Citycare Group

Annual Report 2017

Message from the CEO, Citycare Group

Moving into an exciting new era for Citycare Group.

Whilst this Annual Report necessarily highlights the 2016/2017 financial year, Citycare Group is also delighted to use this opportunity to showcase and socialise our recent change to move to a sector-led structure for the business with an associated brand uplift.

We are confident that moving to a sector-led model presents a significant and immediate opportunity to lift ourselves out of the pack: to become more agile and more relevant; under a structure that is a better reflection of customer procurement trends.

The new structure will also provide us with a platform that positions us better for future growth in our key market sectors.

The three new sector businesses are as follows:

Citycare Water

Undertaking construction and maintenance for water, wastewater and stormwater networks, with a focus on smarter management and optimisation of water sector infrastructure assets.

Citycare Property

Encompassing end-to-end construction and maintenance of public and private building and greenspace facilities.

Citycare Civil

Focusing on national construction and maintenance opportunities in roading, landscapes and subdivisions.

We are confident that this transformational change of our business will deepen and extend our customer relationships and present the opportunity to better mine the nuggets of best practice and innovation that exist within the business whilst further developing our Corporate Social Responsibility capacity.

Onno Mulder
Chief Executive

Parting words from a proud Chairman

"As this is my last year on the Board of Citycare, I would reflect that in the twelve years...

...that I have been part of the Citycare team I have seen the Company grow from an annual turnover of less than $100m to a turnover in excess of $300m, with average earnings rising proportionately. Employees have grown from 800 to over 1400 and Citycare's geographic scale has grown to a point where it is now a truly national company and a recognised leader in infrastructure maintenance.

The company has successfully faced many challenges in those twelve years but none more significant than its response to the Christchurch earthquakes when Citycare was at the heart of the earthquake recovery in Christchurch, both with its immediate emergency response ensuring essential services were quickly restored to the citizens of Christchurch, and in the subsequent long term infrastructure rebuild. The way our staff worked tirelessly to deliver services, especially in the immediate aftermath was truly "above and beyond".

I would like to acknowledge my fellow Board members, past and present, for the diligence and skill that they have brought to the Board table and the exemplary way they have contributed to the governance and strategy of the company in a collegial, trusting, wise and respectful way. I would also acknowledge the people of Citycare; the growth of the company has been as a result of their huge endeavour, executed in a way that is respectful of the values of both the company and the communities that they serve. Citycare has been and continues to be extremely well served by its people. It has been a privilege and a pleasure to work with the people of Citycare.

I sign off knowing that the company is poised to build on the successes of the past with an exciting new strategic plan that takes the best of the past, leveraged with new and exciting strategic initiatives. I wish the company and everyone involved every success."

Hugh Martyn
Chairman, 2014-2017

Citycare Group

What's Inside

Pages 1 – 28 of this report
While every effort has been taken to present accurate information, the base data and qualitative statements located in pages 1 – 28 of this document have not been externally audited and are not addressed in Audit New Zealand's report on our financial statements.

Chairman and CEO 2017 Year in Review

A quick look at the figures

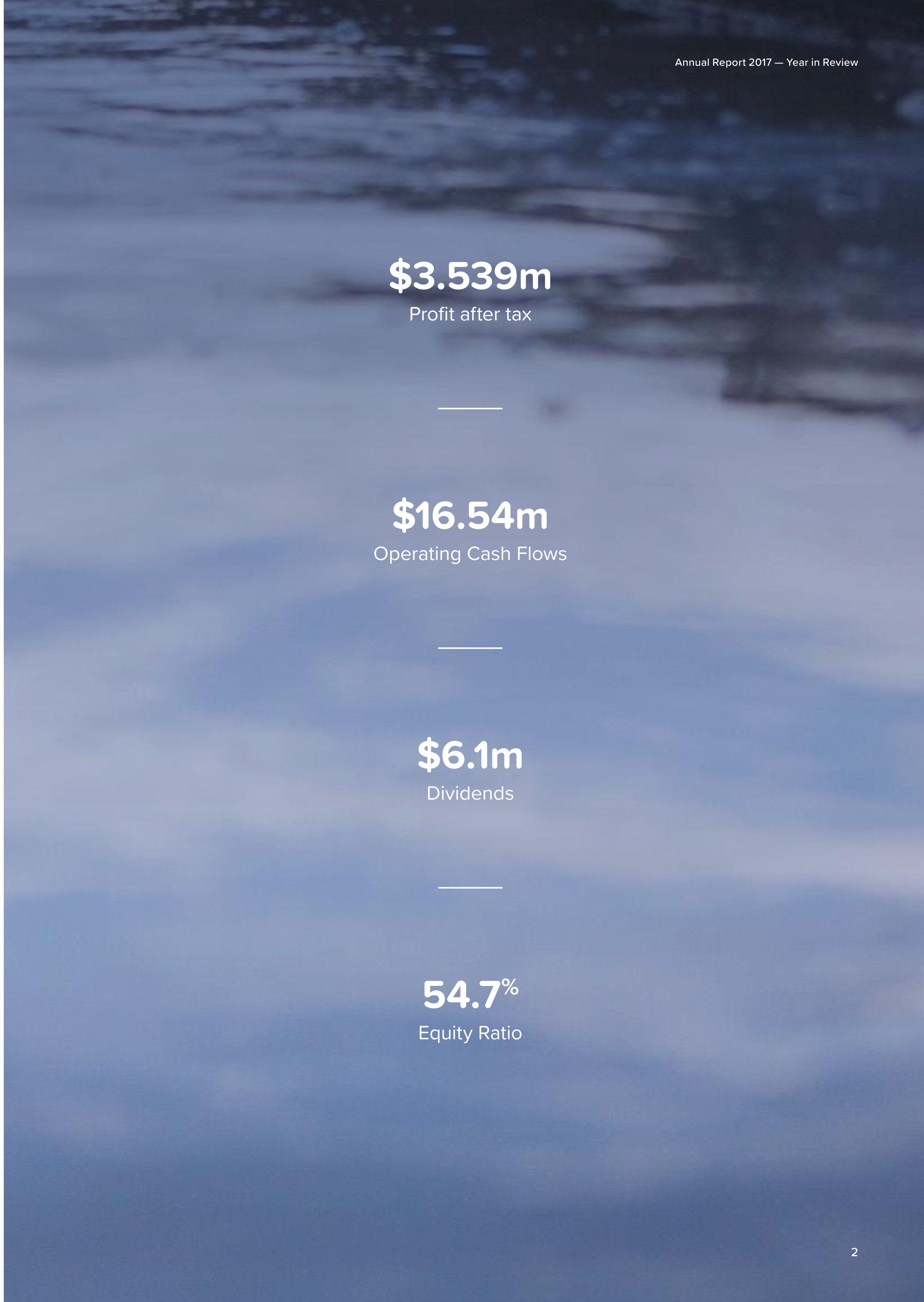
The industry-wide tightening of the construction market, in conjunction with delays in significant projects expected to come to market, as well as the company choosing not to make an acquisition whilst it was involved in a sale process, all had an adverse effect on FY17 performance. The Citycare Group result was also impacted by the need to make provisions relating to both an ongoing Holiday Pay audit and the finalising of the SCIRT pain position. Revenues at $303.547m, nearly $30m down on SOI* target, producing a Net Profit After Tax of $3.539m which was $4.9m down on target.

Robust financial management meant that Citycare Group has still been able to achieve strong operating cash flows of $16.54m and to pay solid dividends of $6.1m, well in excess of NPAT, to its shareholder Christchurch City Holdings Ltd.

The strong cash flow also enabled the company to support both its regular national annual capital expenditure and the additional capital investment required in readiness for the significant new full facilities management contract with Auckland Council.

These various cash outflows were delivered without exceeding the company's targeted debt position. In spite of a lower than targeted return on average equity, as a result of the lower than budgeted NPAT, Citycare Group's 54.7% equity ratio was close to its forecast and in line with the 56% equity ratio of FY16.

*Citycare Group's Statement of Intent (SOI) sets out the company's financial, operational, social and environmental targets. These targets form the foundation of the company's strategic direction and are used to measure success. Full details of these targets and the performances against them can be found in the Financial Statements accompanying this document.



$3.539m
Profit after tax

$16.54m
Operating Cash Flows

$6.1m
Dividends

54.7%
Equity Ratio

Encouraging signs from our customers and employees

We are pleased to report that even in a year of change and with the legacy of a prospective sale of Citycare Group impacting the business, that both our customer and employees' satisfaction ratings were maintained.

This year's Customer Satisfaction Survey delivered a 70% client satisfaction rating (identical to the FY16 rating), showing that overall our customers are satisfied with their relationships with Citycare. The challenge now is to demonstrably shift the dial and truly demonstrate through FY18 our effectiveness in collaboration, recognising the growing innovation and social procurement goals of many of our customers.

Similarly, our staff satisfaction ratings for FY17 – as measured through the annual, end of year staff engagement survey – came in at 80%, as compared with 77% for FY16 and 74% for FY15. This is a pleasing result in the context of the year that was. This figure may well reflect the positive reception to our recent structural change and associated re-brand, as well as a keen interest in the new Auckland contract.

As part of the re-energising of the business we have refreshed and refined the Citycare values, honing in on three integral values:

We Discover.

We Deliver.

We Care.

We Discover.

Innovation has a key role to play in the Citycare business going forwards. Whilst FY17 has seen us continue to lay solid foundations through our use of advanced 24/7 field service technologies, FY18 presents a significant opportunity to step up our game even further.

As one example, Citycare has an existing strategic asset in its national view of asset data management and asset analytics. This provides the opportunity to deliver new and valuable asset management practices to our clients.

Citycare is wholly focused on the development and deployment of innovation to enhance the services we provide to our clients. We see that the future in this competitive market will be owned by those who practise thought leadership and innovation.

We Deliver.

Our ability to deliver both day to day and on innovation were key to Citycare Property being awarded one of Auckland Council's new five-year term, Full Facilities Maintenance contracts for the maintenance and management of all community-owned Facilities and Parks in Auckland South. When announcing the new contracts and their selected suppliers, Auckland Council made it clear that identifying innovative partners who could be relied on to deliver was a key part of its four month long procurement process.

