Date: Tuesday, 23 March 2021

Time: 1.30pm

Location: Council Chamber, Wairoa District Council, Coronation Square, Wairoa

AGENDA

Late Reports

Ordinary Council Meeting

23 March 2021

The agenda and associated papers are also available on our website: www.wairoadc.govt.nz

For further information please contact us 06 838 7309 or by email info@wairoadc.govt.nz

Order Of Business

8 General Items **3**

8.3 QRS Statement of Intent for the period 1 July 2021 to 30 June 2024 and Six Monthly Report to 31 December 2020. 3

8 GENERAL ITEMS

8.3 QRS STATEMENT OF INTENT FOR THE PERIOD 1 JULY 2021 TO 30 JUNE 2024 AND SIX MONTHLY REPORT TO 31 DECEMBER 2020.

Author: **Gary Borg, Pouwhakarae – Pūtea / Tautāwhi Rangapū Group Manager Finance and Corporate Support**

Authoriser: **Kitea Tipuna, Tumu Whakarae Taupua Interim Chief Executive Officer**

Appendices:
1. QRS Draft Statement of Intent ⇩
2. Half Year Report ⇩

1. PURPOSE

1.1 To present the Draft QRS Statement of Intent 2021-24 and the company's 6 monthly performance report to 31 December 2020 for consideration by Council.

RECOMMENDATION

The Chief Financial Officer RECOMMENDS that Council

1. Receives the QRS proposed Statement of Intent 2021-24 subject to further comment, and the 6 monthly performance report to 31 December 2020.

2. BACKGROUND

2.1 The Local Government Act 2002 (Schedule 8, paragraph 2) requires a Council Controlled Organisation (CCO) to deliver to its shareholders a Draft Statement of Intent (SoI) on or before 1 March each year.

2.2 Having received a Draft SoI, Council is required to comment, if it chooses to do so, within two months of 1 March. (LGA 2002 (Sch. 8, para.3))

2.3 The Draft SoI, attached as **Appendix 1**, was delivered to Council on 18 February 2021. It is complete in respect of the requirements of LGA 2002 Sch. 8, para.9.

2.4 Section 66 of the Act, and the company's current SoI, requires the Board to deliver to Council a half-yearly report on its operations within 2 months of the end of the first half of the financial year. This was also delivered within the prescribed timeframe.

2.5 The half-yearly report is attached as **Appendix 2**.

3. STATEMENT OF INTENT

3.1 The Draft SoI sets out the overall activities and intentions of QRS for the 3 years commencing 1 July 2021.

4. OPTIONS

4.1 The options identified are:

a. Receive the Draft Statement of Intent without amendment and the half-yearly report; or

b. Receive the Draft Statement of Intent 2021-2024 subject to further comment and receive the half-yearly report.

4.2 Discussions with QRS regarding Council's expectations continue. Since Council has more than a month to comment, receiving the report will provide a formal and transparent record of this process.

4.3 The preferred option is *b)*, this contributes to the following community outcomes

Economic wellbeing	Social and Cultural Wellbeing	Environmental Wellbeing
1. A strong, prosperous and thriving economy. 2. A safe and integrated infrastructure.	6. Strong district leadership and a sense of belonging	

5. CORPORATE CONSIDERATIONS

What is the change?

5.1 There are no changes to council operations resulting from this decision.

Compliance with legislation and Council Policy

5.2 Both documents comply with the requirements of the Local Government Act 2002 in terms of content. As noted, they were delivered before the statutory date of 1 March 2021.

What are the key benefits?

5.3 These documents provide an oversight of the company and provide Council with a health check on its main equity investment.

What is the cost?

5.4 There is no cost with this decision.

What is the saving?

5.5 No savings are generated with this decision.

Who has been consulted?

5.6 No consultation is required or has been undertaken on this report.

Service delivery review

5.7 This report does not trigger a need for a s17A review.

Māori Standing Committee

5.8 This has not been referred to the Māori Standing Committee because it is of equal interest to the whole community.

6. SIGNIFICANCE

6.1 The decision can be changed by using LGA 2002 Section 8 paragraph 5(1) which allows for shareholders by resolution to require the CCO Board to modify a statement of intent after due consultation with the Board.

6.2 Although there are strategic considerations this matter is largely administrative and is assessed as being of low significance.

7. RISK MANAGEMENT

7.1 In accordance with the Council's Risk Management Policy the inherent risks associated with this matter are:

Human	Financial	Regulatory
Low	Low	Low
Operations	Employees	Image & Reputation
Low	Low	Low

Further Information

Not Applicable.

Background Papers

Not Applicable.

References (to or from other Committees)

This matter is refreshed annually and considered by Council.

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

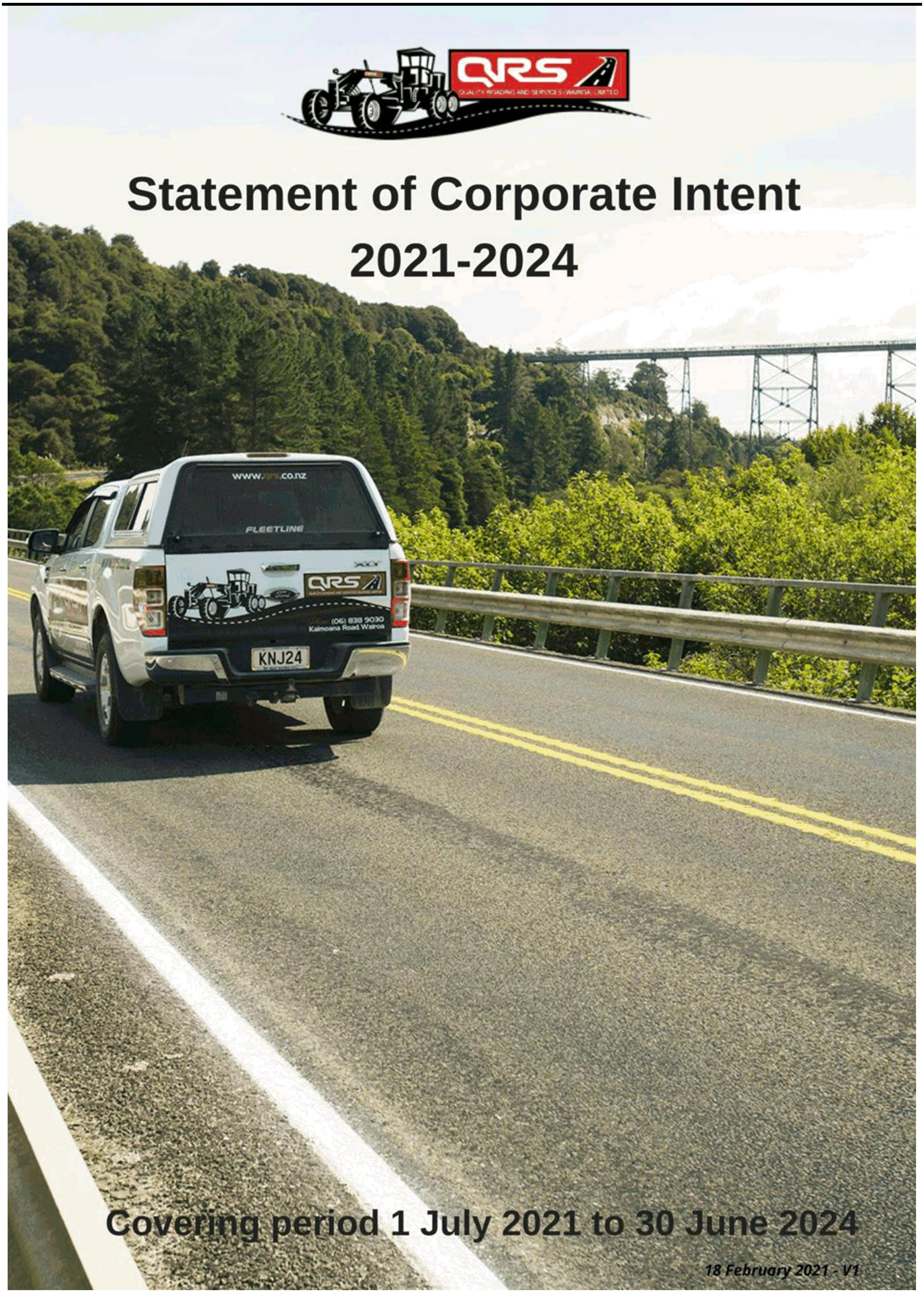
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author Gary Borg	Approved by Kitea Tipuna

