

Audited Project Financial Statements

Project Number: 50110-001
Loan/Grant Number: 3632
Period covered: 1 July 2018 to 30 June 2019

COOK ISLANDS: Improving Internet Connectivity for the South Pacific Project

Prepared by Avaroa Cable Limited

For the Asian Development Bank
Date accepted by ADB: 29 January 2020

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and Her Majesty the Queen in Right of the Government of the Cook Islands.

AVAROA CABLE LIMITED

**FINANCIAL STATEMENTS
REPORTING UNDER NZ IFRS RDR**

FOR THE YEAR ENDED 30 JUNE 2019

AVAROA CABLE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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AVAROA CABLE LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED
30 JUNE 2019

The Directors take pleasure in presenting their report for the Company for the year ended 30 June 2019.

ACTIVITIES

The principal activity of Avaroa Cable Limited is to establish and operate telecommunication networks and services on the Islands of Rarotonga and Aitutaki.

RESULTS

The earnings before taxation for the period ended 30 June 2019 was \$37,546.

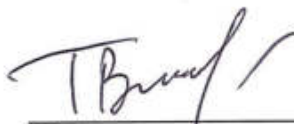
DIVIDEND

The Directors declared no dividends for the period ended 30 June 2019.

AUDITORS

The Company's auditors, KPMG, has been appointed and remains in office in accordance with the provisions of the Companies Act 1970.

The financial statements on pages 5 to 17 are authorised for issue for, and on behalf of, the Board



Director



Director

Dated: 25 October 2019

Dated: 25 October 2019

Independent Auditor's Report

To the shareholders of Avaroa Cables Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Avaroa Cables Limited (the 'company') on pages 5 - 17

- i. present fairly in all material respects the company's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2019;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Other than in our capacity as auditor we have no relationship with, or interests in, the company.



Other matter

The financial statements of Avaroa Cables Limited, for the year ended 30 June 2018, were not audited.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime);
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's 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.

Obtains 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 entity's internal control.

Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

AVAROA CABLE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	Note	30/06/19 \$000	30/06/18 \$000
Revenue			
Aid funding	2	463	-
Crown appropriation		44	-
		<u>507</u>	<u>-</u>
Expenses			
Personnel costs		110	-
Depreciation and amortisation	10	2	-
Director fees and expenses		68	-
Legal and professional fees		90	-
Rental and operating lease costs		7	-
Office communication		7	-
Other expenses	3	185	-
		<u>469</u>	<u>-</u>
Earnings / (deficit) before taxation		<u>38</u>	<u>-</u>
Income tax expense	5	8	-
Net surplus / (deficit) after tax		<u>30</u>	<u>-</u>
Other comprehensive revenue and expense		-	-
Total comprehensive revenue and expense for the period		<u>30</u>	<u>-</u>

AVAROA CABLE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
Equity At 21 March 2017		-	-	-
Share capital issued		1	-	-
Equity At 30 June 2018		1	-	1
Net earnings for the period		-	30	30
Equity At 30 June 2019	7,8	<u>1</u>	<u>30</u>	<u>31</u>

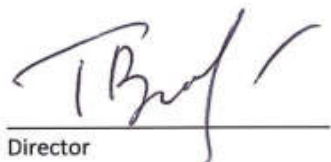
This statement is to be read in conjunction with the notes to the financial statements on pages 8 to 17.



AVAROA CABLE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	30/06/19 \$000	30/06/19 \$000
SHAREHOLDERS FUNDS			
Issued and paid in capital	7	1	1
Retained earnings	8	30	-
Total equity		<u>31</u>	<u>1</u>
Current liabilities			
Sundry payables and accruals		411	-
Employee entitlements	9	14	-
Taxation payable	6	8	-
Related party payable	12	128	-
Total current liabilities		<u>561</u>	<u>-</u>
Non current liabilities			
Deferred revenue liability	2	4,006	-
Total non current liabilities		<u>4,006</u>	<u>-</u>
Total equity & liabilities		<u>4,598</u>	<u>1</u>
Current assets			
Cash and cash equivalents		1	-
Other receivables		541	-
Related party receivable	12	-	1
Total current assets		<u>542</u>	<u>1</u>
Non current assets			
Property, plant and equipment	10	50	-
Work in progress	13	4,006	-
Total non current assets		<u>4,056</u>	<u>-</u>
Total Assets		<u>4,598</u>	<u>1</u>

The Board of Directors of Avaroa Cable Limited authorised the financial statements for issue on:


 Director


 Director

Dated: 25 October 2019

Dated: 25 October 2019

This statement is to be read in conjunction with the notes to the financial statements on pages 8 to 17.



