

VBASE LIMITED

STATEMENT

OF INTENT

Year Ending 30 June 2020



Horncastle ARENA  +  HAGLEY OVAL +  CHRISTCHURCH TOWN HALL +  AIR FORCE MUSEUM of New Zealand +  Christchurch Stadium

Make life more eventful.

vbase 

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1.0 INTRODUCTION

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

The SOI specifies the objectives, nature and scope of the activities to be undertaken by Vbase, and the performance targets and other measures by which the performance of the company may be judged. It covers the three financial years ending 30 June 2020, 2021 and 2022.

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

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

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

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

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

This agreement with Council will expire on 30 June 2019 but is likely to be extended for a short period of time while Council and Vbase work together to transition the company to directly managing its own business operations once more.

2.0 TRANSITION

It is expected that the organisation will go through a significant change in its operating structure in the first half of 2020 financial year.

It is the intention to split the Company into two Council-controlled organisations each with its own specified area of expertise.

The new Vbase event management company will continue to focus on the delivery and management of large events including but not limited to conferences, domestic and international sports events, expos and local and international shows and concerts, within the major venues it manages.

The new facility company will focus on the asset management and operation of the properties it owns including the refurbished Christchurch Town Hall and Horncastle Arena or may own in the future.

This SOI represents the current business structure model and does not incorporate any costs associated with the future transition of Vbase into two separate council controlled entities.

3.0 DIRECTORY

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

4.0 OBJECTIVES

4.1 VISION AND VALUES

OUR STORY

We are memory makers.

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

Because when we succeed, Christchurch succeeds.

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

VISION

We make life more eventful.

VALUES

At Vbase we live by five key values:

Act as One

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

Bring the Energy

Love what you do. Energy is inspiring and infectious.

Explore New Ways

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

Show the Respect

People always remember how you make them feel.

Own the Experience

Deliver with pride and be the best.

4.2 OUR CURRENT VENUE PORTFOLIO

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

4.3 THREE YEAR OBJECTIVES

BUSINESS MODEL

As indicated earlier in this document, this SOI has been created to cover a period of transition in which it is expected that Vbase will split into two separate council-controlled entities. Each of these two new entities will require the creation of separate individual Statement of Intent's that will specify the objectives, nature and scope of the activities to be undertaken by each organisation, and the performance targets and other measures by which the performance of the companies may be judged. For this reason, this SOI has not been written with the normal three-year objectives in mind.

PERFORMANCE METRICS

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

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

COMMUNITY OUTCOMES

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

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

- Attracting events to the city will support a **strong sense of community** and an **active participation in civic life**. By attracting and delivering a mixture of events this will support the people of Christchurch in **celebrating our identity through arts, culture, heritage and sport**
- The events that Vbase acquires and delivers add to a **vibrant and central city, suburban and rural areas** by bringing people into Christchurch from far and wide for events, which also supports a **great place for people, business and investment**.
- Vbase will support the ongoing development of great venue infrastructure, which combined with quality events, will provide a **21st century garden city that we are proud to live in** as well as **modern and robust city infrastructure and community facilities**.
- Vbase has strong health, safety and wellbeing programmes and resources in place for not only our staff, but our contractors and suppliers as well as our guests. This will support **safe and healthy communities**.
- The environment is important to Vbase, and we have a number of environmental initiatives such as the minimisation of waste. Across the business Vbase continues to look at ways to improve sustainability and also encourages our contractors and suppliers to do the same. Our efforts therefore support the **sustainable use of resources**.

VALUE FOR MONEY

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

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

RELATIONSHIP WITH CHRISTCHURCHNZ

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

Our two organisations need to be aligned in our activities and work closely together and that has already happened in developing the Christchurch Major Events Strategy and on events like international cricket, Phil Collins concert, and the Manly versus Warriors NRL match at the Christchurch Stadium.

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

COMMERCIAL PARTNERSHIPS

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

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

5.0 NATURE AND SCOPE OF ACTIVITIES

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

- venue management; and
- event management services.

Vbase undertakes these functions based on the following:

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

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

5.1 VENUE MANAGEMENT

HORNCASTLE ARENA

This venue is owned by Vbase and is used for large scale entertainment, cultural, exhibition and sporting events.

AIR FORCE MUSEUM

In February 2013 Vbase entered into a Management Services Agreement with Air Force Museum for the acquisition and management of events at this facility. The original agreement ended in January 2016, however renewals have been negotiated with the RNZAF Museum Trust Board which sees the agreement extended until December 2019. A further extension is being negotiated to further extend the agreement out to coincide with the opening of Te Pae, the Christchurch Convention Centre. The completion date is expected to be in the latter half of 2020.

