

**Crown Asset Management
Limited**

**ANNUAL REPORT
2015**

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1. Chairman's Report

I am pleased to present the fourth annual report for Crown Asset Management Limited covering the period 1 July 2014 to 30 June 2015.

Crown Asset Management Limited (CAML) was incorporated on 14 February 2012 and commenced business in late May 2012. Under its constitution, it has been established to:

- acquire, manage and realise all of the assets of six of the eight finance companies under the Crown Retail Deposit Guarantee Scheme;
- acquire, manage and realise certain assets of Southern Response Earthquake Services Limited; and
- provide a better return to the Crown by operating in a manner that maximises returns and minimises costs.

During the year significant asset disposals occurred and CAML succeeded in its mandate to realise the assets in a commercial and efficient manner to optimise the return to the Crown from these assets. Our results, as measured against the Company's Statement of Intent, can be found in section 5 of this report.

During the financial year CAML distributed \$34.15 million to the Crown. As at 30 June 2015 and since inception, CAML has returned \$248.8 million to the Crown. At the date of this report, subsequent returns have been made which increase this to \$258 million.

CAML's returns to the Crown to date equate to 150% of the original acquisition value of the assets. The decision to set up the Company was based on the premise that, freed from the constraints of Receivership and pooled together, these assets would be able to be realised more quickly and at lower cost than under receivership. This has proved to be correct. The costs of managing CAML have been significantly lower than otherwise and the Company has been able to realise assets quickly due to less onerous legal constraints.

This is an exceptional result which vindicates the decision to establish CAML.

For the 2014-15 year, board numbers remained at three to match the governance team more appropriately to the reduced size of the Company. For the 2015-2016 year, Keiran Horne will retire on 30 September 2015, leaving two directors to oversee the final matters.

The main focus of the 2015-2016 year will be the conclusion of the offshore litigation currently in progress and resolution of four long dated assets which will either be realised or transferred to The Treasury for ongoing management.

I wish to thank the staff and Directors for their input to the success of the Company. Their contributions have enabled CAML to exceed its goals. The Board of CAML has a greater involvement in the operations of the Company than most other Boards. This is a reflection of the mandate and goals of the Company and the skills the Board has available to assist Management.

Finally I would like to express the Board's thanks to the continuing leadership provided by Sharon Burleigh, our General Manager. I know both staff and the Board are greatly appreciative of the effort Sharon puts in and the results that are achieved.



Gary Traveller
Chair
Crown Asset Management Limited

2. Board of Directors

Directors Profiles and Interests Held

Chair – Mr Gary Traveller

(Appointed 18 March 2012)

Prior to becoming a professional director, Mr Traveller was a partner at PricewaterhouseCoopers and has extensive experience in insolvency and work out situations.

The following are general disclosures of interest given by Mr Traveller pursuant to s140(2) of the Companies Act 1993 and entered into CAML's interests register: Chairman – Plywood City Ltd; Director – Quotable Value Ltd; Director – Suncourt Plaza Ltd; Director – Darroch Ltd; Director/Shareholder – K V Designs Ltd; Director/Shareholder – TM Stud Ltd; Director/Shareholder Mapcon Ltd; Director – Pyramid Building Panels Ltd; Director – Pyramid panels Ltd; Director Mamaku Holdings Ltd; Director Mamaku 6 Ltd; Director – Mamaku 7 Ltd; Director – Mamaku 15 Ltd; Director – Acacia Blue limited; Trustee – NZ Patchwork & Quilting Charitable Trust; Trustee of various private family trusts.

Director – Mr Peter Castle (Deputy Chair)

(Appointed 14 February 2012)

Mr Castle is a Barrister and former partner at Bell Gully.

The following are general disclosures of interest given by Mr Castle pursuant to s140(2) of the Companies Act 1993 and entered into CAML's interests register: Director/Shareholder - Clifton Chambers Ltd

Director – Ms Keiran Horne

(Appointed 18 March 2012)

Ms Horne is a consultant specialising in insolvency matters at HFK Ltd.

The following are general disclosures of interest given by Ms Horne pursuant to s140(2) of the Companies Act 1993 and entered into CAML's interests register: Director – Solid Energy Ltd; Director – Coalcorp Insurance Services Ltd; Director – Breastscreen Otago Southland Ltd; Trustee CEC Charitable Trust; Trustee of various private family trusts.

3. Executive Interest Register

Executive	Interest Disclosed
Sharon Burleigh General Manager	Trustee - private family trust

4. Governance

Overview

CAML is a Crown company listed as a Schedule Four company under the Public Finance Act 1989. As a Crown company, CAML is subject to the Companies Act 1993 in addition to other Acts governing Statutory Entities.

This framework allows CAML to have a mix of commercial and non-commercial objectives allowing the company to operate in a commercial manner within the public sector environment.

As a Crown company, CAML's board is accountable to its shareholders. Currently the Minister of Finance and the Minister for State Owned Enterprises are equal shareholders in CAML.

The Ministers' role is to:

- monitor the performance of the Company (by way of the Treasury);
- appoint and remove Board Members;
- approve transactions defined by the Companies Act as "major transactions";
- approve other significant decisions regarding the scope of the Company's activities; and
- give directions relating to the acquisition, management and realisation of other assets by the Company.