The drivers for this procurement process align directly with Citycare's new business strategy, with the capacity to 'bundle' services together and utilise innovation and technology solutions to drive efficiency and give tangible client benefits. The size of this new contract also now gives Citycare greater scale and national presence than ever before. With Water, Property and Civil contracts in all major metro areas, we are delighted that Citycare Group is increasingly becoming recognised as the beating heart that consistently delivers the services that keep communities around the country functioning 24/7.

We Care.

This value talks directly to another foundation of the Citycare business, that has been built over several years and was further reinforced during FY17: Citycare's genuine passion and care for the communities in which we operate.

When the Port Hills fires encroached the borders of Christchurch city, Citycare once again demonstrated our local community involvement and empathy, with a number of team members seconded to the Fire Service to help battle the blazes.

Throughout the year, our deep community connections continued to be showcased through a number of collaborative community initiatives up and down the country, from regeneration projects in Wellington, to Social Housing support initiatives and various worker-bees with the University of Canterbury's Student Volunteer Army (SVA).

A significant attribute weighting related to Citycare being awarded the above-mentioned Auckland Council contract, talked to the capacity of the successful contractor to demonstrate workforce diversity and an investment in the communities it serves.

To this end, Citycare Group's renewed vision for FY18 builds on that strong commitment to building great communities, with an additional future-looking flavour and a re-invigorated appetite to leverage our presence and the community-integrated DNA of our people to even greater effect during FY18 through: **Building Great Communities, Today for Tomorrow.**

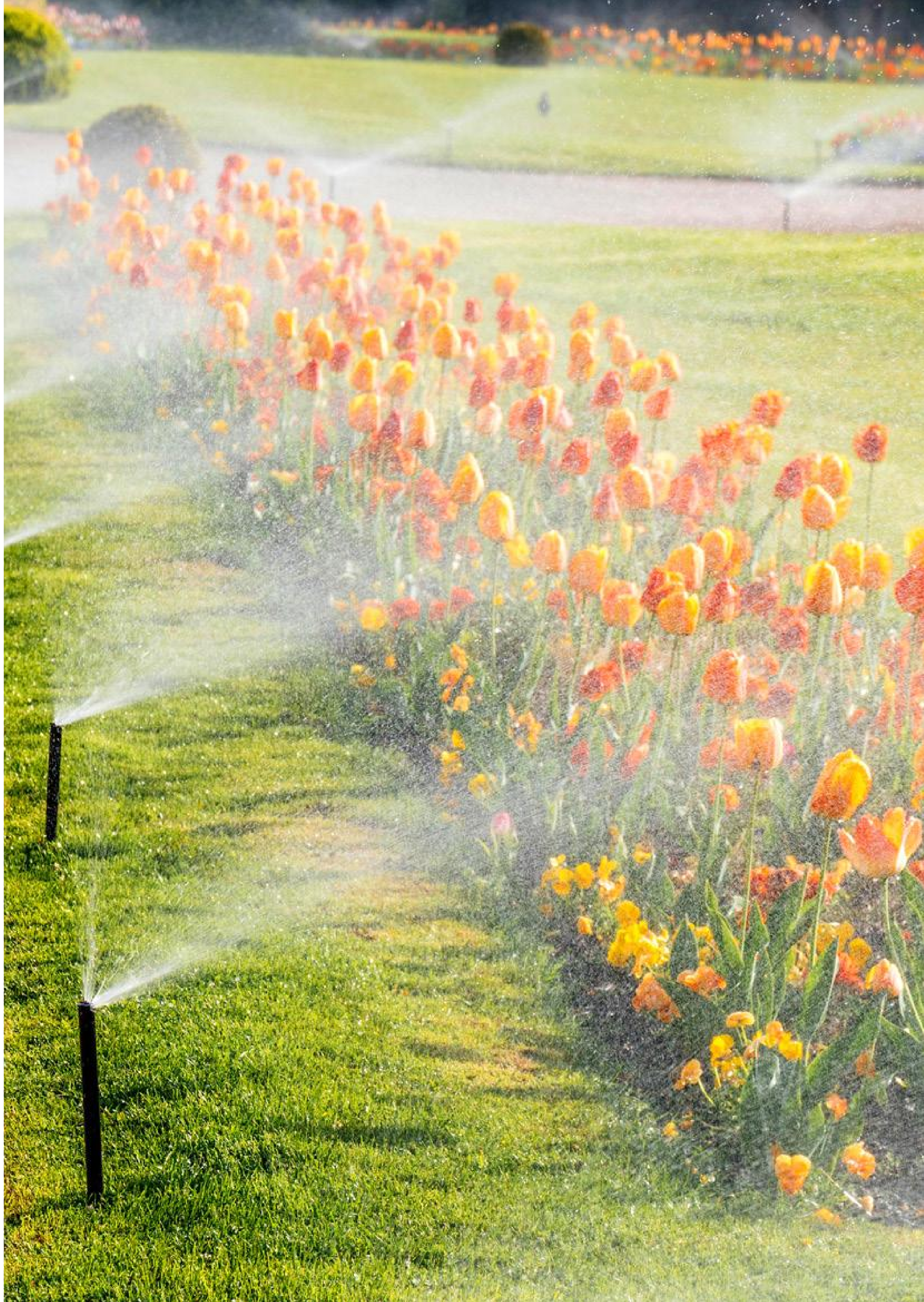
Image Courtesy Fairfax Media NZ / The Press

A word on Safety

Citycare's focus on the safety of our people, and those who work with and around us, continues to be the single most important dynamic of our business.

We use the word 'dynamic' deliberately because robust safety management demands a dynamic approach to constantly optimising our safety systems and processes to maintain staff engagement and understanding of them.

To this end, Citycare Group continues to place the highest levels of attention to driving a 100% safe workplace culture and positively benchmarks our performance against similar organisations through active participation in the Business Leaders' Health & Safety Forum.



Bright Future

Looking at this FY17 year in review, it is fair to say that during the first half of the year we were operating in a 'business as usual' mode whilst the sale process was worked through.

The second half of the year has been utilised in bringing together an exciting plan for the business, which has at its core a strategy for future growth, predicated on re-energising and re-branding our business, spear-headed by a new sector-led business model.

We would like to take this opportunity to thank all of our people for their support and hard work during FY17, as we now focus on our strategic goals and deliverables for the year ahead, which we are confident will see us again deliver the profitable growth we have achieved in the past.

Hugh Martyn
Chairman

Onno Mulder
CEO

Health and Safety

The need for a strong Safety culture remains as a spine across the entire Citycare business and this is reflected by a particularly successful and progressive focus on visible safety leadership during FY17. This has included weekly site visits by Operations Managers, supported by at least two visits a month from each member of the Citycare Executive Team and three visits a year by each Board member, focusing on safety conversations and application of risk management.

2,200

Safety interactions

750

High-risk checks

200

Site visits by Executive Team and Board

Citycare's membership of the ACC Accredited Employer Programme at tertiary level also continued to provide significant benefits to our employees and the business, with the third consecutive year of reductions in claims and injury costs. Building on this framework, coupled with ISO certification against NZS4801, Citycare intends to continue its progressive development of injury prevention health systems and adoption of lead indicators to develop and reinforce safe behaviours and attitudes.

Safety Communications will continue to be generated centrally and driven across the three new business Sectors to ensure consistency of our safety messaging. The ultimate aim continues on delivering a 100% safe working environment, through:

- Strengthening and enhancing our visible safety leadership
- Fundamental risk management
- Promoting the health and wellness of our people
- Constantly developing our best-in-class systems and assurance

Key HSE activities for FY17 included:

Increased focus on Job Safety and Environmental Analysis (JSEA) completion, for all high-risk and group work, with a desire that they now be handwritten on the day with all members of the work team contributing, to drive greater engagement in the process.

Increased use of the Take 5 Hazard IDs for lower risk and repetitive work, to ensure that every person undertaking hazardous work is involved in identification of risk and application of controls before work starts.

Improvements to the Citycare Risk Management programme, including the implementation of an enhanced Permit to Work system for highest risk activities.

Specific targeting of high-risk service strikes (e.g. electricity and gas reticulation) with the aim of de-risking the several thousand services crossed each month.

Successful implementation of an improved Contractor Health and Safety Management system, ensuring contractors are appropriately prequalified by external specialist organisations, e.g. IMPAC (Prequal) or Site Safe (SiteWise).

Project Highlight
Victoria Square

Social
Our People

Citycare has always placed a passionate emphasis on Our People and this focus needs to be stronger than ever as we move into a period of significant change. As with our Safety Culture, the new three sector operational model needs to build on our company-wide commitment to a flexible and mobile workforce.

Whilst changing the mantra from Our People. Making it Work to We Discover. We Deliver. We Care it is hugely important that we are aligned with the proposed change and that our new brand story is delivered consistently throughout the business in a manner that engages and excites our people.

The availability of experienced resource continues to be a nationwide challenge, but our new foundational building blocks of Service, Innovation and Community will translate into a strong recruitment brand that continues to help the business attract and retain experienced, passionate and innovative employees.

The geographical spread of our business positions us well for organic growth and Citycare continues to be agile in the way we deliver our service through both our own and subcontracted resources, with a consistent focus on engendering positive and appropriate (safe) behaviour, as well as a responsible and consistent approach to the environment and sustainability issues.

Around a third of our workforce - 485 employees - now hold a National Qualification at Level 3 or above, which talks directly to our commitment to driving a fit-for-purpose service capability that correlates to our customers expectations and reflects our collaborations with six different industry training organisations and a number of tertiary education and private training providers throughout New Zealand.

1,439

Casual, fixed-term and pre-apprentice staff.

40 more employees than FY16 taking the total to 1439 casual, fixed-term, and pre-apprentice staff currently working across 16 national locations (representing a total economic contribution of $109 million paid this year in salaries, wages and additional employee benefits).

17.4%

Female Citycare employees.

The number of female employees is currently tracking at 17.4% (down from a five year high of 18.9% for FY16) and the average length of service for a Citycare employee has increased slightly to 5.9 years.

35 – 44

Increase in employees aged between 35 to 44 years old.

Whilst the majority of Citycare employees are in the 45 to 54 age bracket – widely acknowledged as one of the more stable employee groupings – there has been an increase this year in the number of people aged between 35 to 44, who are a generation known to engage with change and to be independent and resourceful.

