Good Group New Zealand Limited

Illustrative consolidated financial statements for the year ended 31 December 2019

(also applicable to 30 June 2020 year-ends)

Based on NZ IFRS for Tier 1 and Tier 2 for-profit entities

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Foreword

This publication has been designed to illustrate disclosure requirements for both Tier 1 for-profit entities reporting in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and Tier 2 for-profit entities reporting in accordance with NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR). Disclosures and related commentaries for which NZ IFRS RDR disclosure concessions are available have been highlighted in this document in dark grey with white text. Tier 2 entities are not required to make these disclosures.

Certain disclosures are included in this publication merely for illustrative purposes. We, therefore, recommend that entities using this publication tailor the illustrative disclosures to reflect the entity's own facts and circumstances.

The NZ IFRS standards applied in these illustrative financial statements are those that are effective for annual periods beginning on or before 1 January 2019. The Standard that introduces substantive changes from the 2018 version of our illustrative financial statements is NZ IFRS 16 *Leases*. We have disclosed the impact of those changes in Note 2.4.

Entities may find useful the following publications about the new leasing standard:

Applying IFRS - A closer look at IFRS 16 leases (Dec 2018)

Applying IFRS – Presentation and disclosure requirements of IFRS 16 Leases (Nov 2018)

Industry specific materials on impacts of NZ IFRS 16 can be found here. We recommend you contact one of the EY member firms' Assurance partners or a member of the EY Financial Accounting Advisory Services team for more information about the new leasing standard.

Caveat

The names of people and organisations included in these illustrative financial statements are fictitious and have been created for the purpose of illustration only. Any resemblance to any person or organisation is purely coincidental.

These financial statements are illustrative only and do not attempt to show all possible accounting and disclosure requirements. In case of doubt as to the requirements, it is essential to refer to the relevant source and, where necessary, to seek appropriate professional advice. Although the illustrative financial statements attempt to show the most likely disclosure requirements, it should not be regarded as a comprehensive checklist of disclosure requirements.

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Abbreviations and key

The following styles of abbreviation are used in this set of illustrative financial statements:

NZ IAS 33.41	New Zealand Equivalent to International Accounting Standard No. 33, paragraph 41
NZ IAS 1.BC13	New Zealand Equivalent to International Accounting Standard No. 1, Basis for Conclusions, paragraph BC13
NZ IFRS 2.44	New Zealand Equivalent to International Financial Reporting Standard No. 2, paragraph 44
FRS-44.8	Financial Reporting Standard No. 44, paragraph 8
NZ SIC 29.6	New Zealand Equivalent to Interpretation No. 29, paragraph 6
NZ IFRIC 4.6	New Zealand Equivalent to IFRS Interpretations Committee (formerly IFRIC) Interpretation No. 4, paragraph 6
NZ IFRS 9.IG.G.2	International Financial Reporting Standard No. 9 — Guidance on Implementing NZ IFRS 9 Section G: Other, paragraph G.2
CA93 s211(1)(j)	Companies Act 1993, section 211, subsection (1)(j)
Commentary	The commentary explains how the requirements of NZ IFRS have been implemented in arriving at the illustrative disclosure
NZ GAAP	New Zealand Generally Accepted Accounting Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee (IFRIC))
SIC	Standing Interpretations Committee
OCI	Other Comprehensive Income
CGU	Cash-Generating Unit
EIR	Effective Interest Rate
DCF	Discounted Cash Flows
CODM	Chief Operating Decision Maker

Introduction

This publication contains an illustrative set of consolidated financial statements for Good Group New Zealand Limited (the parent) and its subsidiaries (the Group). The Group is a fictitious, for-profit manufacturing company. Good Group New Zealand Limited is incorporated in New Zealand. The presentation currency of the Group is the New Zealand dollar.

Objective

The publication has been designed to illustrate disclosure requirements for both Tier 1 for-profit entities reporting in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and Tier 2 for-profit entities reporting in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

This set of illustrative financial statements only presents the financial statements for the Group. Entities will need to consider legislative requirements around whether separate (parent) financial statements are required.

The illustrative financial statements intend to reflect transactions, events and circumstances that we consider to be most common for a broad range of companies. Certain disclosures are included in these financial statements merely for illustrative purposes even though they may be regarded as items or transactions that are not material for the Group. The illustrative disclosures are intended to be a useful reference but each entity should consider its own facts and circumstances when preparing its financial statements, including materiality. As a general approach, these illustrative financial statements do not early adopt standards or amendments before their effective date.

How to use this publication

The illustrative financial statements contain IFRS disclosures. Disclosures highlighted in dark grey with white text are disclosures arising from New Zealand accounting standards. Tier 2 entities are not required to make these disclosures.

Additional NZ IFRS RDR disclosures required to be made by Tier 2 for-profit entities, are contained in a dashed box.

Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. For a more comprehensive list of disclosure requirements, please refer to EY Disclosure Checklist. Please contact one of EY member firm's Assurance partners for the latest version of the Disclosure Checklist. If questions arise as to the NZ IFRS requirements, it is essential to refer to the relevant source material and, where necessary, to seek professional advice. Notations shown on the right-hand margin of each page are references to NZ IFRS paragraphs that describe the specific disclosure requirements.

NZ IFRS 8 and NZ IAS 33

NZ IFRS 8 *Operating Segments* and NZ IAS 33 *Earnings per Share* disclosures have also been highlighted in this document in dark grey with white text. The limited scope of NZ IFRS 8 and NZ IAS 33 (as outlined below) means that entities that meet the Tier 2 for-profit entity criteria would not be within the scope of NZ IFRS 8 or NZ IAS 33, meaning that such disclosures are not applicable to Tier 2 for-profit entities.

NZ IFRS 8 and NZ IAS 33 only apply to:

- the separate or individual financial statements of an entity:
  - whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
  - that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- the consolidated financial statements of a group with a parent:
  - whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
  - that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

Entity-specific disclosures

Users of this publication are encouraged to prepare entity-specific disclosures. Transactions and arrangements other than those addressed by the Group may require additional disclosures. It should be noted that the illustrative financial statements of the Group are not designed to satisfy any share market or regulatory requirements, nor is this publication intended to reflect disclosure requirements that apply mainly to regulated or specialised industries.

Improving disclosure effectiveness

Terms such as 'disclosure overload' and 'cutting the clutter', and more precisely 'disclosure effectiveness', describe a problem in financial reporting that has become a priority issue for the International Accounting Standards Board (IASB or Board), local standard setters, and regulatory bodies. The growth and complexity of financial statement disclosure is also drawing significant attention from financial statement preparers, and more importantly, the users of financial statements.

Even though there is no formal definition of 'disclosure overload', from the different discussions and debates among stakeholders, three common themes have appeared, namely: financial statements' format or structure; tailoring; and materiality.

Format

When deciding on the format for the financial statements, it was common practice to follow the structure suggested in NZ IAS 1. However, as financial statement disclosures have increased in volume as transactions and the requirements of accounting standards become more complex, alternative formats may better communicate the links between different pieces of information and more transparently reflect the financial position, performance and risks of the entity.

Some alternative ways to structure and present financial statements disclosures are:

- Improve the navigation of financial statements by, for example, using summary pages or content listing, headings and cross references. Other approaches include content banners, section signs, callout boxes, or the use of colour and symbols.
- Disclosure of accounting policies together with the relevant note
- Order the notes by reference to importance
- Group disclosures by nature
- Present a specific note that provides a summary of key transactions and events for the period

Tailoring

Investors, analysts and other users of financial statements often observe that disclosures in the financial statements are boilerplate and generic, and therefore do not provide decision-useful information. Tailoring disclosures to the entity-specific facts and circumstances may not reduce the length of the financial statements, but it should enhance the relevance of the information and, in turn, enhance the usefulness of the financial statements. For example, instead of simply copying disclosures from our illustrative financial statements, entities should customise the disclosures to reflect their own facts and circumstances

Materiality

Applying the concept of materiality requires judgement, in particular, in relation to matters of presentation and disclosure, and inappropriate application of the concept may be another cause of the perceived disclosure problem. NZ IFRS sets out a set of minimum disclosure requirements, which, in practice, tend to be applied without consideration of the relevance of the information for a specific entity. If a particular transaction or item is immaterial to the reporting entity, then it is not relevant, in which case, NZ IFRS allows for non-disclosure. If immaterial information is included in the financial statements, the amount of information can potentially reduce the transparency and usefulness of the financial statements as the material, and thus relevant information, loses prominence. IFRS Practice Statement 2 *Making Materiality Judgements* provides practical guidance and examples that companies may find helpful in deciding whether information is material. The Practice Statement is not mandatory. However, entities are encouraged to consider it when making materiality judgements.

Some ways to cut clutter in financial statements are:

- Remove immaterial disclosures
- Remove irrelevant or insignificant accounting policies
- Avoid the use of boilerplate text
- Avoid a 'disclosure checklist' mentality

For-profit Accounting Standards Framework

XRB A1 *Accounting Standards Framework* introduces two tiers of reporting requirements for preparing general purpose financial statements for for-profit entities:

- Tier 1 For-profit Accounting Requirements NZ IFRS and the authoritative notices listed in Appendix B of XRB A1
- Tier 2 For-profit Accounting Requirements including NZ IFRS RDR and the authoritative notices listed in Appendix B of XRB A1

Tier 1 incorporates International Financial Reporting Standards (IFRS) issued by the IASB and includes requirements that are specific to New Zealand entities. Tier 2 comprises the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position in particular circumstances under Tier 1, the presentation requirements under Tier 1 and Tier 2 are the same.

Tier 1 and Tier 2 criteria for for-profit entities

Tier 1 for-profit entities

Tier 1 for-profit entities are required to comply with NZ IFRS in full.

A for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it:

- has public accountability at any time during the reporting period

  or

- is a large for-profit public sector entity (i.e. it has total expenses (including income tax expense) over $30 million).

An entity has public accountability if it:

- meets the IASB definition of public accountability

  or

- is deemed to have public accountability in New Zealand.

Under the IASB definition, an entity has public accountability if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)

  or

- it holds assets in a fiduciary capacity for a broad group of outsides as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

An entity is deemed to have public accountability in New Zealand if it is:

- an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities, specifically:

  a) an issuer of equity securities or debt securities under a regulated offer

  b) a manager of registered schemes, but only in respect of financial statements of a scheme or fund

  c) a listed issuer

  d) a registered bank

  e) a licensed insurer

  f) a credit union

  g) a building society

  or

- an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1) of the Financial Markets Conduct Act 2013.

Tier 2 for-profit entities

The term "Tier 2 for-profit entities" refers to entities that qualify for and elect to report under NZ IFRS RDR.

A for-profit entity qualifies for Tier 2 if it:

- does not have public accountability as defined above

  and

- in respect of for-profit entities in the public sector, is not large (i.e. total expenses < $30 million).

Accounting Policy Choices

In some cases, NZ IFRS permits more than one accounting treatment for a transaction or event. Preparers of financial statements should select the treatment that is most relevant to their business and the relevant circumstances as their accounting policy.

NZ IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless an NZ IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an NZ IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing more relevant and reliable information.

In this publication, when a choice is permitted by NZ IFRS, the Group has adopted one of the treatments as appropriate to the circumstances of the Group. In these cases, the commentary provides details of which policy has been selected, the reasons for this policy selection.

Additional information presented in the annual report

Entities may voluntarily provide a financial review by management outside the financial statements or be required to make additional disclosures in the annual report to meet the requirements of the NZX Listing Rules, Companies Act 1993 or other legislative or regulatory requirements.

NZ IFRS does not require entities present a financial review by management, although paragraph 13 of NZ IAS 1 gives a brief outline of what may be included in an annual report. IFRS Practice Statement 1, *Management Commentary* provides a non-binding framework for the presentation of a management commentary that relates to financial statements prepared in accordance with IFRS. If a company decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is only permitted if it is followed in its entirety.

Entities that are subject to the NZX Listing Rules should refer to the NZX Listing Rules for required disclosures. Entities preparing annual reports in accordance with the Companies Act 1993 should refer to the Companies Act 1993 and Appendix 7 of this publication. Entities subject to other legislative or regulatory requirements should refer to those requirements.

No financial review by management has been included in this publication.

Changes in the 2019 edition of Good Group New Zealand Limited annual financial statements

The standards and interpretations listed below have become effective since 1 July 2018 for annual periods beginning on 1 January 2019. While the list of new standards is provided below, not all of these new standards will have an impact on these illustrative financial statements. To the extent these illustrative financial statements have changed since the 2018 edition due to changes in standards and interpretations, we have disclosed the impact of those changes in Note 2.4.

Other changes from the 2018 edition have been made in order to reflect practice developments and to improve the overall quality of the illustrative financial statements.

Changes to NZ IFRS

The following new standards and amendments became effective as at 1 January 2019:

- NZ IFRS 16 *Leases*
- NZ IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to NZ IFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to NZ IAS 28 *Long-term Interests in Associates and Joint Ventures*
- Amendments to NZ IAS 19 *Plan Amendment, Curtailment or Settlement*
- RDR NZ IFRS 16 and NZ IAS 7
- Amendments to the Scope of FRS-42

- Annual Improvements to NZ IFRSs 2015-2017 Cycle:
  - Amendments to NZ IFRS 3 *Business Combinations - Previously held Interests in a joint operation*
  - Amendments to NZ IFRS 11 *Joint Arrangements - Previously held Interests in a joint operation*
  - Amendments to NZ IAS 12 *Income Taxes - Income tax consequences of payments on financial instruments classified as equity*
  - Amendments to NZ IAS 23 *Borrowing Costs - Borrowing costs eligible for capitalisation*
- 2017 Omnibus Amendments to NZ IFRS:
  - Amendments to NZ IFRS 10 *Consolidated Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures*

Good Group New Zealand Limited

Consolidated Financial Statements

31 December 2019

Commentary

Good Group New Zealand Limited is a company incorporated and domiciled in New Zealand and whose shares are publicly traded.

Financial statements of this type of entity are usually subject to audit under International Standards on Auditing (New Zealand) and the auditor's report should be disclosed together with the annual financial statements.

However, this publication is not intended to provide guidance on the application of ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*. Hence, an illustrative auditor's report on the consolidated financial statements of the Good Group New Zealand Limited has not been included.

Consolidated statement of profit or loss

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000 Restated (Note 2.4)	
				NZ IAS 1.10(b) NZ IAS 1.51(c)
				NZ IAS 1.51(d),(e)
				NZ IAS 1.81A
Continuing operations				
Revenue from contracts with customers	4	179,058	159,088	NZ IFRS 15.113(a)
Rental income	18	1,404	1,377	
Revenue		**180,462**	**160,465**	NZ IAS 1.82(a)
Cost of sales		(136,549)	(128,386)	NZ IAS 1.103
Gross profit		**43,913**	**32,079**	NZ IAS 1.85 NZ IAS 1.103
Other operating income	13.1	2,435	2,548	NZ IAS 1.103
Selling and distribution expenses		(14,001)	(12,964)	NZ IAS 1.99 NZ IAS 1.103
Administrative expenses	13.9	(18,290)	(12,011)	NZ IAS 1.99 NZ IAS 1.103
Other operating expenses	13.2	(2,554)	(353)	NZ IAS 1.99 NZ IAS 1.103
Operating profit		**11,503**	**9,299**	NZ IAS 1.85
				NZ IAS 1.BC55-56
Finance costs	13.3	(1,366)	(1,268)	NZ IAS 1.82(b) NZ IFRS 7.20
Finance income	13.4	202	145	
Other income	13.5	98	66	
Share of profit of an associate and a joint venture	10,11	671	638	NZ IAS 1.82(c)
Profit before tax from continuing operations		**11,108**	**8,880**	NZ IAS 1.85
Income tax expense	15	(3,098)	(2,233)	NZ IAS 1.82(d) NZ IAS 12.77
Profit for the year from continuing operations		**8,010**	**6,647**	NZ IAS 1.85
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	14	220	(188)	NZ IAS 1.82 (ea) NZ IFRS 5.33(a)
Profit for the year		**8,230**	**6,459**	NZ IAS 1.81A(a)
Attributable to:				
Equity holders of the parent		7,942	6,220	NZ IAS 1.81B(a)(ii)
Non-controlling interests		288	239	NZ IAS 1.81B(a)(i)
		8,230	**6,459**	
Earnings per share	16			NZ IAS 33.66
▸ Basic, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.33	
▸ Diluted, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.32	
Earnings per share for continuing operations	16			
▸ Basic, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.34	
▸ Diluted, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.33	

Commentary

If a Tier 2 for-profit entity voluntarily applies NZ IAS 33, it must comply with all its provisions. However due to the limited scope of NZ IAS 33, Tier 2 entities are not expected to be within the scope of the standard.

The above consolidated statements of profit and loss should be read in conjunction with the accompanying notes.

Commentary

NZ IAS 1.10 suggests titles for the primary financial statements, such as 'statement of profit or loss and other comprehensive income' or 'statement of financial position'. Entities are, however, permitted to use other titles, such as 'income statement' or 'balance sheet'. The Group applies the titles suggested in NZ IAS 1.

There is no specific requirement to identify restatements to prior period financial statements on the face of the financial statements. NZ IAS 8 requires details to be provided only in the notes. The term 'restatement' is used here to refer to retrospective application of accounting policies, correction of errors, and reclassifications collectively. The Group illustrates how an entity may supplement the requirements of NZ IAS 8 so that it is clear to the reader that amounts in the prior period financial statements have been adjusted in comparative period(s) of the current period financial statements. It should be noted that the fact that the comparative information is restated does not necessarily mean that there were errors and omissions in the previous financial statements. Restatements may also arise for other reasons, for example, retrospective application of a new accounting policy.

NZ IAS 1.82(a) requires disclosure of total revenue as a line item on the face of the statement of profit or loss. The Group also presents the various types of revenue on the face of the statement of profit or loss in accordance with NZ IAS 1.85. This information could also be presented in the notes.

NZ IFRS 15.113(a) requires revenue recognised from contracts with customers to be disclosed separately from other sources of revenue, unless presented separately in the statement of comprehensive income or statement of profit or loss. The Group has elected to present the revenue from contracts with customers as a line item in the statement of profit or loss separate from the other source of revenue. NZ IFRS 15 only applies to a subset of total revenue (i.e., revenue from contracts with customers).

NZ IFRS 15 defines revenue as 'income arising in the course of an entity's ordinary activities', but it excludes some revenue contracts from its scope (e.g., leases). NZ IFRS 15 does not explicitly require an entity to use the term 'revenue from contracts with customers'. Therefore, entities may use different terminology in their financial statements to describe revenue arising from transactions that are within the scope of NZ IFRS 15. However, entities should ensure the terms used are not misleading and allow users to distinguish revenue from contracts with customers from other sources of revenue.

The Group also presented a line item for total revenue on the face of the statement of profit or loss as required by NZ IAS 1.82(a). The Group presented rental income as part of revenue as it arises in the course of its ordinary activities.

Cost of sales includes costs of inventories recognised as expense. NZ IAS 2.34 requires that when inventories are sold, the carrying amount of those inventories must be recognised as an expense in the period in which the related revenue is recognised.

NZ IAS 1.99 requires expenses to be analysed either by their nature or by their function within the statement of profit or loss, whichever provides information that is reliable and more relevant. If expenses are analysed by function, information about the nature of expenses must be disclosed in the notes. The Group has presented the analysis of expenses by function. In Appendix 3, the consolidated statement of profit or loss is presented with an analysis of expenses by nature.

The Group has presented operating profit in the statement of profit or loss; although not required by NZ IAS 1. The terms 'operating profit' or 'operating income' are not defined in NZ IFRS. NZ IAS 1.BC56 states that the IASB recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. The entity should ensure the amount disclosed is representative of activities that would normally be considered to be 'operating'. For instance, "it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses" (NZ IAS 1.BC56). In practice, other titles, such as earnings before interest and taxation (EBIT) are sometimes used to refer to an operating result. Such subtotals are subject to the guidance included in NZ IAS 1.85A.

The Group has presented its share of profit of an associate and joint venture using the equity method under NZ IAS 28 *Investments in Associates and Joint Ventures* after the line-item 'operating profit'. NZ IAS 1.82(c) requires 'share of the profit or loss of associates and joint ventures accounted for using the equity method' to be presented in a separate line item on the face of the statement profit or loss. In complying with this requirement, the Group combines the share of profit or loss from associates and joint ventures in one line item. Regulators or standard-setters in certain jurisdictions recommend or accept share of the profit/loss of equity method investees being presented with reference to whether the operations of the investees are closely related to that of the reporting entity. This may result in the share of profit/loss of certain equity method investees being included in the operating profit, while the share of profit/loss of other equity method investees being excluded from operating profit. In other jurisdictions, regulators or standard-setters believe that NZ IAS 1.82(c) requires that share of profit/loss of equity method investees to be presented as one line item (or, alternatively, as two or more adjacent line items, with a separate line for the sub-total). This may cause diversity in practice.

NZ IAS 33.68 requires presentation of basic and diluted earnings per share (EPS) for discontinued operations either on the face of the statement of profit or loss or in the notes to the financial statements. The Group has elected to show this information with other disclosures required for discontinued operations in Note 14 and to show the EPS information for continuing operations on the face of the statement of profit or loss.

NZ IAS 1.82(ba) requires that the statement of profit or loss include line items that present the impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with NZ IFRS 9. The Group did not present its impairment losses determined in accordance with NZ IFRS 9 separately in the statement of profit or loss as the amounts are not considered material.

NZ IFRS 16.49 requires a lessee to present in the statement of profit or loss, the interest expense on lease liabilities separately from the depreciation charge for the right-of-use asset. The interest expense on the lease liabilities is a component of finance costs, which NZ IAS 1.82(b) requires to be presented separately in the statement of profit or loss. Consistent with this requirement, the Group presented interest expense on lease liabilities under 'finance costs' and the depreciation charge on the right-of-use asset under 'cost of sales' and 'administrative expenses'.

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000 Restated (Note 2.4)	
				NZ IAS 1.51(c) *NZ IAS 1.81A* *NZ IAS 1.10(b)* *NZ IAS 1.51(d),(e)* *NZ IAS 1.90* *NZ IAS 12.61A*
Profit for the year		**8,230**	**6,459**	*NZ IAS 1.81A(a)*
Other comprehensive income				*NZ IAS 1.82A*
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):				
Net gain on hedge of a net investment		195	–	*NZ IFRS 9.6.5.13*
Exchange differences on translation of foreign operations	21.3,25	(246)	(117)	*NZ IAS 21.32* *NZ IAS 12.51(b)*
Net (loss)/gain on cash flow hedges	21.3,25	(618)	24	*NZ IFRS 7.24C(b)(i))*
Net change in cost of hedging	21.3,25	(22)	–	
Net loss on debt instruments at fair value through other comprehensive income	21.3,25	(15)	(1)	*IFRS 7.20(a)(viii)*
Share of other comprehensive income of an associate	11	(30)	–	*NZ IAS 1.82A(b)*
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(736)**	**(94)**	*NZ IAS 1.82A*
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):				
Net gain/(loss) on equity instruments designated at fair value through other comprehensive income	25	(18)	7	*IFRS 7.20(a)(vii)* *NZ IAS 19.120(c)*
Remeasurement gain/(loss) on defined benefit plans	32	257	(273)	*NZ IAS 19.122*
Revaluation of office properties in New Zealand	17	592	–	*NZ IAS 16.39*
Share of other comprehensive income of an associate	11	30	–	*NZ IAS 1.82A(b)*
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**861**	**(266)**	*NZ IAS 1.82A*
Other comprehensive income/(loss) for the year, net of tax		**125**	**(360)**	*NZ IAS 1.81A(b)*
Total comprehensive income for the year, net of tax		**8,355**	**6,099**	*NZ IAS 1.81A(c)*
Attributable to:				
Equity holders of the parent		8,067	5,860	*NZ IAS 1.81B (b)(ii)*
Non-controlling interests		288	239	*NZ IAS 1.81B (b)(i)*
		8,355	**6,099**	

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Commentary

The Group has elected as an accounting policy to present two statements, a statement of profit or loss and a statement of comprehensive income, rather than a single statement of profit or loss and other comprehensive income combining the two elements. If a two-statement approach is adopted, the statement of profit or loss must be followed directly by the statement of comprehensive income. For illustrative purposes, the disclosure of a single statement of profit or loss and other comprehensive income is presented in Appendix 2.

There is no specific requirement to identify restatements to prior period financial statements on the face of the financial statements. NZ IAS 8 requires details to be provided only in the notes. The Group illustrates how an entity may supplement the requirements of NZ IAS 8 so that it is clear to the reader that amounts in the prior period financial statements have been adjusted in comparative period(s) of the current period financial statements.

NZ IAS 1.90 requires an entity to disclose the amount of income tax relating to each item of other comprehensive income (OCI), including reclassification adjustments, either in the statement of comprehensive income or in the notes. The Group presented each item of OCI net of the related tax effects in the statement above. The Group then disclosed the income tax effects of each item of OCI in Note 15 and the reclassification adjustments in Note 25. Another alternative provided by NZ IAS 1.91 is to present the different items of OCI before the related tax effects with one amount shown for the aggregate amount of income tax relating to those items. An entity electing this alternative must allocate the tax between those items that 'may be reclassified to profit or loss' and 'will not be reclassified to profit or loss' in subsequent periods. This alternative is illustrated in Appendix 2.

NZ IAS 1.82A requires that items that will be reclassified subsequently to profit or loss, when specific conditions are met, must be grouped on the face of the statement of comprehensive income. Similarly, items that will not be reclassified must also be grouped together. In order to make these disclosures, an entity must analyse whether its OCI items are eligible to be subsequently reclassified to profit or loss under NZ IFRS.

The Group has presented in OCI the gains and losses arising from cash flow hedges, including those related to foreign currency and commodity forward contracts that are hedges of forecast inventory purchases that may be reclassified to profit or loss in subsequent periods. Under NZ IFRS 9.6.5.11(d)(i), if a hedged forecast transaction subsequently results in the recognition of a non-financial asset, the entity must remove the amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset as a basis adjustment. NZ IAS 1.96 states that reclassification adjustments do not arise if a cash flow hedge results in amounts that are removed from the cash flow hedge reserve or a separate component of equity and included directly in the initial cost or other carrying amount of an asset. In subsequent periods, the amount previously recorded in the cash flow hedge reserve may be recognised in profit or loss when the asset (liability) is being recovered (settled). Furthermore, other comprehensive income arising from a cash flow hedge of a future transaction of a non-financial item may not always result in a basis adjustment. These amounts might be reclassified to profit or loss in the case of a loss that is expected not to be partially or fully recovered (NZ IFRS 9.6.5.11(d)(iii)), or if the future cash flows are no longer expected to occur (NZ IFRS 9.6.5.12(b)). The Group concluded that it should present other comprehensive income arising from cash flow hedges consistently with the requirements for items of other comprehensive income that may be reclassified subsequently to profit or loss when specified conditions are met.

Under the requirement in NZ IAS 1.82A and the Implementation Guidance to NZ IAS 1, entities must present the share of the OCI items of equity method investees (i.e., associates and joint ventures), in aggregate, as single line items within the 'to be reclassified' and the 'not to be reclassified' groups. As at 31 December 2019 the Group's associate has financial assets at fair value through OCI and an office building located in New Zealand that is accounted for under the revaluation model. Consequently, the Group presents items of other comprehensive income related to the associate in two separate line items in the consolidated statement of comprehensive income.

Consolidated statement of financial position

as at 31 December 2019

	Notes	2019 $000	2018 $000 Restated (Note 2.4)	As at 1 January 2018 $000 Restated (Note 2.4)	NZ IAS 1.10(a) NZ IAS 1.10(f) NZ IAS 1.51(c) NZ IAS 1.51(d,)(e) NZ IAS 1.40A NZ IAS 1.40B
Assets					
Non-current assets					NZ IAS 1.60
Property, plant and equipment	17	32,979	24,329	18,940	NZ IAS 1.54(a)
Investment properties	18	8,893	7,983	7,091	NZ IAS 1.54(b)
Intangible assets	19	6,019	2,461	2,114	NZ IAS 1.54(c)
Right-of-use assets	31	2,908	2,732	2,915	NZ IFRS 16.47
Investment in an associate and a joint venture	10,11	3,187	2,516	1,878	NZ IAS 1.54(e), NZ IAS 28.38
Non-current financial assets	21	3,761	2,816	2,273	NZ IAS 1.54(d), NZ IFRS 7.8
Deferred tax assets	15	383	365	321	NZ IAS 1.54(o), NZ IAS 1.56
		58,130	43,202	35,532	
Current assets					NZ IAS 1.60, NZ IAS 1.66
Inventories	22	26,027	23,830	24,296	NZ IAS 1.54(g)
Right of return assets	4	1,124	929	856	Z IFRS 15.B21
Trade receivables	4, 23	25,672	22,290	25,537	NZ IAS 1.54(h), NZ IFRS 15.105
Contract assets		4,541	5,180	3,450	NZ IFRS 15.105
Prepayments		244	165	226	NZ IAS 1.55
Other current financial assets	21	551	153	137	NZ IAS 1.54(d), NZ IFRS 7.8
Cash and short-term deposits	24	17,528	14,916	11,066	NZ IAS 1.54(i)
		75,687	67,463	65,568	
Assets held for sale	14	13,554	–	–	NZ IAS 1.54(j), NZ IFRS 5.38
		89,241	67,463	65,568	
Total assets		**147,371**	**110,665**	**101,100**	
Equity and liabilities					
Equity					NZ IAS 1.54(r), NZ IAS 1.78(e)
Issued capital	25	26,668	19,388	19,388	
Treasury shares	25	(508)	(654)	(774)	
Other capital reserves	25	1,171	944	566	
Retained earnings		31,636	25,929	21,582	
Other components of equity		(642)	(505)	(418)	
Reserves of a disposal group held for sale	14	46	–	–	NZ IFRS 5.38
Equity attributable to equity holders of the parent		**58,371**	**45,102**	**40,344**	
Non-controlling interests		2,410	740	208	NZ IAS 1.54(q)
Total equity		**60,781**	**45,842**	**40,552**	

Consolidated statement of financial position (continued)

as at 31 December 2019

		2019 $000	2018 $000 Restated	As at 1 January 2018 $000 Restated	NZ IAS 1.10(a) NZ IAS 1.10(f) NZ IAS 1.51(c) NZ IAS 1.51(d,)(e)
Non-current liabilities					NZ IAS 1.60, NZ IAS 1.69
Interest-bearing loans and borrowings	21	22,147	23,313	21,358	NZ IAS 1.54(m)
Other non-current financial liabilities	21	806	–	–	NZ IAS 1.54(m), NZ IFRS 7.8
Provisions	27	1,898	19	15	NZ IAS 1.54(l)
Government grants	28	3,300	1,400	1300	NZ IAS 20.24
Contract liabilities	4,29	2,962	888	692	NZ IFRS 15.105
Net employee defined benefit liabilities	32	3,050	2,977	2,526	NZ IAS 1.55, NZ IAS 1.78(d)
Deferred tax liabilities	15	2,454	607	780	NZ IAS 1.54(o), NZ IAS 1.56
		36,617	29,204	26,671	
Current liabilities					NZ IAS 1.60, NZ IAS 1.69
Trade and other payables	30	16,969	20,023	18,248	NZ IAS 1.54(k)
Contract liabilities	4, 29	2,880	2,486	1,836	NZ IFRS 15.105
Refund liabilities	4	6,242	5,844	3,796	NZ IFRS 15.B21
Interest-bearing loans and borrowings	21	2,832	3,142	4,834	NZ IAS 1.54(m), NZ IFRS 7.8(g)
Other current financial liabilities	21	2,953	254	303	NZ IAS 1.54(m) NZ IFRS 7.8
Government grants	28	149	151	150	NZ IAS 1.55, NZ IAS 20.24
Income tax payable		3,511	3,563	4,625	NZ IAS 1.54(n)
Provisions	27	902	156	85	NZ IAS 1.54(l)
Dividends payable	26	410	–	–	
		36,848	35,619	33,877	
Liabilities directly associated with the assets held for sale	14	13,125	–	–	NZ IAS 1.54(p) NZ IFRS 5.38
		49,973	35,619	33,877	
Total liabilities		**86,590**	**64,823**	**60,548**	
Total equity and liabilities		**147,371**	**110,665**	**101,100**	

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

For and on behalf of the Board, who authorised the issue of these consolidated financial statements on 29 January 2020:

S. Maller

Chairman

D. Stevanovic

Deputy Chairman

Commentary

NZ IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period when it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (NZ IAS 1.10(f)), and the change has a material effect on the statement of financial position. In these situations, NZ IAS 1.40A states that an entity must present, at a minimum, three statements of financial position, two of each of the other statements and the related notes. The three statements of financial position include the statement of financial position as at the current annual period year end, the statement of financial position as at the previous annual period year end, and the statement of financial position as at the beginning of the previous annual period ('the opening balance sheet', often referred to as the 'third balance sheet'). As the Group has restated the financial statements to retrospectively correct an error, the Group has included a third balance sheet as at 1 January 2018. Such an additional balance sheet is required only if the adjustment to opening balances is considered to be material (NZ IAS 1.40A(b)). However, the notes related to the third balance sheet are not required, nor are additional statements of profit or loss and other comprehensive income, changes in equity or cash flows (NZ IAS 1.40C).