Governance Functions and Responsibilities

During the year, CAML was governed by a Board comprising three Directors, including a chairperson.

For the 2014-2015 year, there were no subcommittees with all matters being dealt with the by the Board.

From 1 October 2015, the board will consist of two Directors.

5. Key Performance Measures

Key performance measures for CAML are set out in its Statement of Intent and Statement of Performance Expectations, which included a budgeted Statement of Comprehensive Revenue and Expense and Balance Sheet for the year ended 30 June 2015.

The key performance measures cover three areas: asset management, operational goals and cash management.

The Company's performance for the year against the key measures is set out below.

5.1 Asset Management

Number of Assets Under Management	Actual	Budget	Movement YTD		
	30-Jun-15	30-Jun-15	Actual	Budgeted	Variance
No.	2	9	(120)	(113)	(7)
Loan advances	2	9	(120)	(113)	(7)
Property	-	1	(4)	(3)	(1)
Investments & Other Receivables	2	1	(2)	(3)	1
Total Assets (No.)	4	11	(126)	(119)	(7)

The total number of loans managed was 2 at 30 June 2015. One loan was on-sold on 3 July leaving one advance remaining for the 2016 year.

Value of Assets under Management	Actual	Budget	Movement YTD		
	\$'000 30-Jun-15	\$'000 30-Jun-15	Actual	Budgeted	Variance
Loan advances	10,000	10,000	(4,113)	(4,113)	-
Property	-	-	(6,519)	(6,519)	-
Investments & Other Receivables	987	1,000	(13)	-	(13)
Total Assets	10,987	11,000	(10,645)	(10,632)	(13)

The asset base under management has reduced by \$10.65 million to \$10.99 million. This is lower than budgeted due to a \$600k distribution received during the year, which reduced the value of an investment previously held at \$1 million to \$400k. This was mostly offset by the revaluation of an equity investment from nil to its fair value of \$587k.

Total Recoveries			
\$'000	Full Year to 30 June 2015		
	Actual	Budget	Variance
Loan advances	15,440	4,946	10,494
Property	11,098	6,988	4,110
Investments	355	300	55
Receivable	808	-	808
Total Recoveries	27,701	12,233	15,468

Total recoveries, which are measured as cash collected from the assets, exceeded budget by \$15.47 million in the year to 30 June 2015.

CAML has largely completed its recovery activities with the majority of loans having been recovered and a small number on-sold to a third party in June 2015. All property has been realised and only two small investments and one advance remain to be collected.

The investments will be transferred to the Crown for management until maturity if they are not realised during the year.

5.2 Operational Goals

(a) Operating Costs	YTD 12 months to 30 June 2015		
	Actual	Budget	Variance
Actual operating costs not exceeding budget (\$'000)	2,263	2,573	- 310

Expenses for the year were below budget due to reduced winding up costs.

(b) Operating Costs to Recoveries ratio		YTD 12 months to 30 June 2015		
		Actual	Budget	Variance
Comparison of operating expenses compared to total value of recoveries for the period (\$'000)	Expenses	2,263	2,573	- 310
	Recoveries	27,701	12,233	15,468
	Ratio	8%	21%	-13%

(c) Loan Recoveries to Net Loan Balances ratio		YTD 12 months to 30 June 2015		
		Actual	Budget	Variance
Comparison of actual loan recoveries compared to net balances of loans for the period (\$'000)	Loan Recoveries	15,440	4,946	10,494
	Net Loans	14,113	-	14,113
	Ratio	109%	0%	74%

Loan recoveries were higher than budget due to realisation of all but one of the loans during the year.

(d) Loan Provisioning		YTD 12 months to 30 June 2015	
		New Individual Loan Provisions	
Minimal increase in loan provisions after first assessment		361	
		Change in Collective Provision	
Collective Provision against Loans		-750	

During the year individual provisions were made against specific loans where increased credit risk was identified. The increase in individual provisions is only 2.5% of the net loan balance for the year and is significantly offset by higher than budgeted recoveries on other loans.

The collective provision was not required and was recovered in June 2015.

5.3 Cash Management

Distributions to the Crown are made each quarter based on collections made during the previous quarter after allowing for future cash requirements. The distributions shown below are those actually paid during the year.

(a) Crown Distributions	YTD 12 months to 30 June 2015		
	Actual	Budget	Variance
Total value of distributions to the Crown compared with agreed target	34,149	30,852	3,297

(b) % of Recoveries Distributed to the Crown	YTD 12 months to 30 June 2015			
	Actual	Budget	Variance	
Cash distributed divided by total recoveries compared with agreed targets and the cash distribution mechanism	Distribution	34,149	30,852	3,297
	Recoveries	27,701	12,233	15,468
	%	123%	252%	-129%

The Company paid \$34.15 million to the Crown during the year and a further \$8.75 million was distributed in August 2015 in respect of the quarter to 30 June 2015. Distributions were higher than budget due to better than expected recoveries from the assets retained.

6. Statement of Performance

Section 151 (1) (b) of the Crown Entities Act 2004 requires Crown Entities to include a Statement of Performance in their Annual Accounts. However, section 151 (1A) states that this does not apply unless the Crown Entity supplied one or more reportable classes of outputs during the year. The Company did not supply any reportable classes of output during the year and therefore is not required to include a Statement of Performance in its Annual Accounts.