Youth

FY17 saw Citycare maintain its long term commitment to youth development through an ongoing successful placement programme with WorkChoice* and continued development of our award-winning Pre-Apprentice Programme with the Ministry of Social Development.

Literacy

Citycare's agreement with Literacy Aotearoa** also continues to flourish, providing important literacy and numeracy support to field services staff, to better equip them to progress their career pathways, as well as supporting their personal development.

Upskill

Building on the successes of FY17, the new financial year will see a heightened focus on upskilling our people to foster a culture of innovation, safety and high performance.

*WorkChoice Trust, formerly a youth employment charity, is now managed by the Competenz ITO.
The aim of WorkChoice is to bridge the education-to-employment gap by working closely with schools, businesses and young people.
This gives Citycare the opportunity to showcase career pathways within its business and to promote relevant industry sectors.

**Literacy Aotearoa is a national organisation with 42 Member Providers (Nga Poupou) located throughout New Zealand.

Project Highlight
Botany Downs Secondary College

Environment

Citycare Group's stated commitment to the protection of the environment, prevention of pollution and sustainability of natural resources is effected through its ISO14001 certified environmental management system. But the key to continued success is our close collaboration with our clients, not only when it comes to ensuring compliance, but also with the aim of continual improvement of our environmental practices.

Indeed, many of our contracts have environmental objectives that will help drive Citycare Group's national Corporate Social Responsibility agenda, which aims to deliver direct more substantive environmental benefits through sustainable initiatives, such as the improvement of waterways through dredging to remove silt, noxious weeds and contaminants; viable alternatives to the use of glyphosates, etc.

Throughout FY17, Citycare has worked hard to identify opportunities to promote sustainable solutions through innovative methodology, thus realising positive environmental impacts throughout contract lifecycles.

This includes a firm commitment to the intent of the 'Paris Agreement' related to mitigation and adaptation of greenhouse gas emissions through the commencement of a change programme around the gradual replacement of petrol-driven hand tools, in preference for electric hand tools and the retrofit of inverters on work trucks/vans instead of petrol-charged generators, where feasible.

FY18 will see us continue along this sustainability path, through the trial of electric mowers and work vehicles and a specified commitment to further reduce Citycare Group's greenhouse gas emissions (by a minimum of 5%), through practical, targeted innovation.

5% drop

In greenhouse gas emissions goal for FY18.

Financial Statements 2017

Financial Statements

Directors' Responsibility Statement

The Directors are responsible for the preparation, in accordance with New Zealand law and Generally Accepted Accounting Practice, of consolidated financial statements which present fairly the financial position of City Care Limited and its subsidiaries ('the group') as at 30 June 2017 and the results of the operations and cash flows for the year ended 30 June 2017.

The Directors consider that the consolidated financial statements of the group have been prepared using accounting policies appropriate to the group's circumstances, consistently applied and supported by reasonable and prudent judgments and estimates and that all applicable New Zealand equivalents to International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the group and enable them to ensure that the consolidated financial statements comply with the Companies Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the consolidated financial statements of City Care Limited for the year ended 30 June 2017.

This Annual Report is dated 11 August 2017 and is signed in accordance with a resolution of the Directors made pursuant to section 211(1) (k) of the Companies Act 1993.

For and on behalf of the Board of Directors:

Hugh Martyn
Chairman
11 August 2017

Margaret Devlin
Director
11 August 2017

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Income Statement For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Revenue	3	303,547	306,736
Contingent Consideration		-	250
Finance income		53	76
Gain/(loss) on sale of property, plant and equipment		246	496
Raw materials and consumables used		(43,141)	(45,325)
Subcontractor costs		(115,608)	(119,193)
Employee benefits expense		(116,548)	(111,844)
Depreciation and amortisation expense		(9,367)	(9,209)
Impairment of goodwill	14	-	(553)
Other expenses		(15,616)	(12,935)
Finance costs		(84)	(121)
Share of profit/(losses) of Joint Venture	16	1,456	1,347
Profit before income tax expense		**4,938**	**9,725**
Income tax expense	6(a)	(1,399)	(2,892)
Profit for the year		**3,539**	**6,833**
Attributable to:			
Owners of the parent		3,456	6,844
Non-controlling interests		83	(11)
		3,539	**6,833**

Statement of Comprehensive Income For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Profit for the year		3,539	6,833
Total comprehensive income		**3,539**	**6,833**
Attributable to:			
Owners of the parent		3,456	6,844
Non-controlling interests		83	(11)
		3,539	**6,833**

Balance Sheet As at 30 June 2017

	Notes	2017 $000	2016 $000
Current assets			
Cash and cash equivalents	23(a)	1,136	5
Trade and other receivables	7	31,808	34,517
Inventories	11	1,409	2,123
Work in progress	12	18,093	19,120
Assets classified as held for sale	13	607	-
Total current assets		**53,053**	**55,765**
Non-current assets			
Property, plant and equipment	13	47,568	46,821
Intangible assets	14	2,097	2,136
Share of net assets of Joint Venture	16	153	347
Total non-current assets		**49,818**	**49,304**
Total assets		**102,871**	**105,069**
Current liabilities			
Bank Overdraft	9	-	7
Trade and other payables	8	29,302	29,328
Current tax payable	6(a)	1,623	2,232
Provisions	17	7,553	6,404
Total current liabilities		**38,478**	**37,971**
Non-current liabilities			
Borrowings	9	6,900	6,520
Deferred tax liability	6(b)	830	1,346
Provisions	17	361	315
Total non-current liabilities		**8,091**	**8,181**
Total liabilities		**46,569**	**46,152**
Net assets		**56,302**	**58,917**
Equity			
Share capital	18	8,536	8,536
Reserves		9,880	9,880
Retained earnings		37,322	40,020
Equity attributable to owners of the parent		**55,738**	**58,436**
Non-controlling interests		564	481
Total equity		**56,302**	**58,917**

Statement of Changes in Equity For the year ended 30 June 2017

	Share Capital $000	Capital Reserve $000	Asset Revaluation Reserve $000	Retained Earnings $000	Non-Controlling Interests $000	Total $000
Balance as at 30 June 2015	8,536	2,314	7,566	37,273	-	55,689
Gain/(loss) on property revaluation	-	-	-	-	-	-
Profit for the year	-	-	-	6,844	(11)	6,833
Total recognised income and expense for the year	**-**	**-**	**-**	**6,844**	**(11)**	**6,833**
Dividends	-	-	-	(4,097)	-	(4,097)
Acquisition of non-controlling interests	-	-	-	-	492	492
Balance at 30 June 2016	**8,536**	**2,314**	**7,566**	**40,020**	**481**	**58,917**
Gain/(loss) on property revaluation	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	3,456	83	3,539
Total recognised income and expense for the year	**-**	**-**	**-**	**3,456**	**83**	**3,539**
Dividends	-	-	-	(6,154)	-	(6,154)
Balance at 30 June 2017	**8,536**	**2,314**	**7,566**	**37,322**	**564**	**56,302**

The capital reserve arose from a gain on the sale of the company's refuse business in the year ended 30 June 2006.

Cash Flow Statement For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		307,856	307,156
Profit distribution from Joint Venture		1,650	1,000
Interest received		53	76
Payments to suppliers and employees		(290,405)	(292,408)
Interest and other finance costs paid		(84)	(121)
Subvention payment		(2,524)	(3,739)
Income taxes received		-	4
Net cash provided from operating activities	23(b)	**16,546**	**11,968**
Cash flows from investing activities			
Payment for property, plant and equipment		(10,060)	(6,793)
Proceeds from sale of property, plant and equipment		704	692
Payment for intangible assets		(278)	(294)
Investments in subsidiaries and associates		-	34
Payment for goodwill		-	(1,030)
Net cash used in investing activities		**(9,634)**	**(7,391)**
Cash flows from financing activities			
Acquisition of non-controlling interests		-	492
Proceeds from/(repayment of) borrowings		380	(2,080)
Dividends paid		(6,154)	(4,097)
Net cash used in financing activities		**(5,774)**	**(5,685)**
Net increase/(decrease) in cash and cash equivalents		1,138	(1,108)
Cash and cash equivalents at the beginning of the year		(2)	1,106
Cash and cash equivalents at the end of the year	23(a)	**1,136**	**(2)**

Notes to the Financial Statements For the year ended 30 June 2017

1. COMPANY INFORMATION

City Care Limited is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. City Care Limited is a wholly owned subsidiary of Christchurch City Holdings Limited. The ultimate controlling party is Christchurch City Council. The company is a Council Controlled Trading Organisation as defined in Section 6 of the Local Government Act 2002. The registered office is 226 Antigua Street, Christchurch 8011.

The financial statements presented are for the City Care Limited Group ('the group') as at and for the year ended 30 June 2017. The group comprises City Care Limited ('the parent'), its subsidiaries and its investments in joint arrangements.

The group's activities are:

- construction of vertical and horizontal assets
- maintenance of amenity assets including water and wastewater, parks, trees and cleaning
- facilities management
- provision of asset management services

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Under the Accounting Standards Framework, the group is defined as a for-profit entity and as such reports under NZ IFRS. The financial statements comply with New Zealand International Financial Reporting Standards (NZ IFRS) and NZ GAAP, as appropriate for for-profit entities. Compliance with NZ IFRS ensures that the consolidated financial statements comply with International Financial Reporting Standards. These standards have been consistently applied to all the years presented, unless otherwise stated.

(b) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment and assets held for sale which are measured at fair value less cost of disposal.

The consolidated financial statements of City Care Limited have been prepared in accordance with the requirements of the Companies Act 1993 and the Local Government Act 2002.

The reporting currency is New Zealand dollars, rounded to the nearest thousand.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the consolidated financial statements.

(c) Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(d) Goods and Services Tax (GST)

The consolidated 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.

(e) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. Any other foreign exchange gains and losses are presented in the income statement within 'Other (losses)/gains – net'.

(f) Significant Accounting Policies, Estimates and Judgements

Preparing consolidated 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 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.

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

Accounting policies that are relevant to the understanding of the financial statements and summarise the measurement basis are provided throughout the notes to the financial statements. These standards have been consistently applied to all the years presented unless otherwise stated.

