



STATEMENT OF INTENT FOR THE YEAR ENDING 30 JUNE 2011

CONTENTS

1	INTRODUCTION.....	2
2	OBJECTIVES.....	2
2.1	VISION.....	2
2.2	OBJECTIVES.....	2
3	NATURE AND SCOPE OF ACTIVITIES	3
4	GOVERNANCE.....	3
4.1	BOARD ROLE AND RESPONSIBILITY	3
4.2	RESPONSIBILITY TO SHAREHOLDER	3
4.3	BOARD COMPOSITION	4
4.4	CONFLICTS OF INTEREST.....	4
4.5	NOMINATIONS AND APPOINTMENT OF NEW DIRECTORS	4
4.6	BOARD MEETINGS.....	4
4.7	DIRECTOR INDUCTION AND EDUCATION.....	4
4.8	BOARD PERFORMANCE REVIEW	5
4.9	CHIEF EXECUTIVE OFFICER PERFORMANCE REVIEW	5
4.10	INSURANCE.....	5
4.11	BOARD COMMITTEES	5
4.12	CONTROLLING AND MANAGING RISK	5
5	BALANCE SHEET RATIOS	6
6	ACCOUNTING POLICIES.....	6
7	PERFORMANCE TARGETS.....	6
7.1	MEDIUM TERM OUTLOOK.....	6
7.2	FINANCIAL PERFORMANCE TARGETS	6
7.3	OPERATIONAL PERFORMANCE TARGETS.....	7
7.4	ENVIRONMENTAL AND SOCIAL PERFORMANCE TARGETS.....	7
8	DISTRIBUTIONS	7
9	INFORMATION TO BE PROVIDED TO THE SHAREHOLDER	8
10	ACQUISITION/DIVESTMENT PROCEDURES	8
11	COMPENSATION SOUGHT FROM LOCAL AUTHORITY.....	8
12	ESTIMATE OF COMMERCIAL VALUE OF SHAREHOLDER’S INVESTMENT.....	9
13	ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY.....	9
13.1	COMMERCIAL RELATIONSHIP WITH THE CHRISTCHURCH CITY COUNCIL GROUP.....	9
13.2	ROLE IN THE GROWTH OF THE REGIONAL ECONOMY	9
13.3	CHRISTCHURCH CITY COUNCIL URBAN DEVELOPMENT STRATEGY.....	9
13.4	EMERGENCY RESPONSE	9
	CITY CARE: STATEMENT OF ACCOUNTING POLICIES.....	10

1 INTRODUCTION

This Statement of Intent (SOI) is prepared in accordance with Section 64(1) of the Local Government Act 2002. The SOI specifies for City Care Limited (City Care) the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to our objectives.

The process of negotiating and determining an acceptable SOI is a public and legally required expression of the accountability relationship between the company and our Shareholder, Christchurch City Holdings Limited (CCHL). The SOI is reviewed annually with CCHL and covers a three year period. This SOI covers the period from 1 July 2010 to 30 June 2013.

Contact details for both the Chairman and Chief Executive are City Care's registered office:

Address: 226 Antigua Street, Christchurch
PO Box 7669, Christchurch

Telephone: (03) 941 7200

Web: www.citycare.co.nz

Email: citycare@citycare.co.nz

City Care is a Council-Controlled Trading Organisation (CCTO) for the purposes of the Local Government Act 2002.

2 OBJECTIVES

City Care is a leading provider of construction, maintenance and management services for infrastructure and amenity assets.

At City Care we work around the clock building, maintaining and managing parks, gardens, sportsfields, cemeteries, waterways and coastal areas, water, wastewater and stormwater networks, buildings and public facilities, and roading networks.

2.1 Vision

City Care's vision is:

**TO BE REGARDED BY OUR CUSTOMERS, EMPLOYEES,
SHAREHOLDER AND COMPETITORS
AS THE BEST IN THE BUSINESS**

2.2 Objectives

City Care's key objectives are:

- ✔ To operate a profitable, sustainable, growing and innovative business so as to maintain a strong market presence in construction, maintenance and management of infrastructure and amenity assets
- ✔ To operate the business in a way that generates appropriate financial returns and dividend streams to the company's Shareholder
- ✔ To continue to compete in Christchurch markets and aggressively target a significant share of work offered for tender by Christchurch City Council