7. Statement of Responsibility

Crown Asset Management Limited

Statement of Responsibility

For the year ended 30 June 2015

In terms of the Public Finance Act 1989, the Board is responsible for the preparation of Crown Asset Management Limited's financial statements and for the judgements made in them.

The Board of Directors of Crown Asset Management Limited has the responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting for the Company.

In the Board's opinion, these financial statements fairly reflect the financial position and operation of Crown Asset Management Limited for the year ended 30 June 2015.

Signed on behalf of the Board.



Gary Traveller
Chair

1 September 2015



Keiran Horne
Director

1 September 2015

8. Audit Report

9. Financial Statements

Crown Asset Management Limited Statement of Comprehensive Revenue and Expense For the Year Ended 30 June 2015

		30 June 2015 \$000's	30 June 2014 \$000's
	Note		
Lending Activities			
Revenue from lending activities	6	8,527	6,145
Fair value movement on loans and advances		3,529	8,138
		<u>12,056</u>	<u>14,283</u>
Less:			
Loan collection costs - external fees and expenses		815	800
Impairments on loan advances		361	936
Net surplus/(deficit) - lending activities		10,880	12,547
Trading Activities - investments			
Gain on available for sale financial assets		355	(16)
Gain on sale of investments		553	4,537
Property and forestry income		201	-
Reversal of interest expense on derecognition of liability		341	-
		<u>1,450</u>	<u>4,521</u>
Less:			
Property and forestry costs		116	1,153
Interest expense		-	256
Impairments and fair value write downs		14	185
Loss on sale of investments		-	10
		<u>130</u>	<u>1,604</u>
Net surplus/(deficit) - investments		1,320	2,917
Revenue from Other Assets	7	218	9,380
Net Revenue		12,418	24,844
Less Expenses			
Directors fees		153	225
Audit fees	8	29	71
Other expenses	9	1,150	2,847
Total Expenses		1,332	3,143
Net surplus/(deficit)		11,086	21,701
Other comprehensive revenue and expense			
Revaluation gain on available for sale financial assets		587	-
Total comprehensive revenue and expense		11,673	21,701
Total comprehensive revenue and expense for the year is attributable to:			
Equity holders of the company		11,673	21,701
		<u>11,673</u>	<u>21,701</u>

Crown Asset Management Limited
Statement of Changes in Net Assets/Equity
For the Year Ended 30 June 2015

		Share Capital \$000's	Accumulated Comprehensive Revenue and Expenses \$000's	Other Reserves \$000's	Attributable to Equity Holders of The Company \$000's
	Note				
2014					
Opening equity at 1 July 2013		40,082	76,704	-	116,786
Total surplus/(deficit) for the year		-	21,701	-	21,701
Transactions with equity holders, recognised directly in equity:					
Ordinary shares issued	14	4,000	-	-	4,000
Ordinary shares repurchased	14	(30,471)	-	-	(30,471)
Dividends Paid		-	(67,311)	-	(67,311)
Closing equity at 30 June 2014		<u>13,611</u>	<u>31,094</u>	<u>-</u>	<u>44,705</u>
2015					
Opening equity at 1 July 2014		13,611	31,094	-	44,705
Total surplus/(deficit) for the year		-	11,086	-	11,086
Fair value movement in share revaluation		-	-	587	587
Transactions with equity holders, recognised directly in equity:					
Ordinary shares issued	14	-	-	-	-
Ordinary shares repurchased	14	-	-	-	-
Dividends Paid		-	(34,150)	-	(34,150)
Closing equity at 30 June 2015		<u>13,611</u>	<u>8,030</u>	<u>587</u>	<u>22,228</u>

Crown Asset Management Limited
Statement of Financial Position
As at 30 June 2015

		30 June 2015 \$000's	30 June 2014 \$000's
Assets	Note		
Cash and cash equivalents		11,054	19,366
Trade and other receivables from exchange transactions	10	804	8,614
Prepayments	10	80	47
Loans and advances to customers	11	10,000	14,113
Available for sale financial assets	12	587	-
Investments	13	-	6,519
Total Assets		<u>22,525</u>	<u>48,659</u>
Liabilities			
Trade and other payables under exchange transactions		297	3,954
Total Liabilities		<u>297</u>	<u>3,954</u>
Net Assets		<u>22,228</u>	<u>44,705</u>
Equity			
Equity attributable to equity holders of the company			
Contributed equity		13,611	13,611
Accumulated comprehensive revenue and expenses		8,030	31,094
Fair value movement in share revaluation		587	-
Total Equity	14	<u>22,228</u>	<u>44,705</u>

Signed for and on behalf of the Board of Directors, which authorised the issue of the Financial Statements on 21 August 2015




Gary Traveller (Chairman)

Keiran Horne (Director)

Crown Asset Management Limited
Statement of Cash Flows
For the Year Ended 30 June 2015

