as allow other concessions. These events are selected as their audiences are key target customers of Vbase which in turn provides us the perfect platform to leverage our sponsorship. These events are the Champion Canterbury Business Awards, Cancer Society Ball and the Sports Canterbury Awards.

Vbase has provided a total of $348,316 worth of venue rental discounts to community and cultural groups who would otherwise struggle to host their event at a suitable venue in Christchurch.

We have also continued to provide support as appropriate to charitable causes, including Ronald McDonald House South Island and Good Night Sleep Tight.

Chairman 29/09/17
Date

General Manager 29/09/17
Date

vbase

# BUSINESS AND FINANCIAL OVERVIEW

**The Christchurch City Council (Council) has entrusted Vbase with ownership and management of three premier entertainment and event venues – Lancaster Park, Christchurch Town Hall for Performing Arts (Town Hall) and Horncastle Arena (Arena).**

The 2010 and 2011 earthquakes caused serious damage to Lancaster Park and the Town Hall which has meant Vbase has been unable to trade in the same manner as it did prior to the earthquakes. On 1 August 2011 Vbase entered into a management services agreement with the Council. Under the agreement Council employs all Vbase staff and charges the Company a management fee equivalent to the employee salaries and wages.

Vbase has secured several management service agreements to operate event/function spaces in Christchurch. These are:

- AMI Stadium (Addington) erected by the Christchurch Stadium Trust to support large scale rugby fixtures and other events.
- The Air Force Museum Wigram. From February 2013 Vbase has been operating a conference and event space in addition to an on-site café from this venue.
- The ilex café and events venue and the Duck Duck kiosk is situated in the Christchurch Botanic Gardens. While the company has managed these venues during the year the agreement to do so expired in May 2017. Vbase has agreed to continue operating the café until late 2017 at which time Council will appoint a replacement operator. Vbase will not be hiring out the event space located at the venue and will also not reopen the kiosk in the summer prior to the exit.
- The Hagley Oval Pavilion. Vbase secured an agreement to exclusively manage this venue as an event function space from 26 September 2014. The venue contains rooms designed to cater from 10 to 280 guests per event.

On 12 June 2015 the Council signed a capital commitment to begin a full repair and restoration of the Town Hall. Council staff are providing project management support for the duration of the project. Work is expected to be completed in 2019.

For the year ended 30 June 2017, the Company had a net deficit after tax of $40.2 million (2016: deficit $36.8 million). The majority of the deficit amount results from the impairment of property, plant and equipment.

## ARENA AND TOWN HALL WORK IN PROGRESS IMPAIRMENT

Under the 'for-profit entity' suite of accounting standards where market value cannot be determined through the sales of similar buildings, the value is determined using estimated future cash flows. Both the Arena and Town Hall work in progress (WIP) have been valued on an estimated future cash flows basis. As a result the Arena has been revalued on an estimated future cash flows basis. This has resulted in the Arena being valued at $1.34 million at 30 June 2017 (2016: $1.09 million) and the Town Hall work in progress (WIP) being reduced in value.

The market value of the Arena is not easy to determine using typical valuation methods. In June 2015 Quotable Value Limited undertook a valuation on an optimised depreciation replacement cost (ODRC) basis and valued it at $36.8 million.

The Directors consider the June 2015 ODRC value of $36.8 million as an appropriate value for the Arena however have complied with generally accepted accounting practice when preparing the financial statements.

While it is noted that the Arena is impaired for accounting purposes management acknowledge that this does not represent the estimated replacement cost of the Arena which is approximately $66 million at the June 2015 valuation.

For and on behalf of the Board

Director — Date 29/09/17

Director — Date 29/09/17

vbase

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## For the year ended 30 June 2017

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| Revenue | 1a | 25,793 | 26,988 |
| Expenses | 1b | 24,822 | 24,958 |
| **Profit before depreciation, finance costs and income tax expense** | | 971 | 2,030 |
| **Other expenses** | | | |
| Depreciation and amortisation | 1b | 1,134 | 1,292 |
| Finance costs | 1b | 1,131 | 1,134 |
| Insurance settlement | 1b | - | 18,186 |
| Demolition costs | 1b | 117 | - |
| Loss on disposal of assets | 1b | - | 1,824 |
| Impairment of property, plant & equipment | 1b | 39,258 | 38,578 |
| **Total other expenses** | | 41,640 | 61,014 |
| **Other revenue** | | | |
| Impairment reversal on property, plant & equipment | 1a | - | 412 |
| **Total other revenue** | | - | 412 |
| **Loss before income tax expense from operations** | | (40,669) | (58,572) |
| Income tax income from operations | 2a | 470 | 21,755 |
| **Loss from operations for the year** | | (40,199) | (36,817) |
| **Other comprehensive income** | | | |
| | | - | - |
| **Total other comprehensive income from operations** | | - | - |
| **Total comprehensive income** | | (40,199) | (36,817) |

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

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 30 June 2017

| | Capital<br>$000 | Revaluation Reserve<br>$000 | Retained Earnings<br>$000 | Total<br>$000 |
|---|---|---|---|---|
| **Balance at 1 July 2015** | 189,636 | 2,326 | (66,710) | 125,252 |
| **Total comprehensive income for the period** | | | | |
| Loss for the year | - | - | (36,817) | (36,817) |
| **Other comprehensive income, net of income tax** | | | | |
| Total other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | - | - | (36,817) | (36,817) |
| **Transactions with owners, recorded directly in equity** | | | | |
| Transfer to retained earnings resulting from disposal of property | - | (2,326) | 2,326 | - |
| Total contributions by, and distributions to, owners | - | (2,326) | 2,326 | - |
| **Balance at 30 June 2016** | 189,636 | - | (101,201) | 88,435 |
| **Total comprehensive income for the period** | | | | |
| Loss for the year | - | - | (40,199) | (40,199) |
| **Other comprehensive income, net of income tax** | | | | |
| Total other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | - | - | (40,199) | (40,199) |
| **Balance at 30 June 2017** | 189,636 | - | (141,400) | 48,236 |

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

vbase

# STATEMENT OF FINANCIAL POSITION

## As at 30 June 2017

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 16 | 13,168 | 41,196 |
| Trade and other receivables | 4a | 3,200 | 2,662 |
| Other financial assets | 5a | 49,187 | 38,500 |
| Inventories | 6 | 318 | 421 |
| Current tax assets | 2b | 1,773 | 1,949 |
| Other current assets | 7 | 348 | 251 |
| **Total current assets** | | 67,994 | 84,979 |
| **Non-current assets** | | | |
| Trade and other receivables | 4b | 1,920 | 2,132 |
| Other financial assets | 5b | 4,539 | 27,839 |
| Property, plant & equipment | 8 | 3,794 | 6,172 |
| Intangible assets | 9 | 83 | 74 |
| Deferred tax assets | 2c | 15,331 | 15,827 |
| **Total non-current assets** | | 25,667 | 52,044 |
| **Total assets** | | 93,661 | 137,023 |
| **Current liabilities** | | | |
| Trade and other payables | 10a | 12,523 | 15,638 |
| **Total current liabilities** | | 12,523 | 15,638 |
| **Non-current liabilities** | | | |
| Trade and other payables | 10b | 43 | 51 |
| Borrowings | 11b | 14,485 | 14,485 |
| Deferred tax liabilities | 2c | 18,374 | 18,414 |
| **Total non-current liabilities** | | 32,902 | 32,950 |
| **Total liabilities** | | 45,425 | 48,588 |
| **Net assets** | | 48,236 | 88,435 |
| **Equity** | | | |
| Capital and other equity instruments | 12 | 189,636 | 189,636 |
| Retained earnings | | (141,400) | (101,201) |
| **Total equity** | | 48,236 | 88,435 |