CHRISTCHURCH TOWN HALL

After an extensive refurbishment over the last 3 years, the iconic Christchurch Town Hall is now back in operation following an official civic opening on Feb 23rd 2019. Due to the complexity of the repair project and the addition of the dedicated CSO block midway through the project, the venue is being opened in several stages throughout 2019, starting with the Douglas Lilburn Auditorium, main Foyer and Limes, Avon and Victoria function rooms. Additional spaces such as the James Hay Theatre, kitchens and CSO block will be completed subsequently.

The first ticketed event back in the Town Hall was a collaboration between the Christchurch Symphony Orchestra and Shapeshifter on March 1st and there is already an extensive and varied calendar of events scheduled for the venue throughout 2019 and beyond.

A key consideration in reopening the Town Hall is to continue to ensure that this venue continues to support a diverse range of community and civic use such as graduation and citizenship ceremonies through the provision of differentiated pricing options.

Additionally, consideration will need to be given at the completion of the project of the need to provide ongoing opportunities for public access to the Town Hall when it is not in use for booked events.

CHRISTCHURCH STADIUM

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

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

HADLEE PAVILION, HAGLEY OVAL

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

5.2 EVENT MANAGEMENT

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



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

5.3 CONTRIBUTION TO REBUILD

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

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

5.4 COMMUNITY SUPPORT

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

VENUE DISCOUNTS

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

The venue rental discounts allow community groups to access venues they would not otherwise be able to afford. It is proposed that for the 2020 financial year and beyond that Vbase provides annual community discounts of \$100,000 to groups meeting the criteria that is set by Vbase.

The re-opening of the Town Hall means that Vbase has a venue that can almost solely accommodate all community type events that are booked through Vbase and as such community discounts will not apply at the Arena for these events.

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

SPONSORSHIPS

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

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

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

6.0 GOVERNANCE

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

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

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

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

7.0 PERFORMANCE TARGETS

7.1 FINANCIAL PERFORMANCE TARGETS

It is acknowledged that assets such as town halls, entertainment and sporting arenas, and stadia do not provide a normal commercial level of return on the value of the assets.

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

The financial performance targets for Vbase are as follows:

	2019/20	2020/21	2021/22
	\$000	\$000	\$000
Direct operating income	17,587	17,019	16,763
Grant revenue received from Council	3,250	2,500	2,500
Less: Direct operating expenses	14,182	13,275	12,994
Less: Net operating overheads and fixed costs	7,614	8,000	8,139
EBITDA	(959)	(1,756)	(1,870)
Net profit / (deficit) after tax	(13,440)	(5,987)	(5,988)

RATIO OF SHAREHOLDER FUNDS TO TOTAL ASSETS

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

	2019/20	2020/21	2021/22
Percentage	85%	81%	81%

FORECAST CAPITAL STRUCTURE

The forecast capital structure for the next three years is:

	2019/20	2020/21	2021/22
	\$000	\$000	\$000
Issued shares and other equity instruments	246,436	246,436	246,436
Debt	14,485	14,485	14,485
Total Assets	216,178	209,626	203,160

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

GRANTS RECEIVED FROM COUNCIL

The following grants are forecast to be made by Council to Vbase.

	2019/20	2020/21	2021/22
	\$000	\$000	\$000
Grant revenue received from Council	3,250	2,500	2,500

The forecast grants are to fund the operating deficits, capital expense and debt interest requirements of the Company.

FACILITIES REBUILD

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

	2019/20	2020/21	2021/22
	\$000	\$000	\$000
Facilities rebuild/repair			
Town Hall repairs	2,000	-	-
Arena	2,400	700	1,000
	4,400	700	1,000

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

7.2 OPERATIONAL PERFORMANCE TARGETS

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

EVENT MANAGEMENT			
OBJECTIVE AND STRATEGY	PERFORMANCE MEASURE		
	2019/2020	2020/2021	2021/2022
1. Health and Safety - Vbase will be a safe place to work and visit			
Provide leadership, policies and practices to clients, contractors and sub-contractors	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions	100% completion of H&S inductions for contractors working at Vbase venues 100% correction of identified sub-standard practices or conditions
Continue to improve health and safety processes	Annual health and safety audit completed	Annual health and safety audit completed	Annual health and safety audit completed
Minimise the total recordable injury frequency rate (TRIFR) for employees - based on 200,00 hrs worked	Annual employee TRIFR less than 11	Annual employee TRIFR less than 10	Annual employee TRIFR less than 10
2. Venue Utilisation			
High utilisation of the Arena	At least 70 event days are delivered at the Arena	At least 70 event days are delivered at the Arena	At least 70 event days are delivered at the Arena
Attract events at the Christchurch Stadium outside of the standard Super 15 and provincial rugby fixtures	At least 1 major event is delivered at the Christchurch Stadium	At least 1 major event is delivered at the Christchurch Stadium	At least 1 major event is delivered at the Christchurch Stadium
High utilisation of Air Force Museum	At least 63 events are delivered at Air Force Museum	At least 21 events are delivered at Air Force Museum*	N/A*
High utilisation of Hagley Oval Pavilion within the constraints of use	At least 50 event days are delivered at Hagley Oval Pavilion	At least 50 event days are delivered at Hagley Oval Pavilion	At least 50 event days are delivered at Hagley Oval Pavilion
High utilisation of the Christchurch Town Hall for Performing Arts	At least 117 events are delivered at the Town Hall	At least 180 events are delivered at the Town Hall	At least 180 events are delivered at the Town Hall