	Note	30 June 2015 \$000's	30 June 2014 \$000's
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,546	21,695
Interest received		538	749
Proceeds from the sale of available for sale financial assets		355	1,140
Proceeds from the sale of investments		11,094	23,351
Sale of property plant & equipment		4	17
Recoveries from other receivables		808	49,243
Decrease (Increase) in lending		8,894	(161)
Payments to suppliers and employees (inclusive of GST)		(2,401)	(4,392)
Purchase of property plant & equipment		-	(1)
Purchase of property		-	(5,289)
Net cash flows from operating activities	5	25,838	86,352
Cash flow from financing activities			
Proceeds from the issue of shares		-	4,000
Payment for share buy back		-	(30,471)
Equity dividends paid		(34,150)	(67,311)
Net cash flow used in financing activities		(34,150)	(93,782)
Net increase in cash and cash equivalents		(8,312)	(7,430)
Cash and cash equivalents at beginning of the year		19,366	26,796
Cash and cash equivalents at end of the year		11,054	19,366

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

1. Company Activity

Crown Asset Management Limited (the Company) is a public benefit entity incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company is a public benefit entity for the purposes of the Financial Reporting Act 2013. The Company's principal activity is the realisation of financial assets. The Company was incorporated on 14 February 2012. The Company was established to acquire from the Crown the loan receivables and other financial assets of six finance companies in receivership that were participants in the Crown Retail Deposit Guarantee Scheme and any other assets that it may be directed to acquire by its shareholders and to realise the assets acquired.

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable Financial Reporting Standards. In previous years the financial statements complied with New Zealand Equivalents of International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with Tier 2 PBE Standards and disclosure concessions have been applied. The criteria under which an entity is eligible to report in accordance with Tier 2 PBE standards is due to the Company not being publicly accountable or large, as defined by the *External Reporting Board (XRB) Standard A1: Application of Accounting Standards*.

The financial statements of the Company have been prepared in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which includes the requirement to comply with NZ GAAP. The financial statements are for the year ended 30 June 2015.

Section 151 (1) (b) of the Crown Entities Act 2004 requires Crown Entities to include a Statement of Performance in their Annual Accounts. The Company did not supply any reportable classes of output during the year and therefore is not required to include a Statement of Performance in its Annual Accounts, in accordance with section 151 (1) (a) of the Crown Entities Act 2004.

The financial statements were authorised for issue by the Board of Directors on 21 August 2015.

(b) Non-Going Concern Basis

In line with the Company's objectives, as detailed in the Statement of Intent, the financial statements have not been prepared on a going concern basis. As at balance date, the Company is involved in a litigation to realise a significant asset. As a result the Company will remain in operation and it is expected to realise its remaining recoverable assets and cease operations by 30 June 2016. Any assets that have not been realised by June 2016 will be transferred to The Treasury for management. For the year ended 30 June 2015, the financial statements have been compiled on a non-going concern basis.

The Company is no longer adopting the going concern assumption for accounting purposes and as a consequence the Company's assets and liabilities at 30 June 2015 have been incorporated into these financial statements at a value ultimately expected to be received or paid.

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

2. Statement of compliance and basis of preparation continued

(c) Basis of measurement

The financial statements have been prepared on a non-going concern basis. The non-going concern basis was also applied for the year ended 30 June 2014.

(d) Functional and presentation currency

The financial information is presented in New Zealand dollars, which is the Company's functional currency. Except as otherwise stated amounts have been rounded to the nearest thousand dollars.

3. Significant Accounting Policies

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

(a) Effect of first-time adoption of PBE standards

This is the first set of financial statements that the Company has presented in accordance with PBE standards. The Company has previously reported in accordance with NZ IFRS.

The accounting policies adopted in these financial statements are consistent with those of the previous financial year, except for instances when the accounting or reporting requirements of a PBE standard are different to requirements under NZ IFRS as outlined below.

The changes to accounting policies and disclosures caused by first time application of PBE accounting standards are outlined below.

PBE IPSAS 1: Presentation of Financial Statements

There are minor differences between PBE IPSAS 1 and the equivalent NZ IFRS standard. These differences have effect on wording in the financial statements and disclosures only.

PBE IPSAS 9: Revenue from Exchange Transactions and PBE IPSAS 23: Revenue from Non-Exchange Transactions

Disclosures relating to revenue in the Statement of Comprehensive Revenue and Expense and disclosures relating to trade and other receivables and loans and advances to customers in the Statement of Financial Position now distinguish between revenue from exchange transactions and revenue from non-exchange transactions.

(b) Controlled entities

Controlled entities are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the economic entity controls another entity.

Controlled entities are fully consolidated from the date on which control is obtained. They cease to be consolidated from the date on which control is transferred out of the controlling entity.

The Directors do not consider controlled entities that are under the control of a liquidator, or where the Company has no right to appoint directors, to be in the control of the Company.

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

3. Significant Accounting Policies continued

(c) Foreign currency translation

The financial statements are presented in New Zealand Dollars (“\$”). This is the functional and presentational currency for the Company and for all controlled entities of the Company (the Economic Entity).

Transactions in foreign currencies are initially recorded at the functional currency of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the balance sheet date. All differences arising on non-trading activities are recognised in the “non-trading foreign exchange gain” line of the Statement of Comprehensive Revenue and Expense.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(d) Recognition of revenue and expense

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest revenue

Interest revenue for all instruments measured or amortised is recognised as it accrues, using the effective interest rate method. This calculates the amortised cost of the financial asset and allocates interest income, including any fees and directly related transaction costs over the expected life of the asset. This has the effect of recognising interest in proportion to the amount outstanding over the life of the asset.