Statement of Corporate Intent

2021-2024



Covering period 1 July 2021 to 30 June 2024

18 February 2021 - V1

Foreword

Quality Roading and Services (Wairoa) Ltd (QRS) connects workers to their jobs, creates opportunities for the community, and protects it from an increasingly unpredictable natural environment.

QRS is incorporated and domiciled in New Zealand and wholly owned by Wairoa District Council. It is a Council Controlled Trading Organisation as defined in Section 6 of the Local Government Act 2002.

Our speciality is civil construction and road maintenance. We have quarry operations, a large-scale heavy diesel workshop, and offer civil engineering skills, experience and equipment.

The company believes strongly in the importance of people, performance, communities and partnerships (PPCP).

In 2019 QRS consolidated into a company of excellence successfully tendering for contracts of national significance and delivering fit-for-purpose road maintenance at a time of public demand and challenging conditions. Our **people** are the driving force behind our success. The culture at QRS rewards good **performance** and celebrates success. We actively connect with our **community** supporting everyone who visits, lives and works in the district. A key to success has been the revitalised relationship and **partnership** QRS has fostered with its sole shareholder (and client) WDC. Through improved communication both organisations are thinking in a similar way and focussed on what's 'best for Wairoa'.

This Statement of Corporate Intent (SCI) sets out the overall activities and intentions of QRS for the financial year 1 July 2021 to 30 June 2022 and the two succeeding financial years. It also states the objectives to which those activities will contribute.

QRS looks forward to continuing its significant contribution to Wairoa District Council and the communities that it serves.

Guy Gaddum
Quality Roading and Services
Chairman
March 2021

Contents

Foreword 3

1. Nature and scope of company activities 5
2. Mission and vision 6
3. Governance 7
4. Ratio of shareholder funds to total assets 7
5. Accounting policies 7
6. Procurement 7
7. Performance targets 8
8. Reports to the shareholder 8
9. Consent for shareholding 9
10. Estimate of commercial value of the shareholder's investments 9
11. Profit distribution policy 10
12. Treasury policy 10
13. Investment policy 11

Appendix 1 Collaboration policy 12

Appendix 2 Accounting policies 13

Version Control

DATE	VERSION
18 February 2021	V1

1. Nature and scope of company activities

QRS and its staff are an integral part of Wairoa and the wider district. Our speciality is civil construction and road maintenance and offer a full range of civil engineering skills, experience and equipment.

The principal activities of QRS are:

- Roading maintenance and associated construction
- Civil construction
- Quarrying
- Heavy transport

2. Mission and vision

WDC mission: The Wairoa District Council exists so that residents and visitors alike can enjoy the community in which they live and visit, supported by local decision-making to promote the social, economic, environmental and cultural well-being of the Wairoa District in the present and for the future.

WDC vision: Connected Communities, Desirable Lifestyles, Treasured Environments

QRS vision: A STRONG AND SUCCESSFUL COMPANY GROWING THE WAIROA COMMUNITY.

3. Governance

The role of the board is to effectively represent WDC and not to act contrary to the interests of WDC whilst adding long term value to the company.

The board will regularly review and monitor the management of the company by:

Determining purpose and direction: establishing objectives which are appropriate to the environment and circumstances.

Developing an effective governance culture: Ensuring the company's objectives are understood and endorsed by management; consider policies that will strengthen the company's performance; and engage effectively with the chief executive and leadership team.

Holding to account: satisfying itself that the company is achieving its objectives; agreeing with management a set of financial and non-financial key performance indicators relevant to the agreed objectives.

The board will hold quarterly governance meetings with WDC. Day-to-day management of the company will be delegated to the chief executive.

4. Ratio of shareholder funds to total assets

To provide the company with the capacity to grow whilst maintaining an efficient capital structure that minimizes risk, QRS will target the ratio of shareholder funds to total assets for each year at not less than 45%.

The shareholder funds and total assets are defined as disclosed in the audited statement of financial position as at 30 June.

5. Accounting policies

The company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

Details of the accounting policies and their application are contained in Appendix 2.

6. Procurement

WDC to engage with QRS at a governance level for non-subsidised work thereby giving both organisations the opportunity to strategically provide the best benefits for Wairoa. If in doubt, the shareholder, as the contracting entity may apply principles of transparency and non-discrimination.

7. Performance targets

The following performance targets are the measures by which the company's performance will be judged as published in the 2018-2028 Land Transport Activity Management Plan commonly referred to as the Long Term Plan. These revenue targets are significantly smaller than the past two years. They have incorporated the reduced visibility of the pipeline of large external contracts in the district and the PGF related projects coming to an end. However, the introduction of the WDC preferred supplier procurement policy with anticipated annual revenue of $2,000,000 being considered for QRS does support the below matrix.

	2021/2022	2022/2023	2023/24
Target revenue	$18,000,000	$19,000,000	$20,000,000
Net profit after-tax	$537,000	$567,000	$596,000
ShareholderDistribution forecast	$250,000	$250,000	$250,000
Net profit pre-tax of opening shareholder funds	6%	6%	6%
Ratio of Shareholders funds	>45%	>45%	>45%

Note: Figures will be updated after QRS Strategic Planning Day

8. Reports to the shareholder

9.1 General

The company will disclose information on its operations as is necessary to enable the shareholder to make an informed assessment of the performance of the company.

9.2 Draft Statement of Corporate Intent

The board will deliver to the shareholder a draft Statement of Corporate Intent on or before 1 March each year.

9.3 Completed Statement of Corporate Intent

The Board will:
(a) consider any comments on the draft Statement of Corporate Intent that are made to it within two months of March by the shareholder; and

(b) deliver the completed Statement of Corporate Intent to the shareholder on or before 30 June each year.

9.4 Quarterly update

The company will provide a quarterly update to a full general meeting of WDC.

9.5 Half year reporting

The Board will, by 28 February each year, deliver to the shareholder unaudited financial statements consisting of:

- Statement of financial position
- Statement of financial performance
- Cash flow statement for the six months to 31 December, together with statements of explanation and accounting policies upon which the financial statements are based.
- A written report on operations of the company during the period, and the amount of any interim distribution recommended, and the outlook for the next six months including any significant changes to previous forecasts or reports.

The company will make a formal presentation of the report at a meeting called by the shareholder. This meeting will be a formally constituted meeting of WDC called in terms of the Local Government Act 2002.

9.6 Annual Report

The Company will make available to the Shareholder and the public, audited financial statements in accordance with Section 67 of the Local Government Act 2002 within three months after the end of each financial year, being 30 September.

The annual general meeting of the company will be held no later than 21 days after the delivery of the annual report to the shareholder.