- ✔ To deliver operational excellence that meets clients' expectations and maintains contract longevity
- ✔ To be a good corporate citizen by adopting responsible social, environmental and value adding approaches to all aspects of the business
- ✔ To be a good employer in providing a work environment that recruits, fosters and retains competent, motivated, committed and productive employees
- ✔ To commit to excellence in health and safety management
- ✔ To ensure business activities comply with all legal requirements
- ✔ Provide emergency support services for natural disaster events
- ✔ To operate as a proactive member of the CCHL group

3 NATURE AND SCOPE OF ACTIVITIES

City Care is in the business of constructing, maintaining and managing amenity and infrastructure assets for local and central government clients and other major owners of infrastructure.

City Care's current area of operations is New Zealand. The company is open to considering opportunities in the Australia and Pacific region where they are advantageous and will enhance the company's financial position.

4 GOVERNANCE

City Care's Board of Directors is responsible for the corporate governance of the company. The Board and management are committed to ensuring the company operates to the recognised principles of best practice governance and adheres to high ethical standards.

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

4.1 Board role and responsibility

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

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

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

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

The Board endorses and adheres to the principles of the Institute of Directors of New Zealand Inc 'Principles of Best Practice for New Zealand Directors 2007.'

4.2 Responsibility to Shareholder

In accordance with section 64 of the Local Government Act 2002, each February the company submits to the Shareholder a draft SOI for the coming financial year. The SOI sets out the objectives, activities, intentions and financial and performance targets.

After due consideration and discussion with the Shareholder, the final SOI is approved by the Board of Directors and delivered to the Shareholder in May.

4.3 Board composition

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

One-third of the Directors retire by rotation at each Annual Meeting. The basis for determining which Directors retire by rotation is the length of service in office since the last election or appointment. Retiring Directors are eligible for re-election.

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

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

4.4 Conflicts of interest

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

The Board maintains an interests register and reviews it at each Board meeting.

4.5 Nominations and appointment of new Directors

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

4.6 Board meetings

Each year there are 11 scheduled meetings of the Board. The Board also meets as required between the scheduled meetings.

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

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

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

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

4.7 Director induction and education

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

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

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

4.8 Board performance review

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

4.9 Chief Executive Officer performance review

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

4.10 Insurance

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

4.11 Board committees

The Board has one formally constituted committee, the Audit Committee. The Audit Committee has a Board-approved Charter outlining the Committee's authority, duties, responsibilities and relationship with the Board. Other committees may be established as needed.

Audit Committee

The Audit Committee is chaired by a Director who is not the Board Chairman. It comprises all independent non-executive members of the Board. The Chief Executive Officer and the Chief Financial Officer also attend meetings in an ex-officio capacity.

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

The Audit Committee's main responsibilities are to:

- ✔ oversee compliance with statutory financial reporting requirements
- ✔ ensure that adequate internal controls are in place
- ✔ review the scope and extent of the external audit
- ✔ review annual and half yearly financial statements prior to approval by the Board
- ✔ oversee of legislative and statutory compliance

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

4.12 Controlling and managing risk

The company has implemented a formal risk management framework which identifies the key risks and outlines the appropriate risk management plans. These plans are reviewed by the Board on a regular basis.

The Board participates in developing strategic plans, approves budgets and monitors company performance monthly.

The Board satisfies itself that adequate insurance is in place for the company's size and risk profile and that adequate health, safety and environmental protection policies and hazard assessments are in place and monitors their performance.



5 BALANCE SHEET RATIOS

The forecast ratio of Shareholder's funds to total assets for the next three years is:

2010/11	2011/12	2012/13
62%	63%	64%

The long-term target for the ratio of debt to debt plus equity is within a range of 25% to 30%. The forecast capital structure for the next three years is:

	2010/11	2011/12	2012/13
	\$M	\$M	\$M
Interest Bearing Debt	9.4	9.8	9.4
Equity	34.0	37.3	41.0
Debt to Debt plus Equity	22%	21%	19%

6 ACCOUNTING POLICIES

City Care has adopted accounting policies consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group.

The company's current accounting policies are attached to this SOI.

7 PERFORMANCE TARGETS

7.1 Medium term outlook

During the recent economic downturn, City Care has maintained its revenue position but with increased pressure on profitability due to increased competition for the available work. Despite this environment, City Care has managed to achieve modest growth in both revenue and profitability.