* The management contract with Air Force Museum expires in December 2019 with negotiations ongoing with the aim of extending the expiry date to coincide with the November 2020 opening of Te Pae, the Christchurch Convention Centre.

EVENT MANAGEMENT			
OBJECTIVE AND STRATEGY	PERFORMANCE MEASURE		
	2019/2020	2020/2021	2021/2022
3. Deliver Outstanding Service Delivery			
Event Owner (Client) satisfaction	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year	Minimum 50 surveys completed during the year Achieve greater than 85% satisfaction during the year
Event Customer (Guest) satisfaction	Minimum 1,000 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year	Minimum 1,000 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year	Minimum 1,000 guests surveyed throughout the year Achieve greater than 85% satisfaction during the year
4. Community Benefit			
Facilitate access to venues for local community and charitable organisations	Total venue discounts equal \$100,000	Total venue discounts equal \$100,000	Total venue discounts equal \$100,000
Secure events that bring visitors to the city to generate positive economic impact	To measure key events throughout the year using the 'Event Economics' tool utilising in order to prepare a baseline for future economic benefit estimates	Implement the methodology established to measure the annual estimated economic impact of events	Improve the annual estimated economic impact of events by 2%
Secure events that will encourage high usage of the venues	Visitors to venues exceed 550,000	Visitors to venues exceed 600,000	Visitors to venues exceed 600,000
5. Environmental Considerations			
Ensure recycling of waste is undertaken at events	Recycling undertaken at 97% of events	Recycling undertaken at 97.5% of events	Recycling undertaken at 97.5% of events
Minimise the amount of general waste at the Arena	28% of waste by weight is recycled	29% of waste by weight is recycled	29% of waste by weight is recycled

FACILITY MANAGEMENT			
OBJECTIVE AND STRATEGY	PERFORMANCE MEASURE		
	2019/2020	2020/2021	2021/2022
1. Facility operation			
Ensure an asset management plan (AMP) is in place for each venue.	An AMP is in place for all venues.	An AMP is in place for all venues.	An AMP is in place for all venues.
Ensure assets are maintained at a suitable level for general use at all venues.	The AMP is reviewed and updated annually, and asset maintenance is compliant with the AMP timetable.	The AMP is reviewed and updated annually, and asset maintenance is compliant with the AMP timetable.	The AMP is reviewed and updated annually, and asset maintenance is compliant with the AMP timetable.
2. Financial			
Ensure funding is in place to implement AMP.	Funding is in place to implement AMP.	Funding is in place to implement AMP.	Funding is in place to implement AMP.
Ensure debt repayment program is in place.	Ensure debt repayment program is in place and reviewed annually.	Ensure debt repayment program is in place and reviewed annually.	Ensure debt repayment program is in place and reviewed annually.

8.0 ACCOUNTING POLICIES

Vbase is considered to be a Public Benefit Entity (PBE) for the purposes of the New Zealand Accounting Standards Framework.

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

9.0 DISTRIBUTIONS

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

10.0 INFORMATION TO BE REPORTED TO THE SHAREHOLDER

NO SURPRISES

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

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

LOCAL GOVERNMENT ACT 2002 REPORTING REQUIREMENTS

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

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

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

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

OTHER REPORTING

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

11.0 ACQUISITION/DIVESTMENT AND OTHER SIGNIFICANT TRANSACTIONS POLICY

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

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

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

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

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

12.0 COMPENSATION SOUGHT FROM COUNCIL

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

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

Currently Vbase has entered into a number of arrangements which originated immediately post-earthquake to provide stadium and alternative conference facilities until the new conference centre and multi-use arena are built. These arrangements do not provide Vbase a normal commercial return. The provision of these services allows events to be held in the city which provide a significant economic benefit to the city and region. The cost of Vbase of these arrangements is estimated below:

Christchurch Stadium	\$0.44 million per annum
Community Discount	\$0.10 million per annum
Total	\$0.54 million per annum

It is acknowledged that assets such as town halls, entertainment and sporting arenas, and stadia do not provide a normal commercial level of return on the value of the asset and as such operating funds are sort from Council.