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

**For and on behalf of the Board**

| | | | |
|---|---|---|---|
| | 29/09/17 | | 29/09/17 |
| Director | Date | Director | Date |

vbase

# STATEMENT OF CASH FLOWS

## For the year ended 30 June 2017

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 21,557 | 21,766 |
| Subvention received | | 1,103 | 1,253 |
| Receipt of business interruption insurance | | - | 2,791 |
| Payments to suppliers and employees | | (23,109) | (25,122) |
| Net GST movement | | 163 | (142) |
| **Net cash provided by operating activities** | 16 | (286) | 546 |
| **Cash flows from investing activities** | | | |
| Payment for property, plant & equipment | | (41,930) | (27,642) |
| Receipts from material damage insurance | | 625 | 108,318 |
| Interest received | | 2,081 | 1,298 |
| Sale of assets held for sale | | - | 10,103 |
| Insurance claim costs | | - | (1,666) |
| Maturity of investments | | 38,500 | 66,152 |
| Purchase of investments | | (25,887) | (113,782) |
| **Net cash provided by investing activities** | | (26,611) | 42,781 |
| **Cash flows from financing activities** | | | |
| Interest and other finance costs paid | | (1,131) | (1,134) |
| Repurchase of redeemable preference shares | | - | (14,402) |
| Repayment of loan from related party | | - | (4,500) |
| **Net cash used in financing activities** | | (1,131) | (20,036) |
| **Net increase in cash and cash equivalents** | | (28,028) | 23,291 |
| Cash and cash equivalents at beginning of year | | 41,196 | 17,905 |
| **Cash and cash equivalents at end of year** | | 13,168 | 41,196 |

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

# STATEMENT OF SERVICE PERFORMANCE

## REPORTING AGAINST THE STATEMENT OF INTENT

| Objective and Strategy | Performance Measure | |
|---|---|---|
| | 2016/2017 | RESULTS AS AT 30 JUNE 2017 |
| **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 | H&S inductions provided for 100% of contractors working at Vbase venues during the period. **Target achieved.** |
| | 100% correction of identified sub-standard practices or conditions | Audit undertaken by independent consultant which has identified areas of improvement. The Vbase H&S committee have developed an improvement plan to incorporate suggested improvements. **Target achieved.** |
| Continue to improve health and safety processes | Annual health and safety audit completed | Audit undertaken by independent consultant during March 2017. **Target achieved.** |
| Minimise incidents and near misses for staff and contractors | Less than 4.5 incidents or near misses per 10,000 hours worked | An average of 3.12 incidents or near misses per 10,000 hours worked. **Target achieved.** |
| Minimise incidents and near misses for visitors | Less than 2.5 incidents or near misses per 10,000 hours worked | An average of 1.21 incidents or near misses per 10,000 hours worked. **Target achieved**. |
| **2. Venue Utilisation** | | |
| High utilisation of Horncastle Arena | At least 90 events are delivered at Horncastle Arena | 84 events were delivered during the year. Included within the 84 are events which were held over more than one day or had multiple shows in a day. These events are classified as a single event for this measure. **Target not achieved.** |
| Attract events at AMI Stadium outside of the standard Super Rugby and provincial rugby fixtures | At least 1 major event is delivered at AMI Stadium | Bruce Springsteen concert held in February 2017. **Target achieved.** |
| High utilisation of Air Force Museum | At least 170 events are delivered at Air Force Museum | 159 events held during the year. **Target not achieved.** |
| High utilisation of Hagley Oval Pavilion within the constraints of use | At least 50 event days are delivered at Hagley Oval Pavilion | Excluding community events and events held by the venue owner there were 73 event days during the year. **Target exceeded.** |
| High utilisation of ilex function room | At least 100 events are delivered at ilex function room | 80 events held during the year. The lease to manage this venue expired on 11 May 2017. Vbase did not take any new bookings for the venue from this date. **Target not achieved.** |

| Objective and Strategy | Performance Measure 2016/2017 | RESULTS AS AT 30 JUNE 2017 |
|---|---|---|
| **3. Deliver Outstanding Service Delivery** | | |
| Event Owner (Client) satisfaction | Minimum 50 surveys completed during the year | 61 surveys completed. **Target achieved.** |
| | Achieve greater than 80% satisfaction during the year | 96.0% satisfaction level achieved. **Target exceeded.** |
| Event Customer (Guest) satisfaction | Minimum 600 guests surveyed throughout the year | 3,879 surveys completed. Approximately 1,000 completed surveys were for the Bruce Springsteen concert held in February 2017. **Target exceeded.** |
| | Achieve greater than 80% satisfaction during the year | 90.7% average satisfaction percentage. **Target exceeded.** |
| Retail Hospitality Customer satisfaction | Minimum 500 guests surveyed throughout the year | 189 surveys completed. The survey consisted of a paper questionnaire located at each café venue. There was a low uptake by customers on completing the surveys. **Target not achieved.** |
| | Achieve greater than 80% satisfaction during the year | 98.9% average satisfaction percentage. **Target exceeded.** |
| **4. Community Benefit** | | |
| Facilitate access to venues for local community and charitable organisations | Total venue discounts equal $300,000 | $348,316 in discounts provided. **Target achieved.** |
| Secure conferences and conventions that bring visitors to the city to generate positive economic impact | Utilising Covec data, delegate spends in excess of $8 million | $12.3 million economic impact based on 16 conferences held at Vbase venues.<br>$5.5 million of the amount was generated by a single event. **Target exceeded.** |
| Secure events that will encourage high usage of the venues | Visitors to venues exceed 450,000 | 634,920 attendees to Vbase venues for the year. AMI Stadium and Horncastle Arena events account for the majority of visitors with ticketed events at both venues strong throughout the year. **Target exceeded.** |
| **5. Environmental Considerations** | | |
| Ensure recycling of waste is undertaken at events | Recycling undertaken at 95% of events | Recycling was undertaken at 100% of events. **Target achieved.** |
| Minimise the amount of general waste at Horncastle Arena | 25% of waste by weight is recycled | 23% of waste by weight was recycled during the year. Recycling percentages have improved throughout 2017 to be 27% by weight for the last quarter of the year. **Target not achieved.** |

vbase

## FINANCIAL PERFORMANCE TARGETS

| | 2017 Actual $000 | 2017 Target $000 | Variance $000 |
|---|---|---|---|
| Income | 19,778 | 18,417 | 1,361 |
| Less: operating expenses | 15,575 | 14,238 | (1,337) |
| Net operating overheads and fixed costs | 6,582 | 6,356 | (226) |
| **EBITDA** | (2,379) | (2,177) | (202) |
| **Net deficit after tax** | (40,199) | (48,461) | 8,262 |

Operating revenue was higher than target for all venues during the year with the exception of the Air Force Museum. AMI Stadium was a large contributor to the higher than target operating revenue result with the Bruce Springsteen concert being a leading contributor. Food and beverage revenue is $0.85 million higher than plan for the year with the large attendances at AMI Stadium events throughout the year being a significant contributing factor.

Offsetting the higher than planned revenue are increased operating expenses with AMI Stadium expenses and food and beverage cost of sales being higher than plan.

The material contributors to the $0.23 million variance in net operating overheads and fixed costs are increased management fees and food and beverage corporate cost of labour.

The EBITDA loss for the year is $0.20 million worse than the target deficit of $2.18 million.

The net deficit after tax is $8.3 million less than target. The two main contributors to this variance are:

- the stadium demolition costs, which were $10.0 million under plan for the year. This is due to a delay in in the final decision to demolish the stadium.
- the tax expense, which is $3.0 million less than target. This is predominantly the tax impact on the demolition cost underspend.

