

Annual Report



2020

SICON LTD
2020 ANNUAL REPORT

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SICON LTD

DIRECTORY

DIRECTORS:

S W Grave
G A Lovell
D P McEvedy
M D W Harrington

CHIEF EXECUTIVE:

D F Wilson

AUDITORS:

Audit New Zealand, on behalf of the Auditor-General

LEGAL:

Anthony Harper
Level 9, HSBC Tower
62 Worcester Boulevard
Christchurch

BANK:

ANZ Bank New Zealand Limited

TAX ADVISOR:

Ernst & Young
Level 4
93 Cambridge Terrace
Christchurch

PRINCIPAL ACTIVITY:

Construction and maintenance of infrastructural assets and the performance of other civil engineering contracting services.

COMPANY NUMBER:

640084

SHAREHOLDER:

Selwyn District Council

REGISTERED OFFICE:

85 Hoskyns Road, Rolleston

CONTACTS:

Postal: P O Box 125, Rolleston
Phone: (03) 318 8320
Email: sicon@sicon.co.nz
Web: www.sicon.co.nz

DIRECTORS REPORT

for the year ended 30 June 2020

The Directors present their Annual Report, including the audited financial statements of SICON Ltd for the year ended 30 June 2020.

RESULTS

The group has Total Comprehensive Revenue and Expenses of \$3.4 million for the year compared to \$0.4 million for the 2019 year.

Total revenue from Continuing Operations was \$63.0 million compared to the previous year's \$51.8 million.

DIVIDEND

The Directors declared total dividends of \$1,500,000 during the year (2019, \$800,000).

DIRECTORS

Directors' remuneration for the year was as follows:

S W Grave	\$40,167
G A Lovell	\$32,917
D P McEvedy	\$32,917
M D W Harrington	\$18,375
P J Carnahan	\$37,750
J B Morten	\$9,333
Total	\$171,459

P J Carnahan remuneration includes a catch-up payment for previous periods that were not invoiced.

The Directors' Transaction Register had the following entry:

Trojan Holdings Ltd - \$3,060 work carried out by SICON Ltd (2019: \$12,423).

Tonkin & Taylor Group Limited - \$2,336 services provided to SICON Ltd (2019 - \$nil), and work carried out by SICON Ltd - \$nil (2019 - \$2,890).

Steve Grave Consulting Ltd - \$nil consulting services provided to SICON Ltd (2019: \$46,610).

Delta Utility Services - \$nil services provided to SICON Ltd (2019: \$8,693).

Directors' insurance has been arranged by SICON Ltd. This Directors' liability insurance ensures that generally Directors will incur no monetary loss as a result of actions undertaken as Directors.

Board meetings attended during the year were:

S W Grave	12 of 13
G A Lovell	13 of 13
D P McEvedy	13 of 13
M D W Harrington	7 of 7
P J Carnahan	6 of 6
J B Morten	4 of 4

Tender reviews

SICON Ltd held several discussions at Board Meetings and by conference call, to evaluate and authorise tenders with a bid value in excess of \$2m. All Board members were party to these reviews, subject to their availability, with a minimum of two board members on any one occasion.

General disclosure of interests by Directors in accordance with s140(2) of the Companies Act 1993 follows:

S W Grave

Delta Utilities Services Ltd - Director
Fulton Hogan Ltd - Shareholder
Steve Grave Consulting Ltd - Director & Shareholder
Whitestone Contracting Ltd - Director
Westreef Services Ltd - Director
Buller Recreation Ltd - Director
Buller Holdings Ltd - Director
KM & SW Grave Family Trust - Fulton Hogan - Shareholder

M D W Harrington (Director commenced 11th December 2019)

CEO NomosOne Limited - Shareholder
MDW Harrington Holdings Limited - Director & Shareholder
Hanmer Harrogate Limited - Director & Shareholder
Methven Adventures Limited - Director
Great Hall Limited - Director & Shareholder
Harrington Co Limited - Director & Shareholder
Harrington Eden Family Trust - Trustee
Jenny Wallace Family Trust - Trustee
CAANZ Council - NZ and NZ/Australian Councillor
Ashburton District Council - Audit Committee member
University of Canterbury Students Association
NZ Infrastructure Commission

P J Carnahan (Chairman ended 11th December 2019)

16 Terrace Limited -Shareholder (as Trustee) & Director
Allied Queenstown Concrete Ltd - Director
Alpine Guides Mount Cook Limited - Director
Aoraki/Mount Cook Airport Ltd - Director
Aoraki/Mount Cook Alpine Village Ltd - Director
Areograph Ltd - Shareholder (as Trustee)
BCL Management Limited - Director
Beach Street Holdings Ltd - Director
Blue Sky Meats (NZ) Ltd - Director & Shareholder (as Trustee)
Blue Sky Meats (UK) Ltd - Director
Bond Contracts Ltd - Director
Fruitland Property Holdings Ltd - Director
Grant Road Properties Ltd - Director
Invercargill City Holdings Ltd - Director
Invercargill City Properties Limited - Director
Invest South Holdings Ltd - Director
Invest South Limited Partnership - Trustee
Magic Memories Group Holdings Ltd - Shareholder (as Trustee)

D P McEvedy

DP & LS McEvedy Partnership - Shareholder
Ellesmere Community Vehicle Trust - Trustee
Phoenix Park Farm Ltd - Chairman & Shareholder & Director
Robeen Trust - Chairman (as Trustee)
Shooting Creek Farm Ltd - Shareholder & Director
Vintage Village Trust - Trustee
Central Plains Water Trust - Trustee

G A Lovell

Bain Lovell Family Trust - Trustee
Tonkin & Taylor Ltd - Shareholder & Director
Tonkin & Taylor Group Ltd - Shareholder & Director
Tonkin & Taylor Environmental Limited - Director
Tonkin & Taylor International Limited - Director
NCTIR Sub Alliance - Board Member & Director

J B Morten (Director ended 12th October 2019)

EB Milton Charitable Trust – Chairman
J.B & F.M Morten Family Trust - Trustee
Manaaki Whenua - Landcare Research - Animal Ethics Committee - Member
Selwyn District Council – Councillor (Term Ended 12th October 2019)

P J Carnahan (continued)

Matakanui Gold Ltd - Shareholder (as Trustee)
Nomos Limited - Convertible Note Holder (as Trustee)
Northfuels (2012) Ltd - Director
OKC Holdings Ltd - Director & Shareholder (as Trustee)
P J & J Carnahan Family Trust - Trustee
Peak Consulting Ltd - Director & Shareholder (as Trustee)
R M & J C Carnahan Family Trust - Trustee
Runway Investments Ltd - Director
Skyline Enterprises Ltd - Shareholder (as Trustee)
Southfuels Ltd - Director
Southland Carrying Co Ltd - Shareholder (as Trustee)
TTT (2018) Limited - formerly Tasman Tyre Treads Ltd - Director
Techemy Ltd - Shareholder (as Trustee)
The Susan Carnahan Family Trust - Trustee & Partner (as Trustee)
Tracplus Global Limited - Shareholder (as Trustee)
Trojan Holdings Ltd - Director
Waikaia Gold Ltd - Director
Z Energy Ltd - Shareholder (as Trustee)

REMUNERATION OF EMPLOYEES

The number of employees (not including directors) whose total remuneration and other benefits were above \$100,000 were as follows:

Range	2020	2019
\$100,000 – \$110,000	4	4
\$110,001 – \$120,000	4	3
\$120,001 – \$130,000	4	1
\$130,001 – \$140,000	1	1
\$140,001 – \$150,000	2	2
\$150,001 – \$160,000	2	2
\$180,001 – \$190,000	-	1
\$190,001 – \$200,000	2	1
\$200,001 – \$210,000	-	-
\$250,001 – \$260,000	-	1
\$280,001 – \$290,000	1	-

Corporate governance

Responsibility for the governance of SICON Ltd rests ultimately with the Board of Directors and includes:

- Establishing the strategic direction for SICON, including agreement with the shareholder on items contained in the Statement of Intent.
- Appointing the Chief Executive and setting terms of the appointment and objectives.
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with SICON's auditors.
- Ensuring regulatory and legal compliance, and adherence to high standards of ethics and corporate behaviour.
- Reviewing and approving major corporate initiatives.
- Ensuring appropriate controls, monitoring, and reporting are in place to manage any significant risks facing SICON that are identified.
- Enhancing and protecting the reputation of SICON.
- Ensuring an appropriate level of interaction is maintained with the Shareholder.