(g) Standards or interpretations not yet effective

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the group, are:

- NZ IFRS 9, 'Financial instruments': The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is assessing the impact of NZ IFRS 9.
- NZ IFRS 15, 'Revenue from contracts with customers': The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of NZ IFRS 15.
- NZ IFRS 16, 'Lease': The standard removes the classification of leases as either operating or financing lease, for the lessee, effectively treating all leases as finance leases. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted only for entities that also apply NZ IFRS 15, Revenue from Contracts with Customers. The group is assessing the impact of NZ IFRS 16.

(h) Standards or interpretations adopted in the current financial year

There were no amendments to New Zealand Equivalents to International Financial Reporting Standards which became effective as of 1 July 2016 which had a material impact on the group.

3. REVENUE

	2017 $000	2016 $000
Revenue from continuing operations consisted of the following items:		
Revenue from the rendering of services	164,785	157,015
Construction contract revenue	129,758	141,677
Revenue from the sale of goods	9,004	8,044
	303,547	**306,736**

Revenue Recognition

Goods sold and services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction. No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due, or associated costs.

Interest Income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

4. EXPENSES

	2017 $000	2016 $000
Profit before income tax has been arrived at after charging/(crediting) the following expenses:		
Directors' fees	315	275
Operating lease rental expenses:		
Minimum lease payments	5,026	4,515
Employee benefits expense:		
Defined contributions plans	156	179
Remuneration of Auditors:		
Audit of the financial statements	113	147

Interest and Dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

5. LEASES

	2017 $000	2016 $000
Non-cancellable operating lease payments		
No longer than 1 year	3,646	3,635
Longer than 1 year and not longer than 5 years	4,322	3,812
Longer than 5 years	-	-
	7,968	**7,447**

Leased Assets

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. All other leases are classified as operating leases.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Non-cancellable operating lease payments represent future expected payments arising from the rental of motor vehicles and rental properties.

6. INCOME TAXES

	2017 $000	2016 $000
(a) Income tax recognised in profit comprises		
Current tax expense	1,623	2,232
Prior year adjustments to current tax	292	(77)
Deferred tax expense	(516)	737
Total tax expense	**1 ,399**	**2,892**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit from operations	4,938	9,725
Income tax expense at 28% (2016: 28%)	1,383	2,723
Tax effect of non-deductible expenses	33	137
Tax effect of capital gain on sale of property, plant and equipment	(21)	(33)
Prior year adjustment	4	65
	1,399	**2,892**

Income Tax

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

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

Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

It is normal practice for City Care Limited to purchase Tax losses from Christchurch City Council by way of a subvention payment.

	Opening Balance $000	Charged to Income $000	Closing Balance $000
(b) Deferred tax balances			
Taxable and deductible temporary difference arising from the following:			
Year ended 30 June 2017			
Deferred tax assets/(liabilities):			
Property, plant and equipment	(76)	245	169
Provisions	1,565	322	1,887
Work in progress	(2,238)	119	(2,119)
Other	(597)	(170)	(767)
	(1,346)	**516**	**(830)**
Year ended 30 June 2016			
Deferred tax assets/(liabilities):			
Property, plant and equipment	62	(138)	(76)
Provisions	1,855	(290)	1,565
Work in progress	(1,957)	(281)	(2,238)
Other	(569)	(28)	(597)
	(609)	**(737)**	**(1,346)**

Deferred Tax

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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 balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

	2017 $000	2016 $000
(c) Imputation credit account		
Imputation credits available for use in subsequent periods	-	-

Imputation Credit Account

No adjustment has been made for credits associated with tax payable as the tax liability is expected to be eliminated by losses transferred from other entities in the group by way of subvention payments.

In the prior year, a dividend was paid and the outstanding balance of imputation credits were attached to the dividend.

7. TRADE AND OTHER RECEIVABLES

	2017 $000	2016 $000
Trade receivables	25,932	28,785
Allowance for doubtful debts	(200)	(245)
	25,732	**28,540**
Aging of trade receivables which the company has not provided against as still deemed recoverable:		
Not past due	23,184	25,819
Past due 1-30 days	1,665	1,915
Past due 31-60 days	266	270
Past due 61-365 days	617	536
365+ days past due	-	-
	25,732	**28,540**
Contract retentions	4,782	4,559
Prepayments	1,183	1,324
Contract set up costs	111	94
	31,808	**34,517**

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment losses.

No interest is charged on the trade receivables. An allowance has been made for estimated irrecoverable amounts, determined by a review of past due amounts.

The average age of the company's trade and other receivables which are past due at the reporting date and for which the company has not provided as the amounts are still considered recoverable and as there has not been a significant change in credit quality is 69 days (2016: 66 days).

Capitalisation of contract set up costs

New contract set up costs are capitalised from the point at which there is certainty the contract has been won, in accordance with NZIAS 11: Construction Contracts. These capitalised costs have a finite life and are amortised over the minimum term of the contract on a straight-line basis.

8. TRADE AND OTHER PAYABLES

	2017 $000	2016 $000
Trade payables	11,426	10,975
Goods and Services Tax payable	2,811	3,357
Accrued expenses	14,337	14,902
Revenue in advance	697	-
Deferred income	31	94
	29,302	**29,328**

Payables

Trade payables and other accounts payable are recognised when the group becomes obliged to make future payments resulting from the purchase of goods and services. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective method.

9. BORROWINGS

	2017 $000	2016 $000
Secured bank overdraft facility, reviewed annually and repayable on call:		
Amount used	-	22
Amount unused	500	478
	500	**500**
Two year rolling secured bank loan facilities maturing 26 February 2019:		
Amount used	6,900	6,520
Amount unused	43,100	43,480
	50,000	**50,000**

Bank loans are secured by a debenture over the assets and undertakings of the company. Interest rates on the floating rate debt are based on bank bill rates plus a margin and averaged 3.16% for the year (2016: 3.71%). Due to interest rates on floating debt resetting on the market rate, the carrying amounts on secured loans approximate their fair values.

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 income statement over the period of the borrowings using the effective interest basis.

Borrowing costs

Borrowing costs are interest and other costs incurred by the group in connection with the borrowing of funds and are recognised in the income statement in the period in which they are incurred.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested.

The company was in compliance with its loan covenants at all times during the year.

10. FINANCIAL INSTRUMENTS AND RISK

(a) Financial risk management objectives

The company is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, accounts receivable, accounts payable and term loans. The company has policies providing for risk management for interest rates and the concentration of credit.

(b) Interest rate risk and management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to the changes in market interest rates. This could particularly impact on the cost of borrowings. The Directors do not consider there is any significant exposure to interest rate risk on the company's borrowings.

The sensitivity analysis below has been determined based on exposure to interest rates for non-current financial instruments as at the reporting date and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period. The 100 basis point increase or decrease used represents management's assessment of the possible changes in interest rates.

	2017 $000	2016 $000
Increase or decrease in net profit from a 100 basis point movement in interest rates, assuming all other variables were held constant.	69	65

(c) Foreign currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The company has a very small exposure to currency risk.

(d) Credit risk management

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

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the company's maximum exposure to credit risk, without taking account of the value of any collateral obtained.

Financial instruments which potentially subject the company to credit risk consist primarily of cash and trade receivables. The concentration of credit risk with respect to accounts receivable is high due to the reliance on the Christchurch City Council for 26% (2016: 25%) of the company's revenue. Christchurch City Council's credit rating remains at A+.

The company manages this risk by depositing its cash and cash equivalents with high quality financial institutions and by carrying out credit checks on all new customers.

(e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows.

The following table details the company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date at which the company can be required to pay. All financial liabilities are classified as being at amortised cost.

	Less than 6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	5+ Years $000	Total $000
2017						
Trade and other payables	11,426	-	-	-	-	11,426
Borrowings	-	-	6,900	-	-	6,900
	11,426	**-**	**6,900**	**-**	**-**	**18,326**
2016						
Trade and other payables	10,975	-	-	-	-	10,975
Borrowings	7	-	6,520	-	-	6,527
	10,982	**-**	**6,520**	**-**	**-**	**17,502**

(f) Market risk

The Board consider the market risks faced by the company to be limited to those risks disclosed above being interest rate risk, credit risk and liquidity risk.

(g) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

11. INVENTORIES

	2017 $000	2016 $000
Raw materials, consumables, stores at cost	1,446	2,149
Allowance for obsolete inventory	(37)	(26)
	1,409	**2,123**

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

12. WORK IN PROGRESS

	2017 $000	2016 $000
Construction work in progress (i)	263,454	198,776
Progress billings	(251,036)	(186,547)
Unbilled construction work in progress	12,418	12,229
Other contract work in progress	5,675	6,891
Total work in progress	**18,093**	**19,120**

(i) Construction work in progess is the life to date project revenue recognised on construction projects which remain incomplete as at balance date.

Construction Contracts

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Costs include all expenditure related directly to the specific projects.

Once the outcome of a construction contract can be estimated reliably, construction revenue and costs are recognised on the basis of the percentage of completion of the contract at balance date. The stage of completion is assessed by carrying out surveys of work performed.

An expected loss on a contract is recognised immediately in the income statement.

Construction contracts are defined as those in which progress claims are made under the Construction Contracts Act 2013.

13. PROPERTY, PLANT AND EQUIPMENT

Land is shown at fair value, based on periodic valuations by external independent valuers. Valuations are performed with sufficient regularity to ensure revalued assets are carried at a value that is not materially different from fair value.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Any revaluation increase arising on the revaluation of land is credited to the asset revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of land is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a re-valued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives.