(ii) Dividend revenue

Dividend revenue is recognised in the Statement of Comprehensive Revenue and Expense when the Company's right to receive payment becomes unconditional.

(iii) Forestry revenue

Forestry revenue is recognised in the revenue from “investments” line item in the Statement of Comprehensive Revenue and Expense as the product is sold. Forestry costs include amortisation of the forestry asset.

(iv) Exchange and non-exchange revenue

Revenue has been identified as either exchange or non-exchange transactions. Exchange transactions are transactions where the Company has given approximately equal value in consideration to another entity in exchange. Non-exchange transactions are transactions where the Company receives value from another entity without giving approximately equal value in exchange. Revenue items have been disclosed as either exchange or non-exchange revenue in notes 6 and 7.

(e) Income tax

Income tax has not been accounted for in these financial statements on the basis that the Inland Revenue Department has granted the Company an exemption from income tax.

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

3. Significant Accounting Policies continued

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the Inland Revenue Department (IRD), in which case, it is recognised as a separate expense item in the Statement of Comprehensive Income.
- Receivables and payables, which are stated GST inclusive.

The net amount of GST recoverable from, or payable to, the IRD is included as in the receivables or payables line item in the Statement of Financial Position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the IRD.

(g) Financial assets

(i) Initial Recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are initially recognised at fair value plus, in the case of financial assets not recorded at fair value through surplus or deficit, transaction costs that are attributable to the acquisition of the financial asset.

(ii) Subsequent measurement

For the purpose of subsequent measurement financial assets are classified as the following categories:

- Loans and receivables
- Available-for-sale financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

This category applies to cash and cash equivalents, loans and advances, and trade and other receivables.

Available-for-sale financial assets

Available-for-sale (AFS) financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through surplus or deficit. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive revenue and expense and accumulated in the AFS reserve until:

- The investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or:
- The investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the Statement of Comprehensive Revenue and Expense in finance costs.

Interest earned whilst holding AFS financial investments is reported as interest income using the effective interest rate method.

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

3. Significant Accounting Policies continued

(g) Financial assets continued

(iii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flow from the financial assets expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(v) Asset quality

All loans and advances have been subject to regular credit scrutiny. Impaired assets were classified into the following categories:

Restructured advances: Advances on which original terms have been changed due to borrowers' difficulty in complying and on which interest continues to be accrued at a rate of interest which is equal to or greater than the average cost of funds at the date of restructuring. The revised terms are not comparable with the terms of new facilities with comparable risks at the date of restructure.

Impaired assets: Assets for which an impairment loss has been recognised or a restructuring has occurred to a non-market interest rate.

Past due assets: Assets where a counterparty has failed to make a payment when contractually due. For the purposes of these financial statements, past due financial assets are not impaired assets.

(vi) Identification and measurement of impairment

The Company assesses at each balance date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if one or more events have occurred after the initial recognition of the asset and the event's impact on the estimated future cash flows of the financial asset. The allowance for impairment is deducted from advances in the Statement of Financial Position and the movement in the allowance is reflected in the Statement of Comprehensive Revenue and Expense as an impairment loss.

In considering whether a financial asset is impaired, the Company considers the borrower's payment history, makes an assessment of their ability to make future payments, the industry category in which they operate and the estimated value of security held to support the loan. In assessing the level of impairment the Company considers the estimated value of any collateral held. Conditions associated with the collateral may vary between individual loans but in general, following default by the borrower, the Company is permitted to sell or re-pledge the collateral offered as security for the loan.

All known losses arising from loans and advances that are deemed unrecoverable are written off against income in the period in which they become evident. Any subsequent recovery of an amount previously written off is taken to the Statement of Comprehensive Revenue and Expense.

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

3. Significant Accounting Policies continued

(h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprises cash held with bank and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts, where applicable, are disclosed separately as a liability in the Statement of Financial Position.

(i) Investments

The Company classifies investments if their carrying value will be recovered principally through sale or distribution, rather than continued use. Such assets are measured at the lower of their carrying value and fair value less the cost to sell or distribute.

The Company assesses the fair value of investments based on market value, e.g. quoted price for investments or recent observable trades in similar assets. Where there is no active market or observable trades, investments are carried at cost.

(j) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amount expected to be paid when the liabilities are settled. Expenses for non-accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(k) Cash flow statement

The Statement of Cash Flow has been prepared using the direct approach. Cash flows are stated GST inclusive where transactions are subject to GST. Cash flows relating to loan receivables, held for sale assets and other asset recoveries are included in the Operating Cash flow section as the Company's primary business is to obtain recoveries from the assets that it acquired.

(l) Changes in accounting policies

There has been a change in policy for the year ended 30 June 2015 with the first time adoption of PBE IPSAS. Adoption of PBE IPSAS 1: Presentation of Financial Statements has had an effect on wording in the financial statements and disclosures only. Adoption of PBE IPSAS 9: Revenue from Exchange Transactions and PBE IPSAS 23: Revenue from Non-Exchange Transactions has had an effect on disclosures relating to revenue in the Statement of Comprehensive Revenue and Expense and disclosures relating to trade and other receivables. Loans and advances to customers in the Statement of Financial Position now distinguish between revenue from exchange transactions and revenue from non-exchange transactions.