The SOI contains the following financial support by the Shareholder:

	2020	2021	2022
Operating/capital grant	\$3.25 million	\$2.5 million	\$2.5 million

13.0 ESTIMATE OF COMMERCIAL VALUE

The Shareholder has recorded the value of its investment in Vbase Ltd in its accounts at 30 June 2018 as \$143.1 million and this is considered an appropriate estimation of the commercial value of the Company.

14.0 APPENDIX 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. STATEMENT OF COMPLIANCE

The financial statements of Vbase Limited (the 'Company') have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with Tier 1 Public Benefit Entity Accounting (PBE) Standards.

2. BASIS OF FINANCIAL STATEMENT PREPARATION

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

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

As a result of the new accounting standards it will follow various PBE External Reporting Board, International Public Sector Accounting Standards Board, International Financial Reporting, International Accounting and Financial Reporting standards (IPSAS, IFRS, IAS and FRS) that have effective dates of 1 July 2019.

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

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

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

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

3. FINANCIAL ASSETS

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

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

At year-end, the assets are assessed for indicators of impairment. Impairment is established when there is evidence that the Company will not be able to collect amounts due according to the original terms of the receivable. An impairment loss is recognised whenever the carrying amount of the receivable exceeds its recoverable amount.

Trade and other receivables are categorised in the financial statements as either exchange or non-exchange trade and other receivables.

Trade and other receivables from exchange transactions

Trade and other receivables from exchange revenue transactions arises where the Company provides goods or services to another entity and directly receives approximately equal value (primarily in the form of cash) in exchange.

Trade and other receivables from non-exchange transactions

Trade and other receivables from non-exchange revenue transactions arises from transactions that are not exchange transactions. These are transactions where the Company receives value from another party without giving approximately equal value directly in exchange for the value received.

5. INVENTORIES

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

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

6. CASH AND CASH EQUIVALENTS

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

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following asset classes: buildings, work in progress assets, and plant and equipment.

Revaluations

The buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Valuations are performed with sufficient regularity, but at least every 3 years, to ensure revalued assets are carried at a value that is not materially different from fair value.

The Company accounts for revaluations of property, plant and equipment on a class of asset basis. The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in

other comprehensive revenue and expense. 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.

Additions

The cost of an item of property, plant and equipment 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. Work in progress is recognised at cost.

In most instances, an item of property, plant, and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Subsequent costs

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 net surplus or deficit during the financial period in which they are incurred.

Disposals

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

Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The useful lives associated depreciation rates or major classes of property, plant and equipment have been estimated as follows:

Building shell fit-out	25-85 years (1% to 4%)
Furniture, fittings, plant & equipment	1-17 years (6% to 100%)
Work in progress assets	Not depreciated

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

Impairment of property, plant and equipment

Assets are considered cash-generating where their primary objective is to generate a commercial return.

The buildings, excluding WIP asset balances are classified as non-cash generating assets. Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash-generating assets, value in use is determined using the optimised depreciable replacement cost (ODRC) approach.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount in accordance with the requirements of PBE IPSAS 21 – *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 - *Impairment of Cash-Generating Assets*. For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss on a revalued asset is credited to other comprehensive revenue and expense and increases the asset revaluation reserve for that class of asset. However, to the extent that an impairment loss for that class of asset was previously recognised in the surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit. For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in the surplus or deficit.

8. DISTINCTION BETWEEN CAPITAL AND REVENUE EXPENDITURE

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

9. INTANGIBLE ASSETS

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

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

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

10. TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

11. SHARE CAPITAL

Ordinary share capital

Ordinary shares are classified as equity.

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

Preference share capital

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

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

Dividends

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

12. INTEREST-BEARING BORROWINGS

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

13. 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.

14. OPERATING LEASES

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

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

15. REVENUE

Revenue may be derived from either exchange or non-exchange transactions.

Revenue from exchange transactions

Revenue from exchange transactions arises where the Company provides goods or services to another entity and directly receives approximately equal value (primarily in the form of cash) in exchange.

Revenue from non-exchange transactions

Revenue from non-exchange transactions arises from transactions that are not exchange transactions. These are transactions where the Company receives value from another party without giving approximately equal value directly in exchange for the value received.

Revenue is measured at the fair value of consideration received and comprises the following:

- **Services rendered**
Revenue from services rendered is recognised in the net surplus or deficit in proportion to the stage of completion of the transaction at the statement of financial position date. Amounts received in advance for services to be provided in future periods, determined by reference to the stage-of-completion of the contract, are recognised as a liability until such time as the service is provided if there are remaining substantive obligations to be met.
- **Interest revenue**
Interest revenue is recognised in the net surplus or deficit as it accrues, using the effective interest method.
- **Other revenue**
Other revenue includes rental and naming rights revenue and revenue from reversing previously held capital retention provisions.

16. 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 net surplus or deficit using the effective interest rate method.

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

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

17. INCOME TAX

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

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

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

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

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

18. 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.