Assets to be depreciated include:

Buildings	7-50 years
Plant and equipment	2-22 years
Motor vehicles	3-13 years
Office and computer equipment	2-12 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. When re-valued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings:

	Freehold Land at Fair Value $000	Buildings at Cost $000	Plant and Equipment at Cost $000	Motor Vehicles at Cost $000	Office and Computer Equipment at Cost $000	Total $000
Gross carrying amount						
Balance at 30 June 2015	9,460	1,398	17,725	69,317	6,949	104,849
Transfers	-	382	(415)	165	(235)	(103)
Additions	-	242	1,900	3,787	864	6,793
Disposals	-	(4)	(2,008)	(6, 008)	(2,027)	(10,047)
Balance at 30 June 2016	**9,460**	**2,018**	**17,202**	**67,261**	**5,551**	**101,492**
Transfers	-	52	543	(543)	(55)	(3)
Reclassification	-	-	1,790	-	-	1,790
Assets classified as held for sale	-	-	(161)	(1,964)	-	(2,125)
Additions	-	80	2,538	6,503	939	10,060
Disposals	-	-	(668)	(2,958)	(113)	(3,739)
Balance at 30 June 2017	**9,460**	**2,150**	**21,244**	**68,299**	**6,322**	**107,475**
Accumulated depreciation and impairment						
Balance at 30 June 2015	-	(356)	(10,415)	(40,230)	(4,971)	(55,972)
Transfers	-	(110)	119	(42)	112	79
Disposals	-	4	1,910	5,895	2,048	9,857
Depreciation expense	-	(164)	(2,005)	(5,696)	(770)	(8,635)
Balance at 30 June 2016	**-**	**(626)**	**(10,391)**	**(40,073)**	**(3,581)**	**(54,671)**
Transfers	-	(9)	(234)	234	9	-
Reclassification	-	-	(989)	-	-	(989)
Assets classified as held for sale	-	-	137	1,381	-	1,518
Disposals	-	-	570	2,675	39	3,284
Depreciation expense	-	(170)	(2,555)	(5,570)	(754)	(9,049)
Balance at 30 June 2017	**-**	**(805)**	**(13,462)**	**(41,353)**	**(4,287)**	**(59,907)**
Net book value						
As at 30 June 2016	**9,460**	**1,392**	**6,811**	**27,188**	**1,970**	**46,821**
As at 30 June 2017	**9,460**	**1,345**	**7,782**	**26,946**	**2,035**	**47,568**

Included within property, plant and equipment is capital work in progress of $4,479,000 (2016: $1,317,000).

At 30 June 2017 a decision was made to sell certain assets relating to completed contracts in the Auckland area. The sales are expected to be completed before the end of June 2018 and hence assets with a net book value of $607,000 have been reclassified as assets held for sale and included within current assets.

Freehold land carried at fair value (Level 3, as defined in NZ IFRS 13)

An independent valuation of the company's land was performed by independent registered valuer Gary Sellars of Colliers International, Christchurch, to determine the fair value of the land. The valuation, which conforms to NZ IAS 16: Property, Plant and Equipment, NZ IFRS: 13 Fair Value Measurement, International Valuation Standards IVS300: Valuations for Financial Reporting and API/PINZ Valuation Guidance Note NZV6N1: Valuations for use in New Zealand Financial Reports, was determined by reference to the asset's highest and best use, without deducting disposal costs. The valuation was on the estimated market value of the land at $150 psm. If the psm rate moves by +/– $10, the valuation would increase/(decrease) by $631,000.

Under the New Zealand Property Institute Practice Standard 1, which came into force from 1 May 2004, all valuations must be assessed as at the date of inspection of the property, except where the valuation instructions are to assess the value at a retrospective date. A valuation was carried out by Mr Sellars on 16 June 2017. The Directors are satisfied that the current carrying amount reflects its fair value. There are no restrictions over the title.

The carrying amount of land, had it been recognised under the historical cost method, is as follows:

	2017 $000	2016 $000
Freehold land	1,894	1,894

14. 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 on a straight line basis. Usually this period does not exceed three years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period is three years.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

Amortisation

An intangible asset with a finite useful life is amortised 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.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. An impairment loss in respect of goodwill is not reversed.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their market value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

	Software Licences $000	Goodwill $000	Total $000
Gross carrying amount			
Balance at 30 June 2015	6,137	1,107	7,244
Transfers	104	-	104
Additions	294	1,280	1,574
Disposals	(932)	-	(932)
Balance at 30 June 2016	**5,603**	**2,387**	**7,990**
Transfers	3	-	3
Additions	278	-	278
Disposals	(5)	-	(5)
Balance at 30 June 2017	**5,879**	**2,387**	**8,266**
Accumulated amortisation and impairment			
Balance at 30 June 2016	(5,379)	(194)	(5,573)
Transfers	(80)	-	(80)
Disposals	926	-	926
Impairment	-	(553)	(553)
Amortisation expense	(574)	-	(574)
Balance at 30 June 2016	**(5,107)**	**(747)**	**(5,854)**
Transfers	-	-	-
Disposals	3	-	3
Amortisation expense	(318)	-	(318)
Balance at 30 June 2017	**(5,422)**	**(747)**	**(6,169)**
Net book value			
As at 30 June 2016	**496**	**1,640**	**2,136**
As at 30 June 2017	**457**	**1,640**	**2,097**

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing to the Taranaki Road Boring operation and Apex Environmental Limited.

The carrying amount of goodwill allocated to cash-generating units that are significant individually or in aggregate is as follows:

	2017 $000	2016 $000
Taranaki Road Boring	360	360
Apex Environmental Ltd	1,280	1,280
	1,640	**1,640**

The key assumptions used in the value in use calculations for the various significant cash-generating units are as follows:

Key assumptions

Budgeted revenue	Revenue is based on initial contract term and past performance. A growth rate of 3% per annum has been included.
Budgeted gross margin	Gross margin is expected to continue at margins achieved in the current period.
Budgeted overhead	Budgeted overhead is expected to reflect overhead incurred immediately before the budget period.
Discount rate	A discount rate of 11.00% is applied to calculate the value in use.
Forecast period	A four year forecast period has been assumed.

In order to better manage the business activities of Command Building Services Limited, the Directors resolved to amalgamate the company into the operations of City Care Limited. The amalgamation took place on 10 March 2017.

15. BUSINESS COMBINATIONS AND NON-CONTROLLING INTERESTS

Apex Environmental Limited

On 9 July 2015, City Care Holdings No.1 Limited, a wholly owned subsidiary was incorporated with 3 shares.

On 17 July 2015 City Care Holdings No.1 Limited purchased the trade and assets of Apex Environmental Limited and simultaneously changed its name to Apex Environmental Limited. On this day a further 24,997 shares were issued, 14,287 of these to City Care resulting in a 57.16% shareholding. Apex Environmental Limited is involved in the designing, building, installing and commissioning water and wastewater treatment plants for the food and beverage, dairy, textiles, winery and municipal sectors.

The acquisition complements the Group's existing maintenance of amenity assets activities.

The Directors have determined that the group controls Apex Environmental Limited because it has a 57.16% shareholding.

During the year City Care has provided working capital. As at 30 June 2017 the outstanding balance was $384,000 (2016: $447,000).

The following table summarises the consideration paid for the assets and business, the fair value of assets acquired and liabilities assumed at the acquisition date:

	$000
Investment in Apex Environmental Limited	
Cash	1,149
Total Consideration	**1,149**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	58
Other assets	53
Other payables	(242)
Total identifiable net assets	**(131)**
Goodwill	1,280
Total	**1,149**

The goodwill is not deductible for tax purposes.

Results included in the Consolidated Statement of Comprehensive Income

	2017 $000	2016 $000
Revenue	4,674	3,560
Profit/(Loss) for the year	197	(25)

For the non-controlling interests in Apex Environmental Limited, the group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Command Building Services Limited

On 16 September 2014, Command Building Services Limited, a wholly owned subsidiary was incorporated.

On 31 October 2014, Command Building Services Limited purchased the assets and business of Command Management Limited, Command Care Limited and Command HVAC Limited, a heating, ventilation and air conditioning installation and servicing business.

The contingent consideration arrangement required the group to pay, in cash, to the former owners, $250,000, which was held in an escrow account, upon a target EBIT being achieved 12 months from the completion. As this target EBIT was not achieved, the amount held in escrow was released to City Care Limited. Revenue for the year ended 30 June 2016 includes the $250,000 released.

On 10 March 2017 Command Building Services Limited was amalgamated into the parent (City Care Limited) using the short-form amalgamation process under the Companies Act 1993. Under the amalgamation City Care Limited took control of all the assets of Command Building Services Limited and assumed responsibility for its liabilities. Command Building Services has been removed from the New Zealand register of companies.

Results included in the Consolidated Statement of Comprehensive Income

	2017 $000	2016 $000
Revenue	3,201	9,424
Profit/(Loss) for the year	(662)	(805)

16. JOINT ARRANGEMENTS

The group applies NZ IFRS 11 to all joint arrangements. Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

For jointly controlled operations, the group recognises in its consolidated financial statements the assets it controls, the liabilities and expenses it incurs, and the share of income that it earns from the joint operations.

(a) Joint Operation

The company has a 20% interest in the Stronger Christchurch Infrastructure Rebuild Team Joint Venture (SCIRT JV). The SCIRT JV is structured as an unincorporated Joint Venture and is not a separate vehicle. The arrangement is treated as a Joint Operation. The company reflects its share of revenue and profit through its financial statements.

(b) (i) Joint Venture

On 5 December 2014, City Care Limited entered into an unincorporated joint venture agreement, City Care Limited John Fillmore Contracting Limited Joint Venture. This joint venture is a strategic partnership to tender for relevant contracts.

Name of entity	Place of business	% of ownership interest	Measurement method
City Care Limited John Fillmore Contracting Limited Joint Venture	New Zealand	50	Equity

It is an unincorporated joint venture agreement and there is no quoted market price available for this investment.

(ii) Commitment and contingent liabilities

There are no commitment or contingent liabilities in respect of the joint venture.

(iii) Summarised financial information for joint venture

	2017 $000	2016 $000
Balance Sheet		
Current Assets		
Cash	290	844
Other current assets	2,559	1,407
	2,849	**2,251**
Current Liabilities		
Financial liabilities	-	-
Other current liabilities	2,543	1,558
	2,543	**1,558**
Net assets	**306**	**693**
Statement of Comprehensive Income		
Revenue	27,684	18,152
Expenses	(24,771)	(15,459)
Pre-tax profit from continuing operations	2,913	2,693
Income tax expense	-	-
Post-tax profit from continuing operations	**2,913**	**2,693**

The information above reflects the amounts presented in the financial statements of the joint venture which are prepared in accordance with NZ IFRS.

(iv) Reconciliation of summarised financial information

	2017 $000	2016 $000
Opening net assets	693	-
Profit	2,913	2,693
Less profit distribution	(3,300)	(2,000)
Closing net assets	306	693
Interest in Joint Venture at 50%	**153**	**347**

17. PROVISIONS

A provision is recognised in the balance sheet 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 economic benefits, 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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

Defined Benefit Scheme (the Scheme)

City Care Limited has one employee participating in the National Provident Defined Benefit Scheme, which is a multi-employer defined benefit plan. Because it is not possible to determine, from the terms of the Scheme, the extent to which any deficit will affect future contributions by employers, the company participation in the Scheme is accounted for as if the Scheme were a defined contribution plan.