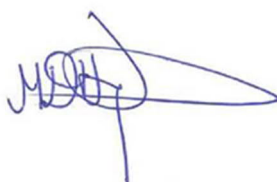
AUDITORS

In accordance with s14 of the Public Audit Act 2001, the Auditor-General is the auditor of SICON Ltd. The Auditor-General has appointed Audit New Zealand to act on his behalf under s32 of the Public Audit Act 2001. Audit fees for the year ended 30 June 2020 were set at \$95,939 (2019 - \$95,939). No other services were purchased from Audit New Zealand (2019 - \$nil).

For and on behalf of the Board



S W Grave
Chairman



M D W Harrington
Director

CHAIRMAN AND CHIEF EXECUTIVE'S REPORT - for the year ended 30 June 2020

FINANCIAL

Total group revenue for the financial year ended 30 June 2020 was \$63 million (2019 - \$52 million).

Net Profit after tax for the Group was \$3.4 million (2019 - \$0.4 million).

DIVIDEND

A final dividend of \$1,500,000 was declared in June 2020 and will be paid to the Selwyn District Council during the next financial year.

OVERALL PERFORMANCE

The overall performance of the Group for the year was very good. All divisions performed better than the previous year. The move to the Rolleston yard has been very successful and has allowed several corporate functions to be amalgamated. All divisions of SICON now work under one umbrella and one suite of systems and processes.

SICON has invested heavily in creating a flexible digital platform that will allow full integration to clients' systems in the future. Capturing "data at source" has been a key principle of SICON's digital transformation. Integration of our front line systems with those of our clients has progressed well and will provide confidence and transparency of the work that is performed. Our ability to adopt new technologies is one of our strengths in the business and we continue to look for new ways to add value to our clients through the incorporation of these new processes or systems. Our digital transformation investment has enabled us to continue to perform remotely during the Covid-19 event levels.

There was a significant improvement in weather conditions compared to last year and this had a positive impact in operations, particularly over the spring and summer months.

The ongoing COVID-19 event and subsequent lockdown had a significant impact on completion dates for work started during the main construction season. A large number of staff continued to work through the lockdown as essential services, and many worked from home as support services. A significant investment in additional hygiene products and training was needed during this period and staff were kept well informed of the company's plan prior to, during and after lockdown.

SICON Ltd continues to provide consistent and reliable maintenance services to key clients and is working hard to deliver the highest level of service based on contractual requirements.

MARKET OUTLOOK

As forecast, there has been a decreasing number of large scale projects in the market and the shift to small to medium sized projects has required a change in how we manage our daily and weekly operations and forecasting.

With a new water regulator being established there will be a significant change in this sector of the industry. SICON is increasing its capability and capacity to ensure it can meet the increased demand required to deliver the new standards expected to be introduced.

With the uncertainty created by COVID-19 and the potential continuation of lockdowns and travel restrictions, the board will manage and navigate the way forward conservatively and prudently.

Our focus has been on how we might serve our existing clients in better ways, providing a one stop shop for key services.

PEOPLE AND SAFETY

SICON has committed to attaining ISO 45001:2018 (Health & Safety) by the end of 2020 to help build on the strong Health & Safety culture that currently exists within the company. It will also provide an opportunity to benchmark our current practices against international standards. In addition, we have taken a leadership position, with respect to environmental sustainability, and have chosen ISO:14001 Standard as our management system and expect to achieve this standard by the end of the financial year.

The first sustainability plan, Greenhouse Gases, has been approved by the Board. The remaining plans, Solid Waste, Energy and Water have been drafted and will be completed by the end of 2020. These plans establish the benchmark and targets for these 4 elements of sustainable practices.

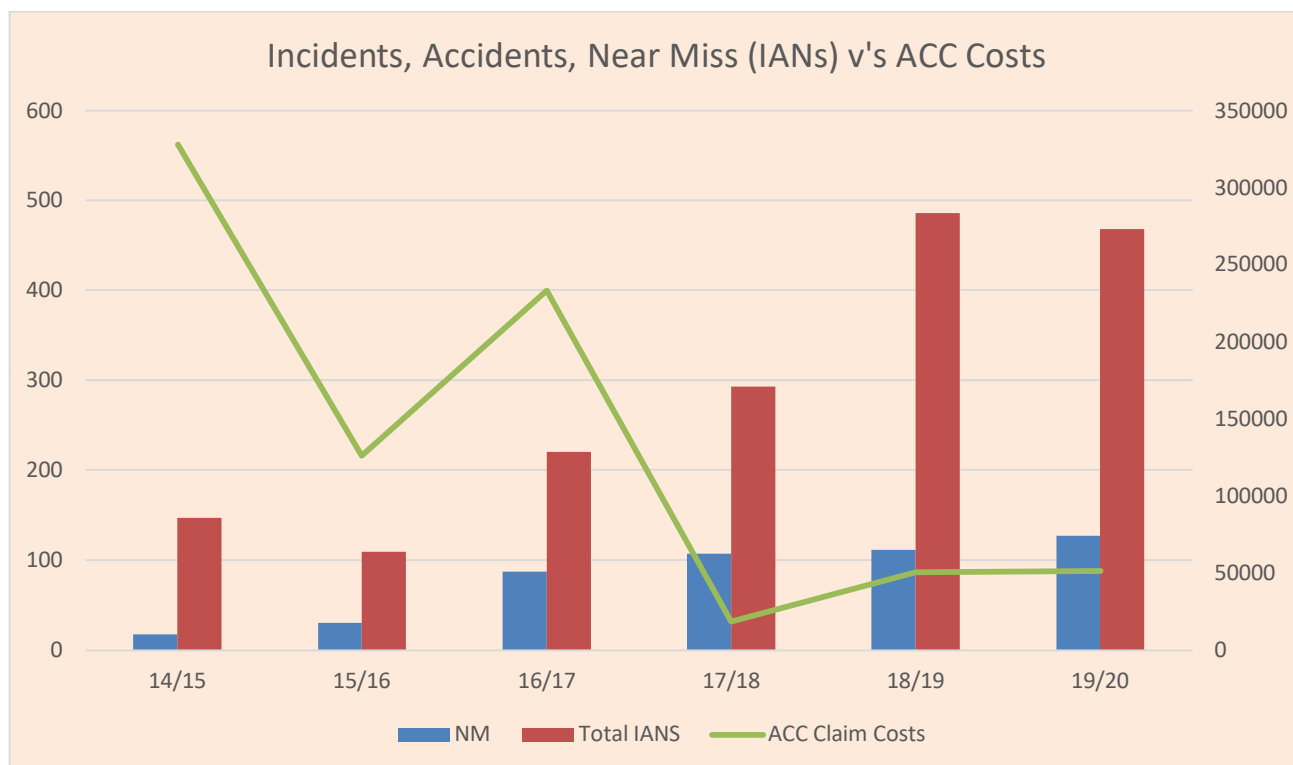
The integration of Blakely with SICON continued with all Blakely staff having job descriptions and managers using the company "Pipelines", our performance appraisal system. The integration of Blakely is now complete.

The company has implemented a Discomfort, Pain and Injury (DPI) protocol to pre-empt long term work injury and have partnered with local firm Motus Health for the programme delivery.

The Health and Safety Coalition Group (HSCG) continues with Blakely staff now integrated. In addition, all divisional teams meet once per month for a full Health & Safety meeting to foster better employee engagement and more timely and accurate dissemination of relevant information and training.

The company management and response to the COVID-19 event went very well with excellent feedback from staff and clients alike.

There continues to be strong levels of reporting of incidents, accidents and near misses (IANs), with a slight increase in near miss reporting and a slight reduction in incidents and accidents. However, the COVID-19 break reduced the overall number of incidences being reported on an annual basis.



Due to the significant increase in the number of projects in the Civils & Roading teams, changes in Traffic Management, and a growing level of engagement across all stakeholders relating to Health & Safety, SICON are increasing our capability and capacity in the People & Safety team to address these changes.

GOVERNANCE OF SICON LTD

The board meets monthly to review performance and to focus on the mid to long term strategy of the company, particularly looking to identify growth opportunities.

We see a number of challenges and opportunities ahead that will require significant effort and coordination to ensure profitable growth, sustainability and a safe working environment as the company continues into the future. We look forward to working closely with our valuable clients and in particular, Selwyn District Council, to provide exceptional service, strong local employment and delivering on our mission, "Helping communities to thrive", during these uncertain and unpredictable times.

CONCLUSION

SICON is currently growing its capability and capacity to take advantage of the potential opportunities in a number of areas that have been identified for growth. The Board will continue to monitor the impact of COVID-19 and how to mitigate its effect on the company. We have a strong base throughout the Canterbury Region and healthy relationships with our key clients.