AVAROA CABLE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	30/06/19 \$000	30/06/19 \$000
Cash Flows from Operating Activities			
Cash was provided from:			
Aid funding received for operating costs		293	-
Crown appropriation		44	-
Cash was applied to:			
Payments to suppliers		(230)	-
Net Cash Flows from Operating Activities	11	<u>107</u>	<u>-</u>
Cash Flows from Investing Activities			
Cash was applied to:			
Net acquisition/disposal of property, plant and equipment		(52)	-
Acquisition of work in progress		(3,690)	-
Net Cash Flows from Investing Activities		<u>(3,742)</u>	<u>-</u>
Cash Flows from Financing Activities			
Cash was provided from:			
Share Capital		1	-
Aid funding received for capital expenditure		3,635	-
Net Cash Flows from Financing Activities		<u>3,636</u>	<u>-</u>
Net Increase/(Decrease) In Cash Held		<u>1</u>	<u>-</u>
Net Increase/(Decrease) In Cash Held		1	-
Add Opening Cash Brought Forward		-	-
Ending Cash Carried Forward		<u>1</u>	<u>-</u>

This statement is to be read in conjunction with the notes to the financial statements on pages 8 to 17.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity and Statutory Base

Avaroa Cable Limited is a company registered in the Cook Islands. Avaroa Cable Limited. These financial statements have been presented under the Companies Act 1970.

Avaroa Cable Limited is owned 50% by the Cook Islands Investment Corporation and 50% by the Cook Islands Government Property Corporation. Avaroa Cable Limited is ultimately owned by the Cook Islands Investment Corporation. The Cook Islands Investment Corporation is governed under the Cook Islands Investment Corporation Act 1998.

Basis of Preparation

The financial statements have been prepared in accordance New Zealand (NZ) Generally Accepted Accounting Principles (GAAP). They comply with NZ equivalents to International Financial Reporting Standards applying Reduced Disclosure Regime (NZIFRS RDR) applicable for Tier 2 for profit entities. The company qualifies for NZIFRS RDR as it is not publically accountable, as defined by the International Accounting Standards Board (IASB) and is not large.

The financial statements have been prepared on a going concern basis. The financial statements are presented in New Zealand dollars rounded to the nearest thousand. The financial statements are prepared on the historical cost basis.

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

General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and the financial position under the historical cost method have been followed in the preparation of these financial statements.

Particular Accounting Policies

(i) Revenue Recognition

Crown Appropriation

Crown Appropriation revenue is provided by the Cook Islands Government through the Budget Estimates and approved by the Appropriation Bill. Revenue is intended to be spent within the same financial year. Budgeted appropriation that hasn't been received by year end is not recognised as revenue until the Company has obtained the approval to carry forward the unspent portion to future periods and the funds have been received

Aid Funding

Aid funding related to assets are initially recognised as deferred revenue at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the funding. It is then recognised as revenue in profit or loss on a systematic basis over the useful life of the asset. Funding that compensates the Company for expenses incurred are recognised in profit or loss in the period in which the expenses are recognised.

(ii) Taxation

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised 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.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(iii) Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- (a) Cash is considered to be cash on hand, current accounts in banks and short term deposits, net of bank overdrafts.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Operating activities include all transactions and other events that are not investing or financing activities.

(iv) Employee entitlements

Employee entitlements are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present, legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Property, plant and equipment

All property, plant and equipment is held at cost. Cost is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Depreciation

Depreciation is charged on a straight line basis so as to write off the cost of the fixed assets to their expected residual value over their estimated useful lives. The estimated useful lives are as follows:

Office furniture	10-15 years
Motor vehicles	5 years
Computer equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

The Company derecognises items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognised.

When an asset is acquired in a non-exchange transaction for nil or nominal consideration it is initially measured at fair value. For new assets, fair value is usually determined by reference to the retail price of the same or similar assets at the time the asset was received. For used assets, fair value is usually determined by reference to market inflation for assets of a similar type, condition and age. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in surplus or deficit.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(vi) Critical judgements and estimates used in applying accounting policies

These financial statements are prepared in accordance with NZIFRS RDR. However, there are critical accounting treatments which include complex or subjective judgments and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. An explanation of the judgements and estimates made by the Company in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Work in Progress

The Company has made an assessment of the stage of completion of contracts that are in progress at year end based on reviewing the terms of the contract and project status reports. Based on this assessment an accrual has been made for any progress made that has not yet been billed and the costs included in Work in Progress asset.