Defined Contribution Schemes

The company participates in other schemes in addition to the Defined Benefit Scheme which are all defined contribution plans, and contributions to the plans are expensed as incurred.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Holiday Act

Following guidance issued by the Ministry of Business, Innovation and Employment, the company has determined the group may have obligations to pay entitlements under the Holidays Act 2003 in respect of prior periods. Whilst a full investigation is still being undertaken, at 30 June 2017, the Directors have provided for the best estimate possible at this time of the obligation that is considered to be payable. This provision has been recognised within Employee Entitlements.

	Employee Entitlements (i) $000	SCIRT (ii) $000	Other $000	Total $000
Provisions 2017				
Balance at 30 June 2016	6,288	400	31	6,719
Additional provisions recognised	11,129	301	175	11,605
Reductions arising from payments/other sacrifices of future economic benefits	(9,937)	(451)	(12)	(10,400)
Reductions resulting from re-measurement or settlement without cost	(18)	-	-	(18)
Unwinding of discount/effect of changes in discount rate	8	-	-	8
Balance at 30 June 2017	**7,470**	**250**	**194**	**7,914**
Current	7,109	250	194	7,553
Non-current	361	-	-	361
	7,470	**250**	**194**	**7,914**
Provisions 2016				
Balance at 30 June 2015	7,187	900	298	8,385
Additional provisions recognised	8,702	-	31	8,733
Reductions arising from payments/other sacrifices of future economic benefits	(9,656)	(46)	(298)	(10,000)
Reductions resulting from re-measurement or settlement without cost	(107)	(454)	-	(561)
Unwinding of discount/effect of changes in discount rate	162	-	-	162
Balance at 30 June 2016	**6,288**	**400**	**31**	**6,719**
Current	5,973	400	31	6,404
Non-current	315	-	-	315
	6,288	**400**	**31**	**6,719**

(i) The provision for employee entitlements relates to employee benefits such as accrued holiday pay and long service leave. The provision is affected by a number of estimates including the expected employment period of employees and the timing of employees utilising the benefits. The majority of the provision is expected to be realised within the next two years.

Average wage inflation has been assumed to be 3% for the year ending 30 June 2017 and 3% for the year ending 30 June 2016. A discount rate of 2.61% has been used for the year ending 30 June 2017 and 2.56% for the year ending 30 June 2016.

The discount rate was determined with reference to the market yields on government bonds.

(ii) The SCIRT Alliance agreement contains provision for sharing contract gains and/or losses against budget on conclusion of the agreement. Physical construction works concluded at 30 June 2017. At 30 June 2017 the Alliance was in a net loss against budget position. City Care's share of this provision for loss has been reflected in the Income Statement. The audit of SCIRT projects was completed as at 30 June 2017. In view of the fact that the company's defects liability obligations continue for a further 12 months the Directors have continued to recognise a $250,000 provision.

18. CAPITAL AND OTHER EQUITY INSTRUMENTS

	2017 $000	2016 $000
6,036,000 fully paid ordinary shares	6,036	6,036
2,500,000 fully paid preference shares	2,500	2,500
	8,536	**8,536**

Ordinary shares are classified as equity. Preference shares are classified as equity as the terms of issue of the shares makes them equity. Neither ordinary shares nor preference shares have par values.

Fully paid ordinary shares carry one vote per share and participate equally in any dividend distribution or any surplus on winding up the company.

Fully paid preference shares carry the right to dividends but no voting rights.

19. COMMITMENTS FOR EXPENDITURE

	2017 $000	2016 $000
Capital expenditure commitments		
Plant and equipment	4,785	790
	4,785	**790**

Included in the capital commitments is $3,199,000 for assets required for the recently awarded Auckland Full Facilities contract. The contract becomes effective 1 July 2017.

20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	2017 $000	2016 $000
Contingent liabilities		
The company has arranged with Bank of New Zealand for the issue of performance related bonds in favour of:		
Local authorities (i)	4,946	4,875
Transit New Zealand	-	159
Others	3,913	1,414
	8,859	**6,448**

(i) This includes Councils and Council Controlled Trading Organisations.

The Directors know of no reason why these performance related bonds would be called upon by the external parties and therefore they have not been recognised in the balance sheet.

City Care Limited is a participating employer in the National Provident Fund's Defined Benefit Plan Contributors' Scheme (the Scheme) which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the company could be responsible for the entire deficit of the Scheme, should there be a deficit. Similarly, if a number of employers ceased to participate in the Scheme, the company could be responsible for an increased share of the deficit, should there be a deficit. As at 30 June 2017 City Care Limited had one employee enrolled in the Scheme (30 June 2016: one).

Other than the above, the company knows of no material or significant contingent assets or liabilities as at balance date.

21. RELATED PARTY DISCLOSURES

(a) Parent entities

The parent entity is Christchurch City Holdings Limited, which is 100% owned by the ultimate parent entity, Christchurch City Council (CCC).

(b) Transactions with related parties

During the year the company entered into various transactions with the Christchurch City Council and its subsidiary companies. The value of these transactions are summarised below.

	2017 $000	2016 $000
Services provided to CCC	79,493	77,440
Services provided to other group companies	2,455	3,543
Goods and services received from CCC	(739)	(528)
Goods and services received from other group companies	(610)	(692)
Rent and rates paid to CCC	(840)	(764)
As at year end		
Amounts receivable from CCC	8,064	9,792
Amounts receivable from other group companies	288	301
Amounts payable to CCC	(189)	(76)
Amounts payable to other group companies	(4)	(79)

c) Key Management Personnel Compensation

	2017 $000	2016 $000
The compensation of the Directors and executives, being the key management personnel of the entity, is set out below:		
Salaries and short-term employee benefits	2,120	3,453
Post-employment benefits	61	65
Termination benefits	64	-
	2,245	**3,518**

All transactions between the group and related parties were in the normal course of business and provided on commercial terms. The provision for doubtful debts relating to debts due from related parties at reporting date was nil (2016: Nil). Related party transactions exclude Directors' fees which are disclosed separately under the statutory information.

Separate disclosure of individual transactions

City Care Limited made dividend payments totaling $6,154,000 (2016: $4,097,000) to its immediate parent, Christchurch City Holdings Limited.

During the year, the company made subvention payments totaling $2,524,000 (2016: $3,739,000) to Christchurch City Council with an associated tax loss offset of $6,490,000 (2016: $9,615,000).

The company also made sales of $39,587,000 (2016: $50,359,000) to its jointly controlled operation, Stronger Christchurch Infrastructure Rebuild Team Joint Venture and had an outstanding receivable balance of $96,000 at 30 June 2017 (2016: $195,000).

Director Hugh Martyn received $35,000 for additional services in relation to the proposed sale process. In the prior year a Director, Mark Todd received remuneration totaling $19,000 for additional services In relation to the proposed sale process.

There were close family members of key management personnel employed by the company at periods during the year. The terms and conditions of the arrangements were no more or less favourable than if there was no relationship to key management personnel.

22. SUBSEQUENT EVENTS

No significant events have occurred subsequent to balance date.

23. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statements of financial position. Cash and cash equivalents at the end of the financial year as shown in the cash flow statements is reconciled to the related items in the balance sheet as follows:

	2017 $000	2016 $000
Cash	4	5
Bank Overdraft	-	(22)
Bank deposits	1,132	15
	1,136	**(2)**

(b) Reconciliation of profit for the period to net cash flows from operating activities

Profit after tax for the period	3,539	6,833
(Gain)/loss on sale or disposal of non-current assets	(246)	(496)
Depreciation and amortisation of non-current assets	9,367	9,209
Impairment of goodwill	-	553
Share of Joint Venture (profit)/loss	194	(347)
Receipt of contingent consideration	-	(250)
Increase/(decrease) in current tax liability	(609)	(1,580)
Increase/(decrease) in deferred tax liability	(516)	737
Changes in net assets and liabilities		
(Increase)/decrease in assets:		
Current receivables	2,709	(821)
Work in progress	1,027	926
Current inventories	713	901
Reclassification	(801)	
Increase/(decrease) in liabilities:		
Operating current payables	(26)	(2,031)
Current provisions	1,149	(1,691)
Non-current provisions	46	25
	16,546	**11,968**

24. STATEMENT OF PERFORMANCE

The Statement of Intent agreed between the Directors of the company and Christchurch City Holdings Limited provided the following performance targets:

	Actual $000		Target $000
(a) Financial performance			
Revenue	303,547	Refer note (i)	332,858
Equity	56,302	Not achieved	57,706
Net Profit After Tax	3,539	Refer note (ii)	8,413
Dividends	6.2m	Refer note (iii)	6.4m
Debt to debt plus equity	10.9%	Refer note (iv)	7.4%
Equity to total assets	54.7%	Not achieved	55.7%
Return on average equity	6.1%	Not achieved	14.6%
(b) Non-financial performance			
ISO 14001 Environmental Management accreditation		Achieved	Maintained
ISO 9001 Quality Management accreditation		Achieved	Maintained
NZS 4801 Health and Safety Management accreditation		Achieved	Maintained
Measurement of Total Recordable Incident Frequency (TRIF) accident rates		Refer note (v)	5% reduction
Maintain current level of staff engagement		Achieved	Maintained
Maintain current level of client satisfaction		Achieved	Maintained
Growth – win a new significant client		Achieved	New client

(i) Revenue: Forecasted revenue targets were not achieved due to an industry-wide tightening of the construction market, accentuated by slower than expected timing of significant projects coming to market, coupled with budgeted FY17 business acquisition not proceeding.

(ii) Net Profit After Tax: The shortfall in revenue explained in note (i) had a direct impact on NPAT, with a lower than budgeted profit returned by the business in FY17.

(iii) Dividends: Whilst Revenue and NPAT were lower than budgeted, the business still paid dividends well in excess of NPAT to its shareholder.

(iv) Debt To Debt Plus Equity: The higher than forecasted Debt To Debt Plus Equity ratio reflects the higher levels of Dividends paid (see note above) and the significant capital expenditure paid in June for the start-up of a new Auckland Council contract.