In addition net interest revenue and insurance receipts are higher than planned while depreciation expense is lower than planned.

## RATIO OF SHAREHOLDERS FUNDS TO TOTAL ASSETS

The ratio of shareholders funds to total assets is:

| Actual | Target |
|---|---|
| 52% | 60% |

The lower than target ratio is the combined result of:

- shareholder's equity being $19.4 million higher than planned. This reflects the delays in Lancaster Park demolition and the difference in the planned opening shareholder's equity balance; and
- total assets being $45.3 million higher than planned. Cash and term deposits are $34.4 million higher than planned as a result in lower than planned expenditure on the Town Hall, Lancaster Park demolition and Horncastle Arena maintenance and not repaying the $14.5 million loan from Council. Property plant and equipment is $7.0 million lower than planned principally due to differences in the opening balance. The total asset target was calculated on a net deferred tax basis which has meant the $15.3 million deferred tax asset balance as at 30 June 2017 has contributed to part of the $45.3 million total asset variance.

## THE CAPITAL STRUCTURE:

| | Actual $000 | Target $000 | Variance $000 |
|---|---|---|---|
| Issued shares and other equity instruments | 189,636 | 189,636 | - |
| Debt | 14,485 | - | (14,485) |
| Total assets | 93,661 | 48,371 | (45,290) |
| Total equity | 48,236 | 28,826 | (19,410) |

Target debt assumed the repayment of $14.5 million of Council debt. The repayment did not occur.

Refer to the commentary under the ratio of shareholders funds to total asset for an explanation of total assets and total equity variances.

## FACILITIES REBUILD

| | Actual $000 | Target $000 | Variance $000 |
|---|---|---|---|
| **Facilities repair/rebuild** | | | |
| Arena | 1,645 | 2,000 | 355 |
| Town Hall repairs | 35,024 | 40,410 | 5,386 |
| | 36,669 | 42,410 | 5,741 |

The target for the Town Hall repairs was set prior to finalising the 2016 financial statement and as a result it was over $5 million higher than the actual target that was set for the 2017 year.

# NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 30 June 2017**

## 1. PROFIT FROM OPERATIONS

### 1a Revenue

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Rendering of services | 21,584 | 21,229 |
| Interest revenue: | | |
| Bank deposits | 1,002 | 720 |
| Related parties | 1,725 | 1,250 |
| **Total interest revenue** | 2,727 | 1,970 |
| Other revenue: | | |
| Insurance | 520 | 2,791 |
| Profit on disposals of assets | 103 | - |
| Donated/vested assets | 9 | 40 |
| Other income | 850 | 958 |
| **Total other revenue** | 1,482 | 3,789 |
| Revenue | 25,793 | 26,988 |
| Other revenue | | |
| Impairment reversal on property, plant & equipment | - | 412 |
| **Total revenue** | 25,793 | 27,400 |

# 1. PROFIT FROM OPERATIONS (CONT)

## 1b Expenses and costs

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| Expenses: | | | |
| Operating lease expenses - minimum lease payments | | 199 | 199 |
| Food and beverage expenses | | 11,012 | 10,670 |
| Management fee | | 7,676 | 7,738 |
| Other expenses | | 5,935 | 6,351 |
| **Total expenses** | | 24,822 | 24,958 |
| Depreciation and amortisation: | | | |
| Depreciation of non-current assets | 8 | 885 | 1,056 |
| Amortisation of non-current assets | 9 | 39 | 26 |
| Amortisation of ground rent | | 210 | 210 |
| **Total depreciation and amortisation** | | 1,134 | 1,292 |
| Finance costs: | | | |
| Interest on related party loans | | 1,131 | 1,134 |
| **Total finance costs** | | 1,131 | 1,134 |
| Insurance settlement: | | | |
| Net material damage insurance settlement | | - | 16,275 |
| Material damage insurance claim costs | | - | 1,911 |
| **Total insurance settlement** | | - | 18,186 |
| Loss on disposal of assets | | - | 1,824 |
| Impairment of property, plant & equipment | | 39,258 | 38,578 |
| Demolition costs | | 117 | - |
| **Total expenses from operations** | | 66,462 | 85,972 |

vbase

# 2. INCOME TAXES

## 2a Income tax recognised in profit or loss

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Tax expense income comprises: | | |
| Current tax (income) | (1,773) | (1,949) |
| Adjustments to current tax in prior years | 847 | (771) |
| Adjustments to current tax in relation prior year tax return refile | - | 841 |
| Deferred tax relating to temporary differences | 456 | (19,876) |
| **Total tax income on operations** | (470) | (21,755) |

**Reconciliation of prima facie income tax:**

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Loss from operations** | (40,669) | (58,572) |
| Income tax income calculated at 28% | (11,387) | (16,400) |
| Non-deductible expenses | | |
| Entertainment | 5 | 5 |
| Insurance settlement and amortised cost adjustment | - | (5,291) |
| Building structure repairs adjustment | 10,931 | 571 |
| Legal costs | - | 1 |
| Accounting (gain)/loss on sale of assets | (29) | 567 |
| Tax gain/(loss) on sale of assets | 9 | (910) |
| Accounting asset loss / cost re earthquake - revaluation to P&L | - | (2) |
| Non-assessable income | | |
| Held for sale disposal | - | (338) |
| Over provision of previous year's income tax | 1 | 42 |
| **Income tax income from operations** | (470) | (21,755) |

## 2b Current tax assets and liabilities

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Current tax (assets): | | |
| Subvention receivable | (1,773) | (1,949) |
| **Total current tax asset** | (1,773) | (1,949) |

vbase

# 2 INCOME TAXES (CONT)

## 2c Deferred tax balances

Taxable and deductible temporary differences arise from the following:

| Year ended 30 June 2017 | Opening balance $000 | Adjustment to opening balance $000 | Charged to income $000 | Charged to other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|
| **Deferred tax liabilities:** | | | | | |
| Property, plant & equipment | - | - | - | - | - |
| Provisions | - | - | - | - | - |
| Earthquake recoveries and expenses | 18,414 | - | (40) | - | 18,374 |
| **Total deferred tax liabilities** | 18,414 | - | (40) | - | 18,374 |
| **Deferred tax assets:** | | | | | |
| Property, plant & equipment | 15,819 | - | (498) | - | 15,321 |
| Provisions | 8 | - | 2 | - | 10 |
| Losses carried forward | - | 846 | (846) | - | - |
| **Total deferred tax assets** | 15,827 | 846 | (1,342) | - | 15,331 |
| **Net deferred tax liability/(asset) balance** | 2,587 | (846) | 1,302 | - | 3,043 |

| Year ended 30 June 2016 | Opening balance $000 | Adjustment to opening balance $000 | Charged to income $000 | Charged to other comprehensive income $000 | Closing balance $000 |
|---|---|---|---|---|---|
| **Deferred tax liabilities:** | | | | | |
| Property, plant & equipment | 5,065 | (5,065) | - | - | - |
| Provisions | 51 | (51) | - | - | - |
| Earthquake recoveries and expenses | 17,347 | 11,099 | (10,032) | - | 18,414 |
| **Total deferred tax liabilities** | 22,463 | 5,983 | (10,032) | - | 18,414 |
| **Deferred tax assets:** | | | | | |
| Property, plant & equipment | - | 5,959 | 9,860 | - | 15,819 |
| Provisions | - | 12 | (4) | - | 8 |
| Losses carried forward | - | 40 | (40) | - | - |
| **Total deferred tax assets** | - | 6,011 | 9,816 | - | 15,827 |
| **Net deferred tax liability/(asset) balance** | 22,463 | (28) | (19,848) | - | 2,587 |

## 2d Imputation credit account balances

There are no imputation credits available for use in subsequent periods (2016: nil)

# 3 REMUNERATION OF AUDITORS

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Audit of the financial statements | 58 | 68 |
| **Total remuneration of auditors** | 58 | 68 |

vbase

# 4 TRADE AND OTHER RECEIVABLES

## 4a Current trade receivables

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| Trade receivables | | 890 | 383 |
| Related party receivables | 17 | 1,361 | 1,133 |
| **Net trade receivables** | | 2,251 | 1,516 |
| GST receivable | | 575 | 691 |
| Other receivables | | 374 | 455 |
| | | 949 | 1,146 |
| **Total current trade and other receivables** | | 3,200 | 2,662 |

## 4b Non-current trade and other receivables

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Prepayments | 1,920 | 2,132 |
| **Total non-current trade and other receivables** | 1,920 | 2,132 |

The carrying value of debtors and other receivables approximate their fair value.