The company will make a formal presentation of the report to a meeting called by the shareholder. This meeting will be a formally constituted meeting of WDC called in terms of the Local Government Act 2002.

9. Consent for shareholding

Notwithstanding anything else contained in the constitution or the act, the board may not subscribe for, purchase, or otherwise acquire shares in any other company or other person without the prior written approval of the shareholder.

10. Estimate of commercial value of the shareholder's investments

The board will make an estimate of the commercial value of the company each year. An independent valuation will be performed once every three years. The shareholder will be advised of the value of their investment accordingly.

11. Profit distribution policy

Distribution Payments

The company will pay the shareholder a minimum annual distribution of $250,000. This includes an interim distribution of $50,000 after the six-monthly result, subject to the company passing the solvency test and board signing a solvency certificate.

In arriving at a recommendation in respect to a distribution the board will have regard to the company's:

- vision and objectives.
- financial performance for the past financial year taking regard for the future commercial environment.
- ability to meet financial commitments.
- investment proposals and profitability thereof
- ability to secure suitable financial arrangements
- requirements to reinvest in renewal of assets
- shareholder expectations with respect to overall performance of the company's commercial outcomes.

The Board may recommend the payment of distributions in addition to those contained within this statement of corporate intent.

12. Treasury policy

Corporate Objectives

Ensure the company is able to meet its future commitments as they fall due in both the short and long term through active treasury risk management. QRS will:

1. Reduce company cost of borrowing through effective control and management of its interest rate risk, and manage the company's exposure to interest rate risk within acceptable levels.

2. Manage funding risk by the selection of the best available methods for long term financing requirements.

3. Manage the company's return on funds invested through the effective control and management of its interest risk and maintain company exposure to interest risk within acceptable levels.

3. Maintain adequate internal controls to ensure that funds are invested and borrowed in accordance with company policy.

4. Know that company assets can be given as security. The use of long-term funds will be restricted to development and establishment of capital assets and the repayment of equity.

13. Investment policy

WDC believes it is important to maintain expertise in construction, roading and maintenance in the district, balanced with an intent to reduce ratepayer costs by providing effective, sustainable competition and providing community support.

As those ratepayers do not have any direct involvement with how that investment is determined, the directors owe a special duty of care to how that investment is managed.

In addition, the company will supply WDC with all business cases for investments above $500,000 for review prior to committing to the investment.

As an overall investment policy and in alignment with the WDC Investment Policy (item 4.3 dated 5 August 2015) and the WDC Long Term Plan 2018-2028, the company will endeavour to maximise the return on opening shareholder funds whilst acting within legislative parameters, maintaining investment risk within acceptable limits, and ensuring the company's funds are properly safeguarded.

The company will also operate as per Section 59 of the Local Government Act 2002 which states that the principle objective of a CCO (Council Controlled Organisation) is to:

- achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the Statement of Corporate Intent
- be a good employer
- exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so,
- and if the CCO is a CCTO (Council Controlled Trading Organisation), it will conduct its affairs in accordance with sound business practice.

While the company's ability to provide regular distributions is a strategic objective in the WDC investment policy, growth opportunities are also available with reinvestment in the business.

Using a collaborative approach to economic development WDC agree in principle that QRS future-proof its assets by building a fit-for-purpose operational hub at QRS acknowledging that in time this asset will maximise the company's profit thereby ensuring long term financial stability.

In addition, WDC and QRS will go beyond formal governance structures to encourage collaborative behaviour and or identify opportunities for collaborative solutions for the benefit of the community.

Meanwhile, QRS continues to balance its return on shareholder value by contributing to the community socially and financially. The company invests in organisations that have a core focus of assisting the environment, children, and causes that support social wellness for individuals and the community of Wairoa.

Appendix 1 Collaboration policy

Quality Roading and Services (QRS) has embraced working collaboratively as a key pillar for achieving its vision of professional and growing; and sustaining a profitable and locally valuable business on a foundation of safety and quality.

QRS believes that working collaboratively will also maximise employee satisfaction, minimise conflict and produce sustainable outcomes for the business and our clients.

To achieve these goals QRS will endeavour to develop, maintain and monitor a culture of collaboration, both internally and externally with clients and stakeholders, based on:

- building trust with each other
- looking forward, not back
- providing timely responses
- having open, honest and frank communication
- being respectful of each other
- no surprises approach
- being positive and constructive

QRS will support the ideal of continuous improvement in working collaboratively.

Nigel Pollock
Chief executive officer
March 2021

Appendix 2 Accounting policies

The company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

The general accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historical cost basis have been followed.

The following particular accounting policies which materially affect the measurement of results and financial position have been applied.

1. Revenue Recognition

QRS is in the business of providing road maintenance and construction and sale of aggregate. Revenue from contracts with customers is recognised when control of the physical work completed on the clients asset or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

2. Sale of aggregate

Revenue from sale of aggregate is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the aggregate. The normal credit term is 30 to 60 days upon delivery.

3. Variable consideration

QRS does not enter into variable consideration arrangements nor provide any volume rebates. In addition, there are no financing components or warranty obligations beyond normal retentions held by the customer for road construction projects.

4. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

5. Goods and services tax

The financial statements have been prepared exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

6. Employee benefits

Provision is made in respect of the Company's liability for annual leave, sick leave, long service leave and retirement gratuities.

The provision for sick leave is based on the additional amount that the company expects to pay as a result of the unused entitlement that has accumulated at balance date.

The provision for gratuities is based on the number of weeks the employee will be paid at retirement, the expected pay rate along with the probability of the employee still being employed by QRS at retirement age.

The provision for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Expected future payments for gratuities and long service leave are discounted using market yields at the reporting date.

Defined contribution pension plan obligations are recognised as an expense in the statement of comprehensive income as incurred.

7. Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past result. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

8. Taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when the deferred income tax asset relating to the deductible temporary difference arised from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

9. Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently at amortised cost less an allowance for any uncollectable amounts. The Company assesses impairment losses by estimating the expected credit loss that may exist within its portfolio of accounts receivable based on its historical experience of credit loss arising from accounts receivable.

10. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

11. Inventories

Inventories are valued on the basis of the lower of cost, determined on a first-in, first-out basis, and net realisable value.

12. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

There are six classes of property, plant and equipment:

- Freehold land
- Quarries

- Freehold buildings
- Plant, equipment and vehicles
- Office equipment and furniture
- Computer hardware

The quarry asset class includes all development costs in relation to the Tangihanga Joint arrangement, accounted for by QRS in accordance with accounting policy(s).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive Income in other operating expenses.

13. Depreciation

Depreciation is provided on a straight-line basis on freehold buildings and quarries. Freehold land is not depreciated.

Plant, equipment and motor vehicles, office equipment and furniture, and computer hardware are depreciated at rates calculated to allocate the assets cost less estimated residual value over their estimated useful lives. The rates for major classes of assets have been estimated as follows:

Quarries	3.3% Straight Line
Freehold Buildings	3.3% Straight Line
Plant, Equipment & Motor Vehicles	20% Diminishing Value
Office Equipment and Furniture	20% Diminishing Value
Computer Hardware	48% Diminishing Value

Depreciation is calculated on a monthly basis from the date of acquisition. The assets useful lives, residual values and depreciation method are reviewed at least every financial year.

14. Intangible assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the cost model is applied to all classes or intangible assets.

The useful lives of all intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The amortisation of the software class of intangible assets is estimated at 20%-48% diminishing value, depending on the nature of the software.

15. Statement of cash flows

Operating activities include cash received from all income sources of the company and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the company.

16. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised and as well as through the amortisation process.

17. Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the end of the financial year that are unpaid and arise when QRS becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

18. Leases

NZ IFRS 16 'Leases' was adopted on 1 July 2019. The Company applied the modified retrospective transition method and thus prior comparatives were not restated. The Company has elected to present right-of-use assets and lease liabilities separately in the statement of financial position. Depreciation of right-of-use assets is included in depreciation in the statement of comprehensive income. The cash outflows related to the principal portion of the lease liability and the related interest are presented separately within the financing activities in the statement of cashflows.

19. Significant accounting judgements, estimates and assumptions – quarry aftercare

A provision has been made for the present value of anticipated costs of future restoration of quarry sites. The provision includes future cost estimates associated with quarry aftercare.

The calculation of this provision requires assumptions such as application of environmental legislation and life of metal extraction from each quarry site. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

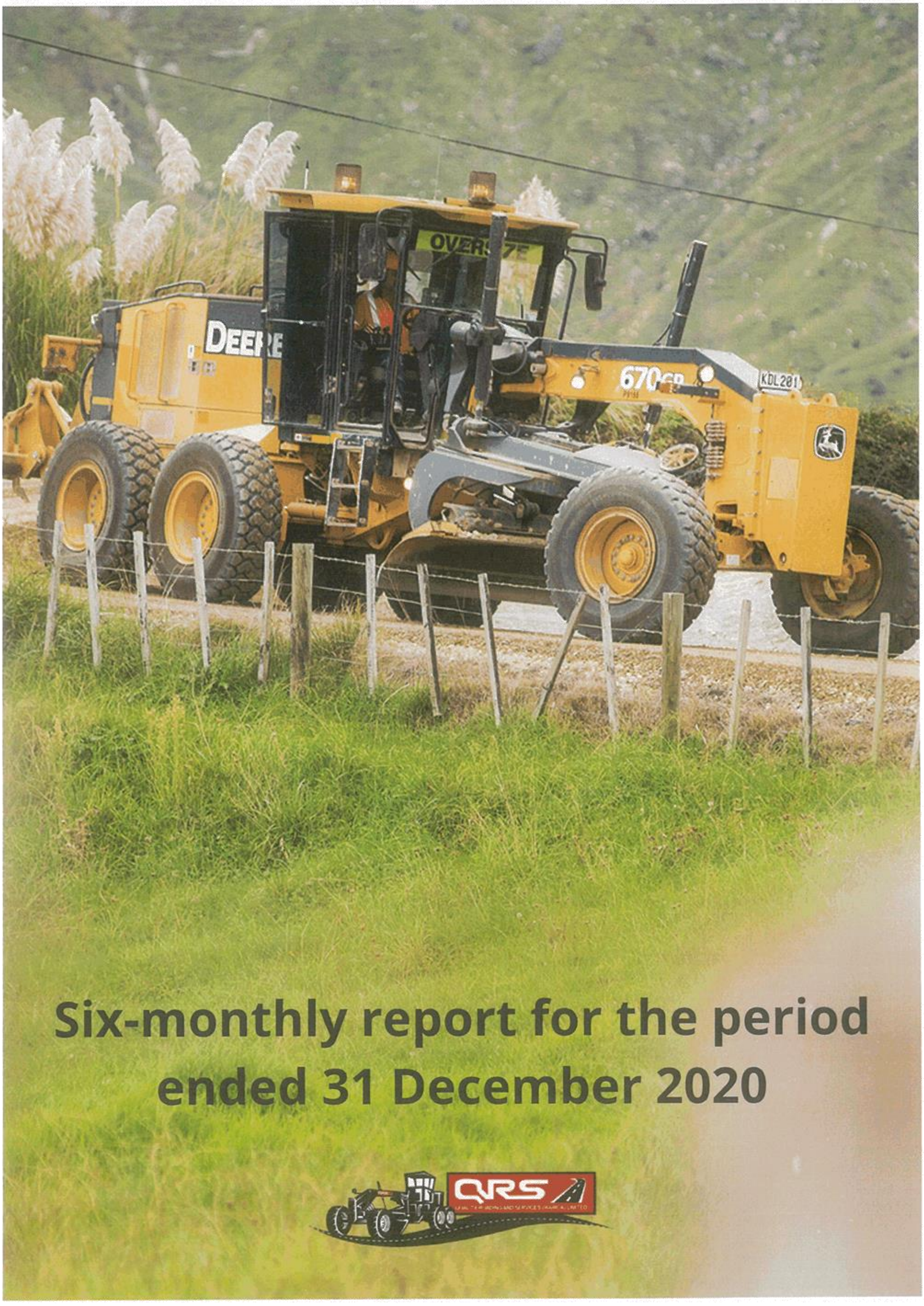
The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

20. Contract assets and contract liabilities

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

A trade receivable represents the company'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).

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company 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 company performs under the contract.



Six-monthly report for the period ended 31 December 2020

QUALITY ROADING AND SERVICES (WAIROA) LIMITED

CONTENTS

	PAGE
Directory	3
Chairman's Report	4
Financial Statements	
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Statement of Cash Flow	11
Statement of Accounting Policies	12
Notes to and forming part of the Financial Statements	18

QUALITY ROADING AND SERVICES (WAIROA) LIMITED

DIRECTORY

Directors

Guy Gaddum (Chairman)
Tony Gray
David Proctor
Fenton Wilson

Registered Office

Kaimoana Road
Wairoa

Postal Address

P O Box 83
Wairoa

Phone:	(06) 838 9030
Fax:	(06) 838 9049

Auditor

Stuart Mutch of Ernst & Young on behalf of the Office of the Auditor General

Bankers

Westpac
Wairoa

Solicitors

Woodward Chrisp
Wairoa

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
CHAIRMAN'S 6 MONTH REPORT TO 31 DECEMBER 2020

INTRODUCTION

On behalf of the Board, Management, and Staff of QRS it is my pleasure to present the 6 monthly report for QRS as at 31st of December 2020.
Following on from a COVID disrupted June 2020 financial year the company has continued to trade and perform well across all facets of the business. This was capped off in November with QRS being voted the supreme winner of the Hawke's Bay Chamber of Commerce Pan Pac Business Awards. As well as the ultimate prize, QRS was also recognized as the Community Contribution winner.
To quote the judges:

QRS Board Chairman Guy Gaddum.

"The overall performance of this organisation was consistently high across the evaluation criteria. The judges were particularly impressed at the overall commitment shown to supporting a team environment and the managements encouragement for their people to maximise their capabilities both in the workplace and personally. Incorporating objectives such as stakeholder relationships, sustainability, and health and safety into the strategic plan has resulted in significant improvement in these areas of the QRS operations. Their proactive approach to continuously monitoring their objectives and making changes when necessary shows they are actively working towards strengthening their direction, community contribution and future growth."

PRINCIPLE ACTIVITIES

Quality Roading and Services' (QRS) speciality is civil construction and roading infrastructure. We offer a full range of civil engineering, skills, experience, and equipment. QRS was incorporated in 1994 and is wholly owned by Wairoa District Council. The company is a Council Controlled Trading Organisation of the Local Government Act 2002 and operates under the Companies Act 1993 as defined in Section 6 of the Local Government Act 2002.

OVERVIEW

For the 6 months to December 2020, QRS has continued to trade strongly and achieve its strategic goals in all areas of the business. Planning is well underway for our new operations hub with the intention that this is officially opened in early 2022. The company is well positioned to achieve as per our Statement of Corporate Intent for the June 2021 financial year. Below is a report against key strategic focus areas.

People

QRS employed 88 staff as of December 2020 with 81 of them on fulltime employment contracts. Training across the business is ongoing in areas of compliance, technical, leadership, and management. $153,570 was spent on training and personnel development to December 2020.