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

4. Significant Accounting Judgements and Estimates and Assumptions

The preparation of the financial statements requires the use of management judgements, estimates and material assumptions that affect the reported revenue, expenses, assets, liabilities, disclosures and the application of policies. Actual results may differ from these estimates under different assumptions and may materially affect financial results or the financial position reported in future periods.

Estimates and judgements are continually evaluated in relation to assets, liabilities, contingent liabilities, revenue and expenses and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying the Company's accounting policies, management has made the following estimates and judgements which have the most significant effect on the amounts recognised in the financial statements:

Impairment losses on loans and advances

Those responsible for preparing the financial statements use significant judgement in determining whether a loss event has occurred and whether an impairment provision needs to be estimated.

Specific impairment on individual advances

The Company individually reviews all significant advances at each reporting date to assess whether an impairment loss has occurred and should be recorded in the Statement of Comprehensive Revenue and Expense. In determining whether there is objective evidence of impairment, those responsible for preparing the financial statements consider factors including significant financial difficulty of the borrower, breach of contract or default by the borrower, adverse changes in the payment status of the borrower, and economic data that correlates with defaults on a group of advances.

Estimates are made by those responsible for preparing the financial statements in determining the amount of impairment losses. These estimates include the amount and timing of risk free future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realisable value of collateral being in many cases real property assets. In the current economic conditions, and given the high level of uncertainty in respect of property values, and the difficulties in assessing borrowers' ability to meet their future obligations, actual results may differ. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment loss.

Collective impairment

The Company also assesses advances for collective impairment. All advances that have not been assessed individually and impaired are included in this assessment. For this assessment, similar advances are grouped based on shared risk characteristics and are then assessed collectively, to determine whether an impairment provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the advances portfolio including historic trends, advances status, advances class and economic data.

The provision for impairment loss on advances is disclosed in note 11.

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

5. Reconciliation of Profit with Cash Flow from Operating Activities

	30 June 2015 \$000's	30 June 2014 \$000's
Net surplus	11,086	21,701
Movement in working capital items:		
Decrease/(Increase) in trade and other receivables	7,777	34,514
(Decrease)/Increase in trade and other payables	(3,657)	(7)
Decrease/(Increase) in loans and advances to customers	4,113	8,140
Decrease/(Increase) in investments	6,519	21,856
Decrease/(Increase) in property plant and equipment	-	148
Working capital movements	<u>14,752</u>	<u>64,651</u>
Net cash flow from operating activities	<u><u>25,838</u></u>	<u><u>86,352</u></u>

6. Revenue from Lending Activities

	30 June 2015 \$000's	30 June 2014 \$000's
Revenue from Exchange Transactions		
Interest earned on cash and cash equivalents	403	708
Revenue from loans and advances to customers	8,044	3,065
Amortisation of provision for direct costs of loan collection	-	2,357
Other interest	80	15
	<u><u>8,527</u></u>	<u><u>6,145</u></u>

The Company did not receive any revenue from lending activities from non-exchange transactions during the year.

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

7. Other Revenue

	30 June 2015 \$000's	30 June 2014 \$000's
Revenue from Exchange Transactions		
Depreciation recovered	5	7
Gain on recovery of receivables	-	9,337
Grazing income	6	-
Management fees	-	36
Recoveries from non-financial assets	208	-
	<u>218</u>	<u>9,380</u>

The Company made recoveries from non-financial assets taken over from the receivership of South Canterbury Finance Limited. These had been acquired and carried at nil value.

The Company did not receive any other revenue from non-exchange transactions during the year.

8. Audit Fees

	30 June 2015 \$000's	30 June 2014 \$000's
Payable to KPMG		
Audit of the financial statements on behalf of the Auditor General	29	43
Taxation Advice	-	3
Payable to Ernst and Young		
Internal Audit Fees	-	25
	<u>29</u>	<u>71</u>

KPMG provided audit services to the Company, on behalf of the Auditor-General, during the year.

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

9. Other Expenses

	30 June 2015 \$000's	30 June 2014 \$000's
Personnel and contractor costs	487	1,810
Legal and other professional fees	249	279
Information systems, computing and telecom	248	304
Premises expenses	23	111
Depreciation	-	148
Other expenses	143	195
	<u>1,150</u>	<u>2,847</u>

10. Trade and Other Receivables

	30 June 2015 \$000's	30 June 2014 \$000's
Trade and Other Receivables from exchange transactions		
Property debtors	-	7,217
Trade receivables	370	57
Other receivables	400	1,316
GST Receivable	34	24
	<u>804</u>	<u>8,614</u>
Prepayments		
Prepayments	80	47
	<u>80</u>	<u>47</u>
	<u>884</u>	<u>8,661</u>

Other receivables include a right to receive the proceeds from the liquidation of Southbury Insurance Limited (In Liquidation).

The Company did not hold any trade and other receivables from non-exchange transactions as at 30 June 2015.