(v) Total Recordable Incident Frequency: Whilst the 5% targeted reduction in TRIF has not been achieved this year, the business continues to place the highest levels of attention to driving a 100% safe workplace culture and positively benchmarks our performance against similar organisations through active participation in the Business Leaders' Health & Safety Forum.

25. CAPITAL MANAGEMENT

The company's capital is its equity, comprised of share capital, retained earnings and reserves and represented by net assets.

It is the company's intention to maintain sufficient capital to provide security for the existing level of operations and the flexibility for future growth opportunities.

The company pays dividends to the Shareholder after taking into account profitability and future investment requirements. The Board of Directors determines the dividends payable after considering the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of City Care Limited Group's financial statements and statement of performance for the year ended 30 June 2017

The Auditor-General is the auditor of City Care Limited Group (the Group). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of performance of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 33 to 58, that comprise the balance sheet as at 30 June 2017, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance of the Group on page 58.

In our opinion:

- the financial statements of the Group on pages 33 to 58:
  - 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.
- the statement of performance of the Group on page 58 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2017.

Our audit was completed on 11 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the statement of performance

The Board of Directors is responsible on behalf of the Group for preparing the 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 performance for the Group.

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

In preparing the financial statements and the statement of performance, the Board of Directors is responsible on behalf of the Group for assessing the Group'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 Group 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 statement of performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, 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 statement of performance.

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

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 statement of performance, 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 Group'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 Group'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 Group'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 statement of performance 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 Group to cease to continue as a going concern.

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

- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated statement of performance. We are responsible solely for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 in 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 1 to 28 and 63 to 69, but does not include the financial statements and the statement of performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of performance 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 statement of performance, 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 performance 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 the fact. We have nothing to report in this regard.

Independence

We are independent of the Group 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 New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

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

Statutory Information For the year ended 30 June 2017

Ownership

City Care Limited is a limited liability company incorporated under the Companies Act 1993. The company is wholly owned by Christchurch City Holdings Limited, a company 100% owned by the Christchurch City Council.

Principal activities

The group's principal activities during the year were:

- construction of vertical and horizontal assets,
- maintenance of amenity assets including water and wastewater, parks, trees and cleaning,
- facilities management, and
- provision of asset management services

Dividend

A final dividend of $4,796,000 in respect of the 2016 financial year was paid on 4 November 2016.

An interim dividend of $1,357,500 in respect of the 2017 financial year was paid on 3 March 2017.

Directors for City Care Limited

The following Directors held office during the year ended 30 June 2017:

- Hugh Martyn (Chairman)
- Margaret Devlin
- Craig Price
- Mark Todd
- Gary Leech
- Jennifer Rolfe

Directors for Command Building Services Limited (amalgamated into City Care Limited 10 March 2017)

The following Directors held office during the period ended 30 June 2017:

- Onno Mulder (Chairman)
- Peter Lord

Directors for Apex Environmental Limited (a subsidiary of City Care Limited)

The following Directors held office during the year ended 30 June 2017:

- Tim Gibson (Chairman)
- Onno Mulder (resigned 24 February 2017)
- Paul Kiesanowski (appointed 15 February 2017)
- Matthew Savage
- Steven Kroening

Directors' interests

The group maintains an interests' register in which particulars of certain transactions and matters involving the Directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 30 June 2017.

Company Directors

Director	*Entity*	*Position*
Hugh Martyn	Hadstock Park Ltd	Director
	W D Boyes & Sons Ltd	Advisor
	The Britten Institute	Chairman
Margaret Devlin	WEL Networks Ltd (resigned 1 June 2017)	Chair, Remuneration Committee
	Indepen (NZ) Ltd	Director
	Institute of Directors in New Zealand Inc	Chartered Fellow
	Institute of Directors in NZ Inc – Waikato Branch	Committee Member
	Waikato Networks Ltd (resigned 30 June 2017)	Director
	Waikato District Council	External appointment and Chair of Audit and Risk Committee
	University of Waikato	Member Risk Management Committee
	Harrison Grierson Consultants Ltd	Chairman, Chair of Audit & Risk Committee and Remuneration Committee
	Harrison Grierson Holdings Ltd	Director
	Waikato Regional Airport Ltd (T/A Hamilton International Airport)	Director and Member of Audit Committee
	National Infrastructure Advisory Board	Board Member
	Titanium Park Ltd (a subsidiary of Waikato Airport)	Chairman
	WEL Energy Group Ltd (resigned 30 June 2017)	Director
	WEL Generation Ltd (resigned 30 June 2017)	Director
	WEL Power Ltd (resigned 30 June 2017)	Director
	WEL Electricity Ltd (resigned 30 June 2017)	Director
	Waikato Electricity Ltd (resigned 30 June 2017)	Director
	Institute of Directors Professional Committee (resigned 31 Dec 2016)	Member
	Waikato Spatial Plan Joint Committee	Chair
	Meteorological Services of New Zealand Ltd	Director
	IT Partners Group Ltd	Director
	Watercare	Chairman
	Women in Infrastructure Network	Chairman
	Aurora Energy	Director
	Waikato University	Councillor
	WINTEC	Councillor
Craig Price	Beca Group Ltd	Shareholder/Share Trustee
	Beca Ltd	Chairman
	Beca	Regional Manager SI
	University of Canterbury Civil & Natural Resources Engineering Advisory Board	Board member
	University of Canterbury Mechanical Engineering Advisory Board	Board member
	Tertiary Education Commission: Engineering Education to Employment Steering Group (resigned 29 March 2017)	Member
	East Christchurch Water Sports Community Trust	Trustee
	Power Engineering Excellence Trust (PEET), UC	Trustee
	IPENZ Governing Board	Deputy President
Mark Todd	The Arts Centre of Christchurch	Trust Board Member
	Mark T Consulting Ltd	Shareholder
	Stirling Sports	Advisory Board Member
	The Todd Family Trust	Trustee
Gary Leech	Waitakere Mega Centre Ltd	Director and Shareholder
	South Beach Properties Ltd	Director and Shareholder
	Electricity Ashburton Ltd	Chairman
	South Pacific Seeds (NZ) Ltd	Director and Shareholder
	South Pacific Seed Sales (NZ) Ltd	Chairman
	South Pacific Seeds Pty Ltd (Australia)	Director and Shareholder
	TCB Results Ltd	Director and Shareholder
	Murney Investments Ltd	Director and Non-beneficial Shareholder
	Londale Development Ltd	Director
	Back Track Dairies Ltd	Director
	Webling & Stewart Ltd	Director
	Murney Custodian Ltd	Director
	Murney Trustee Ltd	Director

Director	*Entity*	*Position*
	The New Zealand Sock Company Ltd	Chairman
	Lye Properties Ltd	Director
	Cariboo New Zealand (2011) Ltd	Director and Shareholder
	iSelect Group Limited	Chairman and Shareholder
	iSelect Trustee Services Limited	Chairman and Shareholder
	Hank Murney Family Trust	Trustee
	Hank Murney Family Trust #2	Trustee
	W H Collins & Co Limited	Director
	G R & A M Leech Family Trust	Trustee and Beneficiary
	Sheffield South Island Ltd	Advisory Board member
Jennifer Rolfe	New Zealand Rugby League	Director, Chair of Remuneration Committee
	Rainger & Rolfe Ltd	Managing Partner and Director
	The Barbara Andrew Family Trust	Trustee

Subsidiary Directors

Onno Mulder	SCIRT Board (resigned June 2017)	Chairman
	City Care Ltd	Chief Executive Officer
	Command Building Services Limited (company amalgamated with City Care March 2017)	Director
	Apex Environmental Limited (resigned February 2017)	Director
	Habitat for Humanity	Director
	VFM Family Trust	Trustee
Peter Lord	City Care Ltd	Executive General Manager, Facilities Management
	Command Building Services Limited (company amalgamated with City Care March 2017)	Director
	Lord Family Trust	Trustee
Tim Gibson	City Care Ltd	Executive General Manager, National Maintenance
	Apex Environmental Limited	Chairman
Paul Kiesanowski	Apex Environmental Limited (appointed 15 February 2017)	Director
	Red Bus Ltd	Chairman
	New Zealand Red Cross	National Board Member, Chair Audit & Risk Committee
	Red Cross Foundation	Trustee
	Paul Kiesanowski Advisory Ltd	Director & Shareholder
	Earthquake Commission	Commissioner
Matthew Savage	Apex Environmental Limited	Director
Steven Kroening	Apex Environmental Limited	Director

Directors' remuneration

Remuneration and other benefits paid or due and payable to Directors for services during the year as a Director of the group were as follows:

Hugh Martyn	$109,587
Margaret Devlin	$45,536
Craig Price	$41,023
Mark Todd	$41,023
Gary Leech	$39,457
Jen Rolfe	$38,374
Total	**$315,000**

During the year, Hugh Martyn received remuneration totalling $35,000 for additional services in relation to the proposed sale process. No other remuneration or benefits other than normal reimbursement of expenses has been paid or given to Directors. No loans have been made by the group, nor has the group guaranteed any debts incurred by a Director.

Use of company information by Directors

No notices have been received from Directors of the group requesting to use company information received in their capacity as Directors which would not otherwise have been available to them.

Directors' insurance

The group has arranged insurance policies for Directors' liability insurance within the limits and requirements as set out in the Companies Act 1993.

Employees' remuneration

The number of employees and former employees whose remuneration and other benefits (including termination payments) were more than $100,000 during the period are as follows:

Remuneration range	*Number of employees*
$100,000 – $110,000	65
$110,000 – $120,000	51
$120,000 – $130,000	25
$130,000 – $140,000	18
$140,000 – $150,000	16
$150,000 – $160,000	6
$160,000 – $170,000	6
$170,000 – $180,000	6
$180,000 – $190,000	4
$190,000 – $200,000	4
$200,000 – $210,000	8
$210,000 – $220,000	2
$220,000 – $230,000	1
$230,000 – $240,000	1
$240,000 – $250,000	3
$250,000 – $260,000	2
$280,000 – $290,000	1
$290,000 – $300,000	1
$360,000 - $370,000	1
$390,000 – $400,000	1
$420,000 – $430,000	1
$710,000 – $720,000	1

Chief Executive Remuneration

The Chief Executive Officer's (CEO) remuneration consists of a fixed and variable remuneration. The CEO's package is reviewed annually by the Remuneration Committee and the Board after reviewing the CEO's and Citycare's performance, taking advice from an external remuneration specialist.