The carrying value of receivables that would otherwise be past due or impaired whose terms have been renegotiated amount to nil (2016: nil).

## 4c Current trade receivables aging

The status trade receivables as at 30 June 2017 and 2016 are detailed below:

| | 2017 $000 | | | 2016 $000 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Impairment $000 | Net $000 | Gross $000 | Impairment $000 | Net $000 |
| Not past due | 2,229 | - | 2,229 | 1,350 | - | 1,350 |
| Past due 31 - 60 days | 22 | - | 22 | 156 | - | 156 |
| Past due 61 - 120 days | - | - | - | 10 | - | 10 |
| **Total** | 2,251 | - | 2,251 | 1,516 | - | 1,516 |

The carrying value of receivables that would otherwise be past due or impaired whose terms have been renegotiated amount to nil (2016: nil).

## TRADE AND OTHER RECEIVABLES (CONT)

### 4d Current trade receivables impairment movement

The provision for impairment has been based on a review of individual debtor balances.

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Individual impairment | - | - |
| **Total impairment** | - | - |

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Movement in provision for impairment | | |
| As at 1 July | - | (4) |
| Additional provisions made during the year | - | - |
| Provisions reversed during the year | - | 3 |
| Receivables written off during the year | - | 1 |
| **Balance at 30 June** | - | - |

## 5 OTHER FINANCIAL ASSETS

### 5a Other current financial assets

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Deposits held with the Council | 23,300 | 38,500 |
| Term deposits | 25,887 | - |
| **Total other current financial assets** | 49,187 | 38,500 |

### 5b Other non-current financial assets

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Deposits held with the Council | 4,539 | 27,839 |
| **Total other non-current financial assets** | 4,539 | 27,839 |

There were no impairment provisions for other financial assets. None of the financial assets are either past due or impaired.

## 6 CURRENT INVENTORIES

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Inventory held to be consumed in the rendering of services | 318 | 421 |
| **Total current inventories** | 318 | 421 |

No inventories are pledged as security for liabilities (2016: nil).

There was no write-down of inventories (2016: nil).

## 7 OTHER CURRENT ASSETS

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Prepayments | 348 | 251 |
| **Total other current assets** | 348 | 251 |

## 8 PROPERTY, PLANT & EQUIPMENT

| | Buildings (fair value) $000 | WIP Assets $000 | Plant & equipment (cost) $000 | Total $000 |
|---|---|---|---|---|
| **Gross carrying amount:** | | | | |
| **Balance at 1 July 2015** | 160,665 | 8,467 | 10,504 | 179,636 |
| Additions | 1,956 | 34,935 | 447 | 37,338 |
| Disposals | (14) | - | (2,028) | (2,042) |
| **Balance at 30 June 2016** | 162,607 | 43,402 | 8,923 | 214,932 |
| Additions | 1,733 | 35,204 | 859 | 37,796 |
| Disposals | (47) | - | (106) | (153) |
| **Balance at 30 June 2017** | 164,293 | 78,606 | 9,676 | 252,575 |
| | | | | |
| **Accumulated depreciation and impairment:** | | | | |
| **Balance at 1 July 2015** | (158,086) | (5,157) | (5,883) | (169,126) |
| Depreciation expense | (212) | - | (844) | (1,056) |
| Impairment charge | (3,075) | (35,485) | (18) | (38,578) |
| **Balance at 30 June 2016** | (161,373) | (40,642) | (6,745) | (208,760) |
| Disposals | 27 | - | 94 | 121 |
| Depreciation expense | (143) | - | (742) | (885) |
| Impairment charge | (1,379) | (37,878) | - | (39,257) |
| **Balance at 30 June 2017** | (162,868) | (78,520) | (7,393) | (248,781) |
| | | | | |
| **Net book value as at 30 June 2016** | 1,234 | 2,760 | 2,178 | 6,172 |
| | | | | |
| **Net book value as at 30 June 2017** | 1,425 | 86 | 2,283 | 3,794 |

### Valuation and Impairment

Horncastle Arena

The Arena is tested annually for impairment under NZ IAS 36 *Impairment of Assets*. Management considers all the Arena building asset to be a single cash generating unit (CGU) for the purposes of the impairment test. The recoverable amount of the Arena is considered to be its value in use. The value in use of the Arena is the discounted estimated future cash flows that will be derived from the assets.

The Arena is valued at $1.34 million at 30 June 2017 (2016: $1.1 million). This value includes a $1.47 million impairment (2016: $3.1 million) which has been applied against the asset.

The value of the Arena is calculated based upon a 10 year operating cash flow forecast for the venue. The cash flows have an assumed $4.3 million of capital expenditure within the 10 year period. The calculation assumes an average OPEX inflation rate of 2.45% (2016: 2.33%). This rate is based on an average of the next 10 years OPEX rates issued by Business and Economic Research Ltd (BERL) for the overall cost index for local authorities (LGCI). The discount rate used is 5.50% (2016: 5.30%).

Unobservable inputs have been used in the fair value calculation thus it will fall under level 3 of the Fair Value Hierarchy as defined in NZ IFRS 13 *Fair value Measurement*. Management has based the calculation on assumptions around the timing and amount of operating cash flows and capital expenditure during the period.

Town Hall

The building is valued at nil as the estimated repair costs to bring the building to 100% of the New Building Standards (NBS) exceeds the estimated future cash flows that will be derived from the asset.

The Council has allocated up to $133.1 million for the rebuild and restoration of the Town Hall. As at 30 June 2017 the Company has spent $81.3 million (2016: $46.3 million) of the allocated repair budget. $2.9 million (2016: $2.9 million) of these costs are of an expense nature and have been recorded in the statement of profit or loss and other comprehensive income in the year incurred. $78.4 million (2016: $43.4 million) is capital in nature and have been treated as a work in progress (WIP) capital asset.

The WIP balance was tested for impairment under NZ IAS 36 *Impairment of Assets* and it was determined that the value in use of the WIP at 30 June 2017 is Nil (2016: $2.8 million). Consequently an impairment of $37.8 million (2016: $35.5 million) has been recorded in the statement of profit and loss and other comprehensive income in 2017.

The value of the WIP is calculated based upon a 9 year operating cash flow forecast from 2019 to 2027 for the venue. The starting year used in the calculation is 2019 due to the fact that the venue is closed for the restoration and repair work up until then. The calculation assumes an average inflation rate of 2.45% (2016: 2.33%). This rate is the average of the next 10 years of OPEX LGCI rates issued by BERL. The discount rate used is 8.50% (2016: 8.20%).

Unobservable inputs have been used in the fair value calculation thus it will fall under level 3 of the Fair Value Hierarchy as defined in NZ IFRS 13 *Fair value Measurement*. Management has based the calculation on assumptions around the timing and amount of operating cash flows and capital expenditure during the period.