Crown Asset Management Limited
Notes to the Financial Statements
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11. Loans and Advances

Loans and advances and the provisions carried against them:

	30 June 2015 \$000's	30 June 2014 \$000's
Gross advances	10,000	20,685
Individual loan provisions	-	(5,822)
Collective impairment provision	-	(750)
	<u>10,000</u>	<u>14,113</u>
Net loans and advances from exchange transactions	<u>10,000</u>	<u>14,113</u>

Asset quality of loans and receivables:

	30 June 2015 \$000's	30 June 2014 \$000's
Loans and advances not past due or impaired	-	78
Past due loans and advances	-	1,551
Impaired loans and advances	10,000	13,234
Collective impairment provision	-	(750)
	<u>10,000</u>	<u>14,113</u>
Net Advances	<u>10,000</u>	<u>14,113</u>

Movement in provisions:

	Individual Provisions \$000's	Collective Provision \$000's
Balance at 1 July 2014	5,822	750
Additional provisions made	361	-
Provision used in the period	-	-
Provision reversed	(6,183)	(750)
	<u>-</u>	<u>-</u>
Balance at 30 June 2015	<u>-</u>	<u>-</u>

With regard to the loan and advance balance in note 11, the Company, in conjunction with other security holders has begun legal proceedings, filing court action to have the fund wound up on just and equitable grounds and have a liquidator appointed. The amount recorded at 30 June 2015 is unchanged from prior years.

The Company did not hold any loans and advances from non-exchange transactions as at 30 June 2015.

Loans that had not been able to be recovered were sold to a third party on 3 June 2015.

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

12. Available for Sale Financial Assets

	30 June 2015 \$000's	30 June 2014 \$000's
Equity investments	587	-
	<u>587</u>	<u>-</u>

Equity investments are measured at fair value with fair value determined by reference to observable market data.

During the year ended 30 June 2015 an unlisted equity investment previously carried at nil value was revalued to fair value. The investment was valued to USD400,471 and converted using the Reserve Bank of New Zealand USD exchange rate of 0.6822 at 30 June 2015 to NZD587,028.

A summary of movements in available for sale assets is set out below:

	30 June 2015 \$000's	30 June 2014 \$000's
Opening balance	-	691
Additions	-	-
Disposals	(355)	(2,502)
Fair value adjustment	587	1,827
Gain/(loss) on sale	355	(16)
Closing Balance	<u>587</u>	<u>-</u>

13. Investments

Investments at balance date comprise:

	30 June 2015 \$000's	30 June 2014 \$000's
Property assets	-	6,519
	<u>-</u>	<u>6,519</u>

The Company sold investments during the year ended 30 June 2015 for \$11 million net of selling costs (30 June 2014: \$23 million).

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

13. Investments continued

A summary of movements in investments is set out below:

	30 June 2015 \$000's	30 June 2014 \$000's
Opening balance	6,519	27,684
Additions	75	4,473
Disposals	(3,952)	(28,951)
Fair value adjustment	1,340	4,089
Gain/(loss) on sale	(801)	(776)
Derecognition of property on cancellation of purchase agreement	(3,181)	-
Closing Balance	<u>-</u>	<u>6,519</u>

2015:

During the period an agreement for the purchase of a property was cancelled by agreement between the Company and the vendor, Southern Response Earthquake Services Limited. The agreement also provided for deferred payment of the purchase price and interest until settlement date. On cancellation of the agreement the liability was derecognised and interest expense reversed.

2014:

During the year a fair value write up of \$3.97 million was made on property and \$1.83 million was made on investments. The fair value adjustment was made to reflect the expected realisation value of property, net of selling costs, and taking into account actual realisation values subsequent to balance date.

14. Capital and Reserves

	30 June 2015 \$000's	30 June 2014 \$000's
Ordinary shares	13,611	13,611
Accumulated comprehensive revenue and expense	8,030	31,094
Revaluation reserve for shares	587	-
Total shareholder's equity	<u>22,228</u>	<u>44,705</u>

Movement in ordinary shares on issue

	30 June 2015		30 June 2014	
	No. Shares 000's	Value \$000's	No. Shares 000's	Value \$000's
Opening shares	13,611	13,611	40,082	40,082
Shares issued	-	-	4,000	4,000
Shares repurchased	-	-	(30,471)	(30,471)
Closing balance	<u>13,611</u>	<u>13,611</u>	<u>13,611</u>	<u>13,611</u>

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

14. Capital and Reserves continued

Capital contributions

No capital contributions were made during the year (2014: the Company issued 4,000,000 ordinary shares for \$4 million, subscribed in cash. The proceeds of the issue were used to acquire property assets from Southern Response).

Capital repurchases

No capital repurchases were made during the year (2014: the Company purchased and cancelled 30,471,526 ordinary shares for \$30,471,526).

Ordinary shares

There were 13,610,736 ordinary shares at 30 June 2015 (2014: 13,610,736 shares). All ordinary shares have been issued and are fully paid. The shares have no par value. Ordinary shareholders are entitled to receive dividends as declared from time to time. All ordinary shares rank equally and shareholders are entitled to one vote per share at the meetings of the Company. In a winding up, ordinary shares rank in priority behind all other claims.

15. Controlled Entities

2015:

There were no movements in relation to controlled entities during the year.

