# Interim Financial Report

for the half year ended 31 December 2019

# Contents

# Directors' Report

The Directors present their report together with the Consolidated Interim Financial Report for the six months ended 31 December 2019 and the Independent Review Report thereon.

### Directors

The Directors of Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") during the interim period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

***Non-executive Directors***

Professor Derek Parkin (Chairman)

Mr Simon Buchhorn

Mr Karl Paganin

***Executive Directors***

Mr Graeme Dunn (Managing Director)

Mr David Hammond

### Review of operations

Revenue for the half year was $230.3m, a record half year for the Group, which represented a 27% increase on the prior corresponding period revenue of $181.8m.

Key revenue contributors in the period by market sector included:

- Public infrastructure and defence – revenue increased to $93m from $49m in the prior corresponding period. In transport infrastructure work continued on the Westconnex M5 motorway tunnel project in New South Wales, the Forrestfield Airport Link project in WA commenced and the Northlink Central Section Project in WA demobilised. In the health sector work progressed on the Westmead Hospital project in New South Wales and work commenced under the recently awarded maintenance panel arrangements with a number of Metropolitan Health Services in WA. In defence there is ongoing work at the RAAF Tindal project in the Northern Territory.
- Commercial – revenue in the period was $88m compared to $53m in the prior corresponding period. The majority of revenue in the sector continues to be generated in the New South Wales market on a range of large construction and fit-out projects including various projects at Parramatta Square, Wynyard Place, 231 Elizabeth Street and the Edmondson Square Town Centre Development.
- Resources – revenue decreased from $61m in the prior corresponding period to $20m in the current half year as a result of large scale construction projects demobilising in the prior year and not being replaced. The business continued to win and perform minor works projects for Rio Tinto and BHP and secure work under its framework agreements on the Sino Iron and Boddington Gold projects.
- Telecommunications and data centres – revenue was $20m compared to $12m in the prior corresponding period. NBN and carrier network construction and maintenance works continued across Australia and work commenced on the RUData SYD53 Data Centre project in New South Wales.
- Industrial, energy and utilities – revenue was $9m compared to $7m in the prior corresponding period. Work

continued under the three year Ergon Energy Service Agreement in northern Queensland and commenced on the Agnew Windfarm project in WA.

Gross profit for the half year of $23.8m was up 12% on the prior corresponding period although gross margin percentages were lower than the prior corresponding period because prudent positions have been taken whilst negotiating changes on certain infrastructure projects.

Overheads were $13.2m compared to $12.8m in the prior corresponding period. As a percentage of revenue overheads decreased to 5.7% in HY20 from 7.1% in HY19.

EBIT for the half year was $8.4m and NPAT was $5.5m, up 22% and 24% respectively on the prior corresponding period.

The balance sheet remained strong throughout the period. Net cash at 31 December 2019 was $53.3m with no debt, the same balance as at the start of the period. The payment of the final $6.5m tranche of deferred Heyday acquisition consideration was offset by positive operating cashflows whilst the payment of the FY19 dividend was funded by an underwritten Dividend Reinvestment Plan.

During the period substantial progress was made in the commercial resolution of resources projects completed in early 2019.

Capital expenditure for the half year was $1.1m and is expected to remain at low levels.

The new leasing accounting standard AASB 16 was adopted on 1 July 2019 and resulted in the recognition of $5.6m of right of use assets and $5.6m of lease liabilities in respect of operating leases.

No interim dividend has been declared by the Board in order to conserve cash to pursue acquisition opportunities.

Outlook

The Group remains on track to exceed the FY20 revenue forecast of over $420m and is expecting stronger H2 profitability.

The business continued to win work across its core markets in the period. Significant awards included resources work at the MARBL Joint Venture's Kemerton Lithium project in WA and Rio Tinto's Gove operations in the Northern Territory and commercial building and fit-out projects including 231 Elizabeth Street and the Sandstone Precinct in New South Wales and the City 7 and Parade developments in the ACT. A number of new framework and panel agreements were also secured in the health, education, resources and telecommunications sectors.

The order book at 31 December 2020 was $440m, a similar level to the start of the period despite delivering record revenues. Over $250m of work is already secured for the FY21 year.