There is no specific requirement to identify restatements to prior period financial statements on the face of the financial statements. NZ IAS 8 requires details to be provided only in the notes. The Group illustrates how an entity may supplement the requirements of NZ IAS 8 so that it is clear to the reader that amounts in the prior period financial statements have been adjusted in comparative period(s) of the current period financial statements.

In accordance with NZ IAS 1.60, the Group has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. NZ IAS 1 does not require a specific order of the two classifications. The Group has elected to present non-current assets and liabilities before current assets and liabilities. NZ IAS 1 requires entities to present assets and liabilities in order of liquidity when this presentation is reliable and more relevant.

The Group presented 'contract assets' and 'contract liabilities' in the statement of financial position using the terminology from NZ IFRS 15. NZ IFRS 15.109 allows an entity to use alternative descriptions. However, it must disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to receive consideration (receivables) and conditional rights to receive consideration (contract assets).

NZ IFRS 15.B25 requires an entity to present the refund liability separately from the corresponding asset (on a gross basis, rather than a net basis). The Group presented 'right of return assets' and 'refund liabilities' separately in the statement of financial position.

NZ IFRS 16.47 requires a lessee to either present in the statement of financial position, or disclose in the notes, the right-of-use assets separately from other assets and lease liabilities separately from other liabilities. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee is required to include right-of-use assets within the same line item that the corresponding underlying assets would be presented if they were owned (e.g., under property, plant and equipment) and it is required to disclose which line items in the statement of financial position include those right-of-use assets. Similarly, if the lessee does not present lease liabilities separately in the statement of financial position, the lessee is required to disclose the line items in the statement of financial position which include those liabilities. The Group presented its 'Right-of-use assets' separately in the statement of financial position. The related lease liabilities were presented in the line item 'Interest-bearing loans and borrowings'.

Under NZ IFRS 16.48, right-of-use assets that meet the definition of investment property must be presented in the statement of financial position as investment property. The Group does not have right-of-use assets that meet the definition of investment property.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Attributable to the equity holders of the parent													
	Issued capital (Note 25)	Treasury shares (Note 25)	Other capital reserves (Note 25)	Retained earnings	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Asset revaluation reserve	Reserve of disposal group held for sale	Total	Non-controlling interests	Total equity	NZ IAS 1.10(c) NZ IAS 49 NZ IAS 1.51(b)(c) NZ IAS 1.106(d)
	$000(	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	NZ IAS 1.51(d),(e)
As at 1 January 2019	**19,468**	**(654)**	**864**	**25,929**	**(70)**	**–**	**9**	**(444)**	**–**	**–**	**45,102**	**740**	**45,842**	
Profit for the period	–	–	–	7,942	–	–	–	–	–	–	7,942	288	8,230	*NZ IAS 1.106(d)(i)*
Other comprehensive income (Note 25)	–	–	–	257	(618)	(22)	(63)	(51)	622	–	125	–	125	*NZ IAS 1.106(d)(ii)*
Total comprehensive income	–	–	–	8,199	(618)	(22)	(63)	(51)	622	–	8,067	288	8,355	*NZ IAS 1.106(a)*
Depreciation transfer for office properties in New Zealand	–	–	–	80	–	–	–	–	(80)	–	–	–	–	*NZ IAS 1.96*
Discontinued operations (Note 14)	–	–	–	–	–	-	(46)	–	–	46	–	–	–	*NZ IFRS 5.38*
Issue of share capital (Note 25)	7,203	–	–	–	–	–	–	–	–	–	7,203	–	7,203	*NZ IAS 1.106(d)(iii)*
Exercise of options (Note 25)	29	146	–	–	–	–	–	–	–	–	175	–	175	*NZ IAS 1.106(d)(iii)*
Share-based payments (Note 33)	–	–	307	–	–	–	–	–	–	–	307	–	307	*NZ IFRS 2.50*
Transaction costs (Note 8)	(32)	–	–	–	–	–	–	–	–	–	(32)	–	(32)	*NZ IAS 32.39* *NZ IAS 1.109*
Cash dividends (Note 26)	–	–	–	(2,389)	–	–	–	–	–	–	(2,389)	(30)	(2,419	*NZ IAS 1.107*
Transfer of fair value reserve of equity instruments designated at FVOCI	–	–	–	7	–	–	(7)	–	–	–	–	–	–	
Transfer of cash flow hedge reserve to inventories	–	–	–	–	126	2	–	–	–		128	–	128	
Acquisition of a subsidiary (Note 8)	–	–	–	–	–	–	–	–	–	–	–	1,547	1,547	*NZ IAS 1.106(d)(iii)*
Acquisition of non-controlling interests (Note 8)	–	–	–	(190)	–	–	–	–	–	–	(190)	(135)	(325)	*NZ IAS 1.106(d)(iii)*
At 31 December 2019	**26,668**	**(508)**	**1,171**	**31,636**	**(562)**	**(20)**	**(107)**	**(495)**	**542**	**46**	**58,371**	**2,410**	**60,781**	

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2018 (restated)

	Attributable to the equity holders of the parent										
	Issued capital (Note 25)	Treasury shares (Note 25)	Other capital reserves (Note 25)	Retained earnings	Cash flow hedge reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Total	Non-controlling interests	Total equity	*NZ IAS 1.10(c)* *NZ IAS 1.49* *NZ IAS 1.51(b),(c)* *NZ IAS 8.28* *NZ IAS 1.106(d)*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	*NZ IAS 1.51(d)(e)*
As at 1 January 2018	**19,388**	**(774)**	**566**	**21,655**	**(94)**	**3**	**(327)**	**40,417**	**217**	**40,634**	
Effect of adoption of NZ IFRS 16 *Leases* (Note 2.4)	–	–	–	(73)	–	–	–	(73)	(9)	(82)	*NZ IAS 1.106(b)*
As at 1 January 2018 (adjusted)	**19,388**	**(774)**	**566**	**21,582**	**(94)**	**3**	**(327)**	**40,344**	**208**	**40,552**	
Profit for the period	–	–	–	6,220	–	–	–	6,220	239	6,459	*NZ IAS 1.106(d)(i)*
Other comprehensive income (Note 25)	–	–	–	(273)	24	6	(117)	(360)	–	(360)	*NZ IAS 1.106(d)(ii)*
Total comprehensive income	–	–	–	5,947	24	6	(117)	5,860	239	6,099	*NZ IAS 1.106(a)*
Exercise of options (Note 25)	80	120	–	–	–	–	–	200	–	200	*NZ IAS 1.106(d)(iii)*
Share-based payments (Note 33)	–	–	298	–	–	–	–	298	–	298	*NZ IFRS 2.50* *NZ IAS 1.107*
Dividends (Note 26)	–	–	–	(1,600)	–	–	–	(1,600)	(49)	(1,649)	
Non-controlling interests arising on a business combination (Note 8)	–	–	–	–	–	–	–	–	342	342	*NZ IAS 1.106(d)(iii)*
At 31 December 2018 (restated)	**19,468**	**(654)**	**864**	**25,929**	**(70)**	**9**	**(444)**	**45,102**	**740**	**45,842**	

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Commentary

There is no specific requirement to identify adjustments made retrospectively on the face of the financial statements, except for the effect of a retrospective application or restatement on each component of equity (NZ IAS 1.106(b)). NZ IAS 8 requires details to be given only in the notes. By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of NZ IAS 8 so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative periods as presented in the current period financial statements.

For equity-settled share-based payment transactions, NZ IFRS 2.7 requires entities to recognise an increase in equity when goods or services are received. However, NZ IFRS 2 *Share-based payments* does not specify where in equity this should be recognised. The Group has chosen to recognise the credit in other capital reserves. It is common to transfer other capital reserves (or the share-based payment reserve) to share capital or retained earnings when the share options are exercised or expire. Such transfer is also permitted by NZ IFRS 2 (NZ IFRS 2.23). The Group has elected to continue to present other capital reserves separately. The Group provided treasury shares to employees exercising share options and elected to recognise the excess of cash received over the acquisition cost of those treasury shares in share capital.

The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with NZ IFRS 10. Any excess or deficit of consideration paid over the carrying amount of the non-controlling interests is recognised in equity of the parent in transactions where the non-controlling interests are acquired or sold without loss of control. The Group has elected to recognise this effect in retained earnings. With respect to the subsidiary to which these non-controlling interests relate, there were no accumulated components recognised in OCI. If there had been such components, those would have been reallocated within equity of the parent (e.g., foreign currency translation reserve or fair value reserve of financial assets at FVOCI).

NZ IFRS 5.38 requires that items recognised in OCI related to discontinued operations to be separately disclosed. The Group presents this effect in the statement of changes in equity above. However, presentation of such items within discontinued operations does not change the nature of the reserve. Generally, reclassification to profit or loss will only occur if and when required by NZ IFRS.

The Group recognises remeasurement gains and losses arising on defined benefit pension plans in OCI in accordance with NZ IAS 19 *Employee Benefits*. As they will never be reclassified into profit or loss, they are immediately recorded in retained earnings (refer to the statement of comprehensive income). NZ IAS 19 *Employee Benefits* does not require separate presentation of those components in the statement of changes in equity but an entity may choose to present the remeasurement gains and losses in a separate reserve within the statement of changes in equity.

The amounts presented as changes in the asset revaluation surplus and the fair value reserve of financial assets at FVOCI include a share of OCI of the associate, which relates to the revaluation of an office building in New Zealand and the remeasurement of debt instruments at fair value through OCI. NZ IAS 1 specifically requires that entities must present the share of OCI items of their equity method investees, in aggregate, as a single line item within the 'to be reclassified' and the 'not to be reclassified' groups. NZ IAS 28 *Investments in Associates and Joint Ventures*, NZ IAS 1 and NZ IFRS 12 do not provide specific guidance on how the investor should present its accumulated share of OCI of equity-accounted investees. The Guidance on implementing NZ IAS 1 contains an example in which the accumulated property, plant and equipment revaluation gain is included in the revaluation surplus of the investor. The Group applies a similar presentation of accumulated items of OCI of its associate. However, as current NZ IFRS do not contain specific requirements on this issue, other presentation approaches may also be acceptable.

NZ IFRS 9.B5.7.1 states that accumulated gains and losses recognised in OCI for equity financial assets must not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. The Group transferred the accumulated gain on its equity financial assets from OCI to retained earnings upon derecognition of the financial asset.
NZ IFRS 9.6.5.11(d)(i) requires that if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity must remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability. This is not a reclassification adjustment and, as such, it does not affect OCI. The Group has cash flow hedge reserve on its cash flow hedges of forecast inventory purchases that was included in the carrying amount of inventories.

Consolidated statement of cash flows

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000 Restated (Note 2.4)	NZ IAS 1.49 NZ IAS 1.51(c) NZ IAS 1.10(d) NZ IAS 1.51(d),(e) NZ IAS 7.10 NZ IAS 7.18(b)
Operating activities				
Profit before tax from continuing operations		11,108	8,880	
Profit/(loss) before tax from discontinued operations	14	213	(193)	
Profit before tax		**11,321**	**8,687**	
Adjustments to reconcile profit before tax to net cash flows:				*NZ IAS 7.20(b)*
Depreciation and impairment of property, plant and equipment and right-of-use assets	17, 31	4,341	3,794	
Amortisation and impairment of intangible assets	19	325	174	
Contribution of equipment by customers	17	(190)	(150)	
Share-based payment expense	33	412	492	
Decrease in investment properties	18	306	300	
Net foreign exchange differences		(365)	(240)	
Gain on disposal of property, plant and equipment	13.1	(532)	(2,007)	
Fair value adjustment of a contingent consideration	8	358	–	
Finance income	13.4	(202)	(145)	*NZ IAS 7.20(c)*
Finance costs	13.3	1,366	1,268	*NZ IAS 7.20(c)*
Other income	13.5	(98)	(66)	
Net loss on derivative instruments at fair value through profit or loss		652	-	
Share of profit of an associate and a joint venture	10,11	(671)	(638)	
Movements in provisions, pensions and government grants		(835)	65	
Working capital adjustments:				*NZ IAS 7.20(a)*
Decrease/(increase) in trade receivables, contract assets and prepayments		(7,102)	2,431	
Decrease in inventories and right of return assets		1,129	1,111	
Increase in trade and other payables, contract liabilities and refund liabilities		4,511	2,530	
		14,726	**17,476**	
Interest received		250	221	*NZ IAS 7.31*
Interest paid		(1,067)	(1,173)	*NZ IAS 7.31*
Income tax paid		(2,935)	(3,999)	*NZ IAS 7.35*
Net cash flows from operating activities		**10,974**	**12,525**	
Investing activities				*NZ IAS 7.10, NZ IAS 7.2*
Proceeds from sale of property, plant and equipment		1,990	2,319	*NZ IAS 7.16(b)*
Purchase of property, plant and equipment	17	(10,167)	(7,581)	*NZ IAS 7.16(a)*
Purchase of investment properties	18	(1,216)	(1,192)	*NZ IAS 7.16(a)*
Purchase of financial instruments		(272)	(225)	*NZ IAS 7.16(c)*
Proceeds from sale of financial instruments		328	145	*NZ IAS 7.16(d)*
Development expenditures	19	(587)	(390)	*NZ IAS 7.16(a)*
Acquisition of a subsidiary, net of cash acquired	8	230	(1,450)	*NZ IAS 7.39*
Receipt of government grants	28	2,951	642	
Net cash flows used in investing activities		**(6,743)**	**(7,732)**	

Consolidated statement of cash flows (continued)

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000 Restated (Note 2.4)	NZ IAS 1.49 NZ IAS 1.51(c) NZ IAS 1.10(d) NZ IAS 1.51(d),(e) NZ IAS 7.10 NZ IAS 7.18(b)
Financing activities				NZ IAS 7.10, NZ IAS 7.
Proceeds from exercise of share options		175	200	NZ IAS 7.17(a)
Acquisition of non-controlling interests	8	(325)	–	NZ IAS 7.42A
Transaction costs on issue of shares	25	(32)	–	NZ IAS 7.17(a)
Payment of principal portion of lease liabilities		(406)	(341)	NZ IAS 7.17(e)
Proceeds from borrowings		5,649	4,871	NZ IAS 7.17(c)
Repayment of borrowings		(2,032)	(4,250)	NZ IAS 7.17(d)
Dividends paid to equity holders of the parent	26	(1,972)	(1,600)	NZ IAS 7.31
Dividends paid to non-controlling interests		(30)	(49)	NZ IFRS 12.B10(a)
Net cash flows from/(used in) financing activities		1,020	(1,169)	
Net increase in cash and cash equivalents		5,251	3,624	
Net foreign exchange difference		339	326	NZ IAS 7.28
Cash and cash equivalents at 1 January		12,266	8,316	
Cash and cash equivalents at 31 December	24	17,856	12,266	NZ IAS 7.45

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes.

Commentary

NZ IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method. A statement of cash flows prepared using the direct method for operating activities is presented in Appendix 4 for illustrative purposes. When an entity uses the direct method to present its statement of cash flows, FRS-44.10 requires entities to provide a reconciliation of the net cash flow from operating activities to profit (loss) in the financial statements.

There is no specific requirement to identify adjustments made retrospectively on the face of the financial statements, except for the effect of a retrospective application or restatement on each component of equity (NZ IAS 1.106(b)). NZ IAS 8 requires details to be given only in the notes. By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of NZ IAS 8 so that it is clear to the user that adjustments to the amounts in prior financial statements have been reflected in the comparative periods as presented in the current period financial statements.

The Group has reconciled profit before tax to net cash flows from operating activities. However, reconciliation from profit after tax is also acceptable under NZ IAS 7 *Statement of Cash Flows*.

NZ IAS 7.33 permits interest paid to be shown as operating or financing or investing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received and interest paid (including interest on lease liabilities and interest arising from revenue contracts, if there is any) as cash flows from operating activities.

Certain working capital adjustments and other adjustments included in the statement of cash flows, reflect the change in balances between 2019 and 2018, including the 2019 balances of the discontinued operations grouped in line-items 'assets classified as held for sale' and 'liabilities directly associated with the assets classified as held for sale'.

NZ IFRS 16.50 requires that in the statement of cash flows, a lessee classifies: cash payments for the principal portion of the lease liability within financing activities; cash payments for the interest portion of the lease liability applying the requirements in NZ IAS 7 for interest paid (i.e., NZ IAS 7.31-33); and short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities. Non-cash activity (e.g., the initial recognition of the lease at commencement) is required to be disclosed as a supplemental non-cash item in accordance with NZ IAS 7.43 (see Note 31).

Tier 2 for-profit entities are provided an RDR disclosure concession from NZ IFRS 12.B10(a) and are not required to separately disclose dividends paid to equity holders of the parent and dividends paid to non-controlling interests. However, Tier 2 for-profit entities are required to comply with NZ IAS 7.31 which requires cash flows from dividends received and paid to be disclosed separately.

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Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of the Good Group New Zealand Limited (the Company) and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 29 January 2020.

NZ IAS 1.10(e)
NZ IAS 1.49
NZ IAS 1.113
NZ IAS 1.51(a)
NZ IAS 1.51(b) NZ IAS 1.51(c)
NZ IAS 10.17

Good Group New Zealand Limited (the Company or the parent) is a limited company incorporated and domiciled in New Zealand and whose shares are publicly traded. The registered office is located at Fire House, Ashdown Square in Newville. *NZ IAS 1.138(a)*

The Group is principally engaged in the provision of fire prevention and electronics equipment and services and the management of investment property (see Note 5). Information on the Group's structure is provided in Note 7. Information on other related party relationships of the Group is provided in Note 35. *NZ IAS 1.138(c)* *NZ IAS 1.138(b)*

2. Significant accounting policies

2.1 Basis of preparation

Commentary

The identification of an entity's significant accounting policies is an important aspect of the financial statements. NZ IAS 1.117 requires the significant accounting policies disclosures to summarise the measurement basis (or bases) used in preparing the financial statements, and the other accounting policies used that are relevant to an understanding of the financial statements. The significant accounting policies disclosed in this note is to illustrate some of the more commonly applicable accounting policies. However, it is essential that entities consider their specific circumstances when determining which accounting policies are significant and relevant, and therefore need to be disclosed.

The consolidated financial statements of the Group comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). *FRS 44.5*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS). *NZ IAS 1.16*

The consolidated financial statements of the Group comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). *FRS 44.RDR 5.1*

Commentary

An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRS (NZ IAS 1.16). Tier 2 for-profit entity would not be able to state compliance with IFRS (NZ IAS 1.RDR 16.1).
FRS 44, the Standard that specifies New Zealand-specific disclosures not contained in IFRS, requires an entity whose financial statements comply with NZ IFRS or NZ IFRS RDR to make an explicit and unreserved statement of such compliance.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Financial Markets Conduct Act 2013. *FRS-44.7(a)* *FRS-44.7(b)*

For the purposes of complying with NZ GAAP the Group is a for-profit entity. *FRS-44.7(c)*

The Group is eligible to report in accordance with NZ IFRS RDR on the basis that it does not have public accountability and is not a large for-profit public sector entity. *FRS-44.RDR 7.1* *XRB A1.20*

Commentary

FRS-44.7, the Standard that specifies New Zealand-specific disclosures not contained in IFRS, requires an entity disclose in the notes:
(a) the statutory basis or other reporting framework, if any, under which the financial statements have been prepared;
(b) a statement whether the financial statements have been prepared in accordance with NZ GAAP; and
(c) that, for the purposes of complying with NZ GAAP, it is a for-profit entity.
If an entity elects to report in accordance with NZ IFRS RDR, it shall disclose in the notes the criteria that establish the entity as eligible to report in accordance with NZ IFRS RDR.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, certain office properties in New Zealand (classified as property, plant and equipment), derivative financial instruments, debt and equity financial assets and contingent consideration that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. *NZ IAS 1.112(a)* *NZ IAS 1.117(a)*

2.1 Basis of preparation *continued*

The consolidated financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

NZ IAS 1.51(d),(e)

The consolidated financial statements provide comparative information in respect of the previous period.

In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2018 is presented in these consolidated financial statements due to the retrospective application of accounting policies as a result of the adoption of NZ IFRS 16 *Leases*. See Note 2.4.

NZ IAS 1.40A
NZ IAS 1.10(f)
NZ IAS 1.38
NZ IAS 1.38A

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

NZ IFRS 10.7

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

NZ IFRS10.B38

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

NZ IFRS 10.B80
NZ IFRS 10.B86
NZ IFRS 10.B99

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NZ IFRS 10.B94
NZ IFRS 10.B87
NZ IFRS 10.B86

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NZ IFRS 10.B96
NZ IFRS 10.B98
NZ IFRS10.B99

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Significant accounting policies

NZ IAS 1.112

a) Business combinations and goodwill

NZ IAS 1.117(b)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

NZ IFRS 3.4
NZ IFRS 3.18
NZ IFRS 3.19
NZ IFRS 3.53
NZ IFRS 3.B64(m)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

NZ IFRS 3.15
NZ IFRS 3.16

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of NZ IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with NZ IFRS 9. Other contingent consideration that is not within the scope of NZ IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

NZ IFRS 3.39
NZ IFRS 3.58
NZ IFRS 3.32

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

NZ IFRS 3.36

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

NZ IFRS 3.B63(a)
NZ IAS 36.80

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of CGU retained.

NZ IAS 36.86

2.3 Significant accounting policies *continued*

b) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. *NZ IAS 28.3*

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. *NZ IFRS 11.16* *NZ IFRS 11.7*

Commentary

The Group does not have an interest in a joint operation. If the Group had an interest in a joint operation, as per NZ IFRS 11.20, it would recognise in relation to its interest its:

- 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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately. *NZ IAS 28.10* *NZ IAS 28.26-29*

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. *NZ IAS 1.82(c)*

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within '*Share of profit of an associate and a joint venture*' in the statement of profit or loss. *NZ IAS 28.40-43*

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss. *NZ IAS 28.22(b)*

2.3 Significant accounting policies *continued*

c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is: *NZ IAS 1.60* *NZ IAS 1.66*

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

  or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period
- All other assets are classified as non-current.

A liability is current when: *NZ IAS 1.69*

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

  or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current. *NZ IAS 1.56*

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

d) Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: *NZ IFRS 13.9*

- In the principal market for the asset or liability *NZ IFRS 13.16*

  or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. *NZ IFRS 13.22*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. *NZ IFRS 13.27*

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. *NZ IFRS 13.61*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: *NZ IFRS 13.73*

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2.3 Significant accounting policies *continued*

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. *NZ IFRS 13.95*

The Group's Valuation Committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operation. The Valuation Committee comprises of the head of the investment properties segment, heads of the Group's internal mergers and acquisition team, the head of the risk management department, chief finance officers and the managers of each property. *NZ IFRS 13.93(g)*

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually by the valuation committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Valuation Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Valuation Committee also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the Valuation Committee presents the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. *NZ IFRS 13.94*

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions — Notes 3, 17, 18, 21.4
- Quantitative disclosures of fair value measurement hierarchy — Note 12
- Investment in unquoted equity shares (discontinued operations) — Note 14
- Property, plant and equipment under revaluation model — Note 17
- Investment properties — Note 18
- Financial instruments (including those carried at amortised cost) — Note 21.4
- Contingent consideration — Note 21.4

Commentary

The Group has not elected to apply the portfolio exception under NZ IFRS 13.48. If an entity makes an accounting policy decision to use the exception, this fact is required to be disclosed, as per NZ IFRS 13.96.

e) Revenue from contracts with customers

The Group is in the business of providing fire prevention and electronics equipment and installation services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer. *NZ IFRS 15.2* *NZ IFRS 15.B34*

2.3 Significant accounting policies *continued*

Commentary

NZ IFRS 15.123 requires an entity to disclose the judgements, and changes in the judgements, made in applying the standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. The Group included in its accounting policy disclosures those judgements that significantly affect the determination of the amount and timing of its revenue from contracts with customers. Entities will need to apply judgement to ensure the information disclosed is sufficient to meet the disclosure objective.

Sale of fire prevention and electronics equipment

Revenue from sale of fire prevention and electronics equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment at the customer's location. The normal credit term is 30 to 90 days upon delivery. *NZ IFRS 15.31* *NZ IFRS 15.32* *NZ IFRS 15.38*

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of fire equipment and electronics equipment, the Group considers the effects of variable consideration, existence of a significant financing component, noncash consideration, and consideration payable to the customer (if any). *NZ IFRS 15.22* *NZ IFRS 15.48*

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of electronics equipment provide customers with a right to return the goods within a specific period. The Group also provides retrospective volume rebates to certain customers once the quantity of electronics equipment purchased during the period exceeds the threshold specified the contract. The rights of return and volume rebates give rise to variable consideration. *NZ IFRS 15.50*

- *Rights of return* *NZ IFRS 15.51*

The Group uses the expected value method to estimate the variable consideration given the large number of contracts that have similar characteristics. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the goods that are expected to be refunded (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer. *NZ IFRS 15.53* *NZ IFRS 15.55* *NZ IFRS 15.56*

- *Volume rebates* *NZ IFRS 15.51*

The Group applies either the most likely amount method or the expected value method to estimate the variable consideration in the contract. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The most likely amount is used for those contracts with a single volume threshold, while the expected value method is used for those with more than one volume threshold. The Group then applies the requirements on constraining estimates of variable consideration in order to determine the amount of variable consideration that can be included in the transaction price and recognised as revenue. A refund liability is recognised for the expected future rebates (i.e., the amount not included in the transaction price). *NZ IFRS 15.53* *NZ IFRS 15.56*

The disclosures of significant estimates and assumptions relating to the estimation of variable consideration for returns and volume rebates are provided in Note 3.

2.3 Significant accounting policies *continued*

Commentary

The Group recognised refund liabilities for the goods expected to be returned and the expected volume rebates. While the most common form of refund liabilities may be related to sales with a right of return, the refund liability requirements also apply if an entity expects to have to provide retrospective price reductions to a customer.

Entities must assess whether volume rebates are to be accounted for as variable consideration or as customer options to acquire additional goods or services at a discount. Generally, if a volume rebate is applied prospectively, the rebate would be accounted for as a customer option. Entities will need to evaluate whether the volume rebate or discount provides the customer with an option to purchase goods or services in the future at a discount that represents a material right (and is, therefore, accounted for as a performance obligation). However, a volume rebate that is applied retrospectively is accounted for as variable consideration, because the final price of each good or service sold depends upon the customer's total purchases that are subject to the rebate programme.

Entities need to determine whether a refund liability should be characterised as a contract liability based on the specific facts and circumstances of the arrangement. A refund liability will not typically meet the definition of a contract liability. When an entity does conclude that a refund liability is not a contract liability, it would present the refund liability separate from any contract liability (or asset) and it would not be subject to the disclosure requirements in NZ IFRS 15.116-118.

The Group has determined that its refund liabilities are not contract liabilities.

(ii) Significant financing component

The Group receives advance payments from customers for the sale of customised fire prevention equipment with a manufacturing lead tie of two years after signing the contract and receipt of payment. There is a significant financing component for these contracts considering the length of time between the customers' payment and the transfer of the equipment, as well as the prevailing interest rate in the market. As such, the transaction price for these contracts is discounted, using the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the equipment to the amount paid in advance). This rate is commensurate with the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. *NZ IFRS 15.60* *NZ IFRS 15.64*

The Group applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less. *NZ IFRS 15.63*

(iii) Non-cash consideration

The Group received moulds and other tools from certain customers to be used in manufacturing fire prevention equipment to be sold to them. The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of the equipment. *NZ IFRS 15.66*

The Group estimates the fair value of the non-cash consideration by reference to its market price. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price of the fire prevention equipment. *NZ IFRS 15.67*

Commentary

NZ IFRS 15.48 requires that an entity considers the effects of: variable consideration constraining estimates of variable consideration, the existence of significant financing component in the contract; non-cash consideration; and consideration payable to a customer in determining the transaction price.

The Group did not incur any consideration payable to a customer. Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer. The consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity (NZ IFRS 15.70). Entities need to include this in their accounting policy disclosures if significant.

2.3 Significant accounting policies *continued*

Warranty obligations

NZ IFRS 15.B28

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for as warranty provisions. Refer to the accounting policy on warranty provisions in section w) Provisions.