S W Grave
Chairman
28 September 2020



D F Wilson
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

Continuing Operations	Note	2020 \$'000	2019 \$'000
Revenue			
Contracting Services	2	60,689	51,395
Other income	4	1,978	379
Share of joint venture profit	6	(3)	(1)
Total revenue		62,664	51,773
Expenses			
Depreciation and amortisation	7, 8	2,943	3,243
Impairment of Plant Property & Equipment	7	192	2
Depreciation of right-of-use assets	9	547	-
Interest on lease liabilities	9	260	-
Employee benefit expenses	11	17,367	17,248
Cost of Services		33,504	26,488
Other expenses	13	2,695	3,874
Finance expenses		52	153
Total expenses		57,560	51,008
Profit before tax		5,104	765
Income Tax Expense	14	(1,663)	(328)
Total comprehensive income		3,441	437

The accompanying notes form an integrated part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Balance at 1 July		17,825	21,191
Total comprehensive income		3,441	437
Final Blakely Construction Ltd (BCL) payment		-	(2,850)
Adjustment to the prior year's BCL retained earnings		-	(153)
Distribution to owners - dividends	21	(1,500)	(800)
Balance at 30 June		19,766	17,825

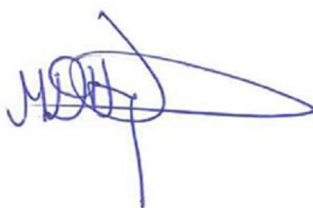
The accompanying notes form an integrated part of these financial statements.

APPROVAL OF FINANCIAL STATEMENTS
for the year ended 30 June 2020

The directors present the financial statements of SICON Ltd for the year ended 30 June 2020. The financial statements were authorised by the Board of Directors on 28 September 2020 for release to the shareholder.



S W Grave
Chairman



M D W Harrington
Director

STATEMENT OF FINANCIAL POSITION

	Note	2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		7,776	1,113
Contract assets	3	2,376	1,811
Trade and other receivables	5	6,076	7,569
Investment in joint venture	6	-	(2)
Non-current assets held for sale	7	575	558
Tax receivable	14	-	72
Inventories	15	811	788
Total current assets		17,614	11,910
Non-current assets			
Property, plant and equipment	7	12,461	13,243
Intangible assets	8	1,472	1,993
Right-of-use assets	9	5,575	-
Deferred tax asset	14	-	178
Total non-current assets		19,508	15,413
Total assets		37,122	27,323
Liabilities			
Current liabilities			
Contract liabilities	3	140	51
Lease liabilities	9	621	-
Employee benefit liabilities	12	1,648	1,348
Taxation payable	14	1,329	-
Trade and other payables	16	6,313	4,034
Dividend payable	17	1,500	800
Borrowings	18	-	3,000
Provisions	19	378	254
Total current liabilities		11,929	9,487
Non-current liabilities			
Lease liabilities	9	5,083	-
Employee benefit liabilities	12	13	11
Deferred tax liability	14	330	-
Total non-current liabilities		5,426	11
Total liabilities		17,355	9,498
Net assets		19,766	17,825
Equity			
Share capital	21	15,363	15,363
Retained earnings	21	4,403	2,462
Total equity		19,766	17,825

The accompanying notes form an integrated part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers		61,630	51,104
Interest received		11	12
Payments to suppliers and employees		(49,855)	(49,114)
Interest paid		(52)	(153)
Net Income tax refunded / (paid)		174	(687)
Net Goods and Services Tax		725	105
Net cash from operating activities	22	12,633	1,267
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		795	1,064
Proceeds from joint ventures		(3)	-
Purchase of property, plant and equipment		(2,284)	(2,825)
Purchase of investments		-	-
Net cash from investing activities		(1,492)	(1,761)
Cash flows from financing activities			
Funds introduced from shareholders		-	-
Bank term loan		-	(3,000)
Lease liabilities paid		(678)	-
Dividends paid		(800)	(500)
Net cash from financing activities		(1,478)	(3,500)
Net increase / (decrease) in cash and cash equivalents		9,663	(3,993)
Summary			
Cash and cash equivalents at the beginning of the year		(1,887)	2,106
Net increase / (decrease) in cash and cash equivalents		9,663	(3,993)
Cash and cash equivalents at end of year		7,776	(1,887)
Made up of			
Bank account		7,776	1,113
Bank borrowing - commercial flexi facility		-	(3,000)
		7,776	(1,887)

The accompanying notes form an integrated part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

Note 1: Statement of accounting policies

Reporting Entity

SICON Ltd (SL) is registered under the Companies Act 1993. SL is a Council Controlled Trading Organisation as defined by section 6 of the Local Government Act 2002 (LGA).

SL is a limited liability company incorporated and domiciled in New Zealand.

SL is a wholly owned subsidiary of Selwyn District Council (SDC) and carries out civil engineering contracting services for a variety of public and private clients. SL's financial statements are consolidated into the financial statements of SDC.

The financial statements of SL are for the year ended 30 June 2020. The financial statements were authorised for issue by the Directors on 28 September 2020.

Basis of preparation

The financial statements of SL have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). For the purposes of complying with GAAP, SL is a for-profit entity.

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

Statement of compliance

The financial statements of SL have been prepared in accordance with the requirements of the LGA, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 for-profit entity accounting standards.

SL, under the LGA, is required to prepare an annual report and have it audited within three months of the end of the financial year.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars.

Changes in accounting policies

(a) Changes in accounting policies and disclosures.

The accounting policies adopted are consistent with those of the previous financial year except where the adoption of new standards and revisions as outlined below have had an impact.

New accounting standards and interpretations

There is one new standard which applies for the first time in 2020 that has an impact the annual financial statements of the company:

NZ IFRS 16 Leases

NZ IFRS 16 Leases (NZ IFRS 16) supersedes NZ IAS 17 Leases and NZ IFRIC 4 Determining whether an Arrangement contains a Lease. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the balance sheet. SL adopted NZ IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

Lessor accounting under NZ IFRS 16 is substantially unchanged from NZ IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in NZ IAS 17. Therefore, NZ IFRS 16 did not have an impact for leases where SL is the lessor.

Note 1: Statement of accounting policies (continued)

NZ IFRS 16 Leases (continued)

Upon adoption of NZ IFRS 16, SL applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer below for the accounting policy beginning 1 July 2019. The standard provides specific transition requirements and practical expedients, which have been applied by SL.

Leases previously classified as finance leases

SL did not have any leases previously classified as finance leases under NZ IAS 17.

Leases previously accounted for as operating leases

SL recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application.

SL also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition to NZ IFRS 16, SL recognised \$6,124,297 of right-of-use assets and lease liabilities. There was no difference to recognise in retained earnings.

When measuring lease liabilities, SL has used the IBR as at 1 July 2019 to discount lease payments. The rate applied is 4.25%.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	\$'000
Operating lease commitment as at 30 June 2019	2,979
Recognition exemption for:	
Low value leases	(235)
Commitments recognised on transition	5,546
Discounted using incremental borrowing rate	(2,168)
Lease liabilities recognised at 1 July 2019	6,122

New standards, Amendments or Interpretations issued and not yet adopted

There are no new standards or amendments for the year ended 30 June 2021.

Standard, Amendment or Interpretation

-

Effective for the financial year ending 30 June

-

Note 1: Statement of accounting policies (continued)

Significant Accounting Policies

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

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. SL has generally concluded that it is the principal in its revenue arrangements. The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided further below.

If the consideration in a contract includes a variable amount, SL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Revenue is recognised over time, using a measure of progress which reflects the transfer of control to the customer. Construction / maintenance services within a contract are deemed to represent a single performance obligation to the customer, which is satisfied over time. SL opts to apply the 'right to invoice' practical expedient in NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15) to revenue recognition for its measure and value contracts when the Company has a right to payment from a customer in an amount that corresponds directly with the value of SL's performance completed to date. In these cases, SL recognises revenue on the basis of invoicing.

For contracts where the right to invoice practical expedient is not applied SL's performance is measured using the output method, by reference to regular quantity surveyor reports. A subsequent change in the price or scope of the contract must be approved by the Engineer in writing to be accounted for a contract modification.

SL typically provides for defects liability periods, which cover the obligation to rework certain general construction contracts. These are deemed assurance-type warranties as defined in NZ IFRS 15 and are accounted for under NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

If SL performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade and other receivables

A receivable represents SL's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Trade receivables that do not contain a significant financing component or for which SL has applied the practical expedient are measured at the transaction price determined under NZ IFRS 15, less any provision for expected credit losses. They are non-interest bearing and are generally on terms of 30 days, or per monthly progress payments reflective of work performed in that month.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which SL has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before SL transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when SL performs under the contract.

Onerous contracts

If SL has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, SL recognises any impairment loss that has occurred on assets dedicated to that contract.