However, future growth projections in section 7.2 for the 2011/12 and 2012/13 years have been tempered from those in last year's SOI due to the market uncertainty. These projections show a slightly lower Net Profit After Tax and Return on Average Equity, but with lower debt and improved debt to debt plus equity ratios.

Whilst there is still uncertainty in the economy, the company's proven track record places it in a strong position to win new contracts, capitalise on growth opportunities and improve profitability.

7.2 Financial performance targets

The financial performance targets for the company are as follows:

	2010/11	2011/12	2012/13
	\$M	\$M	\$M
Revenue	146.0	149.6	157.1
Net Profit After Tax	3.8	4.4	4.9
Return on Average Equity	12.0%	12.4%	12.7%

7.3 Operational performance targets

Target	Performance measure 2010/11
Growth	Secure new long-term maintenance work in excess of \$2m per annum
Population served	5% increase in population served by the company's operations
Maintain current contracts	Retain 90% of long term maintenance contracts currently held
Client satisfaction	Maintain current client satisfaction levels through annual survey
ISO 14001 Environment Management	Maintain accreditation
NZS 4801 Health and Safety Management	Maintain accreditation
ISO 9001 Quality Management	Maintain accreditation

7.4 Environmental and social performance targets

Target	Performance measure 2010/11
ISO 14064 Greenhouse Gas Emissions Reporting	Externally verify the ISO 14064 greenhouse gas assertion for the base year.
	Establish a greenhouse gas management programme based on the verified greenhouse gas assertion.
	Incorporate ISO 14064 management into existing audit programme to facilitate ongoing external verification.
Health and Safety	20% reduction in lost time incident frequency rate
	20% reduction in work-related injury hours lost / 1 million hours worked
	Ratio of Near Hits reported and closed / number of injury incidents – at least 5:1
Staff satisfaction	Maintain current level of staff satisfaction through annual survey
Staff skills	Secure a 5% increase in number of staff qualifications

8 DISTRIBUTIONS

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

The dividends are forecast to be paid in two instalments in March and October of each financial year. To assist the Shareholder with budgeting, the following ordinary dividends are forecast:

2010/11	2011/12	2012/13
\$M	\$M	\$M
1.8	2.0	2.3

9 INFORMATION TO BE PROVIDED TO THE SHAREHOLDER

An Annual Report will be submitted to the Shareholder. The Annual Report will include audited financial statements and such other details as necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the Shareholder.

Half-yearly reports will also be provided to the Shareholder. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced consistent with 'triple bottom line' (or 'sustainability') reporting philosophy. The reports will outline the company's objectives and performance in terms of financial, environmental and social inputs, outputs and outcomes.

The SOI will be submitted to the Shareholder for consultation annually, as required by the Local Government Act 2002. The Directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the Shareholder.

The company will operate on a 'no surprises' basis in respect of significant Shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

City Care will provide information requested by the Shareholder in accordance with the requirements of the Local Government Act 2002.

10 ACQUISITION/DIVESTMENT PROCEDURES

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of City Care.

When the subscription, acquisition or divestment is considered by Directors to be significant to the company's business operations, it will be subject to consultation with the Shareholder. Major transactions as defined by the Companies Act 1993, section 129(2), will be subject to the Shareholder's approval by special resolution.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by City Care's Directors and staff.

11 COMPENSATION SOUGHT FROM LOCAL AUTHORITY

At the request of the Shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities. However, currently, no such activities are undertaken or contemplated.

12 ESTIMATE OF COMMERCIAL VALUE OF SHAREHOLDER'S INVESTMENT

Effective 30 June 2009, City Care's value was assessed by independent valuers, Ernst & Young, based on a full discounted cash flow of future maintainable earnings valuation and a separate valuation for the Springs Road land, at \$26.229 million.

13 ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

13.1 Commercial relationship with the Christchurch City Council group

City Care acknowledges, as a wholly owned subsidiary of CCHL, that there may be commercial opportunities within, or in partnership with, other group companies that can be developed to benefit City Care, CCHL and the Canterbury region. City Care will make every effort to establish a strong working relationship with other group companies to explore such opportunities, and to develop new business as appropriate.