NZ IFRS 15.B30

The Group also provides a warranty beyond fixing defects that existed at the time of sale. These service-type warranties are sold either separately or bundled together with the sale of fire prevention equipment. Contracts for bundled sales of equipment and service-type warranty comprise two performance obligations because the equipment and service-type warranty are both sold on a stand-alone basis and are distinct within the context of the contract. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue for service-type warranties is recognised over the period in which the service is provided based on the time elapsed.

NZ IFRS 15.B29
NZ IFRS 15.B32
NZ IFRS 15.74
NZ IFRS 15.76

Commentary

If the customer has the option to purchase the warranty separately or if the warranty provides a service to the customer, beyond fixing defects that existed at the time of sale, NZ IFRS 15.B29 states that the entity is providing a service-type warranty that is a separate performance obligation. Otherwise, it is an assurance-type warranty, which provides the customer with assurance that the product complies with agreed-upon specifications. In some cases, it may be difficult to determine whether a warranty provides a customer with a service in addition to the assurance that the delivered product is as specified in the contract. To help entities make that assessment, NZ IFRS 15.B31-33 provides relevant application guidance.

Loyalty points programme

The Group has a loyalty points programme, *GoodPoints,* which allows customers to accumulate points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue is recognised upon redemption of products by the customer.

NZ IFRS 15.B39
NZ IFRS 15.B40
NZ IFRS 15B.42
NZ IFRS 15.74
NZ IFRS 15.76

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

The disclosures of significant estimates and assumptions relating to the estimation of the stand-alone selling price of the loyalty points are provided in Note 3.

Installation services

The Group provides installation services that are either sold separately or bundled together with the sale of equipment to a customer. The installation services do not significantly customise or modify the fire prevention equipment.

NZ IFRS 15.22

Contracts for bundled sales of equipment and installation services are comprised of two performance obligations because the equipment and installation services are both sold on a stand-alone basis and are distinct within the context of the contract. Accordingly, the Group allocates the transaction price based on the relative stand-alone selling prices of the equipment and installation services.

NZ IFRS 15.74
NZ IFRS 15.76

The Group recognises revenue from installation services over time because the customer simultaneously receives and consumes the benefits provided to them. The Group uses an input method in measuring progress of the installation services because there is a direct relationship between the Group's effort (i.e., based on the labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service.

NZ IFRS 15.39
NZ IFRS 15.41
NZ IFRS 15.B18

Procurement services

The Group has contracts with customers to acquire, on their behalf, special fire prevention equipment produced by foreign suppliers. Under these contracts, the Group provides procurement services (i.e., coordinating the selection of suitable suppliers and managing the ordering and delivery of the imported equipment). The Group does not have control of equipment before it is being transferred to the customer. The Group is acting as an agent and recognises revenue at the net amount that is retained for these arrangements. Revenue is recognised at a point in time (i.e., upon receipt of the customer of the equipment) because this is when the customer benefits from the Group's procurement services.

2.3 Significant accounting policies *continued*

Contract balances *NZ IFRS 15.105*

Contract assets

A contract asset is initially recognised for revenue earned from installation services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables. *NZ IFRS 15.107*

Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section p) Financial instruments – initial recognition and subsequent measurement.

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section p) Financial instruments – initial recognition and subsequent measurement. *NZ IFRS 15.108*

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). *NZ IFRS 15.106*

Assets and liabilities arising from rights of return

Right of return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods and any potential decreases in value. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned products. *NZ IFRS 15.B21(c)* *NZ IFRS 15.B25*

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer. The Group's refund liabilities arise from the customers' right of return and volume rebates. The liability is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. *NZ IFRS 15.B21(b)* *NZ IFRS 15.B24*

Cost to obtain a contract *NZ IFRS 15.8*

The Group pays sales commission to its employees for each contract that they obtain for bundled sales of equipment and installation services. The Group applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less. As such, sales commissions are immediately recognised as an expense and included as part of employee benefits. *NZ IFRS 15.91* *NZ IFRS 15.94*

2.3 Significant accounting policies *continued*

Commentary

NZ IFRS 15 requires incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognised as an asset if certain criteria are met. Any capitalised contract costs assets must be amortised on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer.

The Group does not incur any costs to obtain a contract and costs to fulfil a contract that are eligible for capitalisation.

Entities with costs to obtain a contract and costs to fulfil a contract recognised as an asset will need to consider the requirement in NZ IFRS 15.128 to separately disclose the closing balances and the amount of amortisation and impairment losses recognised during the period. A Tier 2 for-profit entity is not required to disclose the closing balances of assets recognised form the costs incurred to obtain or fulfil a contract with a customer (NZ IFRS 15.RDR 128.1).

Considering the nature of costs to obtain a contract and the lack of guidance in NZ IFRS, an entity may present these costs in the statement of financial position as either a separate class of asset similar in nature to work in progress or 'inventory', (with the amortisation within cost of goods sold, changes in contract costs or similar), or a separate class of intangible asset (with the amortisation in the same line item as amortisation of intangible assets within the scope of NZ IAS 38 *Intangible Assets*).

An entity will need to consider the requirements in NZ IAS 7 (e.g., NZ IAS 7.16(a)), when determining the classification of cash flows arising from costs to obtain a contract, i.e., either as cash flow from operating activities or financing activities.

In contrast, the nature of costs to fulfil a contract is such that they directly impact the entity's performance under the contract. Therefore, costs to fulfil a contract should be presented as a separate class of asset in the statement of financial position and its amortisation within cost of goods sold, changes in contract costs or similar.

Regardless whether costs to fulfil a contract meet the criteria for capitalisation in NZ IFRS 15.95 or are expensed as incurred, the presentation of such costs in the statement of profit or loss and the presentation of related cash flows in the statement of cash flows needs to be consistent (i.e., operating).

Capitalised contract costs are subject to an impairment assessment at the end of each reporting period. Impairment losses are recognised in profit or loss, but the standard is silent on where to present such amounts within the primary financial statements. It would be appropriate for the presentation of any impairment losses to be consistent with the presentation of the amortisation expense.

2.3 Significant accounting policies *continued*

f) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

NZ IAS 20.7
NZ IAS 20.12
NZ IAS 20.26

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the assets, based in the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

NZ IAS 20.23
NZ IAS 20.10A

Commentary

NZ IAS 20.24 permits two alternative ways of presenting a government grant relating to assets. The Group has elected to present the grant in the statement of financial position as deferred income, which is recognised in profit or loss on a systematic and rational basis over the useful life of the asset. Alternatively, it may choose to reduce the carrying amount of the asset. The grant is then recognised in profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge. Whichever method is applied, no further disclosures are required.

The Group has chosen to present grants related to an expense item as other operating income in the statement of profit or loss. Alternatively, NZ IAS 20.29 permits grants related to income to be deducted in reporting the related expense.

NZ IAS 20.23 permits grant of a non-monetary asset to be accounted for in two alternative ways. The asset and the grant can be accounted for using a nominal amount. Alternatively, the asset and the grant can be accounted for at the fair value of the non-monetary asset. The Group accounts for grants of non-monetary assets at nominal value.

g) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

NZ IAS 12.46

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NZ IAS 12.61A(b)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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 *NZ IAS 12.22(c)*
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future *NZ IAS 12.39*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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: *NZ IAS 12.34*

- When the deferred tax asset relating to the deductible temporary difference arises 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 *NZ IAS 12.24*
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised *NZ IAS 12.44*

2.3 Significant accounting policies *continued*

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. *NZ IAS 12.56* *NZ IAS 12.37*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date. *NZ IAS 12.47*

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity. *NZ IAS 12.61A*

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss. *NZ IAS 12.68*

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered. *NZ IAS 12.74*

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included
- The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

h) Foreign currencies

The Group's consolidated financial statements are presented in New Zealand dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method. *NZ IAS1.51(d)* *NZ IAS 21.9*

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. *NZ IAS 21.21*

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. *NZ IAS 21.23(a)*

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI. *NZ IAS 21.28* *NZ IAS 21.32*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. *NZ IAS 21.23(b)* *NZ IAS 21.23(c)*

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively). *NZ IAS 21.30*

2.3 Significant accounting policies *continued*

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

NZ IFRIC 22.8
NZ IFRIC 22.9

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into New Zealand Dollar at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

NZ IAS 21.39(a) NZ IAS 21.39(b) NZ IAS 21.39(c) NZ IAS 21.48

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

NZ IAS 21.47

i) Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

NZ IFRS 5.6
NZ IFRS 5.15
NZ IFRS 5.15A
NZ IFRS 5. Appendix A

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the salemust be expected to be completed within one year from the date of the classification.

NZ IFRS 5.7
NZ IFRS 5.8

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

NZ IFRS 5.25

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

NZ IAS 1.54(j)
NZ IAS 1.54(p)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

NZ IFRS 5.32

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

  or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in Note 14. All other notes to the financial statements mainly include amounts for continuing operations, unless indicated otherwise.

NZ IFRS 5.33

2.3 Significant accounting policies *continued*

j) Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the company law in New Zealand, a distribution is authorised when it is approved by the Board of Directors. A corresponding amount is recognised directly in equity.

NZ IFRIC 17.10

CA 1993 s52

k) Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any, Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciate them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 3) and provisions (Note 27) for further information about the recognised decommissioning provision.

NZ IAS 16.73(a)
NZ IAS 16.30
NZ IAS 16.15
NZ IAS 16.16

Property, plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

NZ IFRIC 18.11

Office properties in New Zealand are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

NZ IAS 16.24

NZ IAS 16.73(a)

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

NZ IAS 16.31
NZ IAS 16.39
NZ IAS 16.40

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

NZ IAS 16.41

Commentary

Under NZ IAS 16 an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to use the revaluation model for office properties in New Zealand, while other classes of property, plant and equipment are measured using the cost model. The Group has also elected to transfer the revaluation surplus to retained earnings as the asset is being used. Alternatively, the amount could have been transferred, in full, upon disposal of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

NZ IAS 16.73(b)
NZ IAS 16.73(c)

- Buildings 15 to 20 years
- Plant, machinery and equipment 5 to 15 years
- Office properties in New Zealand 15 to 20 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

NZ IAS 16.67
NZ IAS 16.68
NZ IAS 16.71

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

NZ IAS 16.51

2.3 Significant accounting policies *continued*

Commentary

On disposal of property, plant and equipment:

- The date of disposal of the asset is the date the recipient obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in NZ IFRS 15 (NZ IAS 16.69).
- The amount of consideration to be included in the gain or loss arising from the derecognition is determined in accordance with the requirements for determining the transaction price in NZ IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in transaction price in NZ IFRS 15 (NZ IAS 16.72).

The above requirements also apply to disposals of investment properties (NZ IAS 40.67 and NZ IAS 40.70) and intangible assets (NZ IAS 38.114 and NZ IAS 38.116).

l) Leases

NZ IFRS 16.9

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

NZ IFRS 16.23
NZ IFRS 16.24
NZ IFRS 16.30
NZ IFRS 16.32

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

Plant and machinery	3 to 15 years
Motor vehicles and other equipment	3 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (s) Impairment of non-financial assets.

Commentary

Under NZ IFRS 16, the cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period (NZ IFRS 16. 24(d)).

The Group's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

ii) Lease liabilities

NZ IFRS 16.26
NZ IFRS 16.27

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

NZ IFRS 16.38(b)

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

2.3 Significant accounting policies *continued*

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

NZ IFRS 16.36
NZ IFRS 16.39

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 21.2).

iii) Short-term leases and leases of low-value assets

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

NZ IFRS 16.5
NZ IFRS 16.6

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NZ IFRS 16.61
NZ IFRS 16.62
NZ IFRS 16.81
NZ IFRS 16.83

m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NZ IAS 23.8
NZ IAS 23.5

n) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the Property Institute of New Zealand.

NZ IAS 40.20
NZ IAS 40.33
NZ IAS 40.75(a) NZ IAS 40.35
NZ IAS 40.75(e)

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

NZ IAS 40.66
NZ IAS 40.69

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NZ IAS 40.57
NZ IAS 40.60
NZ IAS 40.61

Commentary

The Group has elected to state investment properties at fair value in accordance with NZ IAS 40. As an alternative, NZ IAS 40 investment properties to be carried at historical cost less accumulated depreciation and impairment. NZ IAS 40 requires note disclosure of the fair value of any investment property recorded at cost. Therefore, companies would still need to determine the fair value of investment properties regardless of the policy choice.

2.3 Significant accounting policies *continued*

o) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

NZ IAS 38.24
NZ IAS 38.74
NZ IAS 38.54
NZ IAS 38.57

The useful lives of intangible assets are assessed as either finite or indefinite.

NZ IAS 38.88

Intangible assets with finite lives are amortised over the useful economic life and assessed 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 are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

NZ IAS 38.97
NZ IAS 36.9
NZ IAS 38.104

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating-unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

NZ IAS 38.107
NZ IAS 38.108
NZ IAS 38.109

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

NZ IAS 38.113

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

NZ IAS 38.54
NZ IAS 38.57

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

NZ IAS 38.74
NZ IAS 36.10(a)

Patents and licences

The Group made upfront payments to acquire patents and licences. The patents have been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of this period. Licences for the use of intellectual property are granted for periods ranging between five and ten years depending on the specific licences. The licences may be renewed at little or no cost to the Group. As a result, those licences are assessed as having an indefinite useful life.

NZ IAS 38.12
2(a)

2.3 Significant accounting policies *continued*

A summary of the policies applied to the Group's intangible assets is, as follows:

	Licences	Patents	Development costs
Useful lives	Indefinite	Finite (10 years)	Finite (10-20 years)
Amortisation method used	No amortisation	Amortised on a straight-line basis over the period of the patent	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Acquired	Internally generated

NZ IAS 38.118 (a)(b)

p) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. *NZ IAS 32.11*

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. *NZ IFRS 7.21 NZ IFRS 9.4.1.1*

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in section e) Revenue from contracts with customers. *NZ IFRS 9.4.1.1 NZ IFRS 15.108*

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. *NZ IFRS 9.4.1.2(b) NZ IFRS 9.4.1.2(b)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. *NZ IFRS 9.B4.1.1*

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. *NZ IFRS 9.3.1.2*

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories: NZ IFRS 9.5.2.1

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments) *NZ IFRS 9.4.1.2*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. *NZ IFRS 9.5.4*

2.3 Significant accounting policies *continued*

The Group's financial assets at amortised cost includes trade receivables, and loan to an associate and loan to a director included under other non-current financial assets.

Commentary

For entities that have more complex financial instruments, the SPPI assessment can be particularly challenging. The application guidance for IFRS 9 and the EY *International GAAP 2019* publication provide specific examples of instruments that pass or fail the SPPI test. Such entities should also consider providing more detailed accounting policies in relation to their SPPI and business model assessments. Only equity instruments that meet the definition of equity from the issuer's perspective can be designated at fair value through OCI at initial recognition. NZ IFRS 9 also allows entities to elect to designate non-financial contracts such as commodity contracts held for own use as financial assets at FVPL under certain circumstances.

Financial assets at fair value through OCI (debt instruments)

NZ IFRS 9.4.1.2A
NZ IFRS 9.5.7.10
NZ IFRS 9.5.7.11

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

NZ IFRS 9.5.7.5

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under NZ IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

NZ IFRS 9.5.7.1A
NZ IFRS 9.B5.7.1

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

NZ IFRS 9.4.1.4
NZ IFRS 9.5.7.1

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.3 Significant accounting policies *continued*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when: *NZ IFRS 9.3.2.3(a)*

- The rights to receive cash flows from the asset have expired

  Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset *NZ IFRS 9.3.2.4(a) NZ IFRS 9.3.2.4(b)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. *NZ IFRS 9.3.2.6(a) NZ IFRS 9.3.2.6(c) NZ IFRS 9.3.2.4(b)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. *NZ IFRS 9.3.2.16*

Impairment *NZ IFRS 9.5.5.1*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

Disclosures for significant assumptions	Note 3
Debt instruments at fair value through OCI	Note 21
Trade receivables, including contract assets	Note 21

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. *NZ IFRS 9.5.5.1*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). *NZ IFRS 9.5.5.3 NZ IFRS 9.5.5.5*

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. *NZ IFRS 9.5.5.15 NZ IFRS 9.B5.5.35*

Commentary

An entity is required to apply the simplified approach for trade receivables or contract assets that do not contain a significant financing component, or when the entity applies the practical expedient for contracts that have a maturity of one year or less. However, an entity has a policy choice to apply either the simplified approach or the general approach for the following:

- All trade receivables or contract assets that contain a significant financing component in accordance with NZ IFRS 15. The policy choice may be applied separately to trade receivables and contract assets.
- All lease receivables that result from transactions that are within the scope of NZ IFRS 16. The policy choice may be applied separately to finance and operating lease receivables.

2.3 Significant accounting policies *continued*

For debt instruments at fair value through OCI, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

NZ IFRS 9.5.5.3
NZ IFRS 9.5.5.5
NZ IFRS 9.A

The Group's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the *Good Credit Rating Agency* and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the *Good Credit Rating Agency* both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

NZ IFRS 7.35F(a)
NZ IFRS 7.35G(a)(ii)
NZ IFRS 9.B5.5.22-27

Commentary

NZ IFRS 9 contains an important simplification that, if a financial instrument has a low credit risk, then an entity is allowed to assume at the reporting date that no significant increases in credit risk have occurred. The low credit risk concept was intended to provide entities relief from tracking changes in the credit risk of high quality financial instruments. This simplification is optional and the low credit risk simplification can be elected on an instrument-by-instrument basis.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NZ IFRS 7.35F(b)
NZ IFRS 9.5.5.9
NZ IFRS 9.B5.5.37

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

NZ IFRS 7.6
NZ IFRS 7.21

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

NZ IFRS 9.5.1.1

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

NZ IFRS 9.4.2.1(a)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by NZ IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

NZ IFRS 9.5.7.1

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in NZ IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised costs (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

NZ IFRS 9.4.2.1
NZ IFRS 9.5.7.2

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 21.

2.3 Significant accounting policies *continued*

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

NZ IFRS 9.3.3.1
NZ IFRS 9.3.3.3
NZ IFRS 9.3.3.2

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

NZ IAS 32.42

q) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

NZ IFRS 9.5.1.1
NZ IFRS 7.21

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment — *NZ IFRS 9.6.5.2(a)*
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment — *NZ IFRS 9.6.5.2(b)*
- Hedges of a net investment in a foreign operation — *NZ IFRS 9.6.5.2(c)*

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

NZ IFRS 9.6.4.1

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

NZ IFRS 9.6.4.1

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

NZ IFRS 9.6.5.8
NZ IFRS 9.6.5.10

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

2.3 Significant accounting policies *continued*

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. *NZ IFRS 9.6.5.9*

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. *NZ IFRS 9.6.5.11*

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses. Refer to Note 21.3 for more details.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve. *NZ IFRS 9.6.5.16*

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied. *NZ IFRS 9.6.5.11*

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss. *NZ IFRS 9.6.5.13* *NZ IFRS 9.6.5.14*

The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Refer to Note 21.3 for more details.

r) Inventories

Inventories are valued at the lower of cost and net realisable value. *NZ IAS 2.36(a)* *NZ IAS 2.9*

Costs incurred in bringing each product to its present location and condition are accounted for, as follows: *NZ IAS 2.10*

Raw materials: purchase cost on a first in/first out basis *NZ IAS 2.25*

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs. *NZ IAS 2.12* *NZ IAS 2.13*

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials. *NZ IFRS 9.6.5.11(d)(i)*

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. *NZ IAS 2.6*

2.3 Significant accounting policies *continued*
s) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions — Note 3
- Property, plant and equipment — Note 17
- Intangible assets — Note 19
- Goodwill and intangible assets with indefinite lives — Note 20

Commentary

Under NZ IFRS 16.33, right-of-use assets are subject to the impairment requirements of NZ IAS 36 *Impairment of Assets*.

Under NZ IFRS 15.101, assets recognised for costs to obtain a contract and costs to fulfil a contract are subject to impairment testing. An impairment exists if the carrying amount of an asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services. The Group does not incur any costs to obtain a contract or costs to fulfil a contract that are eligible for capitalisation.

Entities need to include an accounting policy for impairment if the assets recognised for costs to obtain a contract and costs to fulfil a contract are significant.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NZ IAS 36.6
NZ IAS 36.9
NZ IAS 36.66
NZ IAS 36.59

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 asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

NZ IAS 36.30
NZ IAS 36.55
NZ IAS 36.6

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

NZ IAS 36.33
NZ IAS 36.35

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

NZ IAS 36.60
NZ IAS 36.61

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

NZ IAS 36.110
NZ IAS 36.114
NZ IAS 36.117
NZ IAS 36.119

Goodwill is tested for impairment annually as at 31 October and when circumstances indicate that the carrying value may be impaired.

NZ IAS 36.10(b)

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

NZ IAS 36.104
NZ IAS 36.124

2.3 Significant accounting policies *continued*

NZ IAS 36.10(a)

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 October at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Commentary

NZ IAS 36.96 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year, provided it is at the same time each year. Different CGUs and intangible assets may be tested at different times.

t) Cash and short-term deposits

NZ IAS 7.6
NZ IAS 7.7

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

NZ IAS 7.46

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

u) Convertible preference shares

NZ IFRS 7.21
NZ IAS 32.18
NZ IAS 32.28

Convertible preference shares are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

NZ IAS 32.35
NZ IAS 32.AG31(a)

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

NZ IAS 32.38

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

v) Treasury shares

NZ IAS 32.33

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

w) Provisions

General

NZ IAS 37.14
NZ IAS 37.53
NZ IAS 37.54

Provisions are recognised when the Group 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

NZ IAS 37.45

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provisions

The Group provides warranties for general repairs of defects that existed at the time of sale, as required by law. Provisions related to these assurance-type warranties are recognised when the product is sold or the service is provided to the customer. Initial recognition is based on historical experience. The estimate of warranty-related costs is revised annually.

Restructuring provisions

NZ IAS 37.71
NZ IAS 37.72

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when

(i) there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and
(ii) the employees affected have been notified of the plan's main features.

2.3 Significant accounting policies *continued*

Emissions liability

NZ IAS 8.10

The Group is required to surrender New Zealand Units (NZUs) for their emission obligations under the New Zealand Emissions Trading Scheme. The Group has adopted the net liability/carrying value approach, whereby a provision is recognised for the cost of settlement based on the carrying value of NZUs already held and the cost of buying NZUs when the actual emission obligation exceeds NZUs held by the Group. Where NZUs are purchased from other parties, they are recorded at cost. Movements in the carrying value of the emissions' liability are recognised in the statement of profit or loss.

Decommissioning liability

NZ IAS 16.16(c)
NZ IAS 37.45
NZ IAS 37.47
NZ IFRIC 1.8
NZ IAS 37.59
NZ IFRIC 1.5

The Group records a provision for decommissioning costs of a manufacturing facility for the production of fire retardant materials. The costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. Cash flows are discounted at a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied are added to or deducted from the cost of the asset.

Electrical and Electronic Equipment disposal

NZ IFRIC 6

In accordance with the Group's published environmental policy, a provision for the disposal of electrical and electronic equipment, and the related expense, is recognised when the Group produces electrical and electronic equipment as described in the Group's environmental policy, and the costs can be reliably measured. These costs are recognised as other operating expenses in the statement of profit or loss.

Contingent liabilities recognised in a business combination

NZ IFRS 3.56
NZ IFRS 3.22
NZ IFRS 3.23

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Onerous contracts

NZ IAS 37.66
NZ IAS 37.69

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

NZ IAS 37.68

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

Commentary

NZ IAS 37 provides a choice of presenting expenditures to settle a provision either net of any reimbursement or on a gross basis. The Group has elected to present the expenses net of reimbursements.

NZ IFRIC 3 Emission Rights was withdrawn in June 2005. In the absence of a specific standard, management must develop an accounting policy that results in information that is relevant and reliable. The Group has applied the net liability approach based on NZ IAS 20.23. However, emission rights received could also be recognised as intangible assets at their fair value with all the disclosures required by NZ IAS 38.

NZ IFRS 15 contains no specific requirements to address contracts with customers that are, or have become, onerous. The requirements of NZ IAS 37 apply to the identification and measurement of onerous customer contracts (NZ IAS 37.5(g)).

2.3 Significant accounting policies *continued*

x) Pensions and other post-employment benefits

The Group operates a defined benefit pension plan in New Zealand, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post employment healthcare benefits to employees in the United States. These benefits are unfunded. *NZ IAS 19.135*

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. *NZ IAS 19.67*

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the new defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods. *NZ IAS 19.120(c)* *NZ IAS 19.127* *NZ IAS 19.122*

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and *NZ IAS 19.102* *NZ IAS 19.103*
- The date that the Group recognises related restructuring costs *NZ IAS 19.123* *NZ IAS 19.134*

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in consolidated statement of profit or loss (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Commentary

Entities are required to state their policy for termination benefits, employee benefit reimbursements and benefit risk sharing. Since these are not applicable to the Group, the disclosures related to such benefits have not been made. Entities need to assess the nature of their employee benefits and make the relevant disclosures.

NZ IAS 19 does not specify where in the statement of profit or loss service costs or net interest should be presented. NZ IAS 1 allows, but does not require, disaggregation of the employee benefits cost components in profit or loss. The net interest cost component is different from the unwinding of interest component and return on asset component in the previous version of NZ IAS 19. Entities must apply the requirement in NZ IAS 8.10 when developing a presentation policy for net interest cost.

y) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). Employees working in the business development group are granted share appreciation rights, which are settled in cash (cash-settled transactions). *NZ IFRS 2.44*

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 33. *NZ IFRS 2.7* *NZ IFRS 2.10*

That cost is recognised in employee benefits expense (Note 13.7), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. *NZ IFRS 2.19* *NZ IFRS 2.20*

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. *NZ IFRS 2.21* *NZ IFRS 2.21A* *NZ IFRS 2.27*

2.3 Significant accounting policies *continued*

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

NZ IFRS 2.28
NZ IFRS 2.B42-B44

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

NZ IAS 33.45

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 16).

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (see Note 13.7). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is determined using a binomial model, further details of which are given in Note 33. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

NZ IFRS 2.30
NZ IFRS 2.32
NZ IFRS 2.33

2.4 Changes in accounting policies and disclosures

NZ IAS 8.14

Revaluation of office properties in New Zealand (property, plant and equipment)

The Group reassessed its accounting for office properties in New Zealand with respect to measurement of a certain class of property, plant and equipment after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

NZ IAS 16.30

On 1 January 2019 the Group elected to change the method of accounting for office properties in New Zealand classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements as it is more aligned to practices adopted by its competitors. In addition, available valuation techniques provide reliable estimates of the office properties' fair value. The Group applied the revaluation model prospectively.

After initial recognition, office properties in New Zealand are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to Note 17.

NZ IAS 8.17
NZ IAS 8.18

Commentary
NZ IAS 8.17 and NZ IAS 8.18 exempt this change in accounting policy from the requirement to retrospectively apply the policy and to provide detailed disclosure as outlined in NZ IAS 8.28 to NZ IAS 8.31. Hence, the Group has applied its change in accounting policy for the measurement of office properties in New Zealand to the revaluation model prospectively.

New and amended standards and interpretations

The Group applied NZ IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

NZ IAS 8.28

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Commentary
For illustrative purposes, the Group has listed all the disclosures of new and amended standards and interpretations that are effective from 1 January 2019, regardless of whether these have any impact on the Group's financial statements. However, a preferred alternative that entities should consider would be to only list and address those that have a material impact on the Group's financial position, performance and/or disclosures.

2.4 Changes in accounting policies and disclosures *continued*

NZ IFRS 16 Leases

NZ IFRS 16 supersedes NZ IAS 17 *Leases*, NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*, NZ SIC-15 *Operating Leases-Incentives* and NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

NZ IFRS 16.C21
NZ IFRS 16.1

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

NZ IFRS 16.62

The Group adopted NZ IFRS 16 using the full retrospective method of adoption, with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying NZ IAS 17 and NZ IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

NZ IFRS 16.C5(a)
NZ IFRS 16.C3
NZ IFRS 16.5

Commentary

A lessee is required to apply NZ IFRS 16 to its leases either retrospectively to each prior reporting period, by applying NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (the full retrospective method), or retrospectively with the cumulative effect recognised at the date of initial application (the modified retrospective method). An entity applies the elected transition method consistently to all leases for which it is a lessee (NZ IFRS 16.C5-C6). The Group elected to apply the full retrospective method in adopting the standard.
An entity electing to adopt the standard using the full retrospective method must apply the requirements of NZ IFRS 16 to each period presented in the financial statements, subject to specific transition requirements for sale and leaseback transactions entered into and amounts previously recognised in respect of business combinations before the date of initial application (NZ IFRS 16.C16-C19). The transition requirements relating to sale and leaseback transactions and business combinations had no impact on the consolidated financial statements of the Group.

If the modified retrospective method of adoption is applied, comparative figures are not restated and the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. This approach also includes a number of practical expedients not available under the full retrospective method. Appendix 1 illustrates the application of the modified retrospective method.

Refer to our Applying IFRS *Presentation and disclosure requirements of IFRS 16 Leases* publication for a summary and illustrative examples of the presentation and disclosure requirements under IFRS 16.

As a transition practical expedient, an entity is permitted to make an election not to reassess whether existing contracts are, or contain, lease, as defined under NZ IFRS 16 (NZ IFRS 16.C3) at the date of initial application. If an entity elects this practical expedient, contracts that do not contain a lease under NZ IAS 17 and NZ IFRIC 4 (e.g., service arrangements) are not reassessed either. If an entity chooses to apply the practical expedient, it must be applied to all contracts that are ongoing at the date of initial application (i.e., an entity is not permitted to apply the option on a lease-by-lease basis) and that fact must be disclosed.

2.4 Changes in accounting policies and disclosures *continued*

The effect of adopting NZ IFRS 16 is, as follows: *NZ IAS 8.28(f)*

Impact on the consolidated statement of financial position (increase/(decrease)):

	31 December 2019	31 December 2018	1 January 2018
	$000	**$000**	**$000**
Assets			
Right-of-use assets	2,908	2,732	2,915
Property, plant and equipment	(1,739)	(1,488)	(1,541)
Prepayments	(45)	(52)	(64)
Total assets	**1,124**	**1,192**	**1,310**
Equity			
Retained earnings	(122)	(110)	(73)
Non-controlling interests	(16)	(14)	(9)
Total equity	**(138)**	**(124)**	**(82)**
Liabilities			
Interest-bearing loans and borrowings	1,342	1,393	1,445
Deferred tax liabilities	(59)	(53)	(35)
Trade and other payables	(21)	(24)	(18)
Total liabilities	**1,262**	**1,316**	**1,392**

Impact on the consolidated statement of profit or loss (increase/(decrease)):

	2019	2018
	$000	**$000**
Cost of sales	(35)	(21)
Administrative expenses	(51)	(31)
Operating profit	**86**	**52**
Finance costs	107	112
Income tax expense	(6)	(18)
Profit for the period	**(15)**	**(42)**
Attributable to:		
Equity holders of the parent	(13)	(37)
Noncontrolling interests	(2)	(5)

Impact on consolidated statement of cash flows (increase/(decrease)):

	2019	2018
	$000	**$000**
Operating lease payments*	(342)	(289)
Interest paid	107	112
Net cash flows from operating activities	**235**	**177**
Payment of principal portion of lease liabilities	406	341
Payment of principal portion of finance lease liabilities	(171)	(164)
Net cash flows from financing activities	**(235)**	**(177)**

* Composed of different line items in the indirect reconciliation of operating cash flows

There is no material impact on other comprehensive income or the basic and diluted earnings per share.