Lancaster Park

The building is valued at nil as the Council have approved the demolition of the remaining stands. Demolition of the stadium is scheduled to begin in the 2018 financial year.

The valuations comply with NZ IFRS 13 *Fair value Measurement*, issued by the New Zealand External Reporting Board.

Unobservable inputs have been used in the fair value calculation thus it will fall under level 3 of the Fair Value Hierarchy as defined in NZ IFRS 13 *Fair value Measurement*.

Transfer between categories

There were no transfers between levels during the year.

vbase

# 9 INTANGIBLE ASSETS

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Gross carrying amount:** | | |
| Opening balance | 906 | 842 |
| Additions | 48 | 64 |
| **Closing gross carrying amount balance** | 954 | 906 |
| **Accumulated amortisation and impairment:** | | |
| Opening balance | (832) | (806) |
| Amortisation expense | (39) | (26) |
| **Closing accumulated amortisation and impairment balance** | (871) | (832) |
| **Total intangible assets** | 83 | 74 |

# 10 TRADE AND OTHER PAYABLES

## 10a Current trade and other payables

The carrying value of trade and other payables approximate their fair value.

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| Trade payables | | 2,814 | 837 |
| Owing to related parties | 17 | 8,910 | 13,833 |
| Income in advance | | 799 | 968 |
| **Total current trade and other payables** | | 12,523 | 15,638 |

## 10b Non-current trade and other payables

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Income in advance | 43 | 51 |
| **Total non-current trade and other payables** | 43 | 51 |

# 11 BORROWINGS

## 11a Current borrowings

The 2017 fair value of the current borrowing of the Company is nil. (2016: nil)

## BORROWINGS (CONT)

### 11b Non-current borrowings

| | Note | 2017 $000 | 2016 $000 |
|---|---|---|---|
| **Unsecured:** | | | |
| Loan from related party - Council | 17 | 14,485 | 14,485 |
| **Total non-current borrowings** | | 14,485 | 14,485 |

The fair value of the non-current borrowing of the Company is $17,361,414 (2016: $17,831,634) based on cash flows discounted using the market borrowing rate of 5.50% (2016: 5.30%).

Interest is payable semi-annually on all borrowings. The interest rate is calculated using the Council's average borrowing cost plus margin. The average interest rate for the loan balance as at 30 June 2017 is 7.81% (2016: 7.81%)

## 12 CAPITAL AND OTHER EQUITY INSTRUMENTS

All shares are $1 shares and are fully paid. There is no uncalled capital. All shares carry equal voting rights. Redeemable preference shareholders have first call on any surplus on winding up of the Company. The A redeemable preference shares may be redeemed by the Company giving the shareholder five working days' notice of the intention to do so. None of the shares carry fixed dividend rights.

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Capital and other equity instruments** | | |
| Fully paid ordinary shares | 100,136 | 100,136 |
| Fully paid A redeemable preference shares | 89,500 | 89,500 |
| **Balance at end of financial year** | 189,636 | 189,636 |
| **Fully paid ordinary shares** | | |
| Balance at beginning of financial year | 100,136 | 100,136 |
| **Balance at end of financial year** | 100,136 | 100,136 |
| **Fully paid A redeemable preference shares** | | |
| Balance at beginning of financial year | 89,500 | 89,500 |
| **Balance at end of financial year** | 89,500 | 89,500 |
| **Equity component of mandatory redeemable preference shares** | | |
| Balance at beginning of financial year | - | - |
| Unwinding of discount | - | - |
| **Balance at end of financial year** | - | - |

## 13 CAPITAL COMMITMENTS

On 12 June 2015 Council signed a capital commitment with Hawkins Construction to perform a full restoration and repair of the Town Hall with completion expected in early 2019. The Council is using its resources and expertise to project manage the repair on behalf of Vbase.

The inflated project cost is $133.1 million and will be funded by insurance proceeds and Council equity contributions. As at 30 June 2017 $81.3 million (2016: $46.3 million) of the budget has been spent leaving a remaining commitment of $51.8 million (2016: $81.20 million).

## 14 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material contingent assets (2016: nil) or material contingent liabilities (2016: nil) for the Company.

## 15 EVENTS AFTER BALANCE DATE

There are no material events known to the Directors occurring subsequent to balance date that would have a significant impact on the financial statements for the year ended 30 June 2017.

## 16 NOTES TO THE CASH FLOW STATEMENT

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash on hand | 83 | 86 |
| Call and term deposits | 13,085 | 41,110 |
| **Total cash and cash equivalents** | 13,168 | 41,196 |
| **Reconciliation of profit for the period to net cash flows from operating activities:** | | |
| **Net loss for the period from operations** | (40,199) | (36,817) |
| **Non cash items** | | |
| Depreciation and amortisation of non-current assets | 1,134 | 1,292 |
| Refund of lease bond payment | 1 | - |
| Movement in deferred tax | 456 | (19,876) |
| Impairment of property, plant & equipment | 39,258 | 38,166 |
| **Items classified as investing / financing activities** | | |
| Movement in capital creditors | 4,221 | (9,754) |
| Gain on disposal of property, plant & equipment | (103) | - |
| Loss on disposal of property, plant & equipment | - | 1,824 |
| Insurance claim costs | - | 1,665 |
| Interest revenue received | (2,081) | (1,298) |
| Finance and interest costs paid | 1,131 | 1,134 |
| Material damage insurance recoveries | (625) | (108,318) |
| **Movement in working capital** | | |
| (Decrease) / increase in creditors | (3,123) | 10,518 |
| (Increase) / decrease in receivables | (459) | 122,089 |
| Decrease / (increase) in inventory | 103 | (79) |
| **Net cash from operating activities** | (286) | 546 |

vbase

## 17 RELATED PARTY TRANSACTIONS

The Council is the ultimate controlling party of the Company. The following transactions were carried out with related parties during the year.

### Transactions and balances with Christchurch City Council Group companies:

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Receipts from related parties:** | | |
| Hire of rooms, related services and event cost reimbursement to: | | |
| Council | 454 | 364 |
| Christchurch International Airport Ltd | 28 | 61 |
| Enable Services Ltd | 31 | 20 |
| Lyttleton Port Company Ltd | - | 8 |
| **Total receipts from rooms, related services and event cost reimbursement** | 513 | 453 |
| | | |
| Subvention payments received from Council group entities | 1,103 | 1,253 |
| Property sale to Council | - | 8,785 |
| Interest received from Council | 1,725 | 1,250 |
| **Total receipts from related parties** | 3,341 | 11,741 |
| | | |
| **Payments to related parties:** | | |
| Lease of Town Hall land from the Council | 100 | 100 |
| Insurance, rates, management fees, repair on-charges and other services provided by Council | 49,086 | 39,689 |
| Loan repayments to Council | - | 4,500 |
| Redeemable preference share repurchase from Council | - | 14,402 |
| Interest expense to Council | 1,131 | 1,134 |
| Services provided by City Care Ltd | 1,107 | 1,360 |
| Services provided by Connetics Ltd | 1 | 3 |
| Services provided by Orion NZ Ltd | 8 | 7 |
| Services provided by Red Bus Ltd | - | 17 |
| Services provided by ChristchurchNZ Ltd | 10 | - |
| **Total payments to related parties** | 51,443 | 61,212 |

During the year a limited number of complimentary tickets were provided to Councillors, Vbase and Council staff to attend Vbase events.