The business development pipeline remains strong, particularly in the New South Wales commercial and public infrastructure sectors.

Infrastructure was SCEE's largest revenue sector in FY19 and remains so in the current period. The sector is primarily driven by government expenditure and with significant investment sanctioned peak activity is still to come with electrical work generally later in the cycle. Work is continuing on key projects including RAAF Tindal in the Northern Territory, Westmead Hospital and Westconnex M5 in New South Wales and the Australian National University in ACT. Tendering in the transport sector remains high with a number of active bids on Sydney Metro. There continues to be a significant pipeline of opportunities in defence and health.

Commercial remains the largest component of the order book with multiple base-builds and fit-outs in progress in Sydney and Canberra. Activity in New South Wales is forecast to remain at high levels with a number of commercial developments related to Sydney Metro. The Group is bidding its first commercial project in Brisbane.

Resources activity is forecast to increase as significant recent wins at Kemerton Lithium in WA and Rio Tinto Gove in the Northern Territory mobilise in the second half. There are ongoing sustaining capital and maintenance projects at multiple Rio Tinto and BHP facilities and mine sites and work is continuing under Master Service Agreements at Boddington Gold and Sino Iron.

In the telecommunications and data centres sector the NBN construction roll-out is passing its peak nationally but works are continuing in WA, Queensland and Victoria. NBN maintenance and upgrading contracts commenced during the period while 5G related activity remains low at the present time. Work is ongoing at the RUData SYD53 Data Centre project and other data centre opportunities are currently being bid.

The industrial, energy and utilities sector remains stable with a variety of projects being tendered. The Agnew Windfarm electrical works project in WA is performing well and the Ergon Energy Service Agreement in northern Queensland is ongoing. There is still a pipeline of opportunities for SCEE for the electrical construction portion of renewables projects.

Strategy

SCEE primarily sees itself as an electrical contractor. Historically focussed in resources, over the last four years we implemented a strategy to diversify organically and acquisitively into commercial, infrastructure, defence, telecommunications, industrial, energy and utilities work.

Our growth strategy continues so as to realise further sector and geographic diversity, including targeting maintenance and recurring earnings, through a combination of organic and acquisition activities.

Organic growth will be achieved through our strong commercial and infrastructure pipelines and resources activity is increasing again across multiple commodities having been at a low point in recent periods.

Acquisition opportunities are being actively pursued.

**Dividend**

The Directors have not declared an interim dividend for the six months ended 31 December 2019 (31 December 2018: no dividend).

**Rounding off**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Lead auditor's independence declaration**

The lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the six months ended 31 December 2019.

Signed in accordance with a resolution of the directors:

D Parkin

**Derek Parkin**
Chairman
Perth
25 February 2020

# Consolidated Statement of Comprehensive Income

| | Note | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|---|
| Contract revenue | | 230,340 | 181,763 |
| Contract expenses | | (206,514) | (160,448) |
| **Gross profit** | | **23,826** | **21,315** |
| Other income | | 202 | 510 |
| Employee benefits expenses | | (8,155) | (7,777) |
| Occupancy expenses | | (726) | (1,256) |
| Administration expenses | | (3,455) | (3,005) |
| Other expenses | | (825) | (781) |
| Depreciation expense | | (1,527) | (1,698) |
| Right-of-use asset amortisation expense | 8 | (943) | - |
| Other amortisation expenses | | (1) | (398) |
| **Profit from operating activities** | | **8,396** | **6,910** |
| Finance income | 7 | 188 | 266 |
| Finance expense | 7 | (666) | (822) |
| **Net finance expense** | **7** | **(478)** | **(556)** |
| **Profit before income tax** | | **7,918** | **6,354** |
| Income tax expense | | (2,383) | (1,901) |
| **Profit after income tax for the period** | | **5,535** | **4,453** |
| | | | |
| Other comprehensive income | | - | - |
| **Other comprehensive income net of income tax** | | **-** | **-** |
| | | | |
| **Total comprehensive income for the period** | | **5,535** | **4,453** |
| | | | |
| **Attributable to** | | | |
| Owners of the Company | | **5,535** | **4,453** |
| | | | |
| **Earnings per share** | | | |
| - Basic earnings per share (cents per share) | | 2.30 | 1.91 |
| - Diluted earnings per share (cents per share) | | 2.29 | 1.90 |