Commentary

NZ IAS 8.28(f) requires disclosures, for the current period and each period presented, of the amount of the adjustment for each financial statement line item affected and for basic and diluted earnings per share. There is no practical expedient available for this disclosure requirement if an entity uses the full retrospective method of adoption.

Determining the amount of the adjustment for the current period effectively requires an entity to keep two sets of accounting records in the year of adoption. The application of the modified retrospective method of adoption provides exemption from this disclosure requirement (NZ IFRS 16.C12).

2.4 Changes in accounting policies and disclosures *continued*

NZ IFRS 16.C5(a)

Upon adoption of NZ IFRS 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Group applied NZ IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

As at 1 January 2018, 31 December 2018 and 31 December 2019:

- 'Right-of-use assets' were recognised and presented separately in the statement of financial position. Lease assets recognised previously under finance leases, which were included under 'Property, plant and equipment', were derecognised.
- Additional lease liabilities were recognised and included under 'Interest bearing loans and borrowings'.
- 'Prepayments' and 'Trade and other payables' related to previous operating leases were derecognised.
- 'Deferred tax liabilities' decreased because of the deferred tax impact of the changes in recognised lease related assets and liabilities.
- 'Retained earnings' and 'Non-controlling interests' decreased due to the net impact of these adjustments.

For the year ended 31 December 2019:

- Depreciation expense increased because of the depreciation of additional assets recognised (i.e., increase in right-of-use assets, net of the decrease in 'Property, plant and equipment'). This resulted in increases in 'Cost of sales' and 'Administrative expenses' of $109,000 (2018: $107,000) and $151,000 (2018: $148,000), respectively.
- Rent expense included in 'Cost of sales' and 'Administrative expenses', relating to previous operating leases, decreased by $144,000 (2018: $128,000) and $202,000 (2018: $179,000), respectively.
- 'Finance costs' increased by $107,000 (2018: $112,000) relating to the interest expense on additional lease liabilities recognised.
- 'Income tax expense' decreased by $6,000 (2018: $18,000) relating to the tax effect of these changes in expenses.
- Cash outflows from operating activities decreased by $235,000 (2018: $177,000) and cash outflows from financing activities increased by the same amount, relating to decrease in operating lease payments and increases in principal and interest payments of lease liabilities.

NZ IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of NZ IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of NZ IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

2.4 Changes in accounting policies and disclosures *continued*

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to NZ IFRS 9: *Prepayment Features with Negative Compensation*

Under NZ IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to NZ IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to NZ IAS 19: *Plan Amendment, Curtailment or Settlement*

The amendments to NZ IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to NZ IAS 28: *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies NZ IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in NZ IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying NZ IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying NZ IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual Improvements to NZ IFRSs 2015-2017 Cycle

- NZ IFRS 3 *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

2.4 Changes in accounting policies and disclosures *continued*

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- NZ IFRS 11 *Joint Arrangements*

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in NZ IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

- NZ IAS 12 *Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

- NZ IAS 23 *Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

2017 Omnibus Amendments to NZ IFRS

- NZ IFRS 10 *Consolidated Financial Statements*

The amendment requires the ultimate New Zealand parent entity to present consolidated financial statements in accordance with NZ IFRS 10 (except where the parent is an investment entity).

The amendment had no impact on the consolidated financial statements of the Group.

- NZ IAS 28 *Investments in Associates and Joint Ventures*

The amendment requires the ultimate New Zealand parent entity to apply the equity method when accounting for investments in associates and joint ventures (except where the parent is an investment entity).

The amendment had no impact on the consolidated financial statements of the Group.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management — Note 6
- Financial instruments' risk management and policies — Note 21.5
- Sensitivity analyses disclosures — Notes 17, 18, 20, 21.4, 21.5 and 32

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

NZ IAS 1.122

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

NZ IFRS 16.18
NZ IFRS 16.19

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Refer to Note 31 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of these properties and accounts for the contracts as operating leases.

3. Significant accounting judgements, estimates and assumptions *continued*

Assets held for sale

On 1 October 2019, the Board of Directors announced its decision to discontinue the rubber segment consisting of Hose Limited, a wholly owned subsidiary. Operations of Hose Limited are classified as a disposal group held for sale. The Board considered the subsidiary to meet the criteria to be classified as held for sale at that date for the following reasons:

NZ IFRS 5.7
NZ IFRS 5.5A
NZ IFRS 5.8
NZ IFRS 5.12A

- Hose Limited is available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage
- The shareholders approved the plan to sell on 14 November 2019

For more details on the discontinued operation and non-cash distribution, refer to Note 14.

Consolidation of a structured entity

In February 2019, the Group and a third party partner formed an entity, Fire Equipment Test Lab Limited, to acquire land and construct and operate a fire equipment safety facility. The Group holds 20% of the voting shares in this entity. The third-party partner contributed approximately $2,700,000 in 2019, representing 80% of the voting shares, for the acquisition and construction of the fire safety test facility. The third-party partner is committed to provide approximately $1,000,000 in each of the following two years to complete the project. The construction is expected to be completed in 2022 at a total cost of approximately $4,700,000. The partner is entitled to a 22% return on the outstanding capital upon the commencement of operations. Under the contractual arrangement with the third party partner, the Group has a majority representation on the entity's board of directors and the Group's approval is required for all major operational decisions. At the end of the fourth annual period, the partner is entitled to a 100% capital return. The EIR is 11% and the interest accumulated on the contributed amount totalled $303,000 at 31 December 2019.

NZ IFRS 12.7(a)
NZ IFRS 12.9
NZ IFRS 12.17
NZ IFRS 12.8
NZ IFRS 12.9
NZ IFRS 12.14

The Group is effectively guaranteeing the returns to the third-party partner. On completion of the construction, the operations of Fire Equipment Test Lab Limited will be solely carried out by the Group.

Based on the contractual terms, the Group assessed that the voting rights in Fire Equipment Test Lab Limited are not the dominant factor in deciding who controls the entity. Also, it is assessed that there is insufficient equity financing ($200,000) to allow the entity to finance its activities without the non-equity financial support of the Group. Therefore, the Group concluded Fire Equipment Test Lab Limited is a structured entity under NZ IFRS 10 and that the Group controls it with no non-controlling interests. The voting shares of the third-party partner are accounted for as a financial liability. Therefore, Fire Equipment Test Lab Limited is consolidated in the Group's consolidated financial statements. The shares of the third-party partner are recorded as a long-term loan and the return on investment is recorded as interest expense.

Consolidation of entities in which the Group holds less than a majority of voting right (de facto control)

The Group considers that it controls Electronics Limited even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Electronics Limited with a 48% equity interest. The remaining 52% of the equity shares in Electronics Limited are widely held by many other shareholders, none of which individually hold more than 1% of the equity shares (as recorded in the company's shareholders' register from 1 October 2013 to 31 December 2019). Since 1 October 2013, which is the date of acquisition of Electronics Limited, there is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

NZ IFRS 10.B41
NZ IFRS 10.B42
NZ IFRS 12.7(a)
NZ IFRS 12.8
NZ IFRS12.9

3. Significant accounting judgements, estimates and assumptions *continued*

Commentary

NZ IAS 1.122 requires an entity to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. NZ IFRS 12 adds to those general requirements by specifically requiring an entity to disclose all significant judgements and estimates made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest.

NZ IFRS 12.7 requires that an entity disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- that it has control of another entity
- that is has joint control of an arrangement or significant influence over another entity

the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

An entity must disclose, for example, significant judgements and assumptions made in determining that

it does not control another entity even though it holds more than half of the voting rights of the other entity

it controls another entity even though it holds less than half of the voting rights of the other entity

it is an agent or principal as defined by NZ IFRS 10

it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity

it has significant influence even though it holds less than 20 per cent of the voting rights of another entity

The Group assessed that it controls Electronics Limited, despite having less than a majority of the voting rights, based on the guidance under NZ IFRS 10.B42.

The Group does not have interest in unconsolidated structured entities. Interests in such entities require the disclosures under NZ IFRS 12.24-31. These disclosures have been illustrated in our publication, *Applying NZ IFRS: NZ IFRS 12 – Example disclosures for interests in unconsolidated structured entities*, (March 2013) available at ey.com/ifrs.

Estimates and assumptions

NZ IAS 1.125

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of investment properties and office properties in New Zealand

The Group carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. For investment properties, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. In addition, it measures the office properties in New Zealand at revalued amounts, with changes in fair value being recognised in OCI. The office properties were valued by reference to transactions involving properties of a similar nature, location and condition. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2019 for the investment properties and at 1 January and 31 December 2019 for the office properties in New Zealand.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Notes 17 and 18.

3. Significant accounting judgements, estimates and assumptions *continued*

Impairment of non-financial assets

NZ IAS 36.6

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 20.

NZ IAS 36.134(d)(ii)

Provision for expected credit losses of trade receivables and contract assets

NZ IFRS 7.35G
NZ IFRS 7.35F(c)

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 21.

Commentary

Under NZ IFRS 7.35G(b), an entity must disclose how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information. The Group did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant. Entities are expected to provide more detailed information if the forward-looking information has a significant impact in the calculation of ECL.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The Group initially measures the cost of cash-settled transactions with employee using a binomial model to determine the fair value of the liability incurred. For cash-settled share-based payment transactions, the liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period.

For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binomial model for Senior Executive Plan (SEP) and a Monte-Carlo simulation model for General Employee Share Option Plan (GESP). The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 33.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

3. Significant accounting judgements, estimates and assumptions *continued*

The Group has $427,000 (2018: $1,198,000) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, do not expire, and may not be used to offset taxable income elsewhere in the Group. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward. *NZ IAS 12.81(e)*

If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by $128,000. Further details on taxes are disclosed in Note 15.

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. *NZ IAS 19.78*

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about pension obligations are provided in Note 32.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions related to these factors could affect the reported fair value of financial instruments. See Note 21.4 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on DCFs. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (refer Notes 8 and 21.4 for details).

As part of the accounting for the acquisition of Extinguishers Limited, contingent consideration with an estimated fair value of $714,000 was recognised at the acquisition date and remeasured to $1,071,500 as at the reporting date. Future developments may require further revisions to the estimate. The maximum consideration to be paid is $1,125,000. The contingent consideration is classified as other financial liability (see Note 21.2).

Development costs

The Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2019, the carrying amount of capitalised development costs was $2,178,000 (2018: $1,686,000).

This amount includes significant investment in the development of an innovative fire prevention system. Prior to being marketed, it will need to obtain a safety certificate issued by the relevant regulatory authorities. The innovative nature of the product gives rise to some uncertainty whether the certificate will be obtained.

3. Significant accounting judgements, estimates and assumptions *continued*

Provision for decommissioning

As part of the identification and measurement of assets and liabilities for the acquisition of Extinguishers Limited in 2019, the Group has recognised a provision for decommissioning obligations associated with a factory owned by Extinguishers Limited. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the plant from the site and the expected timing of those costs. The carrying amount of the provision as at 31 December 2019 was $1,221,000 (2018: $Nil). The Group estimates that the costs would be realised in 15 years' time and calculates the provision using the DCF method based on the following assumptions:

- Estimated range of cost per sqm - $10 - $25 ($20)
- Discount rate – 14%

If the estimated pre-tax discount rate used in the calculation had been 1% higher than management's estimate, the carrying amount of the provision would have been $94,000 lower.

Revenue recognition - Estimating variable consideration for returns and volume rebates

NZ IFRS 15.126

The Group estimates variable considerations to be included in the transaction price for the sale of electronics equipment with rights of return and volume rebates.

The Group has developed a statistical model for forecasting sales returns. The model uses the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Group applied the statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebates entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2019, the amount recognised as refund liabilities for the expected returns and volume rebates was $6,242,000 (2018: $5,844,000).

Revenue recognition - Estimating stand-alone selling price – GoodPoints loyalty programme

NZ IFRS 15.126

The Group estimates the stand-alone selling price of the loyalty points awarded under the GoodPoints programme. The stand-alone selling price of the loyalty points issued is calculated by multiplying to the estimated redemption rate and to the monetary value assigned to the loyalty points. In estimating the redemption rate, the Group considers breakage which represents the portion of the points issued that will never be redeemed. The Group applies statistical projection methods in its estimation using customers' historical redemption patterns as the main input. The redemption rate is updated quarterly and the liability for the unredeemed points is adjusted accordingly. In estimating the value of the points issued, the Group considers the mix of products that will be available in the future in exchange for loyalty points and customers' preferences. The Group ensures that the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption (i.e., the value of each point is equivalent to the stand-alone selling price of any products eligible for redemption divided by number of points required).

As points issued under the programme do not expire, estimates of the stand-alone selling price are subject to significant uncertainty. Any significant changes in customers' redemption patterns will impact the estimated redemption rate. As at 31 December 2019, the estimated liability for unredeemed points was $900,000 (2018: $678,000). If the estimated redemption rate used had been higher by 1% than management's estimate, the carrying amount of the estimated liability for unredeemed points as at 31 December 2019 would have been higher by $7,000 (2018: $5,000).

3. Significant accounting judgements, estimates and assumptions *continued*

NZ IFRS 16.26

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Commentary

NZ IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements (NZ IAS 1.122) and significant estimates that involve a high degree of estimation uncertainty (NZ IAS 1.125). The disclosure requirements go beyond the requirements that exist in some other NZ IFRS such as NZ IAS 37.

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help the readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required, and potentially also beyond what is decision-useful. That is, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section.

It is important that entities carefully assess which judgements and estimates are most significant as required by NZ IAS 1 and make the disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and estimation uncertainties. Disclosures of judgements and estimation uncertainties that do not have a significant risk of resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the key judgements and estimation uncertainties.

4. Revenue from contracts with customers

4.1 Disaggregated revenue information

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

NZ IFRS 15.114 -115

Segments	For the year ended 31 December 2019		
	Fire prevention equipment	Electronics	Total
	$000	$000	$000
Type of goods or service			
Sale of fire prevention equipment	485,438	–	**485,438**
Sale of electronics equipment	–	69,263	**69,263**
Installation services	17,131	–	**17,131**
Others*	7,226	–	**7,226**
Total revenue from contracts with customers	**109,795**	**69,263**	**179,058**
Geographical markets			
New Zealand	76,413	50,421	**126,834**
United States	33,382	18,842	**52,224**
Total revenue from contracts with customers	**109,795**	**69,263**	**179,058**
Timing of revenue recognition			
Goods and services transferred at a point in time	90,141	69,263	**159,404**
Goods and services transferred over time	19,654	–	**19,654**
Total revenue from contracts with customers	**109,795**	**69,263**	**179,058**

* Includes revenue from procurement services and service-type warranties.

Segments	For the year ended 31 December 2018		
	Fire prevention equipment	Electronics	Total
	$000	$000	$000
Type of goods or service			
Sale of fire prevention equipment	69,107	–	**69,107**
Sale of electronics equipment	–	66,621	**66,621**
Installation services	16,537	–	**16,537**
Others*	6,823	–	**6,823**
Total revenue from contracts with customers	**92,467**	**66,621**	**159,088**
Geographical markets			
New Zealand	62,239	48,968	**111,207**
United States	30,228	17,653	**47,881**
Total revenue from contracts with customers	**92,467**	**66,621**	**159,088**
Timing of revenue recognition			
Goods and services transferred at a point in time	73,696	66,621	**140,317**
Goods and services transferred over time	18,771	–	**18,771**
Total revenue from contracts with customers	**92,467**	**66,621**	**159,088**

* Includes revenue from procurement services and service-type warranties.

4. Revenue from contracts with customers *continued*

Set out below, is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information (Note 5): *NZ IFRS 15.115*

	For the years ended 31 December			
	2019		2018	
	Fire prevention equipment	Electronics	Fire prevention equipment	Electronics
	$000	$000	$000	$000
Revenue				
External customer	139,842	69,263	121,905	66,621
Inter-segment	–	7,465	–	7,319
	139,842	76,728	121,905	73,940
Inter-segment adjustments and eliminations	(30,047)	(7,465)	(29,438)	(7,319)
Total revenue from contracts with customers	**109,795**	**69,263**	**92,467**	**66,621**

Commentary

The Group presented disaggregated revenue based on the type of goods or services provided to customers, the geographical region, and the timing of transfer of goods and services. Entities will need to make this determination based on entity-specific and/or industry-specific factors that would be most meaningful to their business.

Guidance in NZ IFRS 15 (para B89) provides examples of categories for the disaggregation of revenue disclosure that include, but are not limited to, all of the following:

(a) type of good or service (for example, major product lines);

(b) geographical region (for example, country or region);

(c) market or type of customer (for example, government and non-government customers);

(d) type of contract (for example, fixed-price and time-and-materials contracts);

(e) contract duration (for example, short-term and long-term contracts);

(f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and

(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

The Group presented a reconciliation of the disaggregated revenue with the revenue information disclosed for each reportable segment. Entities may find it appropriate to provide disaggregated revenue information within the segment reporting disclosures.

4.2 Contract balances

NZ IFRS 15.116(a)

	31 December		1 January
	2019	2018	2018
	$000	$000	$000
Trade receivables (Note 23)	25,672	22,290	25,537
Contract assets	4,541	5,180	3,450
Contract liabilities (Note 29)	5,842	3,374	2,528

The acquisition of a subsidiary resulted in increase in trade receivables of $1,716,000 in 2019 (2018: $853,000) (Note 8). In 2019, $179,000 (2018: $71,000) was recognised as provision for expected credit losses on trade receivables. *NZ IFRS 15.117* *NZ IFRS 15.118*

Contract assets relate to revenue earned from ongoing installation services. As such, the balances of this account vary and depend on the number of ongoing installation services at the end of the year. In 2019, $6,000 (2018: $5,000) was recognised as provision for expected credit losses on contract assets. *NZ IFRS 15.117* *NZ IFRS 15.118*

4. Revenue from contracts with customers *continued*

Contract liabilities include long-term advances received to deliver special fire prevention equipment and short-term advances received to render installation services as well as transaction price allocated to unexpired service warranties, and loyalty points not yet redeemed. The outstanding balances of these accounts increased in 2019 and 2018 due to the continuous increase in the Group's customer base (Note 29). *NZ IFRS 15.117* *NZ IFRS 15.118*

The significant increase in contract liabilities in 2019 was mainly due to the $2,200,000 long-term advances received from customers during the year. In 2019, $109,000 (2018: $62,000) was recognised as interest on long-term advances increasing the contract liabilities' balance (Note 13.3). The acquisition of a subsidiary also resulted in increase in contract liabilities of $428,000 in 2019 (2018: $Nil) (Note 8).

Set out below is the amount of revenue recognised from:

	2019	2018
	$000	$000
Amounts included in contract liabilities at the beginning of the year	2,486	1,836
Performance obligations satisfied in previous years	516	252

NZ IFRS 15.116(b) *NZ IFRS 15.116(c)*

Commentary

NZ IFRS 15.116 requires the disclosure of the opening balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. The Group has presented the balances as at 1 January 2018 to comply with this requirement.

The Group disclosed its receivables arising from contracts with customers separately from other receivables. It will be necessary for entities that have material receivables from non-NZ IFRS 15 contracts to separate these balances for disclosure purposes. For example, an entity may have accounts receivable relating to leasing contracts that would need to be disclosed separately from accounts receivable related to contracts with customers.

NZ IFRS 15.116(b) also requires disclosure of 'revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period' and 'revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods'. Entities can also present this in a tabular or narrative format.

The Group provided qualitative and quantitative disclosures of its contact balances and changes on those balances during the period. Entities are permitted to disclose information about contract balances, and changes therein, as they deem to be most appropriate, which would include a combination of tabular and narrative information.

4.3 Right of return assets and refund liabilities

	2019	2018	
	$000	$000	
Right of return assets	**1,124**	**929**	*NZ IFRS 15.B21(c)*
Refund liabilities			*NZ IFRS 15.B21(b)*
Arising from retrospective volume rebates	4,658	4,504	
Arising from rights of return	1,584	1,340	
	6,242	**5,844**	

4.4 Performance obligations

Information about the Group's performance obligations are summarised below: *NZ IFRS 15.119*

Fire prevention equipment

The performance obligation is satisfied upon delivery of the equipment and payment is generally due within 30 to 90 days from delivery.

The performance obligation to deliver fire prevention equipment with a manufacturing lead time of two years has two alternative payment options. The customer can pay the transaction price equal to the cash selling price upon delivery of the equipment or pay a lower transaction price upon signing the contract. There is a significant financing component for those contracts where the customer elected to pay in advance.

In some contracts, a one-year warranty beyond fixing the defects that existed at the time of sale is provided to customers. The warranty is accounted for as a separate performance obligation and a portion of the transaction price is allocated. The performance obligation for the warranty service is satisfied over the coverage period based on time elapsed.

4. Revenue from contracts with customers *continued*

Electronics equipment

The performance obligation is satisfied upon delivery of the equipment and payment is generally due within 30 to 90 days from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Customers are entitled to loyalty points which results in allocation of a portion of the transaction price to the loyalty points. Revenue is recognised when the points are redeemed.

In addition, the Group updates its estimates of the points that will be redeemed on a quarterly basis and any adjustments to the contract liability balance are charged against revenue.

Installation services

The performance obligation is satisfied over-time and payment is generally due upon completion of installation and acceptance of the customer. In some contracts, short-term advances are required before the installation service is provided.

Procurement services

There are contracts with customers to acquire, on their behalf, special fire prevention equipment produced by foreign suppliers. The Group is acting as agent in these arrangements. The performance obligation is satisfied and payment is due upon receipt of the equipment by the customer.

Commentary

NZ IFRS 15 requires an entity to provide more descriptive information about its performance obligations. NZ IFRS 15.119 requires an entity to include a description of all of the following:

- When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement
- The significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the amount of consideration is variable and whether the estimate of variable consideration is typically constrained in accordance with NZ IFRS15.56-58)
- The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e., if the entity is acting as an agent)
- Obligations for returns, refunds and other similar obligations
- Types of warranties and related obligations

The Group provided this required information in this section of the notes. This is one way that entities can comply with the disclosure requirement of NZ IFRS 15.119. Entities may also decide to disclose this required information as part of its disclosure of significant accounting policies. For illustrative purposes, most of the information included in this section of the notes was also included in the disclosure of significant accounting policies.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows: *NZ IFRS 15.120*

	2019	2018	*NZ IFRS 15.120(b)(i)*
	$000	$000	
Within one year	12,915	8,793	
More than one year	7,216	2,152	
	20,131	10,945	

The remaining performance obligations expected to be recognised in more than one year relate to the delivery of special fire prevention equipment that is to be satisfied within two years and the customer loyalty programme. The customer loyalty points have no expiration and redemptions can go beyond two years (Note 29). All the other remaining performance obligations are expected to be recognised within one year. *NZ IFRS 15.120(b)(ii)*

Commentary

As a practical expedient provided in NZ IFRS 15.121, an entity can decide not to disclose the amount of the remaining performance obligations for contracts with original expected duration of less than one year or those that meet the requirements of the right to invoice practical expedient in NZ IFRS 15.B16. If an entity uses this practical expedient, it is required to disclose that fact.

The Group used a quantitative approach to disclose information about remaining performance obligations and did not use this practical expedient.

5. Segment information

For management purposes, the Group is organised into business units based on its products and services and has three reportable segments, as follows:

NZ IAS 1.138(b)
NZ IFRS 8.22(a)
NZ IFRS 8.22(b)

- The fire prevention equipment segment, which produces and installs extinguishers, fire prevention equipment and fire retardant fabrics
- The electronics segment, which is a supplier of electronic equipment for defence, aviation, electrical safety markets and consumer electronic equipment for home use. It offers products and services in the areas of electronics, safety, thermal and electrical architecture
- The investment properties segment, which leases offices and manufacturing sites owned by the Group which are surplus to the Group's requirements

No operating segments have been aggregated to form the above reportable operating segments.

Commentary

NZ IFRS 8.22(a) requires entities to disclose factors used to identify the entity's reportable segments, including basis of organisation, such as factors considered in determining aggregation of operating segments. Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;
(b) the nature of the production processes;
(c) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

This analysis requires significant judgement as to the circumstances of the entity. The Group does not have any operating segment that are aggregated, but, if it had, disclosures about the basis for aggregation must be made.

The Executive Management Committee is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. However, the performance of Showers Limited, the Group's joint venture is evaluated using proportionate consolidation. Also, the Group's financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

NZ IFRS 8.27(b)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

NZ IFRS 8.27(a)

Year ended 31 December 2019	Fire prevention equipment	Electronics	Investment properties	Total segments	Adjustments and eliminations	Consolidated	
	$000	$000	$000	$000	$000	$000	
Revenue							
External customers	139,842	69,263	1,404	210,509	(30,047)	180,462	*NZ IFRS 8.23(a)*
Inter-segment	–	7,465	–	7,465	(7,465)	–	*NZ IFRS 8.23(b)*
Total revenue	**139,842**	**76,728**	**1,404**	**217,974**	**(37,512)**	**180,462**	
Income/(expenses)							
Cost of inventories recognised as an expense	(99,533)	(65,193)	-	(164,726)	33,619	(131,107)	*NZ IFRS 8.23(f)*
Employee benefits expenses	(27,149)	(5,323)	(777)	(33,249)	(500)	(33,749)	*NZ IFRS 8.23(f)*
Depreciation and amortisation	(3, 852)	(489)	–	(4,341)	–	(4,341)	*NZ IFRS 8.23(e)*
Goodwill impairment (Note 20)	–	(200)	–	(200)	–	(200)	*NZ IAS 36.129* *NZ IFRS 8.23(i)*
Share of profit of an associate and a joint venture (Notes 10, 11)	83	–	–	83	588	671	*NZIFRS 8.23(g)*
Segment profit	**9,687**	**2,968**	**321**	**12,976**	**(1,868)**	**11,108**	*NZ IFRS 8.23*
Total assets	**78,412**	**44,814**	**8,893**	**132,119**	**15,252**	**147,371**	*NZ IFRS 8.23*
Total liabilities	**33,051**	**7,252**	**1,704**	**42,007**	**44,583**	**86,590**	*NZ IFRS 8.23*

5. Segment information *continued*

Year ended 31 December 2019	Fire prevention equipment	Electronics	Investment properties	Total segments	Adjustments and eliminations	Consolidated	
	$000	$000	$000	$000	$000	$000	*NZ IFRS 8.27(a)*
Other disclosures							
Investments in an associate and a joint venture (Notes 10,11)	3,187	–	–	3,187	–	3,187	*NZ IFRS 8.24(a)*
Capital expenditure	7,325	2,842	1,216	11,383		11,383	*NZ IFRS 8.24(b)*

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column. All other adjustments and eliminations are part of detailed reconciliations presented further below.

Year ended 31 December 2018	Fire prevention equipment	Electronics	Investment properties	Total segments	Adjustments and eliminations	Consolidated	
	Restated	Restated		Restated	Restated	Restated	
	$000	$000	$000	$000	$000	$000	
Revenue							
External customers	121,905	66,621	1,377	189,903	(29,438)	160,465	*NZ IFRS 8.23(a)*
Inter-segment	–	7,319	–	7,319	(7,319)	–	*NZ IFRS 8.23(b)*
Total revenue	**121,905**	**73,940**	**1,377**	**197,722**	**(36,757)**	**160,465**	
Income/(expenses)							
Cost of inventories recognised as an expense	(95,642)	(58,616)	-	(154,25)	32,960	(121,298)	*NZ IFRS 8.23(f)*
Employee benefits expenses	(19,199	(8,400)	(702)	(28,301)	(850)	(29,151)	*NZ IFRS 8.23(f)*
Depreciation and amortisation	(2,860)	(610)	–	(3,470)	(374)	(3,794)	*NZ IFRS 8.23(e)*
Impairment of property, plant and equipment (Note 17)	(301)	–	–	(301)	–	(301)	*NZ IFRS 8.23(i)* *NZ IAS 36.129*
Share of profit of associate and a joint venture (Notes 10, 11)	81	–	–	81	557	638	*NZ IFRS 8.23(g)*
Segment profit	**4,387**	**5,396**	**314**	**10,097**	**(1,217)**	**8,800**	*NZ IFRS 8.23*
Total assets	**61,747**	**40,409**	**7,983**	**110,139**	**526**	**110,665**	*NZ IFRS 8.23*
Total liabilities	**30,167**	**4,066**	**1,688**	**35,921**	**28,902**	**64,823**	*NZ IFRS 8.23*
Other disclosures							
Investments in an associate and a joint venture (Notes 10,11)	2,516	–	–	2,516	–	2,516	*NZ IFRS 8.24(a)*
Capital expenditure	5,260	3,513	1,192	8,773	–	8,773	*NZ IFRS 8.24(b)*

Commentary

Additional disclosure may be required if the CODM, the Executive Management Committee of the Group, regularly reviews certain other items recorded in the statement of profit or loss, i.e., depreciation and amortisation, impairments and the share of profit in associates.
NZ IFRS 8.23(f) requires an entity to disclose material items of income and expense disclosed in accordance with NZ IAS 1.97. NZ IAS 1.97 requires an entity to disclose separately the nature and amount of material items of income or expense. In order to fulfil requirements of NZ IFRS 8.23(f), the Group disclosed for each reportable segments the following items of income or expenses that are included in the measure of the segment profit or loss reviewed by CODM: cost of inventories recognised as an expense; and employee benefits expenses.

5. Segment information *continued*

Finance income and costs, other income and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis. *NZ IFRS 8.28*

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries. Inter-segment revenues are eliminated on consolidation.