Note 1: Statement of accounting policies (continued)

Interests in joint ventures

A joint venture is a contractual arrangement which involves two or more parties who undertake an economic activity subject to joint control. A jointly controlled entity involves the establishment of a corporation, partnership or other entity where each venture has an interest. The joint ventures contribute cash or other resources to the jointly controlled entity and the contributions are recognised in the joint ventures financial statements as an investment in a jointly controlled entity. SL accounts for its interest in jointly controlled entities using the equity method where the initial investment is recognised at cost. The carrying amount is increased or decreased to recognise the joint ventures share of profit or loss. If the share of losses exceeds the interest in the joint venture, the share of further losses are not recognised.

Government Grants

SL complies with all conditions attaching to a Government grant, and recognises the grant in the profit or loss, after it has been received, applying the income approach in the income statement on a systematic basis over the period in which SL recognises expenses related to which the grant is intended to cover.

Property, plant and equipment

Property, plant and equipment consist of:

Buildings, improvements, plant and machinery, motor vehicles, furniture and fittings and computer equipment.

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to SL and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

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

Depreciation

Depreciation is provided using a mix of both straight-line and diminishing value methods on all property, plant and equipment, at rates that are consistent with tax rates and will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Particulars	Useful life	Deprecation rate
Buildings	6 - 13 years	8% - 15% (DV)
Improvements	2 - 10 years	12% - 40% (DV)
Plant & Machinery	1 - 12 years	8.3% - 80.4% (DV & SL)
Motor Vehicles	2 - 10 years	10% - 50% (DV & SL)
Furniture & Fittings	2 - 13 years	8% - 60% (DV & SL)
Computer Equipment	2 - 3 years	33% - 67% (DV & SL)

The estimated useful lives, residual values and depreciation rates of the company are reviewed at each financial year end as they represent a significant judgement in the preparation of these financial statements.

Non-current assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. The asset must be available for immediate sale and the terms of the sale must be usual and customary for sales of such assets. The sale must be highly probable, and management must be committed to a plan to sell the asset. The asset must be actively marketed, and the sale completed within one year from classification date. After classification, the asset is measured at the lower of carrying value or fair value less costs to sell. Non-current assets classified as held for sale are not depreciated.

Note 1: Statement of accounting policies (continued)

Intangible assets

Goodwill

Goodwill is initially measured at cost and is the difference between the cost of the acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill on business combinations is included in intangible assets by applying the purchase method.

Goodwill arising in business combinations is not amortised. Instead goodwill is tested for impairment annually. After initial recognition goodwill is measured at cost less any accumulated impairment losses. An impairment loss recognised for goodwill will not be reversed in any subsequent period.

The recoverable amount as at 30 June 2020, has been determined based on a value in use calculation using estimated cash flow projections. The projection is based on 0.5% growth rate for the first five years then nil growth rate beyond that. The post-tax discount rate applied to cash flow projections is 0.47%.

Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use, the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of software is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates for software have been estimated as follows:

Particulars	Useful life	Amortisation rate
Software	2 - 3 years	50%

Mining Licences

Acquired mining licenses and permits are capitalised on the basis of the costs incurred to acquire and bring to use, the specific licence and permit.

Amortisation

Mining Licences transferred at acquisition date with a finite life are amortised on a straight-line basis over their useful life.

Amortisation begins from acquisition date and ceases at the date that the licence is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rate for mining licences have been estimated as follows:

	Useful Life	Amortisation Rate
Wanganui	24.04 years	4.16%

Brand Name & Customer List

Brand Name & Customer List are finite life intangibles recorded at their fair value on acquisition less accumulated amortisation and impairment. They are amortised on a straight-line basis over their assumed useful life.

The fair values have been established by reference to former BCL revenue, discounted cash flows and contracts on BCL books at time of acquisition.

These valuations use assumptions including future revenue, margins, risk and appropriate discount rates.

Amortisation

Amortisation begins from acquisition date, over the amortisation life established, or as profit on a contract is realised. The amortisation charge for each period is recognised in the surplus or deficit.

The Amortisation Life/Method have been established as follows:

	Amortisation Life/Method
Brand Name	10 years
Customer Relationships	3 years

Note 1: Statement of accounting policies (continued)

Impairment of non-financial assets

Non-financial assets that have an indefinite useful life or are not subject to amortisation are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve for that asset, the balance is recognised in the surplus or deficit.

For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

For assets not carried at a revalued amount (other than goodwill), the reversal of an impairment loss is recognised in the surplus or deficit.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

SL applies a single recognition and measurement approach for all leases, assessing at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets

SL recognises right-of-use assets representing the right to use the underlying assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Property Lease Terms 2-5 years

Lease liabilities

At the commencement date of the lease, SL recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. When applicable, the lease payments also include the exercise price of a purchase option reasonably certain to be exercised by SL and payments of penalties for terminating the lease, if the lease term reflects SL exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, SL uses its IBR at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Note 1: Statement of accounting policies (continued)

Leases (continued)

Short term leases and leases of low value assets

SL applies the short-term lease recognition exemption to short-term leases of property equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Employee benefits

Short-term benefits

Employee benefits expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, end of work life benefit and long service leave entitlements expected to be settled within 12 months, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is anticipated it will be used by staff to cover those future absences.

SL recognise a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term benefits

Long service leave and end of work life benefit entitlements that are payable beyond 12 months, such as long service leave and end-of-work life benefit, have been calculated on an actuarial basis. The calculations are based on: Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information and the present value of the estimated future cash flows. A discount rate and an inflation factor are used in this calculation.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit as incurred.

Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax. Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting surplus nor taxable surplus.

Note 1: Statement of accounting policies (continued)

Income tax (continued)

Deferred tax is recognised on taxable temporary differences arising on investments except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Goods and service tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to the investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Inventories

Inventories held for use in the production of goods and services are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the standard cost. In the case of manufactured goods, cost includes direct materials, labour and production overheads associated with putting the inventories in their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to value the rate. The write down from cost to net realisable value is recognised in the surplus or deficit.

Trade and other payables

Trade and other payables are initially measured at their face value.

Borrowings

Interest-bearing borrowings are initially recognised at their fair value net of transaction costs incurred. After initial recognition, all 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.

Borrowings are classified as current liabilities unless SL has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds and are recognised in the income statement in the period in which they are incurred, other than borrowing costs directly attributable to the construction of qualifying assets which are capitalised as part of the asset.

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

Provisions

A provision for future expenditure is recognised when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Note 1: Statement of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in 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 statement of financial position.

Financial assets

SL classifies its financial assets into the following category: Financial assets at amortised cost (debt instruments).

SL's financial assets at amortised cost contain trade receivables and cash and cash equivalents.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment of financial assets

SL recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate if applicable. For trade receivables and contract assets, SL applies a simplified approach in calculating ECLs. Therefore, SL does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. SL determines ECLs based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

Fair value measurement

Fair values of financial instruments that are measured at amortised cost are disclosed in note 24.

Consolidation.

The SL applies the acquisition method to account for business combinations. The consolidation 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 SL. The consideration transferred includes 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 SL 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.

Critical accounting estimates and assumptions

In preparing these financial statements SL has made estimates concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Note 1: Statement of accounting policies (continued)

Critical accounting estimates and assumptions (continued)

Impairment of goodwill

SL determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the single cash-generating unit of SL, using a value in use discounted cash flow methodology, to which the goodwill is allocated. The Directors of SL estimated the forecast trading performance of the single cash-generating unit of SL and determined that the goodwill of the business was not impaired.

Intangible assets – Brand name and customer list

Determining the cost of the brand name and customer list intangible assets acquired in the purchase of the trade and assets of SL, required an estimation of the discounted future cash flows expected from the established brand name and customer relationships. The Directors of SL have assumed that cash flows associated with the brand name and customer relationships will continue over 10 years and 3 years respectively.

Revenue from Contracts with Customers – Identification of performance obligations

SL determined that the services provided under its construction and maintenance contracts are capable of being distinct. However, SL does not consider each part of the services to be distinct in the context of the contract, as SL provides a significant integration service (SL is responsible for the overall management of the contract) which requires the performance and integration of various services and contract outputs. Management therefore concludes that construction and maintenance contracts each contain a single performance obligation.

Revenue from Contracts with Customers – Pattern of revenue recognition

Revenue is recognised when or as each performance obligation is satisfied, at the amount of the transaction price allocated to that performance obligation. A performance obligation is satisfied over time, when either the customer simultaneously receives and consumes the benefits provided by SL's performance, the performance creates or enhances an asset that the customer controls as the asset is created or enhanced or its performance does not create an asset with an alternative use to SL and SL has an enforceable right to payment for performance completed to date. Where a performance obligation is satisfied over time an 'input method' or an 'output method', as deemed appropriate by management, is used for measuring progress towards complete satisfaction of the performance obligation.