$000's	2015	2016	2017
Fixed Remuneration	529	499	547
Short term incentive	255	86	163
Total remuneration	784	585	710

Notes
(i) Fixed remuneration includes base salary, vehicle and Kiwisaver employer contributions. It also includes fluctuations in holiday pay as a result of the short term incentive scheme payments.

(ii) Any short term incentive scheme payment relates to the prior year's performance.

Donations

The company made no donations during the year.

Auditor

The Auditor-General is appointed under Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services on behalf of the Auditor-General. Audit fees in respect of the 2017 financial year totalling $113,000 have been paid or accrued.

Corporate Governance Statement

The City Care Limited Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company maintains best practice governance structures and adheres to high ethical standards.

This statement presents an overview of the main corporate governance policies of the company.

Board role and responsibility

Citycare's Board of Directors is appointed by the Shareholder, and is responsible for the direction and control of the company's activities. The primary objective of the Board is to build long-term Shareholder value with due regard to other stakeholder interests. The Board does this by setting strategic direction and context and focusing on issues critical for its successful execution.

The role and responsibilities of the Board are formalised in the Board Charter, which is reviewed periodically. The purpose of the Board Charter is to provide high standards of corporate governance and clarify the Board's role and responsibilities. Some of the Board's responsibilities are delegated to Board Committees. The roles of the committees are described below.

The Board has delegated to the Chief Executive Officer the day-to-day leadership and management of the company. The Chief Executive Officer has formally delegated certain authorities to direct reports and has established a formal delegated authority framework for those direct reports to sub-delegate as appropriate.

All current members of the Board are independent non-executive Directors.

The Board endorses and adheres to the principles of the Institute of Directors of New Zealand and the Four Pillars of Governance Best Practice for New Zealand Directors.

Responsibility to Shareholder

In accordance with Section 64 of the Local Government Act 2002, the company will submit to the Shareholder a draft SOI by 1 March 2017, for the coming financial year. The SOI sets out the objectives, activities, intentions, financial and performance targets.

After due consideration and discussion with the Shareholder and completion of the annual business planning and budgeting, the final SOI is approved by the Board of Directors and delivered to the Shareholder in June 2017.

Board composition

The company's Constitution provides that the Board will consist of a maximum of seven Directors. Currently the Board comprises six independent non-executive Directors, and the company fully supports the Shareholder's Internship Programme. With the prior approval of the Shareholder, the Board may appoint one full-time executive as a Director of the company.

Directors retire and are eligible for re-election by rotation in accordance with CCHL Policy on Appointment and Remuneration of Directors September 2007. Retiring Directors are eligible for re-election.

The Shareholder has the right to appoint a Chairman and if it considers appropriate, a Deputy Chairman for such periods as it sees fit. If the Shareholder does not exercise that right, then the Board may elect their own Chairman or Deputy Chairman. The Board currently does not have a Deputy Chairman.

The Board supports the separation of the role of Chairman and Chief Executive Officer. The Chairman's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Chief Executive Officer.

Conflicts of interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between the company and their own interests. The Board Charter outlines the Board's policy on conflicts of interest. Where conflicts of interest do exist at law, then the Director/s concerned must disclose their interest, excuse themselves from any Board discussions and not receive any Board papers in respect of those interests.

The company maintains a Board and Management Interests Register and reviews this register at each Board meeting. Cityare's Conflict of Interest Policy clearly outlines corporate and employee expectations related to actual and potential conflicts of interest and provides a substantive framework to manage this.

Nominations and appointment of new Directors

The procedures for appointing and removing Directors are governed by the company's Constitution. When considering candidates to act as Director, the Shareholder considers such factors as it deems appropriate, including the experience, qualifications, availability and judgment of a candidate, and the candidate's ability to work alongside other Directors.

Board meetings

Each year there are 12 scheduled meetings of the Board. The Board also meets as required between the scheduled meetings.

The Chairman and Chief Executive Officer establish meeting agendas to ensure adequate coverage of all key issues. The Directors generally receive Board papers one week in advance of Board meetings, except in the case of special meetings for which the time period may be shorter.

The Board encourages scheduled presentations at Board meetings by managers who can furnish additional insight into items being discussed, or have future potential that could or should be demonstrated to the Board.

Directors are entitled to have access, at all reasonable times, to all relevant company information and to the company's management team. Any Director is entitled to obtain independent professional advice relating to the affairs of the company or to his or her other responsibilities as a Director. If a Director considers such advice necessary, the Director shall first gain the approval of the Chairman, and having done so, shall be free to proceed.

The Board meets regularly in Director-only sessions, without the Chief Executive Officer or other management present.

Directors' induction and education

Upon appointment to the Board, all new Directors undergo a tailored induction programme appropriate to their experience to familiarise them with Citycare's business and strategy. The programme includes one-on-one meetings with management and visits to key company sites.

Directors are expected to keep themselves informed of changes and trends in the company's business and in the environment and markets in which the company operates.

All Directors undertake continuous development so that they may appropriately and effectively perform their duties.

Board performance review

The Board reviews its own performance regularly, and the performance of the Chief Executive Officer. The process includes one-on-one meetings between the Chairman and each Director, as well as regular Board discussions on governance and performance issues.

Chief Executive Officer performance review

The Board reviews the performance of the Chief Executive Officer against his key performance objectives at least once a year.

Insurance

The company has arranged liability insurance for Directors and Officers. This insurance ensures that, generally, Directors will incur no monetary loss as a result of actions undertaken by them as Directors of the company arising out of acts or omissions of Directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

The company indemnifies the Directors and holds them harmless, to the extent possible by law and as allowed under the company's Constitution, against any proceedings incurred, suffered or expended by or threatened against the Directors with respect to any act or omission in their capacity as a Director. The indemnity excludes: gross negligence or wilful default, deliberate action outside the scope of the delegated authority, criminal liability, breaches of duty under section 131 of the Companies Act 1993 and any other liability for which giving an indemnity is prohibited by law.

Board committees

The Board has three formally constituted committees, the Risk, Audit and Finance (RAF) Committee, the Health & Safety (HS) Committee, and the Remuneration Committee. The committees have Board-approved Charters outlining the committees' authority, duties, responsibilities and relationship with the Board. Other committees may be established as and when required.

Risk, audit and finance committee

The objective of the RAF Committee is to provide independent assurance and assistance to the Board on the company's risk, control and compliance framework, and its external accountability and reporting responsibilities.

The RAF Committee is chaired by a Director who is not the Board Chairman. It comprises non-executive members of the Board as appointed by the Board from time to time. The Chief Executive Officer and Chief Financial Officer also attend meetings but are not members of the committee. Any non-executive Directors who are not committee members may also attend meetings of the committee.

The RAF Committee shall assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to:

- Risk management and systems of internal control;
- Business policies and practices;
- Compliance with applicable laws and regulations (health and safety matters specifically excluded);

Corporate Governance Statement continued

- Reporting of financial information and regulatory disclosure requirements (including all related audit matters); and
- Financial management and protection of the company's assets.

Meetings are scheduled during the year to coincide with the timing of the various responsibilities of the committee. The committee has direct communication with and unrestricted access to the external and internal auditors.

In fulfilling its responsibilities, the RAF Committee receives regular reports from management as well as the internal and external auditors. The RAF Committee meets (at least) annually with the external auditor without the presence of management.

The committee makes recommendations to the Board for its consideration.

Remuneration committee

The objective of the Remuneration Committee is to provide independent assurance and assistance to the Board on the company remuneration strategy and Chief Executive Officer's employment conditions. The Remuneration Committee comprises up to three non-executive members of the Board as appointed by the Board – currently the committee Chair is the Board Chairman.

The frequency of meetings is determined by the committee Chair to align with the company remuneration cycles.

The Remuneration Committee shall assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to:

- The remuneration strategy;
- The remuneration arrangements, including any incentive plans for the Chief Executive Officer, other senior executives and any executive Directors;
- The remuneration, recruitment retention and termination policies and practices with regard to the Chief Executive Officer;
- Reviewing succession plans for the senior executives;
- Reviewing the training and development plans for the senior executives; and
- The company's best practice disclosure obligations for executive remuneration reporting (on a six monthly basis) and other matters within the responsibilities of the committee.

In fulfilling its responsibilities, the Remuneration Committee seeks and receives independent advice and timely evaluation reports on current market remuneration information.

The committee makes recommendations to the Board for its consideration.

Health and safety committee

The objective of the HS Committee is to provide independent assurance and assistance to the Board and Chief Executive Officer on the company's health and safety performance, systems and processes, compliance and reporting responsibilities.

The HS Committee comprises two non-executive Directors of the Board as appointed by the Board – currently the committee Chair is the Board Chairman – as well as the Citycare Chief Executive Officer and GM Safety. There is also representation from the operational EGMs as required and any non-executive Directors who are not committee members may also attend HS Committee meetings.

The HS Committee's main responsibilities are to ensure that the company has effective systems and processes to continue to provide the best practicable health and safety performance, and to assist the Board in fulfilling its strategy, policy, systems oversight, monitoring and corporate governance responsibilities in relation to health and safety matters arising out of Citycare's activities as they affect employees, contractors, visitors, customers and the communities in which Citycare operates.

Meetings will be held on a two monthly basis to coincide with the timing of the various responsibilities of the committee.

In fulfilling its responsibilities the HS Committee receives regular reports from management through the Board reporting process. It also receives incident information whenever significant events occur. The need for access to auditors, legal or independent professional advice is to be determined by the committee as and when required to fulfil its obligations.

The committee makes recommendations to the Board for its consideration.

Downloadable copies of the 2017 Annual Report are available at www.citycare.co.nz

Directory

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Chairman

Margaret Devlin

Gary Leech

Craig Price

Jennifer Rolfe

Mark Todd

Madeleine Martin (Intern)

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Onno Mulder
Chief Executive Officer

Paul Kiesanowski
Chief Financial Officer

Paul Blackler
Executive General Manager, Civil

Tim Gibson
Executive General Manager, Water

Peter Lord
Executive General Manager, Property

Nige Cottingham
Executive General Manager Strategy, Marketing and Business Development

Leeanne Carson-Hughes
Executive General Manager People and Culture

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on behalf of the Auditor-General

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Tavendale and Partners

Bankers

Bank of New Zealand

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