Reconciliation of profit	**2019**	**2018**	
	$000	**$000 Restated**	*NZ IFRS 8.28(b)*
Segment profit	**12,976**	**10,097**	
Finance income (Note 13.4)	202	145	
Gain on derivative instruments at fair value through profit or loss (Note 13.1)	850	–	
Loss on derivative instruments at fair value through profit or loss (Note 13.2)	(1,502)	–	
Finance costs (Note 13.3)	(1,366)	(1,268)	
Other income (Note 13.5)	98	66	
Inter-segment sales (elimination)	(150)	(160)	
Profit before tax and discontinued operations	**11,108**	**8,880**	

Reconciliation of assets	**2019**	**2018**	
	$000	**$000**	*NZ IFRS 8.28(c)*
Segment operating assets	**132,119**	**110,139**	
Deferred tax assets (Note 15)	383	365	
Loans to an associate (Note 21.1)	200	–	
Loans to directors (Note 21.1)	13	8	
Derivatives	1,102	153	
Assets held for sale (Note 14)	13,554	–	
Total assets	**147,371**	**110,665**	*NZ IFRS 8.28(d)*

Reconciliation of liabilities	**2019**	**2018**	
	$000	**$000 Restated**	
Segment operating liabilities	**42,007**	**35,921**	
Deferred tax liabilities (Note 15)	2,454	607	*NZ IFRS 8.33(a)*
Current tax payable	3,511	3,563	
Interest-bearing loans and borrowings	22,806	24,478	
Derivatives	2,687	254	
Liabilities classified as held for sale (Note 14)	13,125	–	
Total liabilities	**86,590**	**64,823**	

Geographic information	**2019**	**2018**
Revenue from external customers	**$000**	**$000**
New Zealand	128,238	112,548
United States	52,224	47,881
Total	**180,462**	**160,465**

The revenue information above is based on the locations of the customers. Revenue from one customer amounted to $25,521,000 (2018: $21,263,000), arising from sales in the fire prevention equipment segment. *NZ IFRS 8.34*

Non-current operating assets:	**2019**	**2018**	
	$000	**$000 Restated**	*NZ IFRS 8.33(b)*
New Zealand	40,934	29,684	
United States	9,865	7,821	
Total	**50,799**	**37,505**	

5. Segment information *continued*

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, investment properties and intangible assets.

Commentary

Interest income and interest expense have not been disclosed by segment as these items are managed on a group basis, and are not provided to the CODM at the operating segment level. Disclosure of operating segment assets and liabilities is only required when such measures are provided to the CODM. The Group provides information about operating assets and liabilities to the CODM. The other operations (e.g., treasury) do not constitute an individual operating segment and may be presented under a separate category 'all other segments' (NZ IFRS 8.16). The results of these operations are reflected in 'Adjustments and eliminations'.

The Group's internal reporting is set up to report in accordance with NZ IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than NZ IFRS (e.g. tax basis). In this case, a reconciliation between the internally reported items and the externally communicated items needs to be presented.

The Group has classified an operating segment as discontinuing operation in 2019. NZ IFRS 8 does not provide guidance as to whether segment disclosures apply to discontinued operations. Although the disposed segment is material, the Group has not disclosed the results within the segment disclosures under NZ IFRS 8. NZ IFRS 5.5B states that the requirements of other standards do not apply to discontinued operations, unless they specify disclosures applicable to them. Since NZ IFRS 8 does not refer to discontinued operations, entities are not required to include them as a reportable segment. This would be the case even if the CODM continued to monitor the discontinued operation until disposal. Nevertheless, an entity would not be prohibited from disclosing such information, if desired.

The Group's CODM regularly reviews the segment information related to the joint venture based on its proportionate share of revenue, profits, assets and liabilities to make decisions about resources to be allocated to the segment and assess its performance. However, as required by NZ IFRS 11, the Group's interest in the joint venture is accounted for in consolidated financial statements using the equity method. The eliminations arising on account of differences between proportionate consolidation and equity method are included under 'Adjustments and eliminations'.

6. Capital management

For the purpose of the Group's capital management, capital includes issued capital, convertible preference shares and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

NZ IAS 1.134
NZ IAS 1.135

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	2019 $000	2018 $000 Restated
Interest-bearing loans and borrowings other than convertible preference shares (Note 21.2)	22,201	23,811
Trade and other payables (Note 30)	16,969	20,023
Less: cash and short-term deposits (Note 24)	(17,528)	(14,916)
Net debt	**21,642**	**28,918**
Convertible preference shares (Note 21.2)	2,778	2,644
Equity	58,371	45,102
Total capital	61,149	47,746
Capital and net debt	**82,791**	**76,664**
Gearing ratio	26%	38%

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest- bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Commentary

NZ IAS 1.134-1.135 require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. The Group has disclosed its gearing ratio as this is the measure it uses to monitor capital. Both capital and net debt are considered as relevant components of funding, hence, part of capital management. However, other measures or a different type of gearing ratio may be more suitable for other entities.

NZ IFRS 7.18-19 requires disclosures in the event of a default or breaches as at end of reporting period and during the year. Although there are no explicit requirements addressing the opposite situation, the Group has disclosed the restriction on capital represented by financial covenants as it considers it relevant information to the users of the financial statements. The Group did not provide additional information on its debt covenants because the likelihood of the breach occurring is remote.

7. Group information

Subsidiaries

The consolidated financial statements of the Group include:

NZ IAS 24.13
NZ IFRS 12.10(a)
NZ IFRS 12.12(a)
NZ IFRS 12.12(b)

Name	Principal activities	Country of incorporation	% equity interest 2019	% equity interest 2018
Extinguishers Limited	Fire prevention equipment	New Zealand	80	–
Bright Sparks Limited	Fire prevention equipment	New Zealand	95	95
Fire Equipment Test Lab Limited	Fire prevention equipment	New Zealand	100*	–
Wireworks Inc.	Fire prevention equipment	United States	98	98
Sprinklers Inc.	Fire prevention equipment	United States	100	100
Lightbulbs Limited	Electronics	New Zealand	87.4	80
Hose Limited	Rubber equipment	New Zealand	100	100
Electronics Limited	Electronics	New Zealand	48**	48

NZ IFRS 12.9

NZ IFRS 12.9

*Good Group New Zealand Limited holds 20% of the equity in Fire Equipment Test Lab Limited, but consolidates 100% of this entity. See Note 3 for details on interest held in Fire Equipment Test Lab Limited.

**Good Group New Zealand Limited consolidates this entity based on de facto control. See Note 3 for more details.

NZ IAS 1.138(c)
NZ IAS 24.13

The holding company

The next senior and the ultimate holding company of the Group is S.J. Limited which owns 58.22% (2018: 57.55%) of its ordinary shares is based and listed in New Zealand.

Entity with significant influence over the Group

International Fires P.L.C. owns 31.48% of the ordinary shares in Good Group New Zealand Limited (2018: 31.48%).

Associate

The Group has a 25% interest in Power Works Limited (2018: 25%). For more details, refer to Note 11.

Joint arrangement in which the Group is a joint venturer

The Group has a 50% interest in Showers Limited (2018: 50%). For more details, refer to Note 10.

Commentary

NZ IFRS 12.10(a) requires entities to disclose information about the composition of the group. The list above discloses information about the Group's subsidiaries. Companies need to note that this disclosure is required for material subsidiaries only, rather than a full list of every subsidiary. The above illustrates one example as to how the requirements set out in NZ IFRS 12 can be met. However, local legislation or listing requirements may require disclosure of a full list of all subsidiaries, whether material or not.

8. Business combinations and acquisition of non-controlling interests

Acquisitions in 2019

NZ IFRS 3.59-60

Acquisition of Extinguishers Limited

On 1 May 2019, the Group acquired 80% of the voting shares of Extinguishers Limited, an unlisted company based in New Zealand and specialising in the manufacture of fire retardant fabrics, in exchange for the Company's shares.

NZ IFRS 3.B64(a)
NZ IFRS 3.B64(b)
NZ IFRS 3.B64(c)

The Group acquired Extinguishers Limited because it significantly enlarges the range of products in the fire prevention equipment segment that can be offered to its clients.

NZ IFRS 3.B64(d)

The Group has elected to measure the non-controlling interests in the acquiree at fair value.

NZ IFRS 3.B64(o)(i)

8. Business combinations and acquisition of non-controlling interests *continued*

The fair values of the identifiable assets and liabilities of Extinguishers Limited as at the date of acquisition were:

	Fair value recognised on acquisition	
		NZ IFRS 3.B64(i) *NZ IAS 7.40(d)*
Assets	**$000**	
Property, plant and equipment (Note 17)	7,042	
Right-of-use assets (Note 31)	248	
Cash and cash equivalents	230	*NZ IAS 7.40(c)*
Trade receivables (Note 4)	1,716	
Inventories	3,330	
Patents and licences (Note 19)	1,200	
	13,766	
Liabilities		
Trade payables	(1,901)	
Lease liabilities (Note 31)	(213)	
Contract liabilities (Note 4)	(428)	
Contingent liability (Note 27)	(380)	
Provision for restructuring (Note 27)	(900)	
Provision for decommissioning costs (Note 27)	(1,200)	
Deferred tax liability (Note 15)	(1,511)	
	(6,533)	
Total identifiable net assets at fair value	**7,233**	
Non-controlling interest measured at fair value	(1,547)	*NZ IFRS 3.B64(o)(i)*
Goodwill arising on acquisition (Note 19)	2,231	
Purchase consideration transferred	**7,917**	*NZ IAS 7.40(a)*

The fair value of the trade receivables amounts to $1,716,000. The gross amount of trade receivables is $1,754,000. However, none of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. *NZ IFRS 3.B64(h)*

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease relative to market terms. *NZ IFRS 3.28B*

Commentary

NZ IFRS 3.28B requires the lease liability to be measured at the present value of the remaining lease payments as if the acquired lease were a new lease at the acquisition date. That is, the acquirer applies NZ IFRS 16's initial measurement provisions using the present value of the remaining lease payments at the acquisition date. The right-of-use asset is measured at an amount equal to the lease liability, adjusted to reflect the favourable or unfavourable terms of the lease when compared with market terms. Because the off-market nature of the lease is captured in the right-of-use asset, the acquirer does not separately recognise an intangible asset or liability for favourable or unfavourable lease terms relative to market.

Prior to the acquisition, Extinguishers Limited decided to eliminate certain product lines (further details are given in Note 27). The restructuring provision recognised was a present obligation of Extinguishers Limited immediately prior to the business combination. The execution of the restructuring plan was not conditional upon it being acquired by the Group.

The deferred tax liability mainly comprises the tax effect of the accelerated depreciation for tax purposes of tangible and intangible assets.

The goodwill of $2,231,000 comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Goodwill is allocated entirely to the fire prevention segment. Due to the contractual terms imposed on acquisition, the customer list is not separable. Therefore, it does not meet the criteria for recognition as an intangible asset under NZ IAS 38. None of the goodwill recognised is expected to be deductible for income tax purposes. *NZ IFRS 3.B64(e)* *NZ IFRS 3.B64(k)*

8. Business combinations and acquisition of non-controlling interests *continued*

A contingent liability at fair value of $380,000 was recognised at the acquisition date resulting from a claim of a supplier whose shipment was rejected and payment was refused by the Group due to deviations from the defined technical specifications of the goods. The claim is subject to legal arbitration and is only expected to be finalised in late 2020. As at the reporting date, the contingent liability was re-assessed and is determined to be $400,000, based on the expected probable outcome (see Note 27). The charge to profit or loss has been recognised. *NZ IFRS 3.B64(j) NZ IFRS 3.56(a) NZ IAS 37.85*

The fair value of the non-controlling interest in Extinguishers Limited, an unlisted company, has been estimated by applying a discounted earnings technique. The fair value measurements are based on significant inputs that are not observable in the market. The fair value estimate is based on: *NZ IFRS 3.B64 (o)(ii)*

- An assumed discount rate of 14%
- A terminal value, calculated based on long-term sustainable growth rates for the industry ranging from 2% to 4%, which has been used to determine income for the future years
- A reinvestment ratio of 60% of earnings

From the date of acquisition, Extinguishers Limited has contributed $17,857,000 of revenue and $750,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $222,582,000 and the profit before tax from continuing operations for the Group would have been $12,285,000. *NZ IFRS 3.B64 (q)(i) NZ IFRS 3.B64 (q)(ii)*

Purchase consideration	$000	
Shares issued, at fair value	7,203	*NZ IFRS 3.B64 (f)(iv)*
Contingent consideration liability	714	*NZ IFRS 3.B64(f)(iii)*
Total consideration	**7,917**	*NZ IAS 7.40(a)*

Analysis of cash flows on acquisition:		
Transaction costs of the acquisition (included in cash flows from operating activities)	(600)	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	230	*NZ IAS 7.40(c)*
Transaction costs attributable to issuance of shares (included in cash flows from financing activities, net of tax)	(32)	
Net cash flow on acquisition	**(402)**	

The Company issued 2,500,000 ordinary shares as consideration for the 80% interest in Extinguishers Limited. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was $2.88 per share. The fair value of the consideration given was therefore $7,203,000. *NZ IFRS 3.B64 (f)(iv)*

Transaction costs of $600,000 have been expensed and are included in administrative expenses. *NZ IFRS 3.B64 (f)(iv)*

The attributable costs of the issuance of the shares of $32,000 have been charged directly to equity as a reduction in issued share capital. *NZ IFRS 3.B64(m)*

Contingent consideration

As part of the purchase agreement with the previous owners of Extinguishers Limited, a contingent consideration has been agreed. There will be additional cash payments to the previous owner of Extinguishers Limited of: *NZ IFRS 3.B64 (g)(ii) NZ IFRS 13.93(h)(ii)*

a) $675,000, if the entity generates up to $1,500,000 of profit before tax in a 12-month period after the acquisition date or *NZ IFRS 3.B64 (g)(iii)*

b) $1,125,000, if the entity generates $1,500,000 or more of profit before tax in a 12-month period after the acquisition date *NZ IFRS 3.B64 (g)(i)*

As at the acquisition date, the fair value of the contingent consideration was estimated to be $714,000. The fair value is determined using the DCF method. *NZ IFRS 3.58 (b)(i)*

As at 31 December 2019, the key performance indicators of Extinguishers Limited show that it is highly probable that the target will be achieved due to a significant expansion of the business and the synergies realised. The fair value of the contingent consideration determined at 31 December 2019 reflects this development, amongst other factors and a re-measurement charge has been recognised through profit or loss. *NZ IFRS 13.93(d)*

8. Business combinations and acquisition of non-controlling interests *continued*

The fair value is determined using a DCF method. The significant unobservable inputs used in the fair value measurements, together with a quantitative sensitivity analysis as at 31 December 2019 are provided in Note 21.4. A reconciliation of fair value measurement of the contingent consideration liability is provided below:

	$000	
As at 1 January 2019	–	*NZ IFRS 13.93(e)*
Liability arising on business combination	714	
Unrealised fair value changes recognised in profit or loss	358	*NZ IFRS 13.93(f)*
As at 31 December 2019	**1,072**	

The fair value of the contingent consideration liability increased due to a significantly improved performance of Extinguishers Limited compared with the budget. The contingent consideration liability is due for final measurement and payment to the former shareholders on 30 September 2020.

Commentary

The classification of a contingent consideration requires an analysis of the individual facts and circumstances. It may be classified as follows: equity or a financial liability in accordance with NZ IAS 32 and NZ IFRS 9; a provision in accordance with NZ IAS 37; or in accordance with other standards, each resulting in different initial recognition and subsequent measurement. The Group has determined that it has a contractual obligation to deliver cash to the seller and therefore it has assessed the same to be a financial liability (NZ IAS 32.11). Consequently, the Group is required to remeasure that liability at fair value at each reporting date with changes in fair value recognised in profit or loss in accordance with NZ IFRS 9 (IFRS 3.58(b)(i)).

As part of the business combination, contingent payments to employees or selling shareholders are common methods of retention of key people for the combined entity. The nature of such contingent payments, however, needs to be evaluated in each individual circumstance as not all such payments qualify as contingent consideration, but are accounted for as a separate transaction. For example, contingent payments that are unrelated to the future service of the employee are deemed contingent consideration, whereas contingent payments that are forfeited when the employment is terminated are deemed remuneration. Paragraphs B54 – B55 of NZ IFRS 3 (in connection with NZ IFRS 3.51, 52(b)) provide further guidance.

Acquisition of additional interest in Lightbulbs Limited

On 1 October 2019, the Group acquired an additional 7.4% interest in the voting shares of Lightbulbs Limited, increasing its ownership interest to 87.4%. Cash consideration of $325,000 was paid to the non-controlling shareholders. The carrying value of the net assets of Lightbulbs Limited (excluding goodwill on the original acquisition) was $1,824,000. Following is a schedule of additional interest acquired in Lightbulbs Limited:

NZ IFRS 10.B96
NZ IFRS 12.18
NZ IFRS 12.10(b)(iii)

	$000
Cash consideration paid to non-controlling shareholders	325
Carrying value of the additional interest in Lightbulbs Limited	(135)
Difference recognised in retained earning	**190**

8. Business combinations and acquisition of non-controlling interests *continued*

Acquisitions in 2018

On 1 December 2018, the Group acquired 80% of the voting shares of Lightbulbs Limited, a company based in New Zealand, specialising in the production and distribution of lightbulbs.

NZ IFRS 3.59
NZ IFRS 3.B64(a)
NZ IFRS 3.B64(b)
NZ IFRS 3.B64(c)

The Group acquired this business to enlarge the range of products in the electronics segment. *NZ IFRS 3.B64(d)*

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. *NZ IFRS 3.B64(o)(i)*

The fair value of the identifiable assets and liabilities of Lightbulbs Limited as at the date of acquisition were:

NZ IFRS 3.B64(i)
NZ IAS 7.40(d)

	Fair value recognised on acquisition	
	$000	
Land and buildings (Note 17)	1,280	
Cash and cash equivalents	50	*NZ IAS 7.40(c)*
Trade receivables (Note 4)	853	
Inventories	765	
Total assets	**2,948**	
Trade payables	(807)	
Deferred tax liability (Note 15)	(380)	
Provision for maintenance warranties	(50)	
Total liabilities	**(1,237)**	
Total identifiable net assets at fair value	**1,711**	
Non-controlling interest (20% of net assets)	(342)	
Goodwill arising on acquisition (Note 19)	131	
Purchase consideration transferred	**1,500**	*NZ IAS 7.40(a)*

	Cash flow on acquisition	
	$000	*NZ IAS 7.40(b)*
Net cash acquired with the subsidiary	50	*NZ IAS 7.40(c)*
Cash paid	(1,500)	*NZ IFRS 3.B64(f)(i)*
Net cash flow on acquisition	**(1,450)**	

The net assets recognised in the 31 December 2018 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the land and buildings owned by Lightbulbs Limited. The valuation had not been completed by the date the 2018 financial statements were approved by the Board of Directors. *NZ IFRS 3.45* *NZ IFRS 3.B67(a)(i)* *NZ IFRS 3.B67(a)(ii)*

In April 2019, the valuation was completed and the acquisition date fair value of the land and buildings was $1,280,000, an increase of $200,000 over the provisional value. The 2018 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was an increase in the deferred tax liability of $60,000 and an increase in the non-controlling interest of $28,000. There was also a corresponding reduction in goodwill of $112,000, resulting in $131,000 of total goodwill arising on the acquisition. The increased depreciation charge on the buildings from the acquisition date to 31 December 2018 was not material. *NZ IFRS 3.49* *NZ IFRS3.B67(a)(iii)*

From the date of acquisition, Lightbulbs Limited contributed $476,000 of revenue and $20,000 to profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of 2018, the Groups revenue from continuing operations would have been $198,078,000 and the profit before tax from continuing operations would have been $7,850,000. *NZ IFRS 3.B64(q)*

The goodwill of $131,000 comprises the fair value of expected synergies arising from acquisition. *NZ IFRS 3.B64(e)*

Commentary

In the 2018 business combination the Group elected to value the non-controlling interest by its proportionate share of the acquiree's identifiable net assets. In the 2019 business combination, the Group elected to value the non-controlling interest at fair value. This election can be made separately for each business combination, and is not a policy choice that determines an accounting treatment for all business combinations the Group will carry out (NZ IFRS 3.19).

9. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests are provided below:

NZ IFRS 12.10(a)(ii)
NZ IFRS 12.12

Proportion of equity interest held by non-controlling interests:

	Country of incorporation and operation	2019	2018
Electronics Limited	New Zealand	52%	52%
Extinguishers Limited	New Zealand	20%	–
Lightbulbs Limited	New Zealand	12.6%	20%

	2019 $000	2018 $000
Accumulated balances of material non-controlling interest:		
Electronics Limited	490	277
Extinguishers Limited	1,696	–
Lightbulbs Limited	263	344
Profit/(loss) allocated to material non-controlling interest:		
Electronics Limited	243	192
Extinguishers Limited	149	–
Lightbulbs Limited	54	2

NZ IFRS 12.12(f)
NZ IFRS 12.B10

The summarised financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

NZ IFRS 12.B11
NZ IFRS 12.12(g)
NZ IFRS 12.B10

Summarised statement of profit or loss for 2019:	Electronics Limited $000	Extinguishers Limited $000	Lightbulbs Limited $000
Revenue from contracts with customers	2,546	17,857	5,746
Cost of sales	(1,450)	(15,678)	(4,090)
Administrative expenses	(354)	(1,364)	(1,020)
Finance costs	(250)	(65)	(132)
Profit before tax	**492**	**750**	**506**
Income tax	(25)	(6)	(80)
Profit for the year from continuing operations	**467**	**744**	**426**
Total comprehensive income	**467**	**744**	**426**
Attributable to non-controlling interests	243	149	54
Dividends paid to non-controlling interests	30	–	–

9. Material partly-owned subsidiaries *continued*

NZ IFRS 12.B11
NZ IFRS 12.12(g)
NZ IFRS 12.B10

Summarised statement of profit or loss for 2018:

	Electronics Limited	Lightbulbs Limited
	$000	$000
Revenue from contracts with customers	2,100	476
Cost of Sales	(1,250)	(360)
Administrative expenses	(150)	(85)
Finance costs	(350)	(11)
Profit before tax	**350**	**20**
Income tax	20	(8)
Profit for the year from continuing operations	**370**	**12**
Total comprehensive income	**370**	**12**
Attributable to non-controlling interests	192	2
Dividends paid to non-controlling interests	49	–

Summarised statement of financial position as at 31 December 2019:

	Electronics Limited	Extinguishers Limited	Lightbulbs Limited
	$000	$000	$000
Inventories and cash and bank balances (current)	971	7,043	2,348
Property, plant and equipment and other non-current assets (non-current)	1,408	10,273	1,409
Trade and other payable (current)	(417)	(5,822)	(1,182)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(1,019)	(3,016)	(485)
Total equity	**943**	**8,478**	**2,090**
Attributable to:			
Equity holders of parent	453	6,782	1,827
Non-controlling interest	490	1,696	263

Summarised statement of financial position as at 31 December 2018:

	Electronics Limited	Lightbulbs Limited
	$000	$000
Inventories and cash and bank balances (current)	698	1,668
Property, plant and equipment and other non-current assets (non-current)	1,280	1,359
Trade and other payable (current)	(350)	(822)
Interest-bearing loans and borrowing and deferred tax liabilities (non-current)	(1,095)	(485)
Total equity	**533**	**1,720**
Attributable to equity holders of parent	256	1,376
Non-controlling interest	277	344

9. Material partly-owned subsidiaries *continued*

Summarised cash flow information for year ending 31 December 2019:

	Electronics Limited	Extinguishers Limited	Lightbulbs Limited
	$000	$000	$000
Operating	507	809	558
Investing	(15)	(280)	6
Financing	(250)	(65)	(132)
Net increase/(decrease) in cash and cash equivalents	**242**	**464**	**432**

Summarised cash flow information for year ending 31 December 2018:

	Electronics Limited	Lightbulbs Limited
	$000	$000
Operating	406	23
Investing	(10)	(20)
Financing	(350)	(11)
Net increase/(decrease) in cash and cash equivalents	**100**	**(8)**

Commentary

NZ IFRS 12.12 requires the above information only in respect of subsidiaries that have non-controlling interests that are material to the reporting entity (i.e. the group). A subsidiary may have significant non-controlling interest *per se* but disclosure is not required if that interest is not material at group level. Similarly, these disclosures do not apply to the non-controlling interests that are material in aggregate but not individually. Also, it should be noted that the above information should be provided separately for each individual subsidiary with a material non-controlling interest. The Group has concluded that Extinguishers Limited, Lightbulb Limited and Electronics Limited are the only subsidiaries with non-controlling interests that are material to the Group.

When there is a change in the ownership of a subsidiary, NZ IFRS 12.18 requires disclosure of a schedule that shows the effects on equity of any changes in its ownership interest in the subsidiary that did not result in a loss of control. When there are significant restrictions on the Group's or its subsidiaries' ability to access or use the assets and settle the liabilities of the Group, NZ IFRS 12.13 requires disclosure of the nature and extent of significant restrictions. The Group did not have any such changes in the ownership or restrictions.

NZ IFRS 12.10(b)(iv) requires disclosure of information to enable the users to evaluate the consequences of losing control of a subsidiary during the period. The Group did not lose control over a subsidiary during the period.

10. Interest in a joint venture

The Group has a 50% interest in Showers Limited, a joint venture involved in the manufacture of some of the Group's main product lines in fire prevention equipment in New Zealand. The Group's interest in Showers Limited is accounted for using the equity method in the consolidated financial statements. *NZ IFRS 12.20 NZ IFRS 12.21*

Summarised financial information of the joint venture, based on its NZ IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are below: *NZ IFRS 12.B14*

Summarised statement of financial position of Showers Limited:	**2019 $000**	**2018 $000**	*NZ IFRS 12.B12*
Current assets, including cash and cash equivalents $989,000 (2018: $743,000) and prepayments $1,030,000 (2018: NIL)	3,226	2,808	*NZ IFRS 12.B13*
Non-current assets	2,864	2,964	
Current liabilities, including tax payable $89,000 (2018: $143,000)	(224)	(1,102)	
Non-current liabilities, including deferred tax liabilities $278,000 (2018: $325,000) and long-term borrowing $500,000 (2018: $500,000)	(1,020)	(1,000)	
Equity	**4,846**	**3,670**	
Group's share in equity - 50% (2018: 50%)	2,423	1,835	
Goodwill	-	-	
Group's carrying amount of the investment	**2,423**	**1,835**	*NZ IFRS 12.B14(b)*

Summarised statement of profit or loss of the Showers Limited:	**2019 $000**	**2018 $000**	
Revenue from contracts with customers	60,094	58,876	
Cost of sales	(54,488)	(53,420)	*NZ IFRS 12.B13*
Administrative expenses, including depreciation $1,236,000 (2018: $1,235,000)	(2,638)	(2,586)	
Finance costs, including interest expense $204,000 (2018: $500,000)	(204)	(200)	*NZ IFRS 12.B13*
Profit before tax	**2,764**	**2,670**	
Income tax expense	(1,588)	(1,556)	*NZ IFRS 12.B13*
Profit for the year (continuing operations)	**1,176**	**1,114**	
Total comprehensive income for the year (continuing operations)	**1,176**	**1,114**	*NZ IFRS 12.B12(b)*
Group's share of profit for the year	**588**	**557**	

The joint venture had no other contingent liabilities or capital commitments as at 31 December 2019 and 2018, except trade purchase commitments of $620,000 (2018: $1,032,000), for which the Group has a corresponding commitment, as disclosed in Note 34. *NZ IFRS 12.23(a) NZ IFRS 12.B18-B19*

Showers Limited cannot distribute its profits without the consent from the two venture partners. *NZ IFRS 12.22(a)*

Commentary

NZ IFRS 12.B14 requires separate presentation of goodwill and other adjustments to the investments in joint ventures and associates in the above reconciliation. The Group does not have goodwill or other adjustments.

NZ IFRS 12.21(a) requires the separate disclosure of information for joint operations, as it relates to all types of joint arrangements. The Group does not have any joint operations.

Tier 2 for-profit entities are provided certain disclosure concessions from the requirements of NZ IFRS 12.21(a).

The Group has presented the summarised financial information of the joint venture based on their NZ IFRS financial statements.
NZ IFRS 12.B15 allows this information to be provided using alternative basis, if the entity measures its interest in the joint venture or associate at fair value, or if the joint venture or associate does not prepare NZ IFRS financial statements and preparation on that basis would be impracticable or cause undue cost. Applying both the impracticable and undue cost thresholds involves significant judgment and must be carefully considered in the context of the specific facts and circumstances. In either case, the entity is required to disclose the basis on which the information is provided.

NZ IFRS 12.22(b) requires additional disclosures when the financial statements of the joint venture or associate used in applying equity method are as of a different date or for a different period from that of the entity. This is not applicable to the Group.
NZ IFRS 12.22(c) requires disclosure of unrecognised share of losses of a joint venture and associate. This is not applicable to the Group.

11. Investment in an associate

The Group has a 25% interest in Power Works Limited, which is involved in the manufacture of fire prevention equipment for power stations in New Zealand. Power Works Limited is a private entity that is not listed on any public exchange. The Group's interest in Power Works Limited is accounted for using the equity method in the consolidated financial statements. *NZ IFRS 12.20* *NZ IFRS 12.21(a)*

The following table illustrates the summarised financial information of the Group's investment in Power Works Limited: *NZ IFRS 12.21(b)(ii)* *NZ IFRS 12.B12*

	2019 $000	2018 $000
Current assets	6,524	6,324
Non-current assets	13,664	12,828
Current liabilities	(4,488)	(3,904)
Non-current liabilities	(12,644)	(12,524)
Equity	**3,056**	**2,724**
Group's share in equity – 25% (2018: 25%)	764	681
Goodwill	-	-
Group's carrying amount of the investment	**764**	**681**

	2019 $000	2018 $000
Revenue from contracts with customers	33,292	32,640
Cost of sales	(27,299)	(26,765)
Administrative expenses	(1,665)	(1,632)
Finance costs	(2,996)	(2,938)
Profit before tax	**1,332**	**1,305**
Income tax expense	(1,000)	(981)
Profit for the year (continuing operations)	**332**	**324**
Other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax	(120)	-
Other comprehensive income that will not be reclassified to profit or loss in the subsequent periods, net of tax	120	-
Total comprehensive income for the year (continuing operations)	**332**	**324**
Group's share of profit for the year	**83**	**81**

NZ IFRS 12.B12(b)

The associate had no contingent liabilities or capital commitments as at 31 December 2019 or 2018. *NZ IFRS 12.23*

The associate require the Group's consent to distribute its profits. The Group does not foresee giving such consent at the reporting date. *NZ IFRS 12.22(a)*

Commentary

NZ IFRS 12.21(c) and NZ IFRS 12.B16 require separate disclosure of the aggregated information of associates and joint ventures that are accounted for using the equity method and are not individually material. The Group did not have any immaterial associates or joint ventures. The Group has presented the summarised financial information of the associate based on their NZ IFRS financial statements. NZ IFRS 12.B15 allows this information to be provided using alternative bases.

12. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

NZ IFRS 13.91(a)
NZ IFRS 13.93(a)
NZ IFRS 13.93(b)
NZ IFRS 13.97

Fair value measurement hierarchy for assets as at 31 December 2019:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$000	$000	$000	$000
Assets measured at fair value:					
Investment properties (Note 18):					
Office properties	31 December 2019	4,260	–	–	4,260
Retail properties	31 December 2019	4,633	–	–	4,633
Derivative financial assets (Note 21.4):					
Foreign exchange forward contracts – USD	31 December 2019	492	–	492	–
Foreign exchange forward contracts – GBP	31 December 2019	400	–	400	–
Embedded foreign exchange derivatives – CAD	31 December 2019	210	–	–	210
Listed equity investments (Note 21.4):					
Power sector	31 December 2019	219	219	–	–
Telecommunications sector	31 December 2019	118	118	–	–
Non-listed equity investments (Note 21.4)					
Power sector	31 December 2019	675	–	–	675
Electronics sector	31 December 2019	363	–	–	363
Quoted debt instruments (Note 21.4)					
New Zealand government bonds	31 December 2019	1,378	1,378	–	–
Corporate bonds – consumer products sector	31 December 2019	92	92	–	–
Corporate bonds – technology sector	31 December 2019	152	152	–	–
Revalued property, plant and equipment (Note 17)*					
Office properties in New Zealand	31 January 2019	1,749	–	–	1,749
Discontinued operation (Note 14)	1 October 2019	2,751	–	–	2,751
Assets for which fair values are disclosed (Note 21.4):					
Loan at amortised cost:					
Loan to an associate	31 December 2019	197	–	–	197
Loan to a director	31 December 2019	11	–	–	11

There were no transfers between Level 1 and Level 2 during 2019.

NZ IFRS 13.93(c)

* Due to a change in accounting policy, revaluations of property, plant and equipment were recognised in Level 3 for the first time. Refer to Note 17 for more information.

12. Fair value measurement *continued*

NZ IFRS 13.91(a)
NZ IFRS 13.93(a)
NZ IFRS 13.93(b)
NZ IFRS 13.97

Fair value measurement hierarchy for liabilities as at 31 December 2019:

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$000	$000	$000	$000
Liabilities measured at fair value:					
Derivative financial liabilities (Note 21.4):					
Interest rate swaps	31 December 2019	35	–	35	–
Foreign exchange forward contracts (GBP)	31 December 2019	800	–	800	–
Embedded commodity derivatives (brass)	31 December 2019	600	–	–	600
Embedded commodity derivatives (chrome)	31 December 2019	182	–	–	182
Foreign exchange forward contracts – USD	31 December 2019	90	–	90	–
Commodity derivative (copper)	31 December 2019	980	–	980	–
Contingent consideration liability (Note 8)	31 December 2019	1,072	–	–	1,072
Liabilities for which fair values are disclosed (Note 21.4):					
Interest-bearing loans and borrowings:					
Floating rate borrowings (New Zealand)	31 December 2019	10,420	–	10,420	–
Floating rate borrowings (US)	31 December 2019	2,246	–	2,246	–
Convertible preference shares	31 December 2019	2,766	–	2,766	–
Fixed rate borrowing	31 December 2019	6,321	–	6,321	–

There were no transfers between Level 1 and Level 2 during 2019. *NZ IFRS 13.93(c)*

12. Fair value measurement *continued*

Fair value measurement hierarchy for assets as at 31 December 2018:

	Date of valuation	Total	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$000	$000	$000	$000
Assets measured at fair value:					
Investment properties (Note 18):					
Office properties	31 December 2018	3,824	–	–	3,824
Retail properties	31 December 2018	4,159	–	–	4,159
Derivative financial assets (Note 21.4):					
Foreign exchange forward contracts – USD	31 December 2018	100	–	100	–
Foreign exchange forward contracts – GBP	31 December 2018	53	–	53	–
Listed equity investments (Note 21.4):					
Power sector	31 December 2018	200	200	–	–
Telecommunications sector	31 December 2018	100	100	–	–
Non-listed equity investments (Note 21.4):					
Power sector	31 December 2018	390	–	–	390
Electronics sector	31 December 2018	508	–	–	508
Quoted debt instruments (Note 21.4):					
New Zealand government bonds	31 December 2018	1,200	1,200	–	–
Corporate bonds – consumer products sector	31 December 2018	400	400	–	–
Assets for which fair values are disclosed (Note 21.4):					
Loan to a director	31 December 2018	9	–	–	9

There were no transfers between Level 1 and Level 2 during 2018. *NZ IFRS 13.93(c)*

12. Fair value measurement *continued*

Fair value measurement hierarchy for liabilities as at 31 December 2018 (restated):

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3
		$000	$000	$000	$000
Liabilities measured at fair value:					
Derivative financial liabilities (Note 21.4):					
Foreign exchange forward contracts – USD	31 December 2018	254	–	254	–
Liabilities for which fair values are disclosed (Note 21.4):					
Interest-bearing loans and borrowings:					
Floating rate borrowings (New Zealand)	31 December 2018	11,877	–	11,877	–
Convertible preference shares	31 December 2018	2,621	–	2,621	–
Fixed rate borrowing	31 December 2018	8,944	–	8,944	–

There were no transfers between Level 1 and Level 2 during 2018.

NZ IFRS 13.93(c)

Commentary

NZ IFRS 13.94 requires appropriate determination of classes of assets and liabilities on the basis of:

- The nature, characteristics and risks of the asset or liability; and
- The level of the fair value hierarchy within which the fair value measurement is categorised

The Group has applied the factors and disclosed the quantitative information under NZ IFRS 13 based on the classes of assets and liabilities determined as per NZ IFRS 13.94. As judgement is required to determine the classes of properties, other criteria and aggregation levels for classes of assets may also be appropriate, provided they are based on the risk profile of the assets (e.g., the risk profile of properties in an emerging market may differ from that of properties in a mature market).

Inputs used in a valuation technique may fall into different levels of the fair value hierarchy. However, for disclosure purposes, the fair value measurement must be categorised in its entirety (i.e., depending on the unit of account) within the hierarchy. That categorisation may not be so obvious when there are multiple inputs used. NZ IFRS 13.73 clarifies that the hierarchy categorisation of a fair value measurement, in its entirety, is determined based on the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement and consideration of factors specific to the asset or liability (or group of assets and/or liabilities) being measured and any adjustments made to the significant inputs in arriving at the fair value. These considerations have a follow-on impact to the disclosures of valuation techniques, processes and significant inputs and entities should tailor their disclosures to the specific facts and circumstances.

Tier 2 for-profit entities are not required to disclose, for each class of assets and liabilities measured at fair value, the level of the fair value hierarchy within which the fair value measurements are categorised. However, Tier 2 for-profit entities are required to disclose, for each class of assets and liabilities measured at fair value, the fair value measurements at the end of the period, as well as the valuation techniques and inputs used to develop those measurements.

For assets and liabilities held at the end of the reporting period measured at fair value on a recurring basis, NZ IFRS 13.93(c) requires disclosure of amounts of transfers between Level 1 and Level 2 of the hierarchy, the reasons for those transfers and the entity's policy for determining when the transfers are deemed to have occurred. Transfers into each level must be disclosed and discussed separately from transfers out of each level.

The NZ IFRS 13 measurement and disclosure requirements do not apply to leasing transactions accounted for under NZ IFRS 16.

13. Other income/expense

13.1 Other operating income

	2019 $000	2018 $000	
Government grants (Note 28)	1,053	541	*NZ IAS 20.39(b)*
Gain on derivative instruments at fair value through profit or loss	850	–	*NZ IFRS 7.20(a)(i)*
Net gain on disposal of property, plant and equipment	532	2,007	*NZ IAS 1.97*
Total other operating income	**2,435**	**2,548**	*NZ IAS 1.98*

The net gain on derivative instruments at fair value through profit or loss relates to foreign exchange forward contracts that did not qualify for hedge accounting and embedded derivatives which have been separated.

13.2 Other operating expenses

	2019 $000	2018 $000	
Bid defence costs	579	31	*NZ IAS 1.97*
Cost of disposal of electrical and electronic equipment (Note 27)	102	22	*NZ IAS 1.97*
Loss on derivative instruments at fair value through profit or loss	1,502	–	*NZ IFRS 7.20(a)(i)*
Change in fair value of investment properties (Note 18)	306	300	*NZ IAS 1.97*
Ineffectiveness on forward commodity contracts designated as cash flow hedges (Note 21.3)	65	–	*NZ IFRS 7.24C(b)(ii)*
Total other operating expenses	**2,554**	**353**	

Bid defence costs were incurred in respect of obtaining advice in defending a hostile takeover bid by a competitor. The competitor did not proceed with the bid.

Net loss on derivative instruments at fair value through profit or loss relates to foreign exchange forward contracts that did not qualify for hedge accounting and embedded derivatives which have been separated.

Commentary

NZ IAS 1 does not require an entity to present the results of operating activities as a line item in the income statement. If an entity elects to do so, it must ensure that the amount presented is representative of activities that would normally be regarded as 'operating' (NZ IAS 1.BC56). As NZ IAS 1 does not provide any further guidance on operating profits, an entity needs to apply judgement in developing its own accounting policy under NZ IAS 8.10.

The Group has taken the view that presenting the gains and losses on foreign exchange forward contracts and embedded derivatives in operating income and expenses reflects the economic substance of those transactions as they are entered into to hedge forecast sales and purchases and are, therefore, clearly associated with transactions which are part of the operating income and expenses (NZ IAS 8.10(b)(ii)). Other entities may take alternative views and, hence, there is diversity in practice.

13.3 Finance costs

	2019 $000	2018 $000 Restated	
Interest on debts and borrowings	1,036	1,020	
Interest arising from revenue contracts	109	62	*NZ IFRS 15.65*
Interest on lease liabilities (Note 31)	178	185	
Total interest expense	**1,323**	**1,267**	*NZ IFRS 7.20(b)*
Unwinding of discount and effect of changes in discount rate on provisions (Note 27)	43	1	*NZ IAS 37.60*
Total finance costs	**1,366**	**1,268**	

13. Other income/expenses *continued*

13.4 Finance income

	2019 $000	2018 $000	
Interest income on a loan to an associate	17	–	
Interest income from debt instruments at fair value through OCI	185	145	*NZ IFRS 7.20(b)*
Total finance income	**202**	**145**	

Commentary

Finance income and finance cost are not defined terms in NZ IFRS. Some regulators limit the inclusion of certain income and expense within those items (e.g., restricted to interest income and expense), while other jurisdictions allow additional items to be included.

NZ IFRS 15.65 requires the effects of financing (interest revenue or interest expense) to be presented separately from revenue from contracts with customers in the statement of income. The Group included the interest expense on contract liabilities as part of finance costs.

13.5 Other income

	2019 $000	2018 $000	
Foreign exchange gains on interest-bearing loans and borrowings	57	67	
Fair value gain on equity instruments at fair value through profit or loss	37	9	*NZ IFRS 7.20(a)(i)*
Gain (loss) on sale of debt instruments at fair value through OCI	8	(4)	*NZ IFRS 7.20(a)(viii)*
Dividend income from equity instruments at fair value through OCI	3	–	*NZ IFRS 7.20(a)(vii)*
Impairment loss on debt instruments at fair value through OCI	(7)	(6)	
Total other income	**98**	**66**	

13.6 Depreciation, amortisation, lease payments, foreign exchange differences and costs of inventories

	2019 $000	2018 $000 Restated	
Included in cost of sales:			
Depreciation	3,802	3,063	*NZ IAS 1.104*
Impairment of property, plant and equipment (Note 17)	–	301	*NZ IAS 36.126(a)*
Amortisation and impairment of intangible assets (Note 19)	325	174	*NZ IAS 38.118(d)*
Net foreign exchange differences	(65)	(40)	*NZ IAS 21.52(a)*
Warranty provision (Note 27)	106	52	
Variable lease payments (Note 31)	71	66	*NZ IFRS 16.53(e)*
Expense relating to short-term leases (Note 31)	22	21	*NZ IFRS 16.53(d)*
Costs of inventories recognised as an expense	131,107	121,298	*NZ IAS 2.36(d)*
Included in administrative expenses:			
Depreciation	277	282	*NZ IAS 1.104*
Impairment of goodwill (Note 20)	200	–	*NZ IAS 36.126(a)*
Remeasurement of contingent consideration (Note 8)	358	–	

Commentary

Tier 2 for-profit entities are provided an RDR disclosure concession from NZ IAS 1.104 and are not required to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense, when classifying expenses by function in profit or loss.

However, if any expenses are required to be disclosed by another standard and have not been disclosed elsewhere then they have been disclosed in this note. An example is the amount of inventories recognised as an expense during the period.

13. Other income/expenses and adjustments *continued*

13.7 Employee benefits expense

	2019 $000	2018 $000	NZ IAS 1.104
Included in cost of sales:			
Wages and salaries	7,215	7,172	
Pension costs	350	305	
Post-employment benefits other than pensions	38	28	
Share-based payment expense	103	123	
Included in selling and distribution expenses:			
Wages and salaries	11,984	11,355	
Pension costs	560	496	
Post-employment benefits other than pensions	61	45	
Share-based payment expense	165	197	
Included in cost of administrative expenses:			
Wages and salaries	12,587	8,753	
Pension costs	488	465	
Post-employment benefits other than pensions	54	40	
Share-based payment expense	144	172	NZ IFRS 2.51(a) NZ IFRS 2.RDR 50.1(a)
Total employee benefits expense	**33,749**	**29,151**	

13.8 Research and development costs

The Group's electronics business research and development concentrates on the development of internet-enabled safety equipment. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred (in 2019, this was $2,235,000 (2018: $1,034,000)), and they are recognised in administrative expenses. *NZ IAS 38.126*

13.9 Administrative expenses

	2019 $000	2018 $000 Restated	NZ IAS 1.104
Employee benefits expense (Note 13.7)	13,273	9,430	
Acquisition-related transaction costs	600	–	
Research and development costs	2,235	1,034	
Depreciation	429	430	
Expected credit losses of trade receivables and contract assets (Note 23)	185	76	
Impairment of goodwill (Note 20)	200	–	
Expense relating to leases of low-value assets (Note 31)	18	17	
Remeasurement of contingent consideration (Note 8)	358	–	
Other administrative expenses	992	1,024	
Total administrative expenses	**18,290**	**12,011**	

14. Discontinued operations

On 1 October 2019, the Group publicly announced the decision of its Board of Directors to sell Hose Limited, a wholly owned subsidiary. On 14 November 2019, the shareholders of the Company approved the plan to sell. The sale of Hose Limited is expected to be completed within a year from the reporting date. At 31 December 2019, Hose Limited was classified as a disposal group held for sale and as a discontinued operation. *NZ IFRS 5.30* *NZ IFRS 5.41*

The business of Hose Limited represented the entirety of the Rubber Equipment operating segment until 1 October 2019. *NZ IFRS 5.41(d)*

With Hose Limited being classified as a discontinued operation, the Rubber Equipment segment is no longer presented in the segment note. The results of Hose Limited for the year are presented below:

	2019 $000	2018 $000	
			NZ IFRS 5.33(b)(i)
Revenue from contracts with customers	42,809	45,206	
Expenses	(41,961)	(44,880)	
Operating income	848	326	
Finance costs	(525)	(519)	
Impairment loss recognised on the re-measurement to fair value less costs to sell	(110)	–	*NZ IFRS 5.33 (b)(iii)*
Profit/(loss) before tax from a discontinued operation	213	(193)	
Tax benefit/(expense):			
Related to pre-tax profit/(loss) from the ordinary activities for the period	(26)	5	*NZ IAS 12.81(h)(ii)*
Related to measurement to fair value less cost to sell	33	–	*NZ IAS 12.81(h)(i)*
Profit/(loss) for the year from a discontinued operation	**220**	**(188)**	

The major classes of assets and liabilities of Hose Limited classified as held for sale as at 31 December are, as follows: *NZ IFRS 5.38*

	2019 $000	
		NZ IFRS 5.40
Assets		
Intangible assets (Note 19)	135	
Property, plant and equipment (Note 17)	4,637	
Debtors	7,180	
Equity investments – non-listed	308	
Cash and short-term deposits (Note 24)	1,294	
Assets held for sale	13,554	
Liabilities		
Creditors	(7,241)	
Deferred tax liability	(75)	
Interest-bearing liabilities (Note 21.2)	(5,809)	
Liabilities directly associated with assets held for sale	(13,125)	
Net assets directly associated with disposal group	**429**	
Amounts included in accumulated OCI:		
Fair value reserve of equity investments – non listed	66	*NZ IFRS 5.38*
Deferred tax on fair value reserve	(20)	
Reserve of disposal group classified as held for sale	**46**	

The net cash flows incurred by Hose Limited are, as follows: *NZ IFRS 5.33(c)*

	2019 $000	2018 $000
Operating	(1,999)	3,192
Investing	–	–
Financing	(436)	(335)
Net cash (outflow)/inflow	**(2,435)**	**2,857**

14. Discontinued operations *continued*

Earnings per share:	2019	2018	
Basic, profit/(loss) for the year from discontinued operation	$0.01	($0.01)	*NZ IAS 33.68*
Diluted, profit/(loss) for the year from discontinued operation	$0.01	($0.01)	

Interest-bearing liabilities comprise a fixed rate bank loan of $5,809,000 having an effective interest rate of 7.5% that is repayable in full on 1 January 2020. *NZ IFRS 7.7*

Commentary

NZ IFRS 5 specifies certain disclosures required in respect of discontinued operations and non-current assets held for distribution. NZ IFRS 5.5B states that the requirements of other standards do not apply to discontinued operations, unless the other standards specify disclosures that are applicable to them.

NZ IFRS 12.B17 clarifies that disclosures of summarised information specified in NZ IFRS 12.B10-B16 are not required when an entity's interest in a subsidiary, joint venture or associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with NZ IFRS 5. The disclosure requirements in NZ IFRS 12 apply to an entity's held-for-sale interests. The Group concluded that there is no additional information that it needs to disclose about its wholly-owned subsidiary, Hose limited, which is classified as disposal group held for sale as at 31 December 2019.

NZ IAS 33.68A provides an option to present the earnings per share from discontinued operations in either on the face of the statement of profit or loss or in the notes. The Group has opted to present the earnings per share from discontinued operations in the notes.

Please note, Tier 2 for-profit entities must comply with all the provisions of NZ IAS 33. The limited scope of NZ IAS 33 (para 2) means that Tier 2 entities would not be in the scope of NZ IAS 33.

Write-down of property, plant and equipment

Immediately before the classification of Hose Limited as a discontinued operation, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified. Following the classification, a write-down of $110,000 (net of tax $77,000) was recognised on 1 October 2019 to reduce the carrying amount of the assets in the disposal group to the fair value less costs to sell. This was recognised in discontinued operations in the statement of profit or loss. The fair valuation hierarchy is provided in Note 12. *NZ IFRS 5.33(b)(iii)* *NZ IFRS 5.33(b)(iv)*

As at 31 December 2019, there was no further write-down as the carrying amount of the disposal group did not fall below its fair value less costs to sell.

Investment in non-listed equity shares

The discontinued operation includes an investment in non-listed equity shares (Level 3 in the fair value hierarchy) of Electronic Test Ltd with a carrying amount of $308,000. The collaboration with Electronic Test Ltd is closely related with the discontinued operation of Hose Limited and was therefore reclassified as part of the discontinued operations. This investment is classified as equity instruments designated at fair value through OCI. The Group did not pledge the financial assets nor receive any collateral for it. As at the reporting date, the carrying amount equals the fair value of the instrument. Refer to Note 21.4 for the details on the recognition, measurement, valuation techniques and inputs used for this investment. *NZ IFRS 7.14* *NZ IFRS 7.15* *NZ IFRS 7.25* *NZ IFRS 7.8(d)*

Reconciliation of fair value measurement of the investment in non-listed equity shares: *NZ IFRS 13.93(e)*

	$000
As at 1 January 2018	304
Sales	–
Purchases	–
Total gains and losses recognised in OCI	4
As at 1 January 2019 and 1 October 2019	**308**
Sales	–
Purchases	–
Total gains and losses recognised in OCI	–
As at 31 December 2019	**308**

There were no gains or losses recognised in profit or loss or in OCI with respect to these assets. Refer to Note 21.5 for details on the nature and extent of risks arising from financial instruments. *NZ IFRS 13.93(f)*

14. Discontinued operations *continued*

Commentary

Tier 2 for-profit entities are not given a disclosure concession from NZ IFRS 7.14 and therefore are required to disclose:

(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of NZ IFRS 9; and

(b) the terms and conditions relating to its pledge.

NZ IFRS 5 explains that disclosures in other standards do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those other standards require:

- Specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations
- Disclosures about the measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirements of NZ IFRS 5 and such disclosures are not already provided in the other notes to the financial statements

The requirement in the second bullet above reflects the fact that such assets continue to be measured in accordance with the specific standard dealing with them. In practice, much of the requirements will be satisfied by the disclosure of accounting policies. The requirement for other disclosures will depend on the standard concerned. The illustration above reflects this circumstance, as the non-listed equity instruments is a financial instrument as defined in NZ IFRS 9 and is therefore scoped out of the measurement requirements of NZ IFRS 5.

While, the assets of discontinued operations are non-recurring fair value measurements under NZ IFRS 13.93(a), equity instruments designated at fair value through OCI held by the discontinued operations are recurring fair value measurements since they are required to be measured at fair value at the end of each reporting period.

15. Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are: *NZ IAS 12.79*

Consolidated profit or loss

	2019 $000	2018 $000 Restated	
Current income tax:			
Current income tax charge	2,883	2,770	*NZ IAS 12.80(a)*
Adjustments in respect of current income tax of previous year	(18)	(44)	*NZ IAS 12.80(b)*
Deferred tax:			
Relating to origination and reversal of temporary differences	233	(493)	*NZ IAS 12.80(c)*
Income tax expense reported in the statement of profit or loss	**3,098**	**2,233**	

Consolidated other comprehensive income

Deferred tax related to items recognised in OCI during the year:			
Net gain/(loss) on cash flow hedges	265	(10)	*NZ IAS 1.90*
Net change in costs of hedging	10	-	*NZ IAS 12.81(ab)*
Net loss on debt instruments at fair value through OCI	6	-	
Net (gain)/loss on equity instruments designated at fair value through OCI	8	(3)	
Revaluation of office properties in New Zealand	(254)	–	
Net gain on hedge of net investment	(83)	–	
Remeasurement (gain)/loss on actuarial gains and losses	(110)	117	
Deferred tax charged to OCI	**(158)**	**104**	

15. Income tax *continued*

Commentary

NZ IAS 1.90 only requires an entity disclose the amount of income tax relating to each item of OCI either in the statement of OCI or in the notes.

Tier 2 for-profit entities are required to disclose the aggregate amount of current and deferred income tax relating to items recognised in OCI.

Deferred taxes related to the revaluation of office properties in New Zealand have been at the tax rate of the jurisdiction in which they are located (30% of the total revaluation of $846,000, see Note 17).

The tax effect of cash flow hedge instruments reflects the change in balances from 2018 to 2019 only for the effective portion (ineffectiveness has been accounted for directly in profit or loss). The reconciliation of these changes to the notes is difficult to directly observe. For illustrative purposes, a reconciliation is provided below (please note that the net change is also included in the statement of comprehensive income).

	Assets		Liabilities	
	2019	2018	2019	2018
	$000	$000	$000	$000
Foreign exchange forward contract assets (Note 21.1)	252	153	–	–
Foreign exchange forward contract liabilities (Note 21.2)	–	–	170	254
Commodity forward contract (Note 21.2)	–	–	980	–
Ineffectiveness of commodity contract (Note 13.2)	–	–	(65)	–
Amount transferred to inventories (Note 21.3)	–	–	183	–
Total balances	252	153	1,268	254
Net variation in OCI	99		1,014	
Net increase of cash flow hedge balances during 2019 (net liability and net loss)			915	
Tax rate			30%	

Reconciliation of tax expense and the accounting profit multiplied by New Zealand's company tax rate for 2018 and 2019:

NZ IAS12.81 (cXi)

	2019	2018
	$000	$000
		Restated
Accounting profit before tax from continuing operations	11,108	8,880
Profit/(loss) before tax from a discontinued operation	213	(193)
Accounting profit before income tax	**11,321**	**8,687**
At statutory income tax rate of 30% (2018: 30%)	3,396	2,606
Adjustments in respect of current income tax of previous years	(18)	(44)
Government grants exempted from tax	(316)	(162)
Utilisation of previously unrecognised tax losses	(231)	(89)
Share of results of associates and joint ventures	(201)	(191)
Non-deductible expenses for tax purposes:		
Impairment of goodwill	60	–
Contingent consideration remeasurement (Note 8)	107	–
Other non-deductible expenses	10	–
Effect of higher tax rates in the United States	284	108
At the effective income tax rate of 27% (2018: 26%)	**3,091**	**2,228**
Income tax expense reported in the statement of profit or loss	3,098	2,233
Income tax attributable to a discontinued operation	(7)	(5)
	3,091	**2,228**

15. Income tax *continued*

Commentary

The tax effects above can be reconciled using a 30% tax rate applied to the amounts in the following notes:

- Government grants (Note 28) upon recognition in the statement of profit or loss
- Unrecognised tax losses using the change in the amount mentioned in Note 3 under the section headed *Taxes*
- Impairment of goodwill in Note 20 and contingent consideration expense in Note 8.

Please note although these illustrative financial statements refer to a statutory income tax rate of 30%, this rate is used merely for illustrative purposes and is not intended to reflect the actual statutory income tax rate for New Zealand companies.

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss		
	2019	2018	2019	2018	*NZ IAS 12.81(gX(i)* *NZ IAS 12.81(gX(ii)*
	$000	$000 Restated	$000	$000 Restated	
Accelerated depreciation for tax purposes	(2,838)	(599)	723	(298)	
Revaluations of investment properties to fair value	(1,330)	(1,422)	(92)	(90)	
Revaluations of office properties in New Zealand to fair value	(254)	–	–	–	
Revaluations of equity instruments to fair value through profit or loss	(16)	(5)	11	3	
Revaluations of financial assets at fair value through OCI	13	(4)	–	–	
Revaluation of forward contracts and embedded derivatives	196	-	(196)	–	
Revaluation of a hedged loan to fair value	(11)	–	11	–	
Net gain on hedge of a net investment	(83)	–	–	–	
Share based payments	51	100	49	–	
Post-employment medical benefits	102	59	(43)	(33)	
Pension	813	834	89)	55	
Revaluation of an interest rate swap (fair value hedge) to fair value	11	–	(11)	–	
Revaluation of cash flow hedges	270	30	35	–	
Expected credit losses of debt financial assets	110	70	(40)	3	
Contract liabilities for customer loyalty points	270	203	(67)	(199)	
Leases	76	72	(4)	(20)	
Convertible preference shares	91	55	(36)	(31)	
Losses available for offsetting against future taxable income	383	365	(18)	(44)	
Deferred tax expense/(income)			**233**	**(654)**	
Net deferred tax assets/(liabilities)	**(2,146)**	**(242)**			
Reflected in the statement of financial position as follows:					
Deferred tax assets	383	365			
Deferred tax liabilities:					
Continuing operations	(2,454)	(607)			
Discontinued operations	(75)	–			
Deferred tax liabilities, net	**(2,146)**	**(242)**			

Commentary

The Group's lease payments are deductible upon payment for tax purposes. In accounting for the deferred tax relating to the lease, the Group considers both the lease asset and liability separately. The Group separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and temporary differences.

5. Income tax *continued*

Reconciliation of deferred tax liabilities, net

	2019 $000	2018 $000 Restated
As of 1 January	**(242)**	**(459)**
Tax income/(expense) during the period recognised in profit or loss	(233)	493
Tax income/(expense) during the period recognised in OCI	(158)	104
Discontinued operation	(2)	–
Deferred taxes acquired in business combinations	(1,511)	(380)
As at 31 December	**(2,146)**	**(242)**

Commentary

Although not specifically required by NZ IAS 1 or NZ IAS 12, the reconciliation of the net deferred tax liability may be helpful.

As in some other disclosures included in this note, the cross reference with the amounts from which they are derived is not direct. Nevertheless, the reasonableness of each balance may be obtained from the respective notes by applying a 30% tax rate. The exception being the accelerated depreciation for tax purposes whose change during the year is mainly explained by the acquisition of Extinguishers Limited (see Note 8).

The Group has tax losses which arose in New Zealand of $427,000 (2018: $1,198,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. *NZ IAS 12.81(e)*

Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future. If the Group were able to recognise all unrecognised deferred tax assets, the profit would increase by $128,000 (2018: $359,400). *NZ IAS 12.37* *NZ IAS 12.81(e)*

The temporary differences associated with investments in the Group's subsidiaries, associate and joint venture, for which a deferred tax liability has not been recognised, aggregate to $1,745,000 (2018: $1,458,000). The Group has determined that undistributed profits of its subsidiaries, joint venture or associate will not be distributed in the foreseeable future. The Group has an agreement with its associate that the profits of the associate will not be distributed until it obtains the consent of the Group. The parent Group does not foresee giving such a consent being given at the reporting date. Furthermore, the Group's joint venture did will not distribute its profits until it obtains the consent from all venture partners. *NZ IAS 12.81(f)*

There are no income tax consequences attached to the payment of dividends in either 2019 or 2018 by the Group to its shareholders. *NZ IAS 12.82A*

Commentary

NZ IAS 1.61 requires an entity to separately disclose the line items that are included in the amounts expected to be recovered or settled within 12 months and more than 12 months after the reporting date. Deferred tax assets and liabilities may be considered one example, for items combining such amounts. However, NZ IAS 1.56, in contrast, does not permit presentation of these items as current, which suggests that providing the disclosures required by IAS 1.61 does not apply to deferred tax assets and liabilities. Therefore, the Group did not provide disclosures of the expected recovery and settlement of its deferred tax assets.

16. Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	2019 $000	2018 $000 Restated	
Profit attributable to ordinary equity holders of the parent:			
Continuing operations	7,722	6,408	
Discontinued operation	220	(188)	
Profit attributable to ordinary equity holders of the parent for basic earnings	**7,942**	**6,220**	*NZ IAS 33.70(a)*
Interest on convertible preference shares	247	238	
Profit attributable to ordinary equity holders of the parent adjusted for the effect of dilution	**8,189**	**6,458**	*NZ IAS 33.70(a)*

	2019 Thousands	2018 Thousands	*NZ IAS 33.70(b)*
Weighted average number of ordinary shares for basic EPS*	20,797	19,064	
Effect of dilution:			
Share options	112	177	
Convertible preference shares	833	833	
Weighted average number of ordinary shares adjusted for the effect of dilution *	**21,742**	**20,074**	*NZ IAS 33.70(b)*

** The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.* *NZ IAS 33.70(d)*

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

To calculate the EPS for discontinued operation (Note 14), the weighted average number of ordinary shares for both the basic and diluted EPS is as per the table above. The following table provides the profit/(loss) amount used:

	2019 $000	2018 $000
Profit/(loss) attributable to ordinary equity holders of the parent from discontinued operation for the basic and diluted EPS calculations	**220**	**(188)**

Commentary

Tier 2 for-profit entities must comply with all the provisions of NZ IAS 33. The limited scope of NZ IAS 33 (para 2) means that Tier 2 entities would not be in the scope of NZ IAS 33.