13.2 Role in the growth of the regional economy

City Care performs a significant role in maintaining the infrastructure and amenity assets of Christchurch city. The company builds, maintains and manages local parks, gardens, sportsfields, cemeteries and waterways, water, wastewater and stormwater networks, roading networks and buildings and public facilities. City Care employs approximately 1,000 employees nationwide with over 600 working directly in the Canterbury region. As the company is one of the largest contractors in the Canterbury region, it has a significant role in the regional economy.

City Care continues to run its award winning Pre-apprenticeship Work Skills Development Programme, providing valuable skills and training for school leavers and young adults. To date, the Canterbury region has benefited by 167 employees undertaking the programme with 110 gaining employment in the region and 73 participants working towards gaining a trade qualification.

13.3 Christchurch City Council Urban Development Strategy

City Care recognises and fully supports the 2007 Greater Christchurch Urban Development Strategy. Through its extensive contracting activities within Canterbury, the company has a role in achieving the vision of a greater Christchurch area, with enhanced environments and enriched lifestyles.

The company currently owns land located at Springs Road, Christchurch. Any major change contemplated in the status of this land, including the potential impact on the Urban Development Strategy, will be notified to the Shareholder.

City Care will notify the Shareholder if the company contemplates any contracting actions that may impact on the objectives of the Urban Development Strategy.

13.4 Emergency response

With over 600 employees living in Canterbury and a substantial vehicle fleet, backed up by an extensive communications system, City Care has the capability to respond to major civil defence events occurring in the region. Such a response is a significant component of the business and every contract requires such a capability.

CITY CARE: STATEMENT OF ACCOUNTING POLICIES

For the year ending 30 June 2010.

Basis of Preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment. The reporting currency is New Zealand dollars, rounded to the nearest thousand.

Preparing financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any changes to estimates are recognised in the period if the change affects only that period, or into future periods if it also affects future periods. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

Significant Accounting Policies

(a) Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest basis.

(b) Borrowing Costs

Borrowing costs are interest and other costs incurred by the company in connection with the borrowing of funds and expensed as incurred.

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

(c) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and in current liabilities on the balance sheet.

(d) Construction Contracts

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

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

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

Construction contracts are defined as those in which progress claims are made under the Construction Contracts Act 2002.

(e) Employee Benefits

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

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

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

Defined Benefit Scheme (the Scheme)

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

Defined Contribution Schemes

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

(f) Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

(g) Financial Instruments

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Interest and dividends

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

(h) Goods and Services Tax (GST)

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

(i) Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 July 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2005 has not been reconsidered in preparing the company's opening NZ IFRS balance sheet at 1 July 2005.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(j) Impairment of Assets

The carrying amounts of the company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amounts are estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses on re-valued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their market value less cost to sell and value in use. Receivables with a short duration are not discounted.

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

Reversals of impairment

An impairment loss in respect of an asset carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Income Tax

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

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

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

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences of goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, are not provided for.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Intangible Assets

Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives on a straight-line basis. Usually this period does not exceed five years.

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

Computer software development costs recognised as assets are amortised over their estimated useful lives. Usually this period does not exceed five years.

Subsequent expenditure

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

Amortisation

An intangible asset with a finite useful life is amortised over the period of that life. The asset is reviewed annually for indicators of impairment and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses.

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually and is carried at cost less accumulated impairment losses.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(n) Leased Assets

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

At inception, finance leases are recognised as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments, using the discount rate provided by the leasing company where available, or the company's marginal cost of borrowing. Any additional direct costs of the lessee are added to the amount recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(o) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(p) ACC Partnership Programme

The company belongs to the ACC Partnership Programme whereby the company accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the program the company is liable for all its claims costs for the cover period and the subsequent two years up to a specified maximum. At the end of the two year claims management period the liability for ongoing claims passes to ACC at no further cost to the company.

The liability for the ACC Partnership Programme is measured using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(q) Property, Plant and Equipment

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

🌱	Buildings	5–25 years
🌱	Plant and equipment	2–15 years
🌱	Motor vehicles	4–15 years
🌱	Office and computer equipment	1–10 years

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

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

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

(r) Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

(s) Revenue Recognition

Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance date. The stage of completion is assessed by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction. No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due, associated costs, the possible return of goods, or continuing management involvement with the goods.

Rental revenue

Rental revenue is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

Interest income

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

(t) Capitalisation of Contract Set-up Costs

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