$3,102,000 has been paid to staff in wages and salaries.

Relationships

Relationships with key stakeholders in the main continues to grow positively. Regular communication with WDC has helped QRS to better meet the needs of our shareholder client. Relationships with other large clients such as AFFCO, Higgins, NZTA, and Rocketlab are also positive and our work opportunities with these clients continue to expand.

Health and safety

The company continues to strengthen its culture around zero harm in the workplace. A focus on plant damage, causes, reporting, and cost has helped management and staff to identify areas requiring safer procedures, training, or equipment improvement. It is pleasing to note a generally downward trend in all key safety measures.

As at the 6 months			
Measure	**2020**	**2019**	**2018**
Lost time injury frequency rate	0	1.7	1.8
Medical treatment injury rate	0	4.3	4.2
Total recordable injury frequency rate	0	6.2	6.0
Lost time injury	0	1	1

Financial performance and position

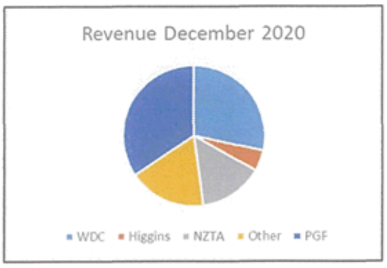
Total revenue for the 6 months ended December 2020 including interest and other operating income was $13,289,331 (December 2019: $12,851,253).

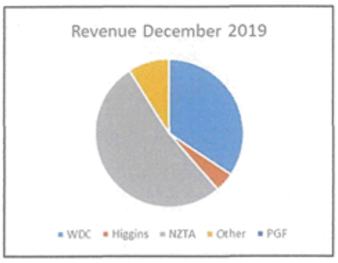
Costs were $11,694,519 (December 2019: $12,500,080)

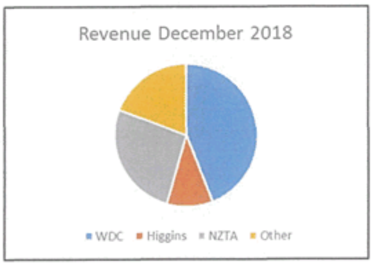
Our operating profit before tax was $1,594,812 (December 2019: $351,173).

QRS is pleased to announce an interim distribution to Wairoa District Council of $100,000

The pie graphs below show the significant income streams for the past three years. The four largest revenue streams as at December 2020 were Provincial Growth Fund (PGF) $5.2 million, Wairoa District Council (WDC) $4.3 million; Waka Kotahi NZTA $2.2 million; and Higgins $725,000.







A table showing shareholder's funds as at 31st December 2020 compared with the previous two financial years is below.

	Dec 2020	Dec 2019	Dec 2018
Current assets	7,912,000	6,490,000	4,948,000
Less current liabilities	(4,579,000)	(4,168,000)	(3,268,000)
	3,333,000	2,322,000	1,680,000
Plus non-current assets	5,851,000	6,181,000	5,993,000
Less term liabilities	(957,000)	(1,589,000)	(1,489,000)
Total shareholder's funds	$8,227,000	$6,914,000	$6,184,000

QRS is pleased to report that as shown in the table below, for the 6 months to December 2020, we have achieved all our Statement of Corporate Intent targets as agreed on with our shareholder Wairoa District Council.

	Dec 2020		Dec 2019		Dec 2018	
	Target	Actual	Target	Actual	Target	Actual
Return on equity (pre-tax)	6.0%	19.51%	6.0%	5.01%	6.0%	8.77%
Equity ratio (shareholders' funds % of total assets)	>45%	65.89%	>45%	57.83%	>45%	55.43%
Positive working capital ratio at year end	2	2.32	>1	1.61	>1	1.71
Cost of debt servicing/revenue	<20%	0.0%	<20%	-0.0%	<20%	0.0%
Distribution to shareholder	$250k	$200k	$100k	$300k	$100k	$60k

We also continued our strong support of Wairoa community this year via $18,300 worth of sponsorship and support in kind to local events, teams, schools, and marae.

Quality Roading and Services (Wairoa) Limited – Six Month Report for the period ended 31 December 2020 6

Looking forward

With the re-election of the current government and its announcement that there will be no more Provincial Growth Fund, QRS is cognisant of the need to develop other markets to fill this revenue gap. Management have been tasked with exploring opportunities that align with our strategic goals and risk profile so that there is a seamless transition from current PGF projects to new opportunities.

The board and management of QRS are confident that barring any significant global or domestic challenges that we will achieve our goals for the full 2021 financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There are no significant changes in company affairs since balance date.

Guy Gaddum
Quality Roading and Services board chairman.
16 February 2021

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
Revenue		13,288,854	12,848,375	26,227,082
Cost of Sales		7,277,579	8,019,668	15,929,553
Gross Profit		6,011,275	4,828,707	10,297,529
Personnel Expenses	2	3,273,202	3,242,243	6,371,234
Depreciation Expense	3, 13	582,675	512,349	1,206,045
Administrative Expenses		517,030	487,004	1,372,507
Other Operating Expenses	1	(81,993)	202,954	475,271
		4,290,914	4,444,550	9,425,057
Operating Profit Before Financing Costs		1,720,361	384,157	872,472
Financing Income		477	2,878	5,759
Financing Expenses		(26,027)	(35,862)	(77,365)
Net Financing Costs		(25,549)	(32,984)	(71,606)
Subvention Pyament - Wairoa District Council		(100,000)	-	(200,000)
Profit/(Loss) Before Tax		1,594,812	351,173	600,865
Income Tax Expense	9	(446,547)	(98,328)	(170,174)
Profit/(Loss) For The Period		1,148,265	252,845	430,691
Other Comprehensive Income		-	-	-
Total Comprehensive Income/(Loss) for the Period		1,148,265	252,845	430,691

The accompanying accounting policies and notes form part of these financial statements.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
EQUITY AT BEGINNING OF THE YEAR		7,042,351	6,961,660	6,961,660
Profit for the period		1,148,265	252,845	430,691
Total recognised revenues and expenses for the period		1,148,265	252,845	430,691
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	-	-
Transactions with owners in their capacity as owners:		-	-	-
Dividends Paid	10	-	(300,000)	(350,000)
EQUITY AT THE END OF THE PERIOD		8,190,616	6,914,505	7,042,351

The accompanying accounting policies and notes form part of these financial statements.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	6 mnths to 31/12/2019	6 mnths to 31/12/2019	12 mnths to 30/06/2020
ASSETS:				
Current Assets				
Bank		3,055,710	2,379,120	2,310,129
Trade and Other Receivables	5	3,441,274	2,927,513	3,849,746
Inventories	4	816,315	858,361	604,714
Contract Assets		598,894	325,122	449,591
Total Current Assets		7,912,193	6,490,116	7,214,180
Non Current Assets				
Deferred Tax		583,529	506,204	583,529
Intangible Assets	12	88,945	112,277	99,160
Property, Plant and Equipment	13	5,142,332	5,562,594	4,917,421
Right of Use Assets	3	35,944	-	92,524
Total Non Current Assets		5,850,749	6,181,075	5,692,634
TOTAL ASSETS		13,762,942	12,671,191	12,906,814
EQUITY:				
Share Capital	10	1,250,000	1,250,000	1,250,000
Retained Earnings	10	6,940,616	5,664,505	5,792,351
TOTAL EQUITY		8,190,616	6,914,505	7,042,351
LIABILITIES:				
Current Liabilities				
Income in Advance		-	75,990	-
GST Payable		160,364	214,963	195,177
Trade and Other Payables	6	2,909,422	2,267,956	3186046
Employee Benefits	8	562,857	609,472	687,664
Interest-Bearing Loans and Borrowings	7	324,973	576,141	294,428
Lease Liability	3	33,424	-	89,168
Taxation Payable		247,586	57,422	136,169
Contract Liabilities		277,000	365,750	287,241
Wairoa District Council - Subvention Payment		100,000	-	200,000
Total Current Liabilities		4,615,626	4,167,693	5,075,893
Non Current Liabilities				
Employee Benefits	8	49,582	33,424	35,019
Quarry Aftercare Provision	14	182,238	166,287	180,105
Interest-Bearing Loans and Borrowings	7	720,936	1,389,282	567,229
Lease Liability		3,944	-	6,216
Total Non Current Liabilities		956,701	1,588,993	788,569
TOTAL LIABILITIES		5,572,327	5,756,686	5,864,462
TOTAL EQUITY AND LIABILITIES		13,762,942	12,671,191	12,906,814