Lease extension options

SL assesses at lease commencement whether it is reasonably certain to exercise extension options where included in the contract, and where it is reasonably certain, the extension period has been included in the lease liability calculation.

Estimating the incremental borrowing rate

As SL cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that SL would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. SL estimates the IBR using observable inputs (such as market interest rates) when available.

Note 2: Revenue from Contracts with Customers

Set out below is the disaggregation of the SL's revenue from contracts with customers:

	2020 \$'000	2019 \$'000
Disaggregated revenue information		
Type of good or service		
Maintenance	36,577	36,231
Construction	24,112	15,164
Other	-	-
Total revenue from contracts with customers	60,689	51,395

Note 3: Contract assets & Contract liabilities

Contract assets

	2020 \$'000	2019 \$'000
Type of good or service		
Accrued Revenue	768	909
Accrued Revenue - SDC (note 23)	1,241	-
Contract WIP - unbilled receivables	367	902
Total Contract assets	2,376	1,811

Contract liabilities

	2020 \$'000	2019 \$'000
Type of good or service		
Contract WIP - cost accrual	140	51
Total Contract liabilities	140	51

Note 4: Other income

	2020 \$'000	2019 \$'000
Interest received	11	12
Gain on sale of property, plant and equipment	227	186
Other income	86	181
Other income – COVID-19 Subsidy - Grant less repayment (note 25)	1,654	-
Total other income	1,978	379

Note 5: Trade and other receivables

	2020 \$'000	2019 \$'000
Trade receivables	2,146	4,330
Related party receivable - SDC (note 23)	3,027	2,384
Related party receivable - BG Contracting/SICON Joint venture (note 23)	-	22
Contract Retentions	774	766
Contract Retentions - SDC (note 23)	2	-
Prepayments	127	67
	6,076	7,569
Less impairment for expected credit losses	-	-
Total trade and other receivables	6,076	7,569

The carrying value of trade and other receivables approximates their fair value.

Receivables due from both local and government authorities account for 91% (2019 - 70%) of trade receivables. This concentration of receivables is not considered a credit risk due to the risk profile of local or government authorities which are considered minimal.

As of 30 June 2020, and 2019, all overdue receivables have been assessed for impairment and appropriate provisions applied. SL holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

Movement in the allowance for expected credit losses

	2020 \$'000	2019 \$'000
At 1 July	-	(46)
Provision for expected credit losses	-	46
Write-off	-	-
As at 30 June	-	-

Expected credit losses recognised relate to trade receivables and are based on lifetime expected credit losses. The change in the loss allowance is due to repayment of the trade receivable.

The carrying amount of receivables that would have been past due or impaired, whose terms have been renegotiated is \$nil (2019 – \$nil). The status of receivables at 30 June are:

	2020			2019		
Group	Gross \$'000	Impairment \$'000	Net \$'000	Gross \$'000	Impairment \$'000	Net \$'000
Current	5,003	-	5,003	6,276	-	6,276
Past Due 31 - 60 days	68	-	68	349	-	349
Past Due 61 - 90 days	23	-	23	83	-	83
Past due over 90 days	79	-	79	28	-	28
Total	5,173	-	5,173	6,736	-	6,736

Note 5: Trade and other receivables (continued)

Impairment of financial assets

SL recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate if applicable. For trade receivables and contract assets, SL applies a simplified approach in calculating ECLs. Therefore, SL does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. SL determines ECLs based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment. The impact of the COVID-19 pandemic has been considered and incorporated into the forward-looking factors. Overall the adjustments have not led to any material additional ECLs.

Note 6: Investments

Investment in Joint Ventures

In 2012 SL entered into a Joint Venture (JV) arrangement with BG Contracting Ltd to complete Stage 6 of the Izone industrial subdivision at Rolleston. The JV was a jointly controlled entity under NZ IFRS 11, which was completed and closed in 2015. The contract finished in 2017.

SL entered into a new contract with BG Contracting Ltd in 2017. SL has a 49% share of the JV (2018 – 49%) and has accounted for this share using the equity method under NZ IAS 28.

SL's share of the profit/(loss) for the year to 30 June 2020 was (\$858) (2019 – (\$718)) and the investment in the JV at 30 June 2020 was \$0 (2019 - (\$718)). There was a final settlement required of \$2,989.

At 30 June 2020 SL's share of the JV assets was \$0 (2019 - \$18,485) and liabilities \$0 (2019 - \$21,435). The JV's revenue for the year ended 30 June 2020 was \$0 (2019 - \$nil). The JV has no contingent assets or liabilities.

The BGCL-SICON JV company was finalised on 31st January 2020.

Note 7: Plant, property and equipment

	Buildings	Improvements	Plant & machinery	Motor vehicles	Furniture & fittings	Computer equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
Balance at 1 July 2018	65	46	18,005	9,332	234	265	27,947
Additions	-	-	2,249	383	112	72	2,816
Disposals	-	(10)	(991)	(388)	(18)	(56)	(1,463)
Transfer to held for sale	-	-	(331)	(326)	(1)	-	(658)
Balance at 30 June 2019	65	36	18,932	9,001	327	281	28,642
Balance at 1 July 2019	65	36	18,932	9,001	327	281	28,642
Additions	-	-	1,696	679	62	15	2,452
Disposals	(2)	-	(686)	(386)	(1)	(48)	(1,123)
Transfer to held for sale	-	-	(1,264)	-	-	-	(1,264)
Balance at 30 June 2020	63	36	18,678	9,294	388	248	28,707
Accumulated Depreciation							
Balance at 1 July 2018	47	44	7,928	4,927	220	219	13,385
Depreciation Expense	2	-	1,646	933	7	39	2,627
Disposals	-	(10)	(314)	(118)	(16)	(56)	(514)
Transfer to held for sale	-	-	(43)	(56)	-	-	(99)
Balance at 30 June 2019	49	34	9,217	5,686	211	202	15,399
Balance at 1 July 2019	49	34	9,217	5,686	211	202	15,399
Depreciation Expense	1	1	1,555	774	27	41	2,399
Disposals	(0)	-	(691)	(318)	(1)	(45)	(1,055)
Transfer to held for sale	-	-	(497)	-	-	-	(497)
Balance at 30 June 2020	50	35	9,584	6,142	237	198	16,246
Carrying amounts							
At 30 June and 1 July 2018	18	3	10,077	4,405	14	46	14,563
At 30 June and 1 July 2019	16	2	9,715	3,314	116	80	13,243
At 30 June 2020	13	1	9,094	3,152	151	50	12,461

No property, plant and equipment are pledged as security for liabilities.

The carrying amount under the cost model for Buildings would have been \$12,608 as at 30 June 2020. (2019 Buildings \$16,099).

Note 7: Plant, property and equipment (continued)

Impairment

Impairment losses of \$191,732 (2019 - \$1,981) have been recognized for plant, property and equipment classified as held for sale based on a detailed review of the operational effectiveness and net realizable value of individual items. The directors believe that no additional impairment is appropriate.

Assets held for sale

	Plant & Machinery	Motor Vehicles	Furniture & fittings	Total
	\$'000	\$'000	\$'000	\$'000
2019				
Net Assets Classified as Held for Sale 1 July	-	-	-	-
Disposals at Book Value	-	-	-	-
Transferred Assets Held for Sale Opening Cost	331	326	1	659
Transferred Accumulated Depreciation	(43)	(56)	-	(99)
Impairment	(1)	-	(1)	(2)
Net Assets Classified as Held for Sale	287	271	0	558
2020				
Net Assets Classified as Held for Sale 1 July	287	271	-	558
Disposals at Book Value	(287)	(271)	-	(558)
Transferred Assets Held for Sale Opening Cost	1,264	-	-	1,264
Transferred Accumulated Depreciation	(497)	-	-	(497)
Impairment	(192)	-	-	(192)
Net Assets Classified as Held for Sale	575	-	-	575

Note 8: Intangible assets

	Goodwill	Brand Name	Customer List	Software	Mining licences	Website	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
Balance at 1 July 2018	870	1,357	877	66	43	2	3,215
Additions	-	-	-	70	-	-	70
Disposals	-	-	-	-	(43)	-	(43)
Balance at 30 June 2019	870	1,357	877	136	-	2	3,242
Balance at 1 July 2019	870	1,357	877	136	-	2	3,242
Additions	-	-	-	23	-	-	23
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2020	870	1,357	877	159	-	2	3,265
Accumulated Amortisation							
Balance at 1 July 2018	-	193	414	23	10	2	642
Amortisation	-	281	292	44	-	-	617
Disposals	-	-	-	-	(10)	-	(10)
Balance at 30 June 2019	-	474	706	67	-	2	1,249
Balance at 1 July 2019	-	474	706	67	-	2	1,249
Amortisation	-	338	171	35	-	-	544
Disposals	-	-	-	-	-	-	-
Balance at 30 June 2020	-	812	877	102	-	2	1,793
Carrying amounts							
At 1 July 2018	870	1,164	463	43	33	-	2,573
At 1 July 2019	870	883	171	69	-	-	1,993
At 30 June 2020	870	545	-	57	-	-	1,472

Goodwill

It is expected that the recent New Zealand government restrictions, implemented in response to the COVID-19 pandemic, will have an impact on Construction activity levels in the near term. As a result, additional consideration has been given to the assumptions applied for estimating the recoverable amount. The recoverable amount as at 30 June 2020, has been determined based on a value in use calculation using estimated cash flow projections. The projection is based on 5% growth rate for the first five years then nil growth rate beyond that. The post-tax discount rate applied to cash flow projections is 0.47%.