(vii) Comparatives

Avaroa Cable Limited was incorporated on the 21st of March 2017. Therefore the comparative period represents 15 months to 30 June 2018.

Changes in Accounting Policies

IFRS 9 Financial Instruments

The Company has applied IFRS 9 from 1 July 2018. This standard introduces new requirements for the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new requirements for hedge accounting. Specifically, the following key areas were considered:

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains 3 principal classification categories for financial assets: measured at amortised cost, Fair value through Other Comprehensive Income (FVOCI), and Fair value through Profit or Loss (FVTPL). Classification is generally based on the business model in which a financial asset is managed and its contractual cashflow characteristics. IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial assets and liabilities and has not resulted in a change to the carrying amount for any financial instruments.

Refer table below

Financial Instrument	Classification under IAS39	Classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised Cost
Other receivables	Loans and receivables	Amortised Cost
Sundry payables and accruals	Other financial liabilities	Amortised Cost
Taxation payable	Other financial liabilities	Amortised Cost
Related party payable	Other financial liabilities	Amortised Cost



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Changes in Accounting Policies (continued)

Refer to Note 14 Financial Instruments for explanation of how the Company classifies and measures financial instruments.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Generally, entities are required to recognise an impairment provision for all financial assets at amortised cost. The Company did not previously have an impairment provision, due to the nature and terms of the financial assets. Reviewing impairment under the new requirements of IFRS 9 has not resulted in any impairment provision being recognised. Refer to the accounting policy on financial instruments for explanation of how the Company has applied the impairment requirements of IFRS 9.

Hedging

The Company doesn't apply hedge accounting and therefore this part of the standard is not relevant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Due to the nature of the Company's revenue being only Aid Funding and Crown Appropriation, IFRS 15 did not have an impact on the Company's accounting policies. For additional information about the Company's accounting policies relating to revenue recognition, see Note 1(i).

Standards issued not yet effective

IFRS 16 Leases significantly changes the accounting for lessees, requiring recognition of all leases (subject to certain exceptions) on-balance sheet. The Company is required to adopt IFRS 16 from 1 July 2019. Previously the Company recognised operating lease expenses on a straight line basis over the term of the lease. The Company will now be required to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The liability will be measured at the present value of future lease payments, with an interest expense charged over the period of the lease. The cost of the right-of-use asset will comprise the lease liability plus any lease payments made in advance and initial direct costs and make good costs. The right-of-use asset will be depreciated over the period of the lease. Based on the information currently available, the Company estimates that at 1 July 2019 it will recognise additional lease liability of approximately \$8,246.

2. AID FUNDING

Aid funding relates to funding received from New Zealand Ministry of Foreign Affairs and Trade under the Grant Funding Agreement dated 6 April 2018 to implement the Pacific Connectivity Project – the construction of the Manatua Submarine Cable. The funding received is for Cook Islands contribution towards the Manatua Cable as a consortium member. Funding applied to operating expenses of the Company is recognised as revenue as the costs are expensed. Funding applied to capital expenditure for the construction of the cable and related assets is initially classified as deferred revenue liability and will be amortised over the life of the underlying assets.

AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

3. OTHER EXPENSES

	30/06/19 \$000	30/06/18 \$000
Audit fees	9	-
Recruitment costs	8	-
Travel and accommodation	154	-
Communication costs	7	-
Other expenses	7	-
	<u>185</u>	<u>-</u>

4. REMUNERATION OF AUDITORS

Fees payable of \$9,000 to KPMG in respect of the inaugural audit of the financial statements for the year ended 30 June 2019 have been accrued.

5. INCOME TAX EXPENSE

	30/06/19 \$000	30/06/18 \$000
Net earnings for the period	<u>38</u>	<u>-</u>
Taxation at 20%	8	-

6. TAXATION PAYABLE

	30/06/19 \$000	30/06/18 \$000
Opening	-	-
Current year income tax expense	<u>8</u>	<u>-</u>
Closing	<u>8</u>	<u>-</u>

7. ISSUED AND PAID IN CAPITAL

	30/06/19 \$000	30/06/18 \$000
Paid-In Capital:		
Opening balance	1	-
Share capital paid	<u>-</u>	<u>1</u>
Closing balance	<u>1</u>	<u>1</u>

This represents 1,000 Ordinary shares of \$1 each called and paid to 100 cents per share. All shares rank equally in respect of voting, winding up and dividends. The shares have no par value.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

8. RESERVES

Retained Earnings	30/06/19 \$000	30/06/18 \$000
Opening balance	-	-
Net earnings for the period	30	-
Total available for distribution	30	-
Dividends	-	-
Total Retained Earnings	30	-