# Consolidated Statement of Financial Position

| | Note | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 53,311 | 53,257 |
| Trade and other receivables | 9 | 125,287 | 103,950 |
| Inventories | | 2,098 | 2,335 |
| Prepayments | | 2,904 | 1,693 |
| **Total current assets** | | **183,600** | **161,235** |
| **Non-current assets** | | | |
| Property, plant and equipment | | 18,069 | 14,827 |
| Intangible assets | | 73,793 | 73,794 |
| **Total non-current assets** | | **91,862** | **88,621** |
| **Total assets** | | **275,462** | **249,856** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 94,812 | 77,188 |
| Provisions | | 11,505 | 9,762 |
| Lease liability | 8 | 1,434 | - |
| Deferred acquisition consideration | 16 | - | 6,500 |
| **Total current liabilities** | | **107,751** | **93,450** |
| **Non-current liabilities** | | | |
| Lease liability | 8 | 3,428 | - |
| Provisions | | 282 | 416 |
| Deferred tax liability | | 10,601 | 8,282 |
| **Total non-current liabilities** | | **14,311** | **8,698** |
| **Total liabilities** | | **122,062** | **102,148** |
| **Net assets** | | **153,400** | **147,708** |
| **Equity** | | | |
| Share capital | | 109,767 | 102,873 |
| Reserves | | 470 | 551 |
| Retained earnings | | 43,163 | 44,284 |
| **Total equity** | | **153,400** | **147,708** |

# Consolidated Statement of Changes in Equity

| | Share Capital $'000 | Retained Earnings $'000 | Share Based Payments Reserve $'000 | Translation Reserve $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| Balance as at 1 July 2019 | 102,873 | 44,284 | 1,065 | (514) | 147,708 |
| **Total comprehensive income for the period** | | | | | |
| Profit for the period | - | 5,535 | - | - | 5,535 |
| **Total comprehensive income** | - | **5,535** | **-** | **-** | **5,535** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Dividends | - | (7,042) | - | - | (7,042) |
| Dividend re-investment and share placements, net | 6,894 | - | - | - | 6,894 |
| Equity-settled share based payments | - | - | 305 | - | 305 |
| Performance rights (net of tax) | - | 386 | (386) | - | - |
| **Total transactions with owners** | **6,894** | **(6,656)** | **(81)** | **-** | **157** |
| **Balance as at 31 December 2019** | **109,767** | **43,163** | **984** | **(514)** | **153,400** |

| | Share Capital $'000 | Retained Earnings $'000 | Share Based Payments Reserve $'000 | Translation Reserve $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| Balance as at 1 July 2018 | 102,873 | 36,488 | 2,263 | (514) | 141,110 |
| **Total comprehensive income for the period** | | | | | |
| Profit for the period | - | 4,453 | - | - | 4,453 |
| **Total comprehensive income** | - | **4,453** | **-** | **-** | **4,453** |
| **Transactions with owners, recorded directly in equity:** | | | | | |
| Dividends | - | (7,022) | - | - | (7,022) |
| Cost of share based payments | - | - | 275 | - | 275 |
| Performance rights (net of tax) | - | 2,105 | (1,744) | - | 361 |
| **Total transactions with owners** | **-** | **(4,917)** | **(1,469)** | **-** | **(6,386)** |
| **Balance as at 31 December 2018** | **102,873** | **36,024** | **794** | **(514)** | **139,177** |

# Consolidated Statement of Cash Flows

| | Note | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 230,693 | 191,078 |
| Cash paid to suppliers and employees | | (221,722) | (177,730) |
| Interest received | | 188 | 266 |
| Interest paid | | (598) | (599) |
| Income taxes paid | | - | - |
| **Net cash from operating activities** | **11** | **8,561** | **13,015** |
| **Cash flows from investing activities** | | | |
| Payment of deferred acquisition consideration | | (6,500) | (6,500) |
| Acquisition of property, plant and equipment | | (1,110) | (1,332) |
| Proceeds from the sale of assets | | 325 | 12 |
| **Net cash used in investing activities** | | **(7,285)** | **(7,820)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares net of transaction costs | | 6,831 | - |
| Dividends paid | 14 | (7,042) | (7,022) |
| Principal portion of lease liability payments | | (943) | - |
| Interest portion of lease liability payments | 7 | (68) | - |
| Transfer to restricted term deposit | | - | (11,605) |
| **Net cash used in financing activities** | | **(1,222)** | **(18,627)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **54** | **(13,432)** |
| Cash and cash equivalents at 1 July | | 53,257 | 58,076 |
| Effect of exchange rate fluctuations on cash held | | - | - |
| **Cash and cash equivalents at 31 December** | | **53,311** | **44,644** |