2014:

The Company realised its interest in the equity of ZNH Limited (In Liquidation) (ZNH), which was classified as Trade and Other Receivables since the Company did not have direct ownership of the ZNH shares or control of ZNH while it was in liquidation. In 2014, the Company had classified its interest in the equity of Southbury Insurance Limited (In Liquidation) as Trade and Other Receivables as the Company has a right to all proceeds attributable to the equity holder from the liquidation but does not have direct ownership of the Southbury Insurance shares or control of Southbury Insurance while it is in liquidation).

16. Related Party Transactions

During the period the Company cancelled an agreement for purchase of a property with Southern Response Earthquake Services Limited, which is wholly owned by the Crown and therefore a related party of the Company.

The Company traded with various Government agencies and Crown owned entities during the year. The amount expended with such agencies and entities was not significant.

The Company has had no transactions with directors with the exception of Directors Fees, provision of training and reimbursement of travel costs. The Company holds an insurance policy which provides certain benefits for the directors and officers such as payment of defence costs and meeting claims in the event of a claim against the Company and/or its directors or officers.

During the period the Company did not purchase any services from companies that are related through having common directorship (2014: The Company purchased valuations of \$1,750 from Quotable Value Limited and valuations of \$1,075 from Darroch Limited, where Mr G Traveller is a director of Quotable Value Limited, Darroch Limited and Crown Asset Management Limited).

Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015

16. Related Party Transactions continued

Key management personnel compensation comprised the following:

	30 June 2015 \$000's	30 June 2014 \$000's
General Management	243	542
Contractor Fees	57	58
	<u>300</u>	<u>600</u>

The Company had \$6,034 of employee benefit liabilities, being accrued holiday pay, payable to other staff members as at 30 June 2015 which are included within trade and other payables on the Statement of Financial Position.

The Company will not have staff or staff liabilities for the year ended 30 June 2016.

17. Donations

During the period the Company made no donations to registered charities (2014: the Company donated an autographed rugby jersey at a charity auction with the proceeds of \$500 donated to a registered charity.)

18. Operating Lease Expenses

The Company has the following cancellable operational lease commitments:

	30 June 2015 \$000's	30 June 2014 \$000's
Less than one year	9	67
Between one and five years	-	9
	<u>9</u>	<u>76</u>

In addition to the above commitments the company has entered into cancellable contracts for the storage of archived records, and the Company has a legal requirement to retain records for a certain period. These contracts will be transferred to the Treasury for on-going management at the cost of the Treasury.

19. Contingent Assets/Liabilities

There were no contingent assets or liabilities for the year ended 30 June 2015. During the year the contingent asset specified in the 2014 year was realised, with \$195k forestry income received. (2014: The Company had sold forestry rights in the year ended 30 June 2013 and the sale agreement provided for final determination of the sale value to be dependent on the volume of merchantable logs harvested at the end of the contract (September 2014). As the volume of merchantable logs could not be accurately quantified by the Company at 30 June 2014, a contingent asset or liability could exist depending on the outcome.)

**Crown Asset Management Limited
Notes to the Financial Statements
For the Year Ended 30 June 2015**

20. Subsequent Events

On 21 August 2015 the Directors resolved to make a distribution to the Crown of \$8.75 million by way of a share repurchase. The distribution was paid on 28 August 2015.

10. Statutory Information

Directors' Fees

	Year ended 30 June 2015 (12 months) \$	Period ended 30 June 2014 (12 months) \$
Board member fees during the period were:		
Gary Traveller	72,000	72,000
Peter Castle	45,000	45,000
Keiran Horne	36,000	36,000
Steven Fyfe	0	36,000
Debbie Birch	0	36,000
Total Board member fees	153,000	225,000

The shareholding Ministers approved directors' fees of \$153,000 for the year ended 30 June 2015.

The Company has effected Directors' and Officers' Liability insurance to cover Directors and Officers. The Company indemnifies the Directors and Officers against costs and liabilities incurred by Directors for acts or omissions made in their capacity as Directors or Officers to the extent permitted by the Company's Constitution and the Companies Act 1993.

Employee Remuneration

Total remuneration per employee paid or payable by the Company in respect of those employees receiving remuneration of over \$100,000 during the period:

	Year ended 30 June 2015 (12 months) No. staff	Period ended 30 June 2014 (12 months) No. staff
\$100,000 - \$110,000	0	1
\$100,000 - \$120,000	0	1
\$120,000 - \$130,000	0	1
\$130,000 - \$140,000	0	1
\$150,000 - \$160,000	0	1
\$170,000 - \$180,000	0	1
\$340,000 - \$350,000	1	1

During the year no employees received compensation or other benefits in relation to cessation of employment. (2014: nil)

11. Directory

Shareholders

The Minister of Finance
The Minister for State Owned Enterprises

Registered Office

Clifton Chambers
70 The Terrace
Wellington 6011
New Zealand

Contact Address

P O Box 778
Wellington 6140
New Zealand

Auditor

The Auditor-General pursuant to section 15 of the Public Audit Act 2001. Graeme Edwards of KPMG was appointed to perform the audit on behalf of the Auditor-General.

Banker

Bank of New Zealand

Lawyers

Duncan Cotterill

Executive Management

Sharon Burleigh, General Manager