For and on behalf of the Board, who authorised the issue of these financial statements on 16 February 2021

Director ______________________ Director ______________________

The accompanying accounting policies and notes form part of these financial statements.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	Notes	6 mnths to 31/12/2019	6 mnths to 31/12/2019	12 mnths to 30/06/2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from Customers		13,548,019	14,153,988	26,485,991
Financing Income		477	2,878	5,760
		13,548,496	14,156,866	26,491,751
Cash was disbursed to:				
Payments to Suppliers		8,735,926	9,273,848	16,586,541
Payments to Employees		3,102,617	3,039,502	6,586,483
Taxes Paid		335,130	504,943	575,366
Financing Expense		26,027	35,862	77,365
		12,199,700	12,854,155	23,825,755
Net Cash Inflow/(Outflow) from Operating Activities	15	1,348,797	1,302,711	2,665,996
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from Sale of Property, Plant and Equipment		336,843	23,748	196,444
		336,843	23,748	196,444
Cash was applied to:				
Purchase of Property, Plant and Equipment		866,294	1,208,518	1,547,684
Purchase of Intangibles		-	-	-
		866,294	1,208,518	1,547,684
Net cash Inflow/(Outflow) from Investing Activities		(529,451)	(1,184,770)	(1,351,240)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Loans and Borrowings		426,044	1,480,727	1,480,728
		426,044	1,480,727	1,480,728
Cash was applied to:				
Payment of Dividends		-	300,000	350,000
Payment of Subvention		200,000	-	-
Loans and Borrowings		241,792	817,695	1,921,463
Lease Payments		58,016	-	112,040
		499,808	1,117,695	2,383,503
Net Cash Inflow/(Outflow) from Financing Activities		(73,764)	363,032	(902,775)
Net Increase / (Decrease) in Cash Held		745,582	480,973	411,981
Add Opening Cash and Cash Equivalents		2,310,128	1,898,147	1,898,147
Closing Cash and Cash Equivalents		3,055,710	2,379,120	2,310,128
Cash Balances in the Statement of Financial Position				
Cash / (Overdraft)		3,055,710	2,379,120	2,310,128
CLOSING CASH AND CASH EQUIVALENTS		3,055,710	2,379,120	2,310,128

The accompanying accounting policies and notes form part of these financial statements.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

Reporting Entity

Quality Roading and Services (Wairoa) Limited ("QRS" or "the Company") is incorporated and domiciled in NZ and is wholly owned by the Wairoa District Council. The Company is a Council Controlled Trading Organisation as defined in Section 6 of the Local Government Act 2002.

The principal activities for the company are Roading Maintenance and Construction, Reserves Maintenance, Quarrying, Heavy Transport, Civil Construction, Lime Production and Utility Services within the Wairoa District and wider East Coast Region.

Basis of preparation

The financial statements have been prepared in acccordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 , Financial Reporting Act 2013 and the Local Government Act 2002. The financial statements have also been prepared on a historical cost basis except where specifically provided for within these accounting policies. The financial statements are presented in New Zealand dollars.

Statement of compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to IFRSs and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities in Tier 2 (NZ IFRS RDR).

The company is eligible to report in accordance with Tier 2 for profit accounting standards on the basis that it does not have public accountability and is not a large for profit public sector entity.

Changes in Accounting Policies

All accounting policies are consistent with prior year.

Accounting Policies

The following particular accounting policies which materially affect the measurement of results and financial position have been applied.

a1) Revenue Recognition

QRS is in the business of providing road maintenance and construction and sale of aggregate. Revenue from contracts with customers is recognised when control of the physical work completed on the clients asset or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

a2) Sale of Aggregate

Revenue from sale of aggregate is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the aggregate. The normal credit term is 30 to 60 days upon delivery.

a3) Variable consideration

QRS does not enter into variable consideration arrangements nor provide any volume rebates. In addition there are no financing components or warranty obligations beyond normal retentions held by the customer for road construction projects.

b) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
STATEMENT OF ACCOUNTING POLICIES (CONTINUED)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

c) **Goods and Services Tax**

The Financial Statements have been prepared exclusive of goods and services tax (GST) with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

d) **Employee Benefits**

Provision is made in respect of the Company's liability for annual leave, sick leave, long service leave and retirement gratuities.
The provision for sick leave is based on the additional amount that the company expects to pay as a result of the unused entitlement that has accumulated at balance date.
The provision for gratuities is based on the number of weeks the employee will be paid at retirement, the expected pay rate along with the probability of the employee still being employed by QRS at retirement age.
The provision for long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.
Expected future payments for gratuities and long service leave are discounted using market yields at the reporting date.
Defined Contribution Pension Plan obligations are recognised as an expense in the Statement of Comprehensive Income as incurred.

d1) **Government Subisidy**

Government subisdies which compensate the Company for expenses incurred are recognised in the Statement of Comprehensive Income. Subsidies are recognised when they have been used to compensate expenses in a period.

e) **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

While discounting is used, the increase in the provision due to the passage of time is recognised as a financing cost.

f) **Taxation**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when the deferred income tax asset relating to the deductible temporary difference arised from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

g) Accounts Receivable

Accounts receivable are recognised initially at fair value and subsequently at amortised cost less an allowance for any uncollectable amounts. The Company assesses impairment losses by estimating the expected credit loss that may exist within its portfolio of accounts receivable based on its historical experience of credit loss arising from accounts receivable.

h) Cash and Cash Equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

i) Inventories

Inventories are valued on the basis of the lower of cost, determined on a first-in, first-out basis, and net realisable value.

j) Property, Plant and Equipment

Property, Plant and Equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the property plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred. There are six classes of Property, Plant and Equipment:

a.) Land
b.) Quarries
c.) Buildings
d.) Plant and Machinery
e.) Fixtures, Fittings and Equipment
f.) Computer Hardware

The quarry asset class includes all development costs in relation to the Tangihanga Joint arrangement, accounted for by QRS in accordance with accounting policy(s).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Statement of Comprehensive Income in administration expenses.

k) Depreciation

Depreciation is calculated to allocate the cost less estimated residual value of property, plant and equipment over their estimated useful lives.

Depreciation is provided on a straight line basis on Buildings and Quarries. Land is not depreciated.