17. Property, plant and equipment

	Freehold land and buildings	Office properties in New Zealand	Construc-tion in progress	Plant and equipment	Other equipment	Total	NZ IAS 1.78(a)
	$000	$000	$000	$000	$000	$000	
Cost or valuation							
At 1 January 2018 (as restated)	10,765	1,122	–	17,657	5,500	35,044	NZ IAS 16.73(e)
Additions (as restated)	1,587	–	–	6,048	150	7,785	NZ IAS 16.RDR 73.1
Acquisition of a subsidiary (Note 8)	1,280	–	–	–	–	1,280	NZ IAS 16.73(d)
Disposals	(3,381)	–	–	(49)	–	(3,430)	
Exchange differences	10	–	–	26	–	36	
At 31 December 2018 (as restated)	**10,261**	**1,122**	**–**	**23,682**	**5,650**	**40,715**	NZ IAS 16.73(c)
Additions	1,612	–	4,500	4,403	190	10,705	
Acquisition of a subsidiary (Note 8)	2,897	–	–	4,145	–	7,042	
Disposals	–	–	–	(4,908)	–	(4,908)	
Assets held for sale (Note 14)	(4,144)	–	–	(3,980)	–	(8,124)	
Revaluation adjustment	–	846	–	–	–	846	NZ IFRS 13.93(e)(ii)
Transfer*	–	(219)	–	–	–	(102)	NZ IAS 16.35(b)
Exchange differences	30	–	–	79	–	109	NZ IAS 16.73(e)(viii)
At 31 December 2019	**10,656**	**1,749**	**4,500**	**23,421**	**5,840**	**46,283**	
Depreciation and impairment							
At 1 January 2018 (as restated)	4,061	99	–	11,044	900	16,104	NZ IAS 16.73(c)
Depreciation charge for the year (as restated)	351	3	–	2,278	450	3,082	NZ IAS 16.RDR 73.1
Impairment (Note 20)	–	–	–	301	–	301	NZ IAS 16.73(c)
Disposals	(3,069)	–	–	(49)	–	(3,118)	
Exchange differences	5	–	–	12	–	17	NZ IAS 16.73(e)(viii)
At 31 December 2018 (as restated)	**1,348**	**102**	**–**	**13,586**	**1,350**	**16,386**	NZ IAS 16.73(c)
Depreciation charge for the year**	383	117	–	2,827	470	3,797	
Disposals	–	–	–	(3,450)	–	(3,450)	
Assets held for sale (Note 14)	(1,283)	–	–	(2,094)	–	(3,377)	
Transfer*	–	(219)	–	–	–	(219)	
Exchange differences	20	–	–	30	–	50	NZ IAS 16.73(e)(viii)
At 31 December 2019	**468**	**–**	**–**	**10,899**	**1,820**	**13,187**	NZ IAS 16.73(c)
Net book value							
At 31 December 2019	10,188	1,749	4,500	12,522	4,020	32,979	
At 31 December 2018	8,913	1,020	–	10,096	4,300	24,329	NZ IAS 16.RDR 73.1

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

** Depreciation for the year excludes an impairment loss of $110,000 (see Note 14).

Commentary

If a lessee does not present right-of-use assets separately in the statement of financial position, IFRS 16.47 requires that the right-of-use assets be included within the same line item as that within which the corresponding underlying assets would be presented if they were owned. If the Group had included its right-of-use assets within property, plant and equipment, a column for the right-of-use assets would be included in the above table with a cross-reference to the details in Note 31.

Tier 2 for-profit entities are not required to disclosure the reconciliation specified by NZ IAS 16.73(e) for prior periods. However, Tier 2 for-profit entities are required to disclose the gross carrying amount and the accumulated depreciation at the beginning and end of the period, with prior period comparatives in accordance with NZ IAS 16.73(d). *NZ IAS 16.RDR 73.1*

17. Property, plant and equipment *continued*

NZ IAS 36.126(a)

In 2018, the impairment loss of $301,000 represented the write-down of certain property, plant and equipment in the fire prevention segment to the recoverable amount as a result of technological obsolescence. This was recognised in the statement of profit or loss as cost of sales.

NZ IAS 36.130

The recoverable amount of $5,679,000 as at 31 December 2018 was based on value in use and was determined at the level of the CGU. The CGU consisted of the New Zealand-based assets of Sprinklers Limited, a subsidiary. In determining value in use for the CGU, the cash flows were discounted at a rate of 12.4% on a pre-tax basis.

Capitalised borrowing costs

NZ IAS 23.26(a)

The Group started the construction of a new fire safety facility in February 2019. This project is expected to be completed in February 2020. The carrying amount of the fire safety facility at 31 December 2019 was $3,000,000 (2018: Nil). The fire safety facility is financed by a third party in a common arrangement.

The amount of borrowing costs capitalised during the year ended 31 December 2019 was $303,000 (2018: Nil).

NZ IAS 23.26(b)

The rate used to determine the amount of borrowing costs eligible for capitalisation was 11%, which is the EIR of the specific borrowing.

Land and buildings

NZ IAS 16.74(a)

Land and buildings with a carrying amount of $7,400,000 (2018: $5,000,000) are subject to a first charge to secure two of the Group's bank loans.

Assets under construction

NZ IAS 16.74(b)

Included in property, plant and equipment at 31 December 2019 was an amount of $1,500,000 (2018: Nil) relating to expenditure for a plant in the course of construction.

Equipment received from customers

NZ IAS 16.73(a)
NZ IFRS 15.66
NZ IFRS 15.69

In 2019, the Group recognised $190,000 (2018: $150,000) of equipment from customers to be utilised in the production process. The initial gross amount was estimated at fair value by reference to the market price of these assets on the date in which control is obtained.

Revaluation of office properties in New Zealand

NZ IFRS 13.94

Management determined that the office properties in New Zealand constitute a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

NZ IAS 16.77e)

If the office properties in New Zealand were measured using the cost model, the carrying amounts would be, as follows:

	2019 $000
Cost	1,122
Accumulated depreciation and impairment	(105)
Net carrying amount	**1,017**

Fair value of the properties was determined by using the market comparable method.

NZ IFRS 13.91(a)
NZ IFRS 13.93(d)

The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of a similar nature, location and condition.

NZ IAS 16.77(b)

As at the dates of revaluation on 1 January and 31 December 2019, the properties' fair values are based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer who has valuation experience for similar office properties in New Zealand since 2010. A net gain from the revaluation of the office properties in New Zealand of $846,000 in 2019 was recognised in OCI.

Fair value measurement disclosures for the revalued office properties are provided in Note 12.

NZ IFRS 13.91(a)
NZ IFRS 13.93(h)(i)

Significant unobservable valuation input:	Range
Price per square metre	$325 – $350

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

Disposals of property, plant and equipment

NZ IAS 16.68A
NZ IAS 16.71
NZ IAS 16.72

In 2019, the Group sold equipment with a total net carrying amount of $1,458,000 for a cash consideration of $1,990,000. In 2018, the Group sold freehold land and a building with a net carrying amount of $312,000 for a cash consideration of $2,319,000. The net gains on these disposals were recognised as part of other operating income in the statement of profit or loss (Note 13).

17. Property, plant and equipment *continued*

Reconciliation of carrying amount:	$000	NZ IFRS 13.93(e)
Carrying amount as at 1 January 2019*	**1,020**	
Level 3 revaluation gain recognised due to change in accounting policy to revaluation model as at 1 January 2019	1,210	
Carrying amount and fair value as at 1 January 2019	**2,230**	
Depreciation for the year	(117)	
Level 3 revaluation loss on revaluation as at 31 December 2019	(36)	
Carrying amount and fair value as at 31 December 2019	**1,749**	

*The Group changed the accounting policy with respect to the measurement of office properties in New Zealand as at 1 January 2019 on a prospective basis. Therefore, the fair value of the office properties in New Zealand was not measured at 1 January 2018.

Commentary

The Group has changed its accounting policy to measure the office properties in New Zealand at the revalued amount in accordance with NZ IAS 16. Under NZ IAS 16.36, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued. NZ IAS 16.37 defines a class of property, plant and equipment as a grouping of assets of similar nature and use in an entity's operations. The Group determined that office properties in New Zealand constitute a separate class of property, plant and equipment, based on their nature, characteristics and risks.

Under NZ IAS 16.31, the revalued amount of an item of property, plant and equipment is its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. Due to significant volatility of the fair value of office properties in New Zealand during 2019, the Group performed a revaluation as at 31 December 2019.

Fair value was determined using the market comparable method. This means that valuations performed are based on prices of transactions involving properties of a similar nature, location and condition. Since this valuation was performed using a significant non-observable input, the fair value was classified as a Level 3 measurement.

Since revaluations of property, plant and equipment in accordance with NZ IAS 16 represent a recurring fair value measurement, the Group disclosed the information required by NZ IFRS 13.93 for recurring fair value measurements. The disclosures provided are based on Example 17 from the Illustrative examples to NZ IFRS 13 *Fair Value Measurement*. It is assumed in these illustrative financial statements that only one unobservable input, price per square metre, was used by the valuers. In practice, the market comparable method may require the use more than one unobservable input. In such cases, the disclosures would cover the additional significant unobservable inputs.

NZ IFRS 13.99 requires an entity to present the quantitative disclosures of NZ IFRS 13 in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in a tabular format.

18. Investment properties

	2019	2018	NZ IAS 40.76 NZ IAS 40.RDR 76.1
	$000	$000	
Opening balance at 1 January	7,983	7,091	
Additions (subsequent expenditure)	1,216	1,192	NZ IAS 40.RDR 76.2
Net loss from fair value remeasurement	(306)	(300)	
Closing balance at 31 December	**8,893**	**7,983**	

Commentary

Tier 2 for-profit entities are not required to disclosure the reconciliation specified by NZ IAS 40.76 for prior periods. *NZ IAS 40.RDR 76.1*

Tier 2 for-profit entities are not required to disclose separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset in accordance with NZ IAS 40.76(a). *NZ IAS 40.RDR 76.2*

The Group's investment properties consist of two commercial properties in New Zealand. Management determined that the investment properties consist of two classes of assets – office and retail – based on the nature, characteristics and risks of each property.

As at 31 December 2019 and 2018, the fair values of the properties are based on valuations performed by Chartered Surveyors & Co., an accredited independent valuer. Chartered Surveyors & Co. is a specialist in valuing these types of investment properties. The valuation model in accordance with that recommended by the Property Institute of New Zealand has been applied.

18. Investment properties *continued*

	2019	2018	NZ IAS 40.75(f)
	$000	$000	
Rental income derived from investment properties	1,404	1,377	
Direct operating expenses (including repairs and maintenance) generating rental income	(101)	(353)	NZ IAS 40.75(f)(ii)
Direct operating expenses (including repairs and maintenance) that did not generate rental income (included in cost of sales)	(37)	(127)	NZ IAS 40.75(f)(iii)
Profit arising from investment properties carried at fair value	**1,266**	**897**	

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements. *NZ IAS 40.75(g)* *NZ IAS 40.75(h)*

Fair value hierarchy disclosures for investment properties have been provided in Note 12.

Reconciliation of fair value:

	Investment properties		
	Office properties	Retail properties	
	$000	$000	
As at 1 January 2018	**3,397**	**3,694**	
Remeasurement recognised in profit or loss	(144)	(156)	
Purchases	571	621	NZ IFRS 13.93(e)(i)
As at 31 December 2018	**3,824**	**4,159**	NZ IFRS 13.93(e)(iii)
Remeasurement recognised in profit or loss (in other operating expenses)	(147)	(159)	NZ IFRS 13.93(f)
Purchases	582	634	
As at 31 December 2019	**4,260**	**4,633**	

Description of valuation techniques used and key inputs to valuation on investment properties: *NZ IFRS 13.91(a)* *NZ IFRS 13.93(d)*

	Valuation technique	Significant unobservable Inputs	Range (weighted average) 2019	2018
Office properties	DCF method (refer below)	Estimated rental value per sqm per month	$10 - $25 ($20)	$9- $23 ($16)
		Rent growth p.a.	1.75%	1.76%
		Long-term vacancy rate	3% - 10% (5%)	3% - 9% (4%)
		Discount rate	6.5%	6.3%
Retail properties	DCF method (refer below)	Estimated rental value per sqm per month	$15 - $35 ($22)	$14 - $33 ($21)
		Rent growth p.a.	1%	1.2%
		Long-term vacancy rate	4% - 12% (7%)	4% - 13% (8.5%)
		Discount rate	6.5%	6.3%

18. Investment properties *continued*

Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate. *NZ IFRS13.93(h)(i)*

Commentary

The Group has elected to value investment properties at fair value in accordance with NZ IAS 40.

If, for recurring and non-recurring fair value measurements, the highest and best use of a non-financial asset differs from its current use, an entity must disclose that fact and the reason why the asset is being used in a manner that differs from its highest and best use (NZ IFRS 13.93(i)). The Group has assessed that the highest and best use of its properties do not differ from their current use. An example of what might be disclosed if the highest and best use of the Group's retail property is determined to be other than its current use is, as follows:

- *The Group has determined that the highest and best use of the property used for office space is its current use.*
- *The highest and best use of the retail property at the measurement date would be to convert the property for residential use. For strategic reasons, the property is not being used in this manner.*

In addition to the disclosure requirements in NZ IFRS 13, NZ IAS 1 requires disclosure of the significant judgement management has made about the future and sources of estimation uncertainty. NZ IAS 1.129(b) includes, as an example of such a disclosure, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity. As such, information beyond that required by NZ IFRS 13.93(h) may be needed in some circumstances.

NZ IAS 40 permits investment properties to be carried at historical cost less accumulated depreciation and any accumulated impairment losses. If the Group accounted for investment properties at cost, information about the cost basis and depreciation rates (similar to the requirement under NZ IAS 16 for property, plant and equipment) would be required.

NZ IAS 40.79(e) requires disclosure of fair value of the properties. For the purpose of this disclosure, the fair value is required to be determined in accordance with NZ IFRS 13.

Also, in addition to the disclosures under NZ IAS 40, NZ IFRS 13.97 requires disclosure of:

- The level at which fair value measurement is categorised i.e. Level 1, 2 or 3
- A description of valuation technique and inputs, for Level 2 or Level 3 fair value measurement
- If the highest and best use differs from the current use of the asset, that fact and the reason

NZ IFRS 13.99 requires an entity to present the quantitative disclosures of NZ IFRS 13 to be included in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in tabular format, above.

19. Intangible assets

	Develop-ment costs	Patents and licences with definite useful life	Licences with indefinite useful life	Goodwill	Total	
	$000	$000	$000	$000	$000	*NZ IAS 38.118(e)*
Cost						
At 1 January 2018	1,585	395	240	119	2,339	*NZ IAS 38.118(c)*
Additions – internally developed	390	–	–	–	390	*NZ IAS 38.RDR 118.1*
Acquisition of a subsidiary (restated*)	–	–	–	131	131	
At 31 December 2018	**1,975**	**395**	**240**	**250**	**2,860**	*NZ IAS 38.118(c)*
Additions – internally developed	587	–	–	–	587	
Acquisition of a subsidiary	–	30	1,170	2,231	3,431	
Assets held for sale	–	(138)	–	–	(138)	
At 31 December 2019	**2,562**	**287**	**1,410**	**2,481**	**6,740**	*NZ IAS 38.118(c)*
Amortisation and impairment						
At 1 January 2018	165	60	–	–	225	*NZ IAS 38.118(c)*
Amortisation	124	50		–	174	*NZ IAS 38.RDR 118.1*
At 31 December 2018	**289**	**110**	**–**	**–**	**399**	*NZ IAS 38.118(c)*
Amortisation	95	30	–	–	125	
Impairment (Note 20)	–	–	–	200	200	
Assets held for sale	–	(3)	–	–	(3)	
At 31 December 2019	**384**	**137**	**–**	**200**	**721**	*NZ IAS 38.118(c)*
Net book value						
At 31 December 2019	2,178	150	1,410	2,281	6,019	
At 31 December 2018 (restated*)	1,686	285	240	250	2,461	*NZ IAS 38.RDR 118.1*

* The amount of goodwill is restated and does not correspond to the figures in 2018 financial statements since the adjustments to the final valuation of acquisition of Lightbulbs Limited are made, as detailed in Note 8.

Commentary

Tier 2 for-profit entities are not required to disclosure the reconciliation specified by NZ IAS 38.118(e) for prior periods. However, Tier 2 for-profit entities are required to disclose the gross carrying amount and any accumulated amortisation at the beginning and end of the period, with prior period comparatives in accordance with NZ IAS 38.118(c). *NZ IAS 38.RDR 118.1*

There are two fire prevention research and development projects. One is to improve fire detection and sprinkler systems and the other is related to fire-retardant fabrics for motor vehicles and aircraft.

Acquisition during the year

Patents and licences include intangible assets acquired through business combinations. The patents have been granted for a minimum of 10 years by the relevant government agency, while licences have been acquired with the option to renew at the end of the period at little or no cost to the Group. Previous licences acquired have been renewed and have allowed the Group to determine that these assets have indefinite useful lives.

As at 31 December 2019, these assets were tested for impairment (Note 20).

20. Goodwill and intangible assets with indefinite useful lives

For the purpose of impairment testing, goodwill acquired through business combinations and licences with indefinite useful lives are allocated to the electronics and fire prevention equipment CGUs, which are also operating and reportable segments.

NZ IAS 36.134(a)
NZ IAS 36.134(b)

Carrying amount of goodwill and licences allocated to each of the CGUs:

	Electronics unit		Fire prevention equipment unit		Total	
	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000
Goodwill	50	250	2,231	–	2,281	250
Licences	360	–	1,050	240	1,410	240

The Group performed its annual impairment test in December 2019 and 2018. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2019, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill and impairment of the assets of the operating segments. In addition, the overall decline in construction and development activities around the world as well as the ongoing economic uncertainty have led to a decreased demand in both the Fire prevention equipment and Electronics CGUs.

NZ IAS 36.130(a)

Electronics CGU

The recoverable amount of the Electronics CGU of $37,562,000 as at 31 December 2019, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to cash flow projections is 15.5% (2018: 12.1%) and cash flows beyond the five-year period are extrapolated using a 3.0% growth rate (2018: 5.0%) that is the same as the long-term average growth rate for the electronics industry. It was concluded that the fair value less costs of disposal did not exceed the value in use.

NZ IAS 36.130(e)
NZ IAS 36.134(d)(iii)
NZ IAS 36.134(d)(iv)
NZ IAS 36.134(d)(v)

As a result of this analysis, management has recognised an impairment charge of $200,000 against goodwill with a carrying amount of $250,000 as at 31 December 2018. The impairment charge is recorded within administrative expenses in the statement of profit or loss.

NZ IAS 36.126(a)

Fire prevention equipment CGU

The recoverable amount of the Fire prevention equipment is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to the cash flow projections is 14.4% (2018: 12.8%). The growth rate used to extrapolate the cash flows of the unit beyond the five-year period is 2.9% (2018: 3.8%). This growth rate exceeds the industry average growth rate by 0.75%. Management of the Fire prevention equipment unit believes this growth rate is justified based on the acquisition of Extinguishers Limited. This acquisition has resulted in the Group obtaining control of an industry patent, thereby preventing other entities from manufacturing a specialised product for a period of 10 years. The Group has an option to renew the patent after the 10 years have expired. As a result of the updated analysis, management did not identify an impairment for this CGU.

NZ IAS 36.130(e)
NZ IAS 36.134 (d)(iii)
NZ IAS 36.134 (d)(iv)
NZ IAS 36.134 (d)(v)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for both electronics and fire prevention equipment units is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Raw materials price inflation
- Market share during the forecast period
- Growth rates used to extrapolate cash flows beyond the forecast period

NZ IAS 36.134 (d)(i)
NZ IAS 36.134 (d)(ii)
NZ IAS 36.134 (f)
NZ IAS 36.134 (f)(i)
NZ IAS 36.134 (f)(ii)
NZ IAS 36.134 (f)(iii)

20. Goodwill and intangible assets with indefinite useful lives *continued*

Gross margins

Gross margins are based on average values achieved in the three years preceding the beginning of the budget period. The gross margins for the electronics CGU and the fire prevention equipment CGU were 22.17% and 26.03%, respectively. These are increased over the budget period for anticipated efficiency improvements. An increase of 1.5% per annum was applied for the Electronics unit and 2% per annum for the Fire prevention equipment unit.

A decreased demand can lead to a decline in gross margin. A decrease in gross margin by 1.0% would result in a further impairment in the electronics unit. A decrease in gross margin by 5.0% would result in impairment in the fire prevention equipment unit.

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.A rise in pre-tax discount rate to 16.0% (i.e., +0.5%) in the electronics unit would result in a further impairment. A rise in pre-tax discount rate to 15.6% (i.e., +1.2%) in the fire prevention equipment unit would result in impairment.

Raw materials price inflation

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available (principally for New Zealand and the United States), otherwise past actual raw material price movements are used as an indicator of future price movements.

Management has considered the possibility of greater than forecast increases in raw material price inflation. This may occur if anticipated regulatory changes result in an increase in demand that cannot be met by suppliers. Forecast price inflation lies within a range of 1.9% to 2.6% for electronics unit and 2.1% to 4.5% for fire prevention equipment unit, depending on the country from which materials are purchased. If prices of raw materials increase on average by 0.5% more than the forecast price the Group will have a further impairment.

Market share assumptions

When using industry data for growth rates (as noted below), these assumptions are important because management assesses how the unit's position, relative to its competitors, might change over the forecast period. Management expects the Group's share of the electronics market (20%) to be stable over the forecast period. Management expects the Group's position in Fire prevention equipment unit relative to its competitors to strengthen following the acquisition of Extinguishers Limited. The Group's market share in the fire prevention equipment market is currently 37%.

Although management expects the Group's market share of the electronics market to be stable over the forecast period, a decline in the market share by 8% would result in a further impairment in the electronics unit. Similarly, a decline in market share in fire prevention equipment market by 20% would result in impairment in the fire prevention equipment unit.

Growth rate estimates

Rates are based on published industry research. For the reasons explained above, the long-term rate used to extrapolate the budget for the Fire prevention equipment unit includes an adjustment on account of the acquisition of a significant industry patent. Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 5.2% for electronics unit and 8.4% for fire prevention equipment unit. A reduction by 0.8% in the long-term growth rate in electronics unit would result in a further impairment. For the fire prevention equipment unit, a reduction by 0.3% in the long-term growth rate would result in impairment.

20. Goodwill and intangible assets with indefinite useful lives *continued*

Commentary

The Group has determined the recoverable amounts of its CGUs based on value in use under NZ IAS 36.

If the recoverable amounts are determined using fair value less cost of disposal, NZ IAS 36.134(e) requires disclosure of the valuation technique(s) and other information including: the key assumptions used; a description of management's approach to each key assumption; the level of fair value hierarchy; and the reason(s) for changing valuation techniques, if there is any change. Furthermore, if fair value less cost of disposal is determined using discounted cash flow projections, additional information such as period of cash flow projections, growth rate used to extrapolate cash flow projections and the discount rate(s) applied to the cash flow projections are required to be disclosed. While an entity is not required to provide disclosures required under NZ IFRS 13, these disclosures under NZ IAS 36.134(e) are similar to those under NZ IFRS 13.

NZ IAS 36.134(d)(i) requires disclosure of key assumptions made for each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. While the disclosures above have been provided for an illustrative purpose, companies need to evaluate the significance of each assumption used for the purpose of this disclosure.

NZ IAS 36.134(f) requires disclosures of sensitivity analysis for each CGU for which carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that CGU is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. These disclosures are made if a reasonably possible change in a key assumption used to determine the CGU's recoverable amount would cause the CGU's carrying amount to exceed its recoverable amount. The Group has made these disclosures for all the key assumptions for Electronics unit, since there is an impairment charge during the year and the carrying amount equals recoverable amount, and for Fire prevention equipment unit, as it is believed that a reasonably possible change in the key assumptions may cause impairment. Entities need to also take into account the consequential effect of a change in one assumption on other assumptions, as part of the sensitivity analyses when determining the point at which the recoverable amount equals the carrying amount (IAS 36.134(f)(iii)). The Group has considered this in the disclosures herein.

21. Financial assets and financial liabilities

21.1. Financial assets

	2019 $000	2018 $000	NZ IFRS 7.6 NZ IFRS 7.8
Derivatives not designated as hedging instruments			
Foreign exchange forward contracts	640	–	
Embedded derivatives	210	–	
Derivatives designated as hedging instruments			NZ IFRS 7.24A(a)
Foreign exchange forward contracts	252	153	
Financial assets at fair value through profit or loss			
Listed equity investments	337	300	
Equity instruments designated at fair value through OCI			
Non-listed equity investments			NZ IFRS 7.11(a)
Power Limited	417	205	NZ IFRS 7.11A(c)
Power Supplier Inc.	258	185	
Electronics Manufacturing Inc.	70	151	
Electronics Seller Inc.	293	–	
Electronic Test Ltd.	-	308	
Electronics Supplier Ltd.	-	49	
	1,038	**898**	
Debt instruments at fair value through OCI			
Quoted debt instruments	1,622	1,610	
Total financial instruments at fair value	**4,099**	**12,961**	
Debt instruments at amortised cost			
Trade receivables (Note 23)	25,672	22,290	
Loan to an associate	200	–	
Loan to a director	13	8	
Total financial assets*	**29,984**	**25,259**	
Total current	**26,223**	**22,443**	
Total non-current	**3,761**	**2,816**	

* Financial assets, other than cash and short-term deposits

	2019 $000	2018 $000	NZ IFRS 7.8
Total derivatives designated as hedging instruments	252	153	
Total financial assets at fair value through profit or loss	1,187	300	NZ IFRS 7.RDR 8.1
Equity instruments designated at fair value through OCI	1,038	898	NZ IFRS 7.8(h)
Debt instruments at fair value through OCI	1,622	1,610	NZ IFRS 7.8(h)
Total financial assets at fair value through OCI	2,660	2,508	NZ IFRS 7.8(h)
Total financial assets at amortised cost	25,885	22,298	NZ IFRS 7.8(f)
Total financial assets*	**29,984**	**25,259**	
Total current	**26,223**	**22,443**	
Total non-current	**3,761**	**2,816**	

* Financial assets, other than cash and short-term deposits

21.1. Financial assets *continued*

Commentary

When NZ IFRS 7 requires disclosures by class of financial instrument, Tier 2 for-profit entities are not required to group financial instruments into classes. Nor are Tier 2 for-profit entities required to provide sufficient information to permit a reconciliation to the line items presented in the statement of financial position (NZ IFRS 7.6). Tier 2 for-profit entities are however required to disclose the carrying amount of each category of financial assets and liabilities, as required by NZ IFRS 7.8.

Derivatives not designated as hedging instruments reflect the positive change in fair value of those foreign exchange forward contracts, which are not designated in hedge relationships, but are nevertheless intended to reduce the level of foreign currency risk for expected sales and purchases. *NZ IFRS 7.32A*

Derivatives designated as hedging instruments reflect the positive change in fair value of foreign exchange forward contracts designated as cash flow hedges to hedge highly probable forecast sales in US Dollars (USD).

Financial assets at fair value through profit or loss include investments in listed equity shares. Fair values of these equity shares are determined by reference to published price quotations in an active market.

Equity instruments designated at fair value through OCI include investments in equity shares of non-listed companies. The Group holds non-controlling interests (between 2% and 9%) in these companies These investments were irrevocably designated at fair value through OCI as the Group considers these investments to be strategic in nature. In 2019, the Group sold its equity interest in Electronics Supplier Ltd. as this investment no longer coincides with the Group's investment strategy. The fair value on the date of sale is $50,000 and the accumulated gain recognised in OCI of $7,000 was transferred to retained earnings. In 2019, the Group received dividends in the amount of $3,000 from Power Limited. *NZ IFRS 7.11A(b)* *NZ IFRS 7.11A(e)* *NZ IFRS 7.11B*

Debt instruments at fair value through OCI include investments in quoted government and corporate bonds. Fair values of these debt instruments are determined by reference to published price quotations in an active market.

Debt instruments at amortised cost include trade receivables and receivables from related parties.

Commentary

NZ IFRS 7.11A requires disclosure of which investments in equity instruments have been designated to be measured at fair value through OCI and the fair value of each such investment at the end of the reporting period. For illustrative purposes, the Group provided disclosure for each individual investments.

Entities will need to apply the concept of materiality for this disclosure requirement, such that disclosures are provided separately for investments that are themselves material and aggregated disclosures may suffice for immaterial items.

Tier 2 for-profit entities are not required to provide the disclosures under NZ IFRS 7.11A.

21.2 Financial liabilities
Interest-bearing loans and borrowings

	Effective Interest rate	Maturity	2019	2018	
	%		$000	$000 Restated	NZ IFRS 7.7
Current interest-bearing loans and borrowings					
Lease liabilities (Note 31)	4.5-7.8	2020	455	41	
Bank overdrafts	EURIBOR+1.0	On demand	966	2,650	
$1,500,000 bank loan	EURIBOR+0.5	1 Nov 2020	1,411	–	
$2,200,000 bank loan	EURIBOR+0.5	31 Mar 2019	–	74	
Total current interest-bearing loans and borrowings			**2,832**	**3,142**	
Non-current interest-bearing loans and borrowings					
Lease liabilities (Note 31)	4.5-7.8	2021-2032	2,706	2,553	
8% debentures	8.2	2021-2026	3,374	3,154	
8.25% secured loan of USD3,600,000	*LIBOR+0.2	31 May 2024	2,246	–	
Secured bank loan	LIBOR+2.0	31 Jul 2025	3,479	3,489	
$1,500,000 bank loan (2018: $1,400,000)	EURIBOR+0.5	1 Nov 2020	–	1,357	
$2,750,000 bank loan (2018: $2,500,000)	EURIBOR+1.1	2022-2024	2,486	2,229	
$2,200,000 bank loan	EURIBOR+0.5	31 Mar 2022	2,078	2,078	
$5,809,000 bank loan	7.5	1 Jan 2023	–	5,809	
Loan from a third-party investor in Fire Equipment Test Lab Limited	11.0	2021	3,000	–	
Convertible preference shares	11.6	2023	2,778	2,644	
Total non-current interest-bearing loans and borrowings			**22,147**	**23,313**	
Total interest-bearing loans and borrowings			**24,979**	**26,455**	

** Includes the effects of related interest rate swaps.*

Commentary

NZ IFRS 7.7 only requires disclosure of information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance. As the Group has a significant amount of interest-bearing loans and borrowings on its statement of financial position, it has decided to provide detailed information to the users of the financial statements about the effective interest rate as well as the maturity of the loans.