Brand Name

In light of the COVID-19 pandemic, SL assessed for any indicators of impairment and determined that none were present for the brand name intangible asset and SL have therefore determined that an impairment assessment was not needed to be recognised.

Note 9: Leases: Land & Buildings

Nature of leasing activities (in the capacity as lessee)

SL leases properties (including land and buildings) from which it operates. Leases generally have terms between 2 to 5 years. SL's obligations under its leases are secured by the lessor's title to the leased assets. The periodic rent is fixed over the lease term for property leases, with market rent reviews during the term for some leases.

Set out below are the carrying amounts of right of use assets and lease liabilities recognised and movements during the period:

	2020 \$'000	2019 \$'000
Right-of-use Assets		
Additions - 1 July 2019	6,122	-
Depreciation	(547)	-
As at 30 June	5,575	-

	2020 \$'000	2019 \$'000
Lease Liabilities		
Additions - 1 July 2019	6,122	-
Interest expense	260	-
Lease payments	(678)	-
As at 30 June	5,704	-

	2020 \$'000	2019 \$'000
Current Lease Liabilities	621	-
Non-current Lease Liabilities	5,083	-
As at 30 June	5,704	-

	2020 \$'000	2019 \$'000
Lease expense disclosure		
Short term lease expense	837	-
Low value lease expense	131	-
As at 30 June	968	-

	2020 \$'000	2019 \$'000
The following are the amounts recognised in profit or loss		
Depreciation expense of right-of-use assets	547	-
Interest expense on lease liabilities	260	-
Expense relating to short-term leases (included in cost of services)	837	-
Expense relating to leases of low-value assets (included in other expenses)	131	-
As at 30 June	1,775	-

Note 10: Capital commitments and leases

SL has \$13,000 capital expenditure for property, plant and equipment contracted for at balance date but not yet incurred (2019 – \$nil).

	2020 \$'000	2019 \$'000
Capital commitments		
Capital expenditure for property, plant and equipment contracted for at balance date but not yet incurred	13	-
As at 30 June	13	-

SICON leases plant and equipment in the normal course of its business. The leases have a non-cancellable term of between 24 and 60 months. The future aggregate minimum lease payments to be collected under non-cancellable operating and tenancy leases are as follows:

	2020 \$'000	2019 \$'000
Non-cancellable operating leases as lessee		
Not later than one year	97	806
Later than one year but not later than five years	14	2,173
Later than five years	-	-
Total non-cancellable operating leases as lessee	111	2,979

The leases can be renewed at SL's option, with rents set by reference to current market rates for items of equivalent age and condition.

Note 11: Employee benefit expenses

	2020 \$'000	2019 \$'000
Salaries & Wages	16,669	16,884
Employer contributions to superannuation and Kiwisaver plans	391	385
Employer contributions to fringe benefits	5	5
Increase (decrease) in employee benefit liabilities	302	(26)
Total employee benefit expenses	17,367	17,248

Note 12: Employee benefit liabilities

	2020 \$'000	2019 \$'000
Accrued pay	582	457
Annual and alternative leave	992	830
Long service leave	5	4
Retirement benefit	8	8
Sick leave	74	61
Total employee benefit liabilities	1,661	1,359
Comprising:		
Current	1,648	1,348
Non-current	13	11
Total employee benefit liabilities	1,661	1,359

Note 13: Other expenses

	2020 \$'000	2019 \$'000
Audit fee including disbursements	97	97
Audit Cost Recovery fee	10	20
Directors fees	175	177
Operating leases	135	591
Bad Debts written off/ (recovered)	(63)	161
Loss on disposal/write off of PPE	57	72
Other operating expenses	2,284	2,756
Total other expenses	2,695	3,874

Note 14: Taxation

	2020 \$'000	2019 \$'000
Income Tax Expense		
Relationship between tax expense and accounting surplus		
Accounting profit before income tax	5,105	765
Tax at 28%	1,429	214
Permanent differences	234	163
Prior year adjustments	-	(49)
Recognition of prior losses	-	-
Recognition of previously unrecognised temporary differences	-	-
Tax Expense	1,663	328
 Tax Expense reported in the statement of comprehensive income	 1,663	 328
 Comprising the following components of tax expense		
Current tax expense	1,408	365
Deferred tax expense	255	12
Prior year adjustments	-	(49)
Recognition of current tax losses	-	-
Income Tax Expense	1,663	328

	2020 \$'000	2019 \$'000
Current tax asset (liability)		
Balance at 1 July	72	(417)
Charged to profit or loss	(1,408)	(365)
Net tax paid (refunded)	(246)	693
Prior year adjustments	253	161
Balance at 30 June	(1,329)	72

Note 14: Taxation (continued)

	2020 \$'000	2019 \$'000
Deferred tax asset		
Balance at 1 July	178	303
Prior year deferred tax adjustments	(253)	(113)
Recognition of previously unrecognised temporary differences	-	-
Current year movement	(255)	(12)
Change of income tax rate	-	-
Balance at 30 June	(330)	178

Imputation credit account

Imputation credits available for use in subsequent periods were \$4.5 million (2019 - \$4.3 million).

Movements in deferred tax balances for year ended 30 June 2020

	Balance 1/07/2019 \$'000	Charged to surplus \$'000	Prior Year Adjustment \$'000	Balance 30/06/2020 \$'000
Disclosure of deferred tax balances are as follows				
Retentions receivable	(219)	2	-	(217)
Accrued Revenue	-	(412)	(253)	(666)
Employee benefit	207	54	-	261
Trade and other payables	149	22	-	171
Finance Leases	-	36	-	36
Property, plant and equipment	41	43	-	84
Balance as at 30 June	178	(255)	(253)	(330)

Movements in deferred tax balances for year ended 30 June 2019

	Balance 1/07/2018 \$'000	Charged to surplus \$'000	Prior Year Adjustment \$'000	Balance 30/06/2019 \$'000
Disclosure of deferred tax balances are as follows				
Retentions receivable	(215)	(4)	-	(219)
Employee benefit	219	1	(13)	207
Trade and other payables	142	17	(10)	149
Property, plant and equipment	54	(13)	-	41
Provision for doubtful debts	13	(13)	-	-
Losses Recognised	90	-	(90)	-
Balance as at 30 June	303	(12)	(113)	178

Note 15: Inventories

	2020 \$'000	2019 \$'000
Gravel stocks	262	306
Other direct materials	549	482
Total inventories	811	788

The write-down of inventories is \$82,000 (2019 – \$nil).
There is no inventory subject to retention of title clauses.

Note 16: Trade and other payables

	2020 \$'000	2019 \$'000
Trade payables	4,906	2,855
Accrued expenses	1,189	953
Subcontractor Retentions	154	36
Amounts due to related parties - Selwyn District Council (note 23)	64	190
Total trade and other payables	6,313	4,034

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value.

Construction Contract Act of 2002 requires construction companies to set aside money for retentions withheld from subcontractors. This is included in the cash and cash equivalents balance in a separate bank account, with a balance of \$147k, which addresses this act.

Note 17: Dividends

SL has provided a dividend of \$1,500,000 (net of imputation credits) to Selwyn District Council (2019 - \$800,000 net of imputation credits).

Note 18: Borrowings

	2020 \$'000	2019 \$'000
Current		
Term facility	-	3,000
Total current borrowings	-	3,000

Overdraft

The overdraft facility is secured by debenture. The maximum amount that can be drawn down against the overdraft facility is \$300,000 (2019 - \$300,000). There are no restrictions on the use of this facility.