Plant and Machinery, Fixtures, Fittings and Equipment, and Computer Hardware are depreciated using the diminishing value method

The rates for major classes of assets have been estimated as follows:

a.)	Quarries	(3.3 % Straight Line)
b.)	Buildings	(3.3 % Straight Line)
c.)	Plant and Machinery	(20 % Diminishing Value)
d.)	Fixtures, Fittings and Equipment	(20 % Diminishing Value)
e.)	Computer Hardware	(48 % Diminishing Value)
f.)	Right of Use Asset	(6.2% Diminishing Value)

Depreciation is calculated on a monthly basis from the date of acquisition. The assets useful lives, residual values and depreciation method are reviewed at least every financial year.

l) Intangible Assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the cost model is applied to all classes of intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Comprehensive Income when the asset is derecognised. The amortisation of the software class of intangible assets has been estimated at 20%-48% diminishing value, depending on the nature of the software.

m) Statement of Cash Flows

Operating activities include cash received from all income sources of the Company and records the cash payments made for the supply of goods and services.
Investing activities are those activities relating to the acquisition and disposal of non-current assets.
Financing activities comprise the change in equity and debt capital structure of the Company.

n) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at fair value net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

o) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the end of the financial year that are unpaid and arise when QRS becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

q1) Joint Arrangements

QRS have a joint arrangement with Wi Pere Trust at the Tangihanga Quarry. A joint arrangement is an arrangment over which two parties or more have joint control. Joint control is the contractually agreed sharing of control over an arrangment which exists only when the decisions about the relevant activities (being those that signicantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. QRS's joint arrangement is a joint operation.

A joint operation is a type of joint arrangement in which the parties with joint control of the arrangement have the rights to the assets and obligations for the liabilities relating to the arrangment.

In relation to its interest in the joint operation, the financial statement for QRS includes:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

All such amounts are measured in accordance with the terms of each arrangement which are in proportion to QRS's interest in the joint operation.

q2) Tangihanga Joint Arrangement Impairment Test

In 2019 QRS recognised an impairment to it's share of the development costs of the Tangihanga joint arragnement based on assessment of the expected future cash flows of the joint arrangement. A further impairment test performed in 2020 led QRS to impair its share of the Quarry development costs in its entirety.

The impairment test included the use of a discounted cashflow over 5 years with a terminal value and growth rate of 2%. Given the NPV calculated and the current environmental and market restrictions faced by the quarry, it was decided that QRS would impair the asset in full.

r) Significant Accounting Judgements, Estimates and Assumptions
Quarry Aftercare Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of quarry sites. The provision includes future cost estimates associated with quarry aftercare. The calculation of this provision requires assumptions such as application of environmental legislation and life of metal extraction from each quarry site. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

s) Contract Assets and Contract Liabilities

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs, under a contract, 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.

A trade receivable represents the company'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)

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company 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 company performs under the contract.

t) **Subvention Payments**

A subvention payment is where an organisation with a taxable profit makes a cash payment to an organisation that has tax losses in exchange for those tax losses. The organisations must have some commonality of ownership. QRS is wholly owned by the Wairoa District Council which enables the entities to engage in subvention payments.

The provision for a subvention payment has been recognised in the Statement of Comprehensive Income as an expense.

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
1 OTHER OPERATING EXPENSES			
Auditors remuneration	45,800	34,840	69,680
Directors fees	69,823	61,180	128,676
Impairment of trade receivables (bad and doubtful debts)	4,990	7,915	-
Loss on disposal of property plant and equipment	8,077	12,668	17,112
Gain on disposal of property plant and equipment	(229,630)	(7,800)	(137,843)
Impairment of property, plant and equipment	-	-	358,446
Loss on disposal of intangibles	-	-	-
Amortisation of intangibles	10,215	13,115	26,230
lease payments - operating lease	-	79,592	-
- rental costs	8,732	1,444	12,971
	(81,993)	202,954	475,271
2 PERSONNEL EXPENSES			
Wages and salaries	3,102,617	3,039,502	6,586,483
COVID-19 Wage Subsidy	(21,641)	-	(600,951)
Liability for long-service leave	12,572	(948)	647
Liability for sick leave	89,281	114,006	218,767
Liability for gratuities	-	1,694	5,094
Contribution to defined contribution plans	90,372	87,990	161,194
	3,273,202	3,242,243	6,371,234

In March 2020, the New Zealand Government enforced a lockdown in response to Covid-19. Non-essential businesses were required to cease operations until the lockdown was lifted
To ensure job security and business viability, the New Zealand Government through the Ministry of Social Development provided wage subsidies for a 12-week period for businesses who could demonstrate a 30% decline in revenue due to the pandemic. The wage subsidy was recognised within the Company's labour expenses as an offset to underlying labour cost.
The Company utilised the entire subsidy by November 2020.

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
3 RIGHT OF USE ASSETS AND LEASE LIABILITIES			
Right of Use Assets as at 1 July			
Office equipment	8,649	-	15,991
Vehicles	83,875	-	191,434
	92,524	-	207,425
Depreciation			
Office equipment	2,802	-	7,342
Vehicles	53,779	-	107,558
	56,581	-	114,900
Right of Use Assets - Current Liability			
Office equipment	5,847	-	8,649
Vehicles	30,097	-	83,875
	35,944	-	92,524
Lease Liability as at 1 July			
Office equipment	89,168	-	
Vehicles	6,216	-	191,434
	95,384	-	207,425
Operating Expenses - Leases			
Office equipment	3,028	-	7,872
Vehicles	56,940	-	113,880
	59,968	-	121,752
Interest related to leases			
Interest	1,953	-	9,712
	1,953	-	9,712
Lease Liabilities related to leases are split between current and non-current			
Current	33,424	-	89,168
Non-current	3,944	-	6,216
	37,368	-	95,384

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

		6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
4	**INVENTORIES**			
	Metal Stocks	652,526	693,930	502,482
	Other Supplies	132,361	98,519	101,969
	Work in Progress	31,428	65,911	263
	Some inventories are subject to retention of title clauses. Work in progress is held at cost	816,315	858,361	604,714
5	**TRADE AND OTHER RECEIVABLES**			
	Trade Debtors	736,221	1,764,693	920,592
	Wairoa District Council	1,788,420	712,121	2,420,900
	Provision for Doubtful Debts	(4,990)	(7,915)	-
	Retentions	816,797	326,325	461,986
	Prepayments	104,826	132,289	46,268
		3,441,274	2,927,513	3,849,746
6	**TRADE AND OTHER PAYABLES**			
	Trade Creditors	2,288,696	1,517,675	2,710,977
	Other	620,726	750,281	475,069
		2,909,422	2,267,956	3,186,046
7	**EMPLOYEE BENEFITS**			
	Long-service Leave	46,182	33,424	35,019
	Annual Leave	302,636	339,058	379,953
	Sick Leave	29,742	44,034	34,674
	Gratuities	51,077	47,677	51,077
	Time In Lieu	71,825	62,203	89,803
	Accrued Pay	110,977	116,500	132,157
		612,439	642,896	722,683
	Made up of:-			
	Current	562,857	609,472	687,664
	Non-current	49,582	33,424	35,019
		612,439	642,896	722,683
8	**INTEREST BEARING LOANS AND BORROWINGS**			
	UDC Term Loan	703,333	1,024,939	861,657
	Less Current portion	(254,873)	(320,356)	(294,428)
		448,459	704,584	567,229
	Interest Rate	5.05%	6.20%	5.05%
	Porter Finance Limited	-	80,937	-
	Less Current portion	-	(80,937)	-
		-	-	-
	Interest Rate		11%	
	Westpac Flexequip	-	859,545.88	-
	Less Current portion	-	(174,848)	-
			684,698.20	-
	Interest Rate		6.35%	
	CAT Finance	342,577	-	-
	Less Current portion	(70,099)	-	-
		272,477	-	-
	Interest Rate	2.49%		
	Made up of:			
	Current	324,973	576,141	294,428
	Non-Current	720,936	1,389,282	567,229
		1,045,909	1,965,422	861,657

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
9 TAXATION			
Profit/(Deficit) before taxation	1,594,812	351,173	600,865
Prima facie taxation 28%	446,547	93,828	168,242
Plus taxation effect of permanent differences:			
- Non deductible expenses	-	-	1,931
	446,547	93,828	170,173
Income tax expense at effective tax rate of 28%			
Major components of taxation expense are:			
Current taxation	-	-	247,497
Deferred taxation			
Origination and reversal of temporary differences	-	-	(77,324)
Recognised tax losses	-	-	-
	-	-	170,173
Imputation Credit Account			
10 EQUITY			
(a) Share Capital			
Opening balance	1,250,000	1,250,000	1,250,000
Closing Balance	1,250,000	1,250,000	1,250,000

At 31 December the company had issued 1,250,000 shares which are fully paid. All shares carry equal voting rights and the right to share in any surplus on winding up the company. None of the shares carry fixed dividend rights. The shares do not have a par value.