# Notes to the Consolidated Interim Financial Statements

### 1. Reporting entity

Southern Cross Electrical Engineering Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2019 comprises the Company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2019 is available upon request from the Company's registered office at 41 Macedonia Street, Naval Base, Western Australia 6165 or at www.scee.com.au.

### 2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2019.

The consolidated interim financial report was approved by the Board of Directors on 25 February 2020.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### 3. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2019 except for the judgments management used for the initial recognition on 1 July 2019 and subsequent measurement of right-of-use asset and lease liability in accordance with the newly adopted AASB 16 Leases (see note 4 (a)).

### 4. Significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim period with the exception of the adoption of AASB 16 Leases (note 4(a)).

Other revised standards and interpretations which applied from 1 July 2019 did not have a material effect on the Group.

### 4. Significant accounting policies (continued)

**New accounting standards adopted by the Group**

**(a) Impact of transition to AASB 16 Leases**

AASB 16 Leases introduces a single, on-balance sheet lease accounting model for lessees. At commencement date of a lease, lessees will recognise a liability to make lease payments arising from lease contract and a right-of-use (ROU) asset representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and depreciation expense on the ROU asset.

***Definition of a lease***

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under the related interpretations of AASB 117. The Group now assess whether a contract is or contains a lease based on the definition of a lease in AASB 16 Leases.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The AASB 16 Leases definition of a lease is applied only to contracts that were previously identified as leases at the date of initial application. Contracts that were not identified as leases under AASB 117 were not reassessed for whether there is a lease under AASB 16. From the date of initial application, lease accounting under AASB 16 is applied to all leases, including those identified in accordance with the requirements of AASB 117.

***As a lessee***

The Group leases many assets including property, motor vehicles and office equipment. The Group previously classifies leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under AASB 16, the Group recognises ROU assets and lease liabilities on most of these leases. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate as at 1 July 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, if any.

The discount rate used to determine the present value of the lease payments is the rate implicit in the lease unless that rate cannot be readily determined. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralised basis over a similar term with an amount equal to the lease payments in a similar economic environment.

The ROU asset includes any lease payments made and lease incentives received prior to the commencement date. The ROU assets and lease liabilities may also include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. The Group has determined that there is no lease arrangement expected to be automatically renewed beyond the contractual term until either party to the contract gives notice to terminate.

Lease and non-lease components of a contract are accounted for separately. Non-lease components of the lease payments are expensed as incurred and are not included in determining the present value.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented in the previous financial year 2019 is not restated – i.e. it is presented as previously reported, under AASB 117 and related interpretations. Additionally, the disclosure requirements of AASB 16 have not generally been applied to comparative information.

## 4. Significant accounting policies (continued)

### New accounting standards adopted by the Group (continued)

### (a) Impact of transition to AASB 16 Leases (continued)

The Group has applied a number of practical expedients upon the initial adaptation of AASB 16 to leases previously classified as operating leases under AASB 117. In particular, the Group applied:

- Recognition exemptions for short-term leases, i.e. twelve (12) months or less, and/or low-value items, i.e. less than $7,000, on a lease-by-lease basis, in general, hence, the related lease payments are outright recognised in the statement of income as occupancy expenses. This recognition exemption was not applied on the Group's lease contracts and arrangements with motor vehicles, as an asset class, as the underlying asset;
- Exclusion of initial direct costs from the measurement of the ROU asset at the date of initial application; and
- The use of hindsight when determining the lease term.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier. The Group also assesses the right-of-use asset for impairment when such indicators exist. The Group has tested its ROU asset for impairment on the date of transition and has concluded that there is no indication that the ROU assets are impaired.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

| | $'000 |
|---|---|
| **Total operating lease commitments disclosed as at 30 June 2019** | **6,692** |
| Recognition exemptions: | |
| Leases of low value assets | (16) |
| Leases with lease term of 12 months or less | (599) |
| Non-exempted leases due to having motor vehicles as underlying asset | 365 |
| | (250) |
| Variable lease payments not recognised | - |
| Other minor adjustments relating to commitment disclosures | (190) |
| | **(440)** |
| Operating lease liabilities before discounting | 6,252 |
| Discount using incremental borrowing rate | (692) |
| Operating lease liabilities | 5,560 |
| Reasonably certain extension options | 49 |
| **Total lease liabilities recognised under AASB 16 at 1 July 2019** | **5,609** |

### (b) New accounting standards not yet adopted

A number of new standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these interim financial statements.

The aforementioned new standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

## 5. Financial risk management

During the six months ended 31 December 2019 the Group's financial risk management objectives and policies were consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2019.

## 6. Segment reporting

Revenue is principally derived by the Group from the provision of electrical services to the following sectors: Commercial developments; public infrastructure and defence; resources – mining, oil and gas; industrial, utilities and energy; telecommunications and data centres. The Group provides its services through the three key segments of SCEE, Datatel and Heyday.

The directors believe that the aggregation of the operating segments is appropriate as they:

- have similar economic characteristics;
- perform similar services using similar business processes;
- provide their services to a similar client base;
- have a centralised pool of shared assets and services; and
- operate in similar regulatory environments.

All segments have therefore been aggregated to form one operating segment.

## 7. Finance income and expenses

| | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|
| Interest income on bank deposits | 188 | 266 |
| Finance income | 188 | 266 |
| | | |
| Bank charges | (296) | (260) |
| Bank guarantee fees | (221) | (302) |
| Interest expense on bank borrowings | (81) | (37) |
| Unwinding of discount on lease liability | (68) | - |
| Unwinding of discount on deferred consideration | - | (223) |
| Finance expenses | (666) | (822) |
| Net finance expense | (478) | (556) |

## 8. Right-of-use assets and Lease liability

### (a) Right-of-use assets

Property, plant and equipment as at 31 December 2019 of $18,069,289 (30 June 2019: $14,826,866) includes Right-of-use (ROU) assets with net carrying amount of $4,862,126 (30 June 2019: $ nil) as follows:

| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|
| Costs: | | |
| Land and building | 4,214 | - |
| Motor vehicles | 1,331 | - |
| Office equipment | 215 | - |
| | 5,760 | - |
| Accumulated amortisation: | | |
| Land and building | (441) | - |
| Motor vehicles | (419) | - |
| Office furniture and equipment | (38) | - |
| | (898) | - |
| | **4,862** | **-** |

ROU asset amortisation expense for the period per class of underlying assets is as follows:

| | 31 Dec 2019 $'000 |
|---|---|
| Land and building | 441 |
| Motor vehicles | 464 |
| Office furniture and equipment | 38 |
| | 943 |

### (b) Lease liability

| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|
| Current portion | 1,434 | - |
| Non-current portion | 3,428 | - |
| | 4,862 | - |

As at the 31 December 2019, the Group's leased assets are under operating lease arrangements. The weighted average discount rate used for the operating leases is 4.5%. The average remaining lease term for the leased assets per underlying asset class are as follows:

| | 31 Dec 2019 (in years) |
|---|---|
| Land and building | 2.12 |
| Motor vehicles | 0.96 |
| Office equipment | 2.46 |

The Group made its initial application of the new AASB 16 'Leases' on 1 July 2019 (note 4(a)).

## 9. Trade and other receivables

| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|
| Trade receivables | 46,165 | 37,232 |
| Provision for impairment of trade receivables | (80) | (80) |
| Contract assets (i) | 77,400 | 64,273 |
| Retentions | 1,802 | 1,628 |
| Loans to vendors | - | 897 |
| | 125,287 | 103,950 |

(i) Contract assets and revenue include contract modifications recognised in accordance with the Group's accounting policy for which amounts are not yet finalised with the customer.