9. EMPLOYEE ENTITLEMENTS

	30/06/19 \$000	30/06/18 \$000
Accrued salaries and wages	5	-
Annual leave	9	-
	14	-

10. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles \$000	Computer equipment \$000	Office furniture \$000	Total \$000
Cost				
At 1 July 2018	-	-	-	-
Additions	31	14	7	52
Disposals	-	-	-	-
At 30 June 2019	31	14	7	52

	Motor vehicles \$000	Computer equipment \$000	Office furniture \$000	Total \$000
Depreciation				
At 1 July 2018	-	-	-	-
Disposals	-	-	-	-
Depreciation	1	1	-	2
At 30 June 2019	1	1	-	2

	Motor vehicles \$000	Computer equipment \$000	Office furniture \$000	Total \$000
Net Book Value				
At 1 July 2018	-	-	-	-
At 30 June 2019	30	13	7	50

AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

11. RECONCILIATION OF NET EARNINGS AFTER TAX WITH OPERATING CASHFLOW

	30/06/19	30/06/18
	\$000	\$000
Net Earnings After Taxation	30	-
Depreciation	2	-
Add/(Less) Movements in Other Working Capital Items:		
(Increase) / Decrease in Other receivables	(170)	-
Increase / (Decrease) in Sundry payables and accruals	95	-
Increase / (Decrease) in Employee entitlements	14	-
Increase / (Decrease) in Taxation payable	8	-
Increase / (Decrease) in Related party payables	128	-
Net Cash Inflows from Operating Activities	<u>107</u>	<u>-</u>

12. RELATED PARTIES

The Company's shareholders are:

	% held
Cook Islands Investment Corporation	50%
Cook Islands Government Property Corporation	50%

The Cook Islands Government Property Corporation is an immediate in substance subsidiary of the Cook Islands Investment Corporation.

CIIC provides financial management services to the Company. As such supplier payments are paid by CIIC from their own funds and then reimbursed directly to CIIC from aid funding or crown appropriation.

	30/06/19	30/06/18
	\$000	\$000
Payable to Cook Islands Investment Corporation	128	-
Receivable from Cook Islands Investment Corporation	-	1

The payable to Cook Islands Investment Corporation does not incur interest and is repayable on demand.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

13. WORK IN PROGRESS

The major project underway is the construction of the Manatua Cable System as part of the Consortium with other Pacific Island countries. The company is responsible for administering Cook Islands contribution to this project. Work in progress includes the costs for:

- Cook Island's share of the construction of the main Manatua Cable System
- Construction of the additional spurs and branching units to connect to the islands of Rarotonga and Aitutaki
- Construction of landing stations in Rarotonga and Aitutaki
- Beach manholes in Rarotonga and Aitutaki
- Other civil works and auxiliary assets required

Costs incurred will be allocated to each individually identifiable asset and added to property, plant & equipment once they are complete and available for use. The construction of the main cable is managed directly by the Consortium.

At year end, work in progress includes an estimate of the stage of completion of the work undertaken based on the Company's understanding of the works, the terms of the relevant contracts and project status reports received.

14. FINANCIAL INSTRUMENTS

Financial Assets

Financial assets comprise cash at bank and other receivables. These are classified as amortised cost as they are:

- held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (if applicable).

These assets are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

Financial liabilities

Financial liabilities comprises sundry payables and accruals, taxation payable and related party payables. These are measured at amortised cost. A financial liability is derecognised when the Company has discharged its obligation or the contract is cancelled or expired.



AVAROA CABLE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

14. FINANCIAL INSTRUMENTS (continued)

Impairment

The Company considers impairment using the expected credit loss (ECL) model.

Stage 1 Financial Assets

This relates to financial assets where there is low credit risk or credit risk has not increased significantly since initial recognition. In this case 12-month ECLs are applied being the portion of ECLs that result from default events that are possible within 12 months after the reporting date. The Company considers an asset to have low credit risk when invested in rated financial institutions with rating of AA- or above. This has been applied to Cash at Bank.

Stage 2 Financial Assets

This relates to financial assets where low credit risk exemption doesn't apply and the credit risk has increased significantly since initial recognition but it is not credit impaired. In this case life-time ECLs are applied being the ECL that results from all possible default events over the expected life of the financial instrument.

Stage 3 Financial Assets

This relates to credit impaired assets. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cashflows has occurred. At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired and applies the lifetime ECL model to determine the amount of impairment provision to recognise.