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
(b) Retained Earnings			
Retained earnings at 1 July	5,792,351	5,711,660	5,711,660
Net operating surplus/deficit	1,148,265	252,845	430,691
Final Dividend	-	(300,000)	(300,000)
Interim Dividend	-	-	(50,000)
Retained earnings at 31 December	6,940,616	5,664,505	5,792,351

11 BANK FACILITY

A bank facility is available at the Westpac Bank, and is secured by a general securtiy agreement over the company's assets. The facility available totals $500,000 (2019: $500,000). The current interest rate is 5.65% (2019: 6.40%).

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
12 INTANGIBLE ASSETS			
Software			
Balance at 1 July	293,391	293,391	293,391
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December	293,391	293,391	293,391
Amortisation and Impairment Losses			
Balance at 1 July	194,231	168,001	168,001
Amortisation for the year	10,215	13,113	26,230
Disposals	-	-	-
Balance at 31 December	204,446	181,114	194,231
Carrying Amounts			
At 1 July	99,160	125,390	125,390
At 31 December	88,945	112,277	99,160

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

PROPERTY, PLANT AND EQUIPMENT

6 mnths to 31/12/20

Cost	Land	Quarries	Buildings	Plant & Machinery	Fixtures, fittings & equipment	Computer Hardware	Total
Balance at 1 July	29,433	494,288	733,204	14,036,449	682,961	204,623	16,180,958
Additions	-	-	-	851,471	9,990	4,833	866,294
Disposals	-	-	-	(1,072,798)	-	-	(1,072,798)
Balance at 31 December	29,433	494,288	733,204	13,815,122	692,951	209,456	15,974,453
Depreciation and Impairment Losses							
Balance at 1 July	-	492,553	430,397	9,806,986	396,169	137,433	11,263,537
Depreciation for the year	-	202	18,298	463,365	29,111	15,118	526,094
Disposals	-	-	-	(957,509)	-	-	(957,509)
Balance at 31 December	-	492,755	448,695	9,312,842	425,280	152,551	10,832,122
Carrying Amounts							
At 1 July	29,433	1,735	302,807	4,229,463	286,792	67,190	4,917,421
At 31 December	29,433	1,533	284,509	4,502,280	267,671	56,905	5,142,332

6 mnths to 31/12/19

Cost	Land	Quarries	Buildings	Plant & Machinery	Fixtures, fittings & equipment	Computer Hardware	Total
Balance at 1 July	29,433	394,280	714,956	13,587,170	637,574	209,816	15,573,229
Additions	-	-	18,249	1,160,214	27,500	2,554	1,208,517
Disposals	-	-	-	(169,344)	-		(169,344)
Balance at 31 December	29,433	394,280	733,205	14,578,040	665,074	212,370	16,612,402
							-
Depreciation and Impairment Losses							-
Balance at 1 July	-	26,054	388,774	9,759,959	330,013	173,387	10,678,186
Depreciation for the year	-	4,028	20,812	447,152	32,352	8,005	512,349
Disposals	-	-	-	(140,728)	-		(140,728)
Balance at 31 December	-	30,082	409,585	10,066,383	362,365	181,392	11,049,808
Carrying Amounts							
At 1 July	29,433	368,226	326,182	3,827,211	307,561	36,429	4,895,042
At 31 December	29,433	364,198	323,619	4,511,657	302,709	30,978	5,562,594

12 mnths to 30/06/20

Cost	Land	Quarries	Buildings	Plant & Machinery	Fixtures, fittings & equipment	Computer Hardware	Total
Balance at 1 July	29,433	494,288	714,956	13,587,170	637,574	209,816	15,673,237
Additions	-	-	18,248	1,432,071	45,387	51,977	1,547,683
Disposals	-	-	-	(982,792)	-	(57,170)	(1,039,962)
Balance at 30 June	29,433	494,288	733,204	14,036,449	682,961	204,623	16,180,958
Depreciation and Impairment Losses							
Balance at 1 July	-	126,062	388,774	9,759,959	330,013	173,387	10,778,194
Depreciation for the year	-	8,045	41,623	957,483	66,156	17,838	1,091,145
Impairment	-	358,446	-	-	-	-	358,446
Disposals	-	-	-	(910,456)	-	(53,792)	(964,248)
Balance at 30 June	-	492,553	430,397	9,806,986	396,169	137,433	11,263,537
Carrying Amounts							
At 1 July	29,433	368,226	326,182	3,827,211	307,561	36,429	4,895,042
At 30 June	29,433	1,735	302,807	4,229,463	286,792	67,190	4,917,421

QUALITY ROADING AND SERVICES (WAIROA) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Unaudited)
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
14 OTHER PROVISIONS			
QUARRY AFTERCARE PROVISION			
Balance at beginning of the year	180,105	162,930	162,930
Provided for during the year	2,133	3,357	17,175
Expenditure during the year	-	-	-
Balance at the end of the year	182,238	166,287	180,105

A provision is recognised for expected Quarry reinstatement costs based on past experience of the level of metal extraction.

15 RECONCILIATION OF NET OPERATING PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES	6 mnths to 31/12/2020	6 mnths to 31/12/2019	12 mnths to 30/06/2020
Reported net operating profit after taxation	1,148,265	252,845	430,691
Subvention Provision	100,000		200,000
Add back non-cash items:			
Depreciation	582,675	512,346	1,206,045
Amortisation	10,215	13,115	26,230
Impairment	-	-	358,446
(Increase)/Decrease in Deferred Taxation	-	(92,288)	(77,326)
Increase/(Decrease) in Employee Benefits	14,563	(1,549)	46
Increase/(Decrease) in Quarry Aftercare Provision	2,133	3,356	17,176
	1,857,851	687,825	2,161,308
Add back items classified as investment activities:			
Net loss on sale of Property, Plant and Equipment	8,077	12,668	17,112
Gain on sale of Property, Plant and Equipment	(229,630)	(7,800)	(137,843)
Net loss on sale of Intangibles	-	-	-
	(221,553)	4,868	(120,731)
Movements in Working Capital:			
(Increase)/Decrease in Receivables & Prepayments	259,165	1,305,613	258,910
(Increase)/Decrease in Inventories	(211,601)	(69,199)	184,448
Increase/(Decrease) in Trade and Other Payables and GST	(321,675)	(207,432)	536,371
Increase/(Decrease) in Employee Benefits	(124,806)	(104,637)	(26,446)
(Increase)/Decrease in Tax Payable/Receivable	111,417	(314,327)	(327,865)
	(287,500)	610,018	625,418
Net Cash (outflow)/inflow from Operating Activities	1,348,797	1,302,711	2,665,995