Bank overdrafts — *NZ IFRS 7.7*

The bank overdrafts are secured by a portion of the Group's short-term deposits.

$1,500,000 bank loan

This loan is unsecured and is repayable in full on 1 November 2020.

8% debentures

The 8% debentures are repayable in equal annual instalments of $350,000 commencing on 1 January 2021.

8.25% secured loan

The loan is secured by a first charge over certain of the Group's land and buildings with a carrying value of $2,400,000 (2018: Nil).

Secured bank loan

This loan has been drawn down under a six-year multi-option facility (MOF). The loan is repayable within 12 months after the reporting date, but has been classified as long term because the Group expects and has the discretion to exercise its rights under the MOF to refinance this funding. Such immediate replacement funding is available until 31 July 2025. The total amount repayable on maturity is $3,500,000. The facility is secured by a first charge over certain of the Group's land and buildings, with a carrying value of $5,000,000 (2018: $5,000,000). *NZ IAS 1.73*

21.2 Financial liabilities *continued*

$2,750,000 bank loan

The Group increased its borrowings under this loan contract by $250,000 during the reporting period. This loan is repayable in two instalments of $1,250,000 due on 31 December 2022 and $1,500,000 due on 31 December 2024.

$2,200,000 bank loan

This loan is unsecured and is repayable in full on 31 March 2022. As of 31 December 2018, $74,000 was repayable on 31 March 2019.

$5,809,000 bank loan

This loan has been transferred to the net balance of the discontinued operations.

Convertible preference shares

At 31 December 2019 and 2018, there were 2,500,000 convertible preference shares in issue. Each share has a par value of $1 and is convertible at the option of the shareholders into ordinary shares of the parent of the Group on 1 January 2021 on the basis of one ordinary share for every three preference shares held. Any preference shares not converted will be redeemed on 31 December 2024 at a price of $1.20 per share. The preference shares carry a dividend of 7% per annum, payable half-yearly in arrears on 30 June and 31 December. The dividend rights are non-cumulative. The preference shares rank ahead of the ordinary shares in the event of a liquidation. The presentation of equity portion of these shares is explained in Note 25 below. NZ IAS 1.79(a)(v)

	2019	2018	
	$000	$000	
Derivatives designated as hedging instruments			*NZ IFRS 7.24A(a)*
Interest rate swaps	35	–	
Foreign exchange forward contracts	170	254	
Commodity forward contracts	980	–	
Derivatives not designated as hedging instruments			
Foreign exchange forward contracts	720	–	
Embedded derivatives	782	–	
Financial liabilities at fair value through profit and loss			
Contingent consideration (Note 8)	1,072	–	
Total financial instruments at fair value	**3,759**	**254**	
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings			
Trade and other payables (Note 30)	16,969	20,023	
Total other financial liabilities	**20,728**	**20,277**	
Total current	**19,922**	**20,227**	
Total non-current	**806**	**–**	

	2018	2017	
	$000	**$000**	
Derivatives designated as hedging instruments	1,185	254	*NZ IFRS 7.24A(a)*
Financial liabilities at fair value through profit and loss	2,574	–	*NZ IFRS 7.RDR 8.1*
Other financial liabilities at amortised cost, other than interest-bearing loans and borrowings	16,969	20,023	*NZ IFRS 7.8(g)*
Total other financial liabilities	**20,728**	**20,277**	
Total current	**19,922**	**20,227**	
Total non-current	**806**	**–**	

21.2 Financial liabilities *continued*

Commentary

When NZ IFRS 7 requires disclosures by class of financial instrument, Tier 2 for-profit entities are not required to group financial instruments into classes. Nor are Tier 2 for-profit entities required to provide sufficient information to permit reconciliation to the line items presented in the statement of financial position. Tier 2 for-profit entities are however required to disclose the carrying amount of each category of financial assets and liabilities, as required by NZ IFRS 7.8.

Tier 2 for-profit entities are not required to separately disclose financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of NZ IFRS 9 and (ii) those that met the definition of held for trading in NZ IFRS 9 (NZ IFRS 7.8(e)).

Derivatives designated as hedging instruments reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in GBP. This also includes the change in fair value of commodity forward contracts entered into during 2019. *NZ IFRS 7.32A*

Derivatives not designated as hedging instruments reflect the negative change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of foreign currency risk for expected sales and purchases.

Contingent consideration *NZ IFRS 3.B64(g)*

As part of the purchase agreement with the previous owner of Extinguishers Limited, a contingent consideration has been agreed. This consideration is dependent on the profit before tax of Extinguishers Limited during a 12 month period. The fair value of the contingent consideration at the acquisition date was $714,000. The fair value increased to $1,071,500 as at 31 December 2019 due to a significantly enhanced performance compared to budget. The contingent consideration is due for final measurement and payment to the former shareholders on 30 September 2020.

Commentary

NZ IFRS 7 requires an entity to disclose information about rights to set off financial instruments and related arrangements (e.g., collateral agreements) and to provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position.

The Group is not setting off financial instruments in accordance with NZ IAS 32 and does not have relevant offsetting arrangements. However, if an entity has recognised financial instruments that are set off in accordance with NZ IAS 32 or are subject to an enforceable master netting arrangement or similar agreement, even if the financial instruments are not set off in accordance with NZ IAS 32, then the disclosures in NZ IFRS 7.13A-13E will be required.

21.3. Hedging activities and derivatives

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk, and interest rate risk. *NZ IFRS 7.21A*

The Group's risk management strategy and how it is applied to managing risk are explained in Note 21.5 below.

Commentary

The disclosure requirements for entities applying hedge accounting are set out in NZ IFRS 7.21A-24G. The objective of the hedge accounting disclosures is for entities to disclose information about:

- The risk management strategy and how it is applied to manage risks (NZ IFRS 7.22A-22C)
- How the risk management activities may affect the amount, timing and uncertainty of future cash flows (NZ IFRS 7.23A-23F)
- The effect hedge accounting had on the statement of financial position, the statement of comprehensive income and the statement of changes in equity (NZ IFRS 7.24A-24F)

In applying this objective, an entity has to consider the necessary level of detail, the balance between different disclosure requirements, the appropriate level of disaggregation and whether additional explanations are necessary to meet the objective.

The hedge accounting disclosures should be presented in a single note or a separate section of the financial statements. An entity may include information by cross-referencing to information presented elsewhere, such as a risk report, provided that information is available to users of the financial statements on the same terms as the financial statements and at the same time.

21.3 Hedging activities and derivatives *continued*

NZ IFRS 7.21B
NZ IFRS 7.21C

Commentary

When paragraphs 22A–24F of NZ IFRS 7 require the entity to separate by risk category the information disclosed, Tier 2 for-profit entities are not required to determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. Tier 2 for-profit entities are not required to determine risk categories consistently for all hedge accounting disclosures.

A Tier 2 for profit entity is not required to present the disclosures in a single note or separate section in its financial statements.

Derivatives not designated as hedging instruments

The Group uses foreign currency denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months.

Derivatives designated as hedging instruments

Cash flow hedges

NZ IFRS 7.22B(a)

Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales in USD and forecast purchases in GBP. These forecast transactions are highly probable, and they comprise about 25% of the Group's total expected sales in USD and about 65% of its total expected purchases in GBP. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign exchange forward rates.

Commodity price risk

NZ IFRS 7.22B(a)

The Group purchases copper on an ongoing basis as its operating activities in the electronic division require a continuous supply of copper for the production of its electronic devices. The increased volatility in copper price over the past 12 months has led to the decision to enter into commodity forward contracts.

These contracts, which commenced on 1 July 2019, are expected to reduce the volatility attributable to price fluctuations of copper. Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

NZ IFRS 7.22B(b)
NZ IFRS 7.22B(c)
NZ IFRS 7.22C

The hedge ineffectiveness can arise from:

NZ IFRS 7.22B(c)

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

21.3 Hedging activities and derivatives continued

The Group is holding the following foreign exchange and commodity forward contracts: *NZ IFRS 7.23B*

	Maturity					
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total
As at 31 December 2019						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount (in $000)	2,950	3,000	3,150	3,450	3,250	**15,800**
Average forward rate (NZD/USD)	1.166	1.169	1.172	1.175	1.185	–
Foreign exchange forward contracts (highly probable forecast purchases						
Notional amount (in $000)	1,450	1,330	1,880	1,750	1,550	**7,960**
Average forward rate (NZD/GBP)	0.876	0.877	0.878	0.879	0.881	–
Commodity forward contracts						
Notional amount (in tonnes)	–	–	450	530	–	**980**
Notional amount (in $000)	–	–	2,600	3,000	–	**5,600**
Average hedged rate (in $000 per tonne)	–	–	5.77	5.66	–	–
As at 31 December 2018						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount (in $000)	2,650	2,850	3,000	3,200	2,900	**14,600**
Average forward rate (NZD/USD)	1.200	1.203	1.206	1.209	1.211	–
Foreign exchange forward contracts (highly probable forecast purchases						
Notional amount (in $000)	1,250	1,150	1,500	1,600	1,450	**6,950**
Average forward rate (NZD/GBP)	0.882	0.883	0.884	0.885	0.886	–

The impact of the hedging instruments on the statement of financial position is, as follows: *NZ IFRS 7.24A*

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
	$000	$000		$000
As at 31 December 2019				
Foreign exchange forward contracts	15,800	252	Other current financial assets	386
Foreign exchange forward contracts	7,960	(170)	Other current financial liabilities	(99)
Commodity forward contracts	5,600	(980)	Other current financial liabilities	(980)
As at 31 December 2018				
Foreign exchange forward contracts	14,600	153	Other current financial assets	137
Foreign exchange forward contracts	6,950	(254)	Other current financial liabilities	(31)

NZ IFRS 7.24A(a) NZ IFRS 7.24A(b) NZ IFRS 7.24A(c) NZ IFRS 7.24A(d)

Commentary *NZ IFRS 7.RDR 24A.1*

A Tier 2 entity is not required to make the disclosures required by paragraph 24A of NZ IFRS 7 in a tabular format.

21.3 Hedging activities and derivatives *continued*

The impact of hedged items on the statement of financial position is, as follows:

NZ IFRS 7.24B(b)

	31 December 2019			31 December 2018		
	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve	Cost of hedging reserve	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve	Cost of hedging reserve
	$000	$000	$000	$000	$000	$000
Highly probable forecast sales	386	165	12	137	107	–
Highly probable forecast purchases	(99)	(110)	(9)	(31)	(177)	–
Copper purchases	(915)	(617)	(23)	–	–	–

Commentary

A Tier 2 entity is not required to make the disclosures required by paragraph 24B of NZ IFRS 7 in a tabular format.

NZ IFRS 7.RDR 24B.1

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income is, as follows:

NZ IFRS 7.24C(b)

	Total hedging gain/(loss) recognised in OCI	Ineffective-ness recognised in profit or loss	Line item in the statement of profit or loss	Cost of hedging recognised in OCI	Amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
Year ended 31 December 2019	$000	$000		$000	$000	
Highly probable forecast sales	386	–	–	21	(283)	Revenue
Highly probable forecast purchases	(99)	–	–	(16)	–	–
Copper purchases	(915)	65	Other operating expenses	(33)	–	–
Year ended 31 December 2018						
Highly probable forecast sales	137	–	–	–	(125)	Revenue
Highly probable forecast purchases	(31)	–	–	–	53	Cost of sales

Commentary

NZ IFRS 7.24C(b)(iv) requires that the amount reclassified from cash flow hedge reserve into profit or loss as a reclassification adjustment be differentiated between: (a) amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur; and (b) the amounts that have been transferred because the hedged item has affected profit or loss. The amounts reclassified by the Group from OCI to profit or loss only relates to the latter.

21.3 Hedging activities and derivatives *continued*

Fair value hedge

At 31 December 2019, the Group had an interest rate swap agreement in place with a notional amount of USD3,600,000 ($2,246,000) (2018: $Nil) whereby the Group receives a fixed rate of interest of 8.25% and pays interest at a variable rate equal to LIBOR+0.2% on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its 8.25% secured loan. *NZ IFRS 7.22B(a)*

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk. *NZ IFRS 7.22B(b)* *NZ IFRS 7.22B(c)* *NZ IFRS 7.22C*

The hedge ineffectiveness can arise from:

- Different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item

The impact of the hedging instrument on the statement of financial position as at 31 December 2019 is, as follows: *NZ IFRS 7.24A*

NZ IFRS 7.24A(a) *NZ IFRS 7.24A(b)* *NZ IFRS 7.24A(c)* *NZ IFRS 7.24A(d)*

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
	US$000	$000		$000
Interest rate swap	3,600	35	Other current financial liability	35

Commentary *NZ IFRS 7.RDR 24A.1*

A Tier 2 entity is not required to make the disclosures required by paragraph 24A of NZ IFRS 7 in a tabular format.

The impact of the hedged item on the statement of financial position as at 31 December 2019 is, as follows: *NZ IFRS 7.24B(a)*

	Carrying amount	Accumulated fair value adjustments	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
	$000	$000		$000
Fixed-rate borrowing	2,246	35	Interest-bearing loans and borrowings	35

Commentary *NZ IFRS 7.RDR 24B.1*

A Tier 2 entity is not required to make the disclosures required by paragraph 24B of NZ IFRS 7 in a tabular format.

The ineffectiveness recognised in the statement of profit or loss was immaterial.

Hedge of net investments in foreign operations

Included in interest bearing loans at 31 December 2019 was a borrowing of USD 3,600,000 which has been designated as a hedge of the net investments in the two subsidiaries in the United States, Wireworks Inc. and Sprinklers Inc., beginning 2019. This borrowing is being used to hedge the Group's exposure to the USD foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries. *NZ IFRS 7.22B(a)*

There is an economic relationship between the hedged item and the hedging instrument as the net investment creates a translation risk that will match the foreign exchange risk on the USD borrowing. The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component. The hedge ineffectiveness will arise when the amount of the investment in the foreign subsidiary becomes lower than the amount of the fixed rate borrowing. *NZ IFRS 7.22B(b)* *NZ IFRS 7.22B(c)* *NZ IFRS 7.22C*

21.3 Hedging activities and derivatives *continued*

The impact of the hedging instrument on the statement of financial position as at 31 December 2019 is, as follows:

NZ IFRS 7.24A

NZ IFRS 7.24A(a)
NZ IFRS 7.24A(b)
NZ IFRS 7.24A(c)
NZ IFRS 7.24A(d)

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
	US$000	$000		$000
Foreign currency denominated borrowing	3,600	2,246	Interest-bearing loans and borrowings	278

Commentary

NZ IFRS 7.RDR 24A.1

A Tier 2 entity is not required to make the disclosures required by paragraph 24A of NZ IFRS 7 in a tabular format.

The impact of the hedged item on the statement of financial position is, as follows:

NZ IFRS 7.24B(b)

	Change in fair value used for measuring ineffectiveness	Foreign currency translation reserve
	$000	$000
Net investment in foreign subsidiaries	278	195

Commentary

NZ IFRS 7.RDR 24B.1

A Tier 2 entity is not required to make the disclosures required by paragraph 24B of NZ IFRS 7 in a tabular format.

NZ IFRS 7.24B(b)

The hedging gain recognised in OCI before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

21.3 Hedging activities and derivatives *continued*

Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

NZ IFRS 7.24E
NZ IFRS 7.24F

	Cash flow hedge reserve	Cost of hedging reserve	Foreign currency translation reserve
	$000	$000	$000
As at 1 January 2018	**(94)**	**–**	**(327)**
Effective portion of changes in fair value arising from:			
Foreign exchange forward contracts – forecast sales	137	–	–
Foreign exchange forward contracts – forecast purchases	(31)	–	–
Amount reclassified to profit or loss	(72)	–	–
Foreign currency revaluation of the net foreign operations*	–	–	(117)
Tax effect	(10)	–	–
As at 1 January 2019	**(70)**	**–**	**(444)**
Effective portion of changes in fair value arising from:			
Foreign exchange forward contracts – forecast sales	365	21	–
Foreign exchange forward contracts – forecast purchases	(83)	(16)	–
Commodity forward contracts	(882)	(33)	–
Amount reclassified to profit or loss	(283)	(4)	–
Amount transferred to inventories	180	3	–
Foreign currency revaluation of the USD borrowing	–	–	278
Foreign currency revaluation of the net foreign operations	–	–	(246)
Tax effect	211	9	(83)
As at 31 December 2019	**(562)**	**(20)**	**(495)**

* Hedging of net investment in foreign operations only started in 2019.

Embedded derivatives

NZ IFRS 9.4.3.3

In 2019, the Group entered into long-term sale contracts with a customer in Canada. The functional currency of the customer is USD. The selling price in the contracts is fixed and set in Canadian dollars (CAD). The contracts require physical delivery and will be held for the purpose of the delivery of the commodity in accordance with the buyer's expected sales requirements. The contracts have embedded foreign exchange derivatives that are required to be separated.

The Group also entered into various purchase contracts for brass and chrome (for which there is an active market) with a number of suppliers in South Africa and Russia. The prices in these purchase contracts are linked to the price of electricity. The contracts have embedded commodity swaps that are required to be separated.

The embedded foreign currency and commodity derivatives have been separated and are carried at fair value through profit or loss. The carrying values of the embedded derivatives at 31 December 2019 amounted to $210,000 (other financial assets) and $782,000 (other financial liabilities) (2018: both $Nil). The effects on profit or loss are reflected in finance income and finance expenses, respectively.

21.4 Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts are reasonable approximations of fair values:

NZ IFRS 7.25
NZ IFRS 7.26

	Carrying amount		Fair value	
	2019	2018	2019	2018
	$000	$000	$000	$000
Financial assets		Restated		Restated
Loans to an associate and a director	213	8	208	9
Non-listed equity investments	1,038	898	1,038	898
Listed equity investments	337	300	337	300
Quoted debt instruments	1,622	1,610	1,622	1,610
Foreign exchange forward contracts	640	–	640	–
Embedded derivatives	210	–	210	–
Foreign exchange forward contacts in cash flow hedges	252	153	252	153
Total	**4,312**	**2,969**	**4,307**	**2,970**
Financial liabilities				
Interest-bearing loans and borrowings				
Floating rate borrowings*	(12,666)	(11,877)	(12,666)	(11,877)
Fixed rate borrowings	(6,374)	(8,239)	(6,321)	(8,944)
Convertible preference shares	(2,778)	(2,644)	(2,766)	(2,621)
Contingent consideration	(1,072)	–	(1,072)	–
Derivatives not designated as hedges				
Foreign exchange forward contracts	(720)	–	(720)	–
Embedded derivatives	(782)	–	(782)	–
Derivatives in effective hedges	(1,185)	(254)	(1,185)	(254)
Total	**(25,577)**	**(23,014)**	**(25,512)**	**(23,696)**

** Includes an 8.25% secured loan carried at amortised cost adjusted for the fair value movement due to the hedged interest rate risk.*

Commentary

NZ IFRS 7.29 provides that disclosure of the fair values of financial instruments is not required:

- When the carrying amount is a reasonable approximation of fair value (e.g., short-term trade receivables and payables) For a contract containing a discretionary participating feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably or
- For lease liabilities

The management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

NZ IFRS 7.29
NZ IFRS 13.97
NZ IFRS 13.93(d)

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.
- Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

21.4 Fair values *continued*

- The fair values of the non-listed equity investments have been estimated using a DCF model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these non-listed equity investments.
- There is an active market for the Group's listed equity investments and quoted debt instruments.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Some derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. Therefore, as at 31 December 2019, the mark-to-market value of other derivative asset positions excludes a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.
- Embedded foreign currency and commodity derivatives are measured similarly to the foreign currency forward contracts and commodity derivatives. The embedded derivatives are commodity and foreign currency forward contracts which are separated from long-term sales contracts where the transaction currency differs from the functional currencies of the involved parties. However, as these contracts are not collateralised, the Group also takes into account the counterparties' credit risks (for the embedded derivative assets) or the Group's own non-performance risk (for the embedded derivative liabilities) and includes a credit valuation adjustment or debit valuation adjustment, as appropriate by assessing the maximum credit exposure and taking into account market-based inputs concerning probabilities of default and loss given default.
- Fair values of the Group's interest-bearing loans and borrowings are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2019 was assessed to be insignificant.

21.4 Fair value *continued*

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are as shown below:

NZ IFRS 13.91(a)
NZ IFRS 13.93(d)
NZ IFRS 13.93(h)(i)
NZ IFRS 13.93(h)(ii)
NZ IFRS 13.97

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Non-listed equity investments – power sector	DCF method	Long-term growth rate for cash flows for subsequent years	**2019:** 3.1% - 5.2% (4.2%) **2018:** 3.1% - 5.1% (4%)	5% (2018: 5%) increase (decrease) in the growth rate would result in increase (decrease) in fair value by $17,000 (2018: $15,000)
		Long-term operating margin	**2019:** 5.0% - 12.1% (8.3%) **2018:** 5.2% - 12.3% (8.5%)	15% (2018: 12%) increase (decrease) in the margin would result in increase (decrease) in fair value by $21,000 (2018: $19,000)
		WACC	**2019:** 11.2% - 14.3% (12.6%) **2018:** 11.5% - 14.1% (12.3%)	1% (2018: 2%) increase (decrease) in the WACC would result in decrease (increase) in fair value by $10,000 (2018: $15,000)
		Discount for lack of marketability	**2019:** 5.1% - 15.6% (12.1%) **2018:** 5.4% - 15.7% (12.3%)	2% (2018: 3%) increase (decrease) in the discount would decrease (increase) the fair value by $8,000 (2018: $9,000).
Non-listed equity investments – electronics sector	DCF method	Long-term growth rate for cash flows for subsequent years	**2019:** 4.4% - 6.1% (5.3%) **2018:** 4.6% - 6.7% (5.5%)	3% (2018: 3%) increase (decrease) in the growth rate would result in increase (decrease) in fair value by $23,000 (2018: $25,000)
		Long-term operating margin	**2019:** 10.0% - 16.1% (14.3%) **2018:** 10.5% - 16.4% (14.5%)	5% (2018: 4%) increase (decrease) in the margin would result in increase (decrease) in fair value by $12,000 (2018: $13,000)
		WACC	**2019:** 12.1% - 16.7% (13.2%) **2018:** 12.3% - 16.8% (13.1%)	1% (2018: 2%) increase (decrease) in the WACC would result in decrease (increase) in fair value by $21,000 (2018: $22,000)
		Discount for lack of marketability	**2019:** 5.1% - 20.2% (16.3%) **2018:** 5.3% - 20.4% (16.4%)	1.5% (2018: 2%) increase (decrease) in the discount would decrease (increase) the fair value by $7,500 (2018: $8,200).

21.4 Fair value *continued*

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Embedded derivative assets	Forward pricing model	Discount for counterparty credit risk	**2019:** 0.02% - 0.05% (0.04%) **2018:** –	0.5% increase (decrease) would result in an increase (decrease) in fair value by $23,000
Embedded derivative liabilities	Forward pricing model	Discount for non-performance risk	**2019:** 0.01% - 0.05% (0.03%) **2018:** –	0.4% increase (decrease) would result in an increase (decrease) in fair value by $20,000
Loans to an associate and a director	DCF method	Constant prepayment rate	**2019:** 1.5% - 2.5% (2.0%) **2018:** 1.6% - 2.7% (2.2%)	1% (2018: 2%) increase (decrease) would result in an increase (decrease) in fair value by $25,000 (2018: $21,000)
		Discount for non-performance risk	2019: 0.08% 2018: 0.09%	0.4% (2018: 0.4%) increase (decrease) would result in an increase (decrease) in fair value by $21,000 (2018: $20,000)
Contingent consideration liability	DCF method	Assumed probability-adjusted profit before tax of Extinguishers Limited	2019: $1,514,000 2018: –	10% decrease in the assumed probability-adjusted profit before tax of Extinguishers Limited results in a decrease in fair value of the contingent consideration liability by $390,000. 5% increase in the assumed probability-adjusted profit before tax of Extinguishers Limited would not change fair value of the contingent consideration liability.
		Discount rate	2019: 14% 2018: –	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by $25,000.
		Discount for own non-performance risk	2019: 0.05% 2018: –	0.4% increase (decrease) in the discount for own non-performance risk would result in an increase (decrease) in fair value of the contingent consideration liability by $5,000.

21.4 Fair value *continued*

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

Reconciliation of fair value measurement of non-listed equity investments classified as equity instruments designated at fair value through OCI:

	Power	Electronics	Total
	$000	$000	$000
As at 1 January 2018	**386**	**502**	**888**
Remeasurement recognised in OCI	4	6	10
Purchases	–	-	-
Sales	-	–	-
As at 1 January 2019	**390**	**508**	**898**
Remeasurement recognised in OCI	54	(80)	**(26)**
Purchases	231	293	**524**
Reclassified in assets held for sale	–	(308)	**(308)**
Sales	-	(50)	**(5)**
As at 31 December 2019	**675**	**363**	**1,038**

NZ IFRS 13.93(e)(ii)
NZ IFRS 13.93(e)(iii)

Reconciliation of fair value measurement of embedded derivatives assets and liabilities:

	Embedded foreign exchange derivative asset	Embedded commodity derivative liability	
	Canadian dollar	Brass	Chrome
	$000	$000	$000
As at 1 January 2018 and 2019	–	–	–
Remeasurement recognised in the statement of profit or loss during the period	(363)	(209)	(80)
Purchases	573	809	262
Sales	–	–	–
As at 31 December 2019	210	600	182

21.4 Fair value *continued*

Commentary

An entity should provide additional information that will help users of its financial statements to evaluate the quantitative information disclosed. An entity might disclose some or all of the following to comply with NZ IFRS 13.92:

- The nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs. For example, if the Group had residential mortgage-backed securities, it might disclose the following:
  - The types of underlying loans (e.g. prime loans or sub-prime loans)
  - Collateral
  - Guarantees or other credit enhancements
  - Seniority level of the tranches of securities
  - The year of issue
  - The weighted-average coupon rate of the underlying loans and the securities
  - The weighted-average maturity of the underlying loans and the securities
  - The geographical concentration of the underlying loans
  - Information about the credit ratings of the securities
- How third-party information such as broker quotes, pricing services, net asset values and relevant market data was taken into account when measuring fair value

The Group does not have any liabilities measured at fair value and issued with an inseparable third-party credit enhancement, but if it had, NZ IFRS 13.98 requires disclosure of the existence of credit-enhancement and whether it is reflected in the fair value measurement of the liability.

NZ IFRS 13.99 requires an entity to present the quantitative disclosures of NZ IFRS 13 to be included in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in tabular format, above.

NZ IFRS 13.93(h)(ii) requires a quantitative sensitivity analysis for financial assets and financial liabilities that are measured at fair value on a recurring basis. For all other recurring fair value measurements that are categorised within Level 3 of the fair value hierarchy, an entity is required to provide:

- A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement
- If there are interrelationships between the inputs and other unobservable inputs used in the fair value measurement, a description of the interrelationships and of how this might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement

For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in OCI, total equity. The Group included the quantitative sensitivity analyses in tabular format, above.

21.5 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations The Group's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions. *NZ IFRS 7.33*

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments. *NZ IFRS 7.33*

The sensitivity analyses in the following sections relate to the position as at 31 December in 2019 and 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2019. *NZ IFRS 7.40*

The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations. The analysis for the contingent consideration liability is provided in Note 8.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 2018 including the effect of hedge accounting
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign operation at 31 December 2019 for the effects of the assumed changes of the underlying risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. *NZ IFRS 7. 21A(a)* *NZ IFRS 7.22A*

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's policy is to maintain borrowings at fixed rates of interest of not more than 50%, excluding borrowings that relate to discontinued operations. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of interest rate swaps, approximately 44% of the Group's borrowings are at a fixed rate of interest (2018: 51%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

21.5 Financial risk management objectives and policies *continued*

	Increase/decrease in basis points	Effect on profit before tax	NZ IFRS 7.40(a)
2019		**$000**	
NZD	+45	(48)	
USD	+60	(13)	
NZD	-45	33	
USD	-60	12	
2018			
NZD	+10	(19)	
USD	+15	–	
NZD	-10	12	
USD	-15	–	

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investments in foreign subsidiaries. *NZ IFRS 7. 21A(a)* *NZ IFRS 7.22A*

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of forecasted sales and purchases and 24-month period for net investment hedges.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

The Group hedges its exposure to fluctuations on the translation into NZD of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency swaps and forwards.

At 31 December 2019 and 2018, the Group hedged 75% and 70%, for 9 and 12 months, respectively, of its foreign currency sales for which highly probable forecasted transactions existed at the reporting date. This foreign currency risk is hedged by using foreign currency forward contracts.

Commentary

For hedges of forecast transactions, useful information to help users understand the nature and extent of such risks may include:

- Time bands in which the highly probable forecast transactions are grouped for risk management purposes
- The entity's policies and processes for managing the risk (for example, how the cash flows of the hedging instruments and the hedged items may be aligned, such as using foreign currency bank accounts to address differences in cash flow dates)

Entities should tailor these disclosures to the specific facts and circumstances of the transactions.

21.5 Financial risk management objectives and policies *continued*

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD and GBP exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The impact on the Group's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax	Effect on equity	
		$000	$000	*NZ IFRS 7.40(a)*
2019	+5%	(30)	(154)	
	-5%	20	172	
2018	+4%	(40)	(146)	
	-4%	40	158	

	Change in GBP rate	Effect on profit before tax	Effect on equity	
		$000	$000	*NZ IFRS 7.40(a)*
2019	+5%	26	102	
	-5%	(15)	(113)	
2018	+4%	31	92	
	-4%	(28)	(96)	

The movement in the post-tax effect is a result of a change in the fair value of derivative financial instruments not designated in a hedge relationship and monetary assets and liabilities denominated in USD, where the functional currency of the entity is a currency other than USD. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in USD borrowings (net of cash and cash equivalents) in the hedge of net investments in US operations and cash flow hedges. These movements will offset the translation of the US operations' net assets into NZD.

Commodity price risk

NZ IFRS 7. 21A(a)
NZ IFRS 7.22A

The Group is affected by the price volatility of certain commodities. Its operating activities require the ongoing purchase and manufacture of electronic parts and therefore require a continuous supply of copper. The Group is exposed to changes in the price of copper on its forecast copper purchases. The Group's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

Based on a 12-month forecast of the required copper supply, the Group hedges the purchase price using forward commodity purchase contracts. The forward contracts do not result in physical delivery of copper, but are designated as cash flow hedges to offset the effect of price changes in copper. The Group hedges approximately 45% of its expected copper purchases considered to be highly probable.