## RELATED PARTY TRANSACTIONS (CONT)

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Year end balances (inclusive of GST)** | | |
| **Accounts payable and payment accruals to:** | | |
| Council | 8,679 | 13,613 |
| ChrischurchNZ Ltd | 11 | - |
| Accrued interest payable to Council | 220 | 220 |
| **Accounts payable and accruals related parties total** | 8,910 | 13,833 |
| | | |
| **Accounts receivable from:** | | |
| Council | 8 | 288 |
| **Accounts receivable related parties total** | 8 | 288 |
| | | |
| **Other balances:** | | |
| Loan advances from Council | 14,485 | 14,485 |
| Accrued interest receivable from Council | 1,353 | 845 |
| Term deposits and cash held with Council | 33,339 | 70,339 |
| Subvention payments receivable from group companies | 1,773 | 1,949 |
| **Total other related party year end balances** | 50,950 | 87,618 |

The Company expects to transfer losses of $6.33 million to other members of the Council group (2016: $6.96 million) by way of subvention payment of $1.77 million (2016 $1.95 million). The Company was unable to utilise all 2016 tax losses within the group with $1.1 million subvention payment being received during the year. The Company expects that all tax losses will be utilised this year.

## KEY MANAGEMENT PERSONNEL

Key management personnel of the Company have interests in other entities that transact with Company members.

Vbase has entered into a management services agreement with Council whereby Council provides management, financial, legal and IT service support.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2016: nil).

# 18 LEASES

## 18a Non-cancellable operating lease commitments

The Company leases property, plant and equipment in the normal course of business. The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

| | 2017<br>$000 | 2016<br>$000 |
|---|---|---|
| No later than one year | 317 | 206 |
| Later than one year and not later than five years | 1,219 | 776 |
| Later than five years | 4,351 | 4,357 |
| **Total non-cancellable operating lease commitments** | 5,887 | 5,339 |

There are no restrictions imposed by lease arrangements.

The company has no non-cancellable operating leases as lessor

# 19 FINANCIAL RISK MANAGMENT

### Financial instrument risk

The Company has a series of policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its financing activities.

### Credit risk management

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and short term investments and accounts receivables. The Company places its cash and short term investments with the Christchurch City Council and various high-credit-quality banking institutions, and has no deposits with finance companies.

The maximum credit exposure for each class of financial instrument is the same as the carrying value.

Other than already noted in the accounts, the Company has no significant exposure to credit risk.

### Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and maintaining adequate reserves with the maturity profile of financial assets being matched to the financial liabilities. The Company maintains a borrowing facility with its parent, the Council.

### Interest rate sensitivity analysis

The Company is not sensitive to movements in interest rates in respect of its borrowing obligations as all of the borrowings are fixed. The Company has a large portion of its surplus cash on fixed term deposits that mirror the projected costs for the repair of the Town Hall. It is expected that these deposits will be fully spent in the month of maturity. As such only cash and deposits not specifically allocated against the projected Town Hall repair schedule have been included in the calculation to determine interest rate sensitivity on cash and term deposits. Accordingly a 1% movement either way on cash and term deposit balances would have the effect of increasing / decreasing the Company's profit before tax by $389,750 or $280,620 after tax (2016: $411,234 before tax, $296,088 after tax).

### Fair value of financial instruments

Unobservable inputs have been used in the fair value calculation thus it will fall under level 3 of the Fair Value Hierarchy as defined in NZ IFRS 13 *Fair value Measurement*.

## Market risk management

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates and market prices, will affect the Company's profit or the value of its holdings in financial instruments.

*Interest rates*

Interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to interest rate risk.

Interest rates on the Company's borrowing facility with the Council are fixed.

*Foreign exchange*

Foreign exchange risk is the risk that the cash flows from a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company has little exposure to foreign exchange risk. Any small foreign payments are settled at the rate prevalent on the due date. Should any large foreign currency transactions arise, the Company would enter into forward foreign exchange contracts to fix the foreign currency risk exposure.

*Price risk*

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

The Company is not exposed to price risk on its financial instruments.

## Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates:

| | **2017 $000** | **2016 $000** |
|---|---|---|
| **Counterparties with credit ratings** | | |
| *Cash at bank and bank term deposits* | | |
| AA- | 33,555 | 37,196 |
| *Related parties cash at bank* | | |
| A+ | 5,500 | 4,000 |
| **Total cash at bank and term deposits** | 39,055 | 41,196 |
| *Loans to related parties* | | |
| A+ | 27,839 | 66,339 |
| **Total loans to related parties** | 27,839 | 66,339 |
| *Debtors and other receivables* | | |
| Related parties receivables | 1,361 | 1,133 |
| Existing counterparty with no defaults in the past | 1,839 | 1,529 |
| **Total debtors and other receivables** | 3,200 | 2,662 |

vbase

## Classification of financial instruments

The Company has no financial assets or financial liabilities designated at fair value, fair value through other comprehensive income or held to maturity in 2017 or 2016.

| 2017 | Loans & receivables $000 | Other amortised cost $000 | Total carrying amount $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 13,168 | - | 13,168 |
| Trade and other receivables | 1,839 | - | 1,839 |
| Other financial assets | 49,187 | - | 49,187 |
| Related party receivables | 1,361 | - | 1,361 |
| **Total current assets** | 65,555 | - | 65,555 |
| **Non-current assets** | | | |
| Other financial assets | 4,539 | - | 4,539 |
| **Total non-current assets** | 4,539 | - | 4,539 |
| **Total financial assets** | 70,094 | - | 70,094 |
| **Current liabilities** | | | |
| Trade and other payables | - | 12,523 | 12,523 |
| **Total current liabilities** | - | 12,523 | 12,523 |
| **Non-current liabilities** | | | |
| Borrowings | - | 14,485 | 14,485 |
| Other (income in advance) | - | 43 | 43 |
| **Total non-current liabilities** | - | 14,528 | 14,528 |
| **Total financial liabilities** | - | 27,051 | 27,051 |

## Classification of financial instruments (cont)

| 2016 | Loans & receivables $000 | Other amortised cost $000 | Total carrying amount $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 41,196 | - | 41,196 |
| Trade and other receivables | 1,529 | - | 1,529 |
| Other financial assets | 38,500 | - | 38,500 |
| Related party receivables | 1,133 | - | 1,133 |
| **Total current assets** | 82,358 | - | 82,358 |
| **Non-current assets** | | | |
| Other (finance lease receivable) | 27,839 | - | 27,839 |
| **Total non-current assets** | 27,839 | - | 27,839 |
| **Total financial assets** | 110,197 | - | 110,197 |
| **Current liabilities** | | | |
| Trade and other payables | - | 15,638 | 15,638 |
| **Total current liabilities** | - | 15,638 | 15,638 |
| **Non-current liabilities** | | | |
| Borrowings | - | 14,485 | 14,485 |
| Other (income in advance) | - | 51 | 51 |
| **Total non-current liabilities** | - | 14,536 | 14,536 |
| **Total financial liabilities** | - | 30,174 | 30,174 |

## Contractual maturity analysis

| As at 30 June 2017 | Carrying amount $000 | Contractual cashflows $000 | Less than 1 year $000 | 1 - 2 years $000 | 3 - 5 years $000 | More than 5 years $000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 13,168 | 13,191 | 13,191 | - | - | - |
| Trade receivables | 3,192 | 3,192 | 3,192 | - | - | - |
| Other financial assets | 53,726 | 56,008 | 50,748 | - | 5,260 | - |
| Other (related party receivables) | 8 | 8 | 8 | - | - | - |
| **Total financial assets** | 70,094 | 72,399 | 67,139 | - | 5,260 | - |
| **Financial liabilities** | | | | | | |
| Trade and other payables | (2,814) | (2,814) | (2,814) | - | - | - |
| Borrowings | (14,485) | (28,064) | (1,131) | (1,131) | (3,392) | (22,410) |
| Other (income in advance) | (842) | (842) | (799) | (17) | (26) | - |
| Other (related party) | (8,910) | (8,910) | (8,910) | - | - | - |
| **Total financial liabilities** | (27,051) | (40,630) | (13,654) | (1,148) | (3,418) | (22,410) |