Measurement of ECL

Expected credit loss is calculated based on a function of the probability of default, loss given default and exposure at default. ECL is calculated based on the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cashflows that the Company expects to receive.)

The Company applies ECL model separately for each financial asset category measured at amortised cost. At year end there are no past due or impaired assets and no impairment provision has been recognised due to the following: Bank deposits are held with the Bank of South Pacific with a Standard & Poor's credit rating of B. Based on historical data the probability of default is considered low and the resulting provision is immaterial and as such no provision has been recognised. Other receivable is due from the New Zealand Government under the aid funding agreement and therefore probability of default is considered to be immaterial.

Due to the nature of the company's operations, exposure to interest rate, liquidity and currency risk is not material.



AVAROA CABLE LIMITED
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FOR THE YEAR ENDED 30 JUNE 2019

15. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Company has the following capital commitments:

- Subcom, per the Supply Contract for the the design, manufacture, installation, integration, testing and commissioning of the Manutua Cable System. At 30 June 2019, Avaroa Cable Limited's remaining share of the commitment to Subcom under this contract is USD \$15,882,815
- Axiom, per the Consultancy Contract for submarine cable technical implementation manager services. At 30 June 2019, Avaroa Cable Limited's remaining share of the commitment to Axion under this contract is estimated at NZD \$244,247.
- The Data Exchange Network Limited, per the Supply Contract for the design, manufacture, installation, integration, testing and commissioning of the Cable Landing Stations. At 30 June 2019, Avaroa Cable Limited's commitment to the Data Exchange Network Limited under this contract is NZD \$832,492.50.

Avaroa Cable Limited entered into a contract with Telecom Cook Islands Limited on 13 August 2019 to complete trench excavation, duct/ conduit installation, manhole creation and reinstatement, including road reinstatement, in Rarotonga and Aitutaki. The contract sum is NZD \$903,188.15.

16. NEW ZEALAND MINISTRY OF FOREIGN AFFAIRS AND TRADE GRANT FUNDING

The New Zealand Ministry of Foreign Affairs and Trade (NZ MFAT) has provided funding to the Government of the Cook Islands (CIG) under the Grant Funding Agreement (GFA) dated 6 April 2018 to implement the Pacific Connectivity Project – the construction of the Manatua Submarine Cable. Grant funding of \$10.1 million was provided for under the GFA dated 6 April 2018. The funding activity is in relation to the Cook Islands participation in the Manatua Cable consortium, and the Cook Islands contribution to the consortium for Cook Islands contribution towards the Manatua Cable as a consortium member. A variation to the GFA was entered into between both parties on 23 November 2018, increasing the grant funding from \$10.1 million to \$15.0 million. The grant funding is disbursed from NZ MFAT to the Ministry of Finance and Economic Management (MFEM) Development Coordination Division (DCD) and this is then either disbursed to the respective agency incurring the requisite costs or directly to suppliers.

At balance date, the funds received from NZ MFAT and its disbursements is disclosed in the following table.

	30/06/18	30/06/19	Total
	\$000	\$000	\$000
Opening balance	-	2,710	-
Funds received by DCD from NZ MFAT under the GFA	2,800	10,200	13,000
Funds disbursed from DCD to ACL for operating and capital costs	-	(3,928)	(3,928)
Funds disbursed from DCD to other CIG agencies for costs incurred	(90)	(75)	(165)
Balance of funds received by DCD from NZ MFAT under the GFA	2,710	8,907	8,907

17. ASIAN DEVELOPMENT BANK LOAN AGREEMENT

The Government of the Cook Islands has entered into a loan agreement with the Asian Development Bank for USD \$15 million for the purpose of Cook Island's share of the Manatua Cable System including construction of the cable and additional spurs to Rarotonga and Aitutaki, construction of landing stations and project management support. In line with the ADB loan agreement, the Cook Islands Government has entered into a subsidiary loan agreement with the Company to relend these funds to complete the project. Neither of these loans have been drawn down at balance date or subsequent to year end.

18. SUBSEQUENT EVENTS

There have been no events subsequent to balance date that materially affect the financial statements.



**AVAROA CABLE LIMITED
CORPORATE DIRECTORY**

DIRECTORS

Tatiana Burn	Chairman
Richard Williams	
Miimetua Nimerota	
Teu Teulilo	
Petero Okotai	

REGISTERED OFFICE

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Avarua
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Cook Islands

AUDITORS

KPMG
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Rarotonga
Cook Islands

SOLICITORS

Tim Arnold
PO Box 486
Rarotonga
Cook Islands

BANKERS

Bank of the South Pacific
Main Road
Avarua
Rarotonga
Cook Islands