Commercial flexi facility

The commercial flexi facility is secured by debenture. The maximum amount that can be drawn down against the overdraft facility is \$3,000,000 (2019 - \$3,000,000). There are no restrictions on the use of this facility.

Term facility

The term facility had a limit of \$3.0 million with the ANZ Bank New Zealand Limited, this was ended on 5 February 2020. There were no restrictions on the use of this facility.

Note 19: Provisions

	2020 \$'000	2019 \$'000
Contractual Rework	53	254
COVID-19 Subsidy Repayment Provision	20	-
Infringement Provision	305	-
At 30 June	378	254

	Rework \$'000	Subsidy Provision \$'000	Infringement Provision \$'000
2019			
At 1 July 2018	316	-	-
Increase/(decrease) in provision during year	13	-	-
Costs incurred during the year	(75)	-	-
	254	-	-
2020			
At 1 July 2019	254	-	-
Increase/(decrease) in provision during year	(80)	20	305
Costs incurred during the year	(121)	-	-
	53	20	305

Note 20: Contingencies**Contingent liabilities**

From time to time SL has performance bonds and bonds in lieu of retentions to third parties. Bonds to the value of \$500,000 (2019 - \$500,000) are committed as at 30 June 2020.

SL does not list these bonds as provisions because it does not consider that it is probable that any such bonds will be exercised. If any performance issues are raised SL has a policy of promptly returning to the site and fixing the customers concerns.

Other than the above SL has no contingent liabilities as at 30 June 2020 (2019 - \$nil).

Contingent assets

SL has no contingent assets as at 30 June 2020 (2019 - \$nil).

Note 21: Equity

	2020 \$'000	2019 \$'000
Capital		
As at 1 July	15,363	15,363
Capital issued	-	-
As at 30 June	15,363	15,363
Retained earnings		
As at 1 July	2,462	2,403
Final BCL payment	-	(2,850)
Adjustment to the prior year's BCL retained earnings	-	(153)
Non - controlling Interest	-	3,425
Surplus (Deficit) for the year	3,441	437
Distribution to owners - dividends	(1,500)	(800)
As at 30 June	4,403	2,462

SL has 3,294,350 (2019 – 3,294,350) authorised, issued and fully paid shares, with \$nil par value. All shares carry the same voting rights. None of the shares carry fixed dividend rights.

Note 22: Reconciliation of net surplus after tax to cash flows from operating activities

	2020 \$'000	2019 \$'000
Net surplus (deficit) after tax	3,441	437
Add (less) non-cash items:		
Depreciation and amortisation	2,943	3,243
Deferred tax expense	508	125
IFRS 16 Leases	807	-
Share of joint venture (surplus) deficit	-	-
Increase in Provisions	-	-
Add (less) items classified as investing or financing activities:		
Net (gains) losses on disposal of property, plant and equipment	(169)	(114)
Net (gains) losses on Distributions from JV	1	-
Working capital acquired on acquisition	-	-
Add (less) movements in working capital items		
Trade and other receivables	1,494	115
Income tax receivable	72	(72)
Inventories and work in progress	(588)	(1,516)
Trade and other payables	2,493	(507)
Income tax payable	1,329	(417)
Employee benefits	302	(27)
Net cash inflow (outflow) from operating activities	12,633	1,267

Note 23: Related party transactions

SL is a wholly owned subsidiary of Selwyn District Council and carries out civil engineering contracting services for a variety of public and private clients.

	2020 \$'000	2019 \$'000
<u>Transactions with ultimate parent entity</u>		
Selwyn District Council		
Services provided to SL	51	73
Depot lease paid by SL	557	301
Rates paid by SL	7	3
Services provided by SL	30,203	16,825
Balance receivable by SL at 30 June	3,027	2,384
Accrued Revenue receivable by SL at 30 June	1,241	-
Contract Retentions receivable by SL	2	-
Balance payable by SL at 30 June	64	190
<u>Transactions with subsidiary and joint venture</u>		
BG Contracting/Sicon Joint venture		
Services provided by SL	-	19
Balance receivable by SL at 30 June	-	22

Transactions with Key Management Personnel

During the year, Directors, the Chief Executive and other senior management personnel, as part of a normal customer relationship, may have been involved in minor transactions with the SDC (such as payment of rates, purchase of rubbish bags etc.).

During the year, SL sold goods and services amounting to \$3,060 (2019 - \$12,423) to Trojan Holdings Ltd, a company associated to director P J Carnahan. Balance outstanding at 30 June 2020 was \$nil (2019 - \$nil).

Tonkin and Taylor Group Ltd a company associated to director G A Lovell, provided goods and services to SL amounting to \$2,336 (2019: nil). Sale of goods and services amounting to \$nil (2019 - \$2,890) were made to Tonkin & Taylor Group Ltd. Balance outstanding at 30 June 2020 was \$nil (2019 - \$nil).

Steve Grave Consulting Ltd, a company associated to director S W Grave provided goods and services to SL amounting to \$nil (2019: \$46,610). Balance outstanding at 30 June 2020 was \$nil (2019 - \$nil).

Delta Utility Services a company associated to director S W Grave provided goods and services to SL amounting to \$nil (2019: \$8,693). Balance outstanding at 30 June 2020 was \$nil (2019 - \$nil).

Workplace Support, an organisation associated with D F Wilson, provided goods and services to the value of \$8,002 (2019 - \$nil). Balance outstanding at 30 June 2020 was \$1,447 (2019 - \$nil).

These sales and purchases were all made on terms equivalent to those that prevail in arm's length transactions.

No provision has been required, nor any expense recognised for impairment of receivables for any loans or other receivables to related parties (2019 - \$nil).

Note 23: Related party transactions (continued)

Key management personnel compensation

	2020 \$'000	2019 \$'000
Salaries and other short-term employee benefits	1,501	1,484
Post-employment benefits	31	36
Total	1,532	1,520

Key management personnel were determined to be the directors, Chief Executive, and Senior Leadership Team.

Note 24: Financial instrument risk management

SL has a series of policies to manage the risk of exposure with financial instruments. SL is risk averse and seeks to minimise exposure from its activities. SL has established approved liability management and investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities are approximated at their fair values.

Banking facility

Facility in place during the financial year:

SL has a composite facility with the ANZ Bank New Zealand Limited that includes overdraft, commercial flexi and flexible credit facilities. The facility has a limit of \$3.3 million (2019 - \$3.3 million) apportioned between the facilities and is "on demand" which is the standard term for the bank's working capital facilities.

Fees of 0.5% pa are charged on the facility and are payable quarterly. Interest is charged at the Business Bank Indicator Rate (BBIR) plus various margins.

Fees of 0.0417% are charged on the greater of the highest facility limit or the highest outstanding money each month. Interest is charged at the Business Bank Indicator Rate (BBIR) plus various margins. The interest rates applicable to SL on 30 June 2020 were overdraft facility 8.35% and the commercial flexi facility 4.34%.

The commercial flexi facility balance as at 30 June 2020 is \$0.0 million (2019 - \$0.0 million), and the overdraft balance as at 30 June 2020 is \$nil (2019 - \$nil).

A movement in interest rates of plus or minus 1% to the actual average interest rate will have an effect of plus or minus \$0 (2019 - \$12) on the surplus (deficit).

SL had a Term facility with the ANZ Bank New Zealand Limited that was repaid and ended on 5 February 2020. The facility had a limit of \$3.0 million.

Interest was calculated daily on the balance of the outstanding principle under the drawing and charged on the last day of each month. Interest was charged at the ANZ Business Reference Rate (BKBM) plus a margin of 2.85% p.a. The interest rate applicable to SL on 30 June 2019 was 4.74% p.a.

The Term facility balance as at 30 June 2019 was \$3.0 million.

A movement in interest rates of plus or minus 1% to the actual average interest rate will have an effect of plus or minus \$0 (2019 - \$30,000) on the surplus (deficit).

SL has a Documentary Letter of Credit Facility with the ANZ Bank New Zealand Limited, which commenced 6 May 2020. The facility has a limit of \$0.6 million.

The Credit Facility covers Trade Finance Letter of Credit/ Contingent and Trade Finance unfunded, for Import Credits to another party in relation to purchase of goods/services from that party. The Facility is subject to review on 24 March each year.

Fees of 0.5% pa are charged on the facility and are payable quarterly. An issuance fee of 0.5% is also payable when Import Credit is issued, along with a document handling fee of \$125 per Import Credit.

The Letter of Credit Facility has not been used and as at 30 June 2020, was \$nil.

Note 24: Financial instrument risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. SL's exposure to the risk of changes in market interest rates relates primarily to the short-term bank debt obligations with floating interest rates.