Other financial assets and cash and cash equivalents contractual cash flows include interest receivable of $2,305,242 under the term deposits entered into (2016: $3,356,218).

vbase

### Contractual maturity analysis (cont)

| As at 30 June 2016 | Carrying amount $000 | Contractual cashflows $000 | Less than 1 year $000 | 1 - 2 years $000 | 3 - 5 years $000 | More than 5 years $000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 41,196 | 41,409 | 41,409 | - | - | - |
| Trade receivables | 2,374 | 2,374 | 2,374 | - | - | - |
| Other financial assets | 66,339 | 69,482 | 39,629 | 24,593 | 5,260 | - |
| Other (related party receivables) | 288 | 288 | 288 | - | - | - |
| **Total financial assets** | 110,197 | 113,553 | 83,700 | 24,593 | 5,260 | - |
| **Financial liabilities** | | | | | | |
| Trade and other payables | (837) | (837) | (837) | - | - | - |
| Borrowings | (14,485) | (29,195) | (1,131) | (1,131) | (3,392) | (23,541) |
| Other (income in advance) | (1,019) | (1,019) | (968) | (16) | (35) | - |
| Other (related party) | (13,833) | (13,833) | (13,833) | - | - | - |
| **Total financial liabilities** | (30,174) | (44,884) | (16,769) | (1,147) | (3,427) | (23,541) |

## 20 CAPITAL MANAGEMENT

The Company's capital is its equity, which comprises retained earnings and property valued at fair value through comprehensive income reserves. Equity is represented by net assets.

The Company is a Council Controlled Organisation as defined by the Local Government Act 2002 which includes restrictions on how it operates and defines reporting and accountability processes. Council has a general security agreement over all Company assets which restricts the ability to dispose of certain property and to enter into new borrowing arrangements.

The Company manages its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interest of the community. The Company's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities and general financial dealings.

The objective of managing the Company's equity is to ensure that it effectively and efficiently achieves the goals and objectives for which it has been established, while remaining a going concern.

## 21 STATUTORY REPORTING DECLARATION

The Local Government Act 2002 requires the Company to submit half year accounts and a Statement of Intent to its Board and to its shareholder within specified timeframes. For the 2016/17 financial year the Company met the specified timeframes as set out in the legislation for the submission of its half year accounts and draft Statement of Intent to its shareholder.

# 22 SIGNIFICANT ACCOUNTING POLICIES

## REPORTING ENTITY

The Company is a wholly owned subsidiary of the Council and owns, manages and develops Horncastle Arena and has secured management service agreements to manage the operations at the Air Force Museum of New Zealand, AMI Stadium (Addington), ilex café and function centre in addition to an ice cream kiosk situated in the Christchurch Botanic Gardens, and the Pavilion at the Hagley Cricket Oval. The Company also owns the earthquake damaged Christchurch Town Hall of Performing Arts which is scheduled to be fully repaired and operational in early 2019.

From 1 July 2014 the Company has been designated as a 'for-profit' entity for purposes of the New Zealand equivalents to International Financial Reporting Standards. Prior to this the Company was designated as a 'public benefit entity' but it has been determined that current business operating structure is such that a 'for-profit entity' designation is appropriate at this time. The company is discussing with Council, options for the future business structure of the company. Any changes to the current business structure and operations of the company may impact the for-profit/public benefit designation of the company in the future.

The financial statements of the Company have been prepared in accordance with the Companies Act 1993 and the Local Government Act 2002.

The financial statements of the Company are for the year ended 30 June 2017. The financial statements were authorised for issue by the Board of Directors on 29 September 2017.

### a. 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 Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), the International Reporting Standards and other applicable Financial Reporting Standards, as appropriate, for 'for-profit' entities.

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

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.

Except where specified, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### New and amended Standards and Interpretations

There have been no new standards, interpretations or amendments adopted for the year ended 30 June 2017 which have had a material presentational or disclosure effect in the Company's financial statements.

Those NZ IFRS Standards and Interpretations that have been issued or amended which may impact the Company, but are not yet effective and have not been adopted by the Company for the year ended 30 June 2017 are:

NZ IFRS 15 *Revenue from Contracts with Customers.* This standard will replace NZ IAS 11 *Construction Contracts* and NZ IAS 18 *Revenue* and related revenue interpretations. The core principle of NZ IFRS 15 is that an entity recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. The standard is effective for the year ended 30 June 2018. The Company has not yet determined the potential impact of this standard.

NZ IAS 7 *Statement of Cash Flows – Disclosure Initiative.* This amendment is a disclosure initiate that requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flow changes. The amendment to the standard is effective for accounting periods beginning on or after 1 January 2017. The Company has not yet determined the potential impact of this amendment.

NZ IFRS 9 *Financial Instruments*. This standard will supersede NZ IAS 39 *Financial Instruments: Recognition and Measurement* and specifies how an entity should classify and measure financial assets. The standard is effective for accounting periods beginning on or after 1 January 2018. The Company has not yet determined the potential impact of this standard.

NZ IFRS 16 *Leases*. This standard will replace NZ IAS 17 Leases and requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. The standard is effective for the year ended 30 June 2019. The Company has not yet determined the potential impact of this standard.

### b. Revenue

Revenue is measured at the fair value of consideration received.

- **Services rendered**
  Revenue from services rendered is recognised in the statement of profit or loss and other comprehensive income 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 profit or loss and other comprehensive income as it accrues, using the effective interest method.

- **Insurance recoveries**
  Insurance recoveries are recognised in the statement of profit or loss and other comprehensive income when it becomes virtually certain that the recoveries are receivable.

- **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.

### c. 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 profit or loss and other comprehensive income using the effective interest rate method.

Interest payable on borrowings is recognised as an expense through the statement of profit or loss and other comprehensive income 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 & equipment where construction costs exceed $50 million and the construction is greater than two years in duration.

### d. 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 the statement of financial position 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.

## e. 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 k).

## f. 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.

## g. Financial assets

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

## h. 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.

## i. Property, plant & equipment

The buildings are shown at fair value less subsequent accumulated depreciation and impairment.

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 & 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 and other comprehensive income. 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 profit or loss and other comprehensive income 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 & 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 NZ IAS 36 *Impairment of 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 and other comprehensive income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

**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.

**j. 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.

**k. Impairment**

The carrying amounts of the Company's assets, other than inventories (see Inventories policy h) and deferred tax assets (see Income Tax policy d), 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.

## l. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the highest and best use of that asset.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows:

- Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period.

- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Where a specific valuation technique has been used it is described in the relevant note.

## m. Trade and other payables

Trade and other payables are stated at cost.

## n. 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 profit or loss and other comprehensive income over the period of the borrowings on an effective interest basis.

## o. 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 profit or loss and other comprehensive income as interest expense.

### Dividends

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

## p. 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 90 days 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.

## q. 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 profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of profit or loss and other comprehensive income as an integral part of the total lease expense.

## r. 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.

## s. Critical judgements, estimates and assumptions in applying the Company's accounting policies

Preparing financial statements to conform to NZ IFRS requires management 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 have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed 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.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying these accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements:

- Management are required to exercise judgement in calculating provisions for doubtful debts.

- Management can assess whether individual assets are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows are required. These judgements are required to determine and calculate the value in use and subsequent impairment for Horncastle Arena and the Town Hall work in progress asset.