## 10. Trade and other payables

| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|
| Trade payables | 41,713 | 45,186 |
| Contract liabilities | 34,920 | 13,367 |
| Accrued expenses | 13,770 | 17,436 |
| Goods and services tax payable | 3,513 | 929 |
| Retentions payable | 896 | 270 |
| | 94,812 | 77,188 |

### 11. Reconciliation of cash flows from operating activities

| | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Profit after income tax for the period** | **5,535** | **4,453** |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2,471 | 2,096 |
| Profit on sale of assets | (64) | (28) |
| Tax recognised in respect of share based payment | - | 361 |
| Equity-settled share based payment transactions | 305 | 275 |
| **(Increase)/decrease in assets:** | | |
| Change in trade and other receivables | (21,337) | (11,996) |
| Change in inventories | 236 | 19 |
| Change in prepayments | (1,211) | (1,725) |
| **Increase/(decrease) in liabilities:** | | |
| Change in trade and other payables | 18,135 | 19,495 |
| Change in provisions and employee benefits | 2,109 | (1,241) |
| Change in fair value of deferred consideration | - | (234) |
| Change in income tax payable | 63 | - |
| Change in deferred income tax | 2,319 | 1,540 |
| **Net cash from operating activities** | **8,561** | **13,015** |

### 12. Share based payments

During the six months ended 31 December 2019, the Company issued 1,502,329 Performance Rights in respect of the 2020 financial year. The Performance Rights issued, under the Company's Senior Management Long Term Incentive Plan, vest over the period to 30 June 2022 and have a fair value at grant date of $0.29 (TSR Component) and $0.49 (EPS Component). The fair value of the TSR Performance Rights has been measured using the Monte-Carlo simulation. The EPS Performance Rights has been measured using the Binomial tree methodology.

The movement in the share based payments reserve reflects the amounts expensed in regards to the FY2020 grant of $304,571 and the expiry of prior year grants $386,470.

### 13. Related parties – Key management personnel

The share based payments disclosed in note 12 included the share issues to key management personnel during the six months ended 31 December 2019. Graeme Dunn was issued 702,806 Performance Rights and Chris Douglass was issued 403,878 Performance Rights.

The Performance Rights issued to Graeme Dunn were approved by shareholders at the Company's Annual General Meeting on 29 October 2019.

Other arrangements with related parties continue to be in place on the same basis as at 30 June 2019. For full disclosure on these transactions, refer to the 30 June 2019 annual financial report.

### 14. Dividends

The following dividends were declared and paid by the Company:

| | 31 Dec 2019 $'000 | 31 Dec 2018 $'000 |
|---|---|---|
| Final 2019 ordinary fully franked at 3.00 cents per share | 7,042 | - |
| Final 2018 ordinary fully franked at 3.00 cents per share | - | 7,022 |

### 15. Contingencies

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

| | 31 Dec 2019 $'000 | 30 Jun 2019 $'000 |
|---|---|---|
| Bank Guarantees | 25,906 | 37,536 |
| Surety Bonds | 25,128 | 28,475 |

### 16. Financial instruments

In September 2019, the Group has settled in full the remaining deferred acquisition consideration liabilities of $6,500,000 after finalising Heyday's financial performance results for the year ending 30 June 2019.

### 17. Events after the balance sheet date

There have been no events after the balance sheet date that have a material impact on the financial report.

# Directors' Declaration

In the opinion of the directors of Southern Cross Electrical Engineering Limited ("the Company"):

1. the financial statements and notes set out on pages 6 to 17, are in accordance with the Corporations Act 2001 including:

    a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the six month period ended on that date; and

    b. complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors

D Parkin.

**Derek Parkin**
Chairman
Perth
25 February 2020

# Independent Auditor's Review Report

## To the shareholders of Southern Cross Electrical Engineering Limited

## Report on the Interim Financial Report

### Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Southern Cross Electrical Engineering Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Southern Cross Electrical Engineering Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Southern Cross Electrical Engineering Limited (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

### Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the interim period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Electrical Engineering Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Trevor Hart
Partner

Perth

25 February 2020

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Southern Cross Electrical Engineering Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Southern Cross Electrical Engineering Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Trevor Hart
Partner

Perth

25 February 2020

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