SL manages its interest rate risk by closely monitoring changes in interest rates and forecasts provided by the bank and external sources. At 30 June 2020 SL had 100% of its debt obligations on floating rates (2019 – 100%).

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. SL is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities including deposits with banks and financial institutions.

Trade receivables

Customer credit risk is managed by SL subject to established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on references to both external and internal credit ratings. Outstanding customer receivables are regularly monitored, and any outstanding payments are followed up. At 30 June 2020 SL had four customers (2019 – nine customers) who owed SL more than \$100,000 and all four of these customers (2019 – four customers) were local or central government authorities. Receivables due from both local and central government agencies account for 91% (2019 – 70%) of SL's trade receivables. This concentration of receivables is not considered a credit risk due to the risk profile of local and central government authorities which is considered minimal.

An impairment analysis is performed at each reporting date on an individual basis for all receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 5. SL does not hold collateral as security. SL evaluates the concentration of risk with respect to trade receivables as low, as their customers are predominantly local or central government agencies or profitable construction and land developers. SL's maximum exposure to credit risk for each class of financial instrument is as carried in the statement of financial position.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by investing in term deposits with registered banks. SL has no collateral or other credit enhancements for financial instruments which give rise to credit risk.

Liquidity Risk

Liquidity risk is the risk that SL will encounter difficulty raising liquid funds to meet their commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. SL aims to maintain flexibility in funding by keeping committed credit lines available. SL manages its borrowings in accordance with its funding and financial policies. These policies have been adopted as part of SL's long-term plans.

Liquidity risk arising from the pandemic is mitigated through the maintenance of adequate committed credit facilities. SL has short-term debt facilities as at 30 June 2020. SL has assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available. SL has \$7.8 million in cash at year end and has a maximum amount that can be drawn down against its overdrafts of \$3.3 million (2019 - \$3.3 million).

Note 25: Impact of COVID-19

On 31 December 2019 China alerted the World Health Organisation to the outbreak of a virus, now commonly referred to as COVID-19, with the outbreak declared as a global pandemic on 11 March 2020. The New Zealand Government declared a State of National Emergency on 25 March 2020. On the 26 March 2020 the country was moved into Alert Level 4 and effectively locked down.

On 28 April 2020, the Alert Level was reduced to Level 3, and then further reduced to Level 2 on 14 May 2020. The country moved to Level 1 on 9 June 2020.

Following 102 days at Level 1, on 11 August 2020, the Prime Minister announced community spread in Auckland, with the move to Level 3 for Auckland and Level 2 for the rest of New Zealand. On 31 August 2020 Auckland moved to Level 2.5, with the rest of New Zealand remaining at Level 2.

SL activated Level 2 policy and practice across the company on 12 August 2020.

New Zealand has responded well to the virus with strong public health measures and a range of economic stimulus packages. However, despite the response, there remains uncertainty as to the impact of the virus on market conditions in New Zealand.

Under Alert Level 4 our business activities for our Maintenance Contracts were restricted to emergency works and essential services, with routine maintenance suspended. All work was caught up subsequently and there was no impact to timelines related to these Maintenance contracts.

All Construction work activity had to be suspended, impacting heavily on timelines related to completion of the contracts. At Level 3 all contracts were able to fully re-commence, following the COVID-19 protocols as prescribed by Civil Contractors NZ. Construction contracts were delayed by the lockdown, and then impacted by winter weather, resulting in reduced profitability for some contracts. COVID-19 significantly impacted on the operational result of the Construction Contracts during April to June FY20.

All of our non-operational staff worked from home during Level 4, resuming to their usual place of work in Level 2 and Level 3, depending on operational support requirements. During Level 2 and 3 the business activities returned with the required health and safety protocols in place at all work offices and sites.

As a result of COVID-19, SL has incurred additional expenditure of \$178,252 on:

- Additional cleaning costs
- PPE requirements
- Site security
- Site closures
- Plant relocation

Lease costs have been incurred during the period whilst the offices were closed.

In April 2020, SL applied for and received a wage subsidy of \$1.65 million as part of the New Zealand Government's COVID-19 Economic Response Package. This was on the basis of meeting all of the criteria, including a forecast reduction in revenue of at least 30%, in any one month during the period April to June 2020, compared to the prior year. A repayment of the wage subsidy of \$0.02 million has been agreed with the Ministry of Social Development (MSD), and paid in July 2020.

Note 25: Impact of COVID-19 (Continued)

The Directors have considered the effects on the Financial Statements caused either directly or indirectly by COVID-19:

- The effect on the revenue and expenses in FY20 was not material because of the short period of the lockdown within this financial year.
- Note 5 – Trade and Other Receivables: considers the possible impact of expected credit losses (ECLs) on trade receivables which has been considered and incorporated into the forward-looking factors. Overall, the adjustments have not led to any material additional ECLs.
- Note 7 - Plant, Property and Equipment (PPE): has an impairment loss of \$0.2m which covers 9 assets held for sale. Following a full impairment review of PPE, there is no additional impairment from the impact of COVID-19 on the carrying value of the assets at 30 June 2020.
- Note 8 – Intangible Assets: details the increased uncertainty due to the impact of COVID-19 on our Goodwill and Brand Name as at 30 June 2020. This was assessed via impairment testing.
- Note 24 – Financial instrument risk management - Liquidity risk: is the risk that SL will encounter difficulty raising liquid funds, which has been assessed and concluded to be low.
- To review the impact of COVID-19 on the Cash Generating Units (CGUs), we have assessed if any of our CGUs show indicators of impairment. Following our NZ IAS 36 review, no impairment was found to be necessary on any CGU.

The directors also considered the lockdown and future impacts of COVID-19 that may negatively impact on the future financial performance and position, however the directors assessment, based on the Sector details below, is that the impact will not be substantial:

- Future revenue in the Maintenance Contract sector is secure with contracts recently renewed for terms of 3-5 years.
- The Construction Sector is also considered stable as it was before COVID-19, with tenders being continued to be announced and successfully won.

Note 26: Events after the balance date

Other than the events relating to COVID-19 as described in Note 25, there have been no other significant events subsequent to 30 June 2020.

There will continue to be uncertainty in what the COVID-19 pandemic will have on SL subsequent to the year end.

Note 27: Statement of objectives and performance

Targets were set under the Statement of Corporate Intent in June 2019. A comparison of achievement against those targets is as follows:

	Achievement	SOI Target
Financial Performance:		
Return After Tax* to Opening Equity *(excluding amortisation)	22.2%	≥ 8.0%
Dividend paid	\$1,500,000	≥ \$800,000
Quality services:		
ISO 9001:2015 Quality standard certificate	Maintained	Maintain
Health and Safety:		
To achieve ISO 45001 by the end of the 2020 calendar year.	ISO audit commenced 12 Aug 2020. Expect to be completed by the end of 2020 calendar year.	Achieve ISO 45001 by end of 2020
Employee Retention and Training:		
Staff Retention	71.3%	70%
Training & Development as a % of payroll costs	2.3%	> 1.5%
Environmental Performance		
To achieve ISO 14001 by the end of the 2021 financial year.	ISO audit commenced 12 Aug 2020. Expect to be completed by the end of 2021 financial year.	Achieve ISO 14001 by end of FY 2021

Note 28: 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 after taking into account profitability and future investment requirements. The Board of Directors determines the dividends payable after considering the group's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

Independent Auditor's Report

To the readers of SICON Limited's financial statements and statement of objectives and performance for the year ended 30 June 2020

The Auditor-General is the auditor of SICON Limited (the company). 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 objectives and performance of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 11 to 43 that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of objectives and performance of the company on page 43.

In our opinion:

- the financial statements of the company on pages 11 to 43:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; 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 objectives and performance of the company on page 43 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2020.

Our audit was completed on 28 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below and we draw your attention to the impact of the COVID-19 pandemic on the company. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and statement of objectives and performance, we comment on other information, and we explain our independence.

Emphasis of matter - COVID-19 pandemic

Without modifying our opinion, we draw your attention to the disclosures in note 25 on pages 41 and 42 of the financial statements which explain the impact of the COVID-19 pandemic on the company. The note outlines the outcome from the Board of Directors' consideration of the COVID-19 pandemic on the company's operations and the impact on its revenue and expenses, the expected credit losses on trade and other receivables, the carrying value of property, plant and equipment, and intangible assets.

Basis for our 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 objectives and performance

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of objectives and performance for the company.

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

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

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

Responsibilities of the auditor for the audit of the financial statements and the statement of objectives and performance

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of objectives and 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 objectives and 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 company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of objectives and 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 company to cease to continue as a going concern.

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify 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 3 to 10, but does not include the financial statements and the statement of objectives and performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of objectives and 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 objectives and 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 objectives and 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 company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International 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 company.



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