- The deferred tax balance includes tax depreciation recoveries relating to demolished or soon to be demolished buildings that were damaged beyond repair as a result of the Christchurch earthquakes. The company is actively looking to acquire replacement assets with the intention of utilising these tax timing amounts. The calculation of deferred tax balances include assumptions on the tax treatment of the expenditure incurred in repairing the earthquake damaged Town Hall. In 2016 expenditure was treated as fully deductible due to there being equivalent insurance revenue. In 2017 the company adjusted for estimated amounts that will not be deductible in the future as there is no certainty what the temporary timing difference will be. As the project is in progress management does not consider it practicable to undertake an assessment of the tax treatment of these costs until construction is complete. The final deferred tax balance relating to the Town Hall will be determined once the repair has been completed.

- 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. As assets are revalued the estimate of remaining useful life is reviewed.

# DIRECTORY AND STATUTORY INFORMATION

| | |
|---|---|
| **Registered Office** | 53 Hereford Street<br>Christchurch |
| **Directors** | Timothy Scandrett<br>Paul Lonsdale<br>Paul Munro (appointed 10 March 2017)<br>Dr Karleen Edwards (resigned 21 June 2017)<br>Mary Richardson (resigned 10 March 2017) |
| **Bankers** | Westpac Bank<br>Christchurch |
| **Auditors** | Audit New Zealand on behalf of the Auditor-General<br>Christchurch |

**Directors' interests as at 30 June 2017**

The following Directors have made general disclosures of interest with respect to any transaction that may be entered into with certain organisations on the basis of them being a Director, Partner, Trustee or Officer of those organisations during the year:

| | | |
|---|---|---|
| Timothy Scandrett | Director | TPS Consulting Ltd |
| | Director | Civic Building Ltd (ceased 2 March 2017) |
| | Director | VBL One Ltd (appointed 24 March 2016) |
| | Director | ChristchurchNZ Ltd (appointed 30 June 2017) |
| | Director | ChristchurchNZ Holdings Ltd (formerly Transition Holdings Ltd) (appointed 8 December 2016) |
| | Councillor | Christchurch City Council |
| Paul Lonsdale | Director | Akaroa Properties 1992 Ltd |
| | Director | Civic Building Ltd (ceased 2 March 2017) |
| | Director | Canterbury Development Corporation (ceased 8 January 2017) |
| | Director | Canterbury Development Corporation Holdings Ltd (ceased 8 January 2017) |
| | Director | CRIS Ltd (ceased 22 June 2016) |
| | Director | ARC COM Ltd (appointed 19 December 2016) |
| | Director | Ōtautahi Community Housing Development GP Ltd (appointed 30 January 2017) |
| | Director | MainStreet Management Ltd (appointed 7 April 2017)<br>Zachery Partnership |
| | Trustee | Canterbury Museum Trust Board (ceased 13 March 2017) |
| | Trustee | Ōtautahi Community Housing Trust (appointed 19 February 2016) |
| | Partner | Zachery Partnership |
| | Councillor | Christchurch City Council (ceased 8 October 2016) |
| Paul Munro | Director | CCHL (2) Ltd |
| | Director | CCHL (4) Ltd |
| | Director | CCHL (5) Ltd |
| | Director | Christchurch City Networks Ltd |
| | Director | Electricity Ashburton Ltd |
| | Director | Central Plains Water Ltd |
| | Director | Versatile Properties Ltd |
| | Director | Versatile Australia Holdings Ltd |
| | Director | Spanbild New Zealand Ltd |
| | Director | Spanbild Holdings Ltd |
| | Director | Portabuild (2007) Ltd |

| | | |
|---|---|---|
| Paul Munro (cont'd) | Advisory Board Member | University of Canterbury Students Association |
| | Chief Executive | Christchurch City Holdings Ltd |

## DIRECTORS INSURANCE

The Company has directors' liability insurance for all directors. Premiums to the value of $23,500 were paid in the 2017 year (2016: $23,500).

## REMUNERATION OF DIRECTORS

Aside from directors' insurance total remuneration and other benefits paid or due and payable to directors for services as a director during the year was nil (2016: nil).

## USE OF COMPANY INFORMATION

During the year the Board received no notices from members or directors of the Company requesting to use company information received in their capacity as members or directors which would not otherwise have been available to them.

## DONATIONS

No donations were made by the Company during the year (2016: nil).

## DIVIDENDS

There have been no dividends declared for the 2016/17 financial year (2015/16: nil).

## EMPLOYEES' REMUNERATION

Effective 1 August 2011 all Company employees were transferred to the Council hence there were no employees in the Company during 2017 (2016: nil).

## AUDITORS

The Office of the Auditor-General is appointed as auditor under Section 14 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services.

## SHAREHOLDER

The Christchurch City Council is a 100% shareholder of the Company. The composition of the shareholding is:

| | |
|---|---|
| Ordinary shares | 100,136,204 |
| Redeemable preference shares – equity | 89,500,000 |

# Independent Auditor's Report

## To the readers of Vbase Limited's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of Vbase Limited (the company). The Auditor-General has appointed me, Andy Burns, 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.

We have audited:

- the financial statements of the company on pages 6 to 9 and 14 to 37, that comprise the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 10 to 13.

## Qualified Opinion – Our work was limited in respect of deferred tax

In our opinion, except for the matter described in the *Basis for our qualified opinion* section of our report:

- the financial statements of the company on pages 6 to 9 and 14 to 37:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.
- the performance information of the company on pages 10 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 2017.

Our audit was completed on 29 September 2017. This is the date at which our opinion is expressed.

The basis for our qualified opinion is explained below. In addition, we draw your attention to the for-profit designation and the future business structure of the company, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

## Basis for our qualified opinion

As disclosed in Note 22(s) on page 37, the calculation of deferred tax balances include assumptions on the tax treatment of the expenditure incurred in repairing the earthquake damaged Town Hall. This is because the repairs are in progress and management do not consider it practicable to undertake an accurate assessment of the tax treatment of these costs until construction is complete. We have been unable to obtain sufficient appropriate audit evidence to support these assumptions made in calculating deferred tax, which affects the calculation of the deferred tax asset balance of $15.33 million. As there are no practicable audit procedures that we can carry out to confirm the deferred tax asset balance as at 30 June 2017 and the related income tax effects for the year ended 30 June 2017, the scope of our audit was limited.

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 qualified opinion.

**For-profit designation and the future business structure of the company**

Without further modifying our opinion, we draw your attention to the reporting entity section of Note 22 on page 32 which notes the basis for the Board of Directors designating the company as a for-profit entity rather than a public benefit entity. This designation determines the accounting treatment that is applied in order to calculate the carrying values of the company's assets, as disclosed in Note 8 on page 21.

The company is discussing with its parent, the Christchurch City Council, options for the future business structure of the company. Any changes to the business structure and operations of the company may affect the for-profit designation of the company in the future and the accounting treatment of the company's assets.

On balance we accept the for-profit designation under generally accepted accounting practice, although it results in impairment of assets which provide value to the community. The effects of the designation on the carrying value of the Horncastle Arena and the Town Hall are explained in more detail in the Business and Financial overview section of the Annual Report on page 5.

## 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 statement of service performance for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

## Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the statement of service performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 5 and 38 and 39, 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 statement of service 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.

As described in the *Basis for our qualified opinion* section above, we were unable to obtain sufficient appropriate evidence about the deferred tax asset balance as at 30 June 2017 and the related income tax effects for the year ended 30 June 2017. Accordingly, we are unable to conclude whether or not the net deficit after tax of $40.2 million for the year ended 30 June 2017 disclosed on page 5 is materially misstated with respect to this matter.

## 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(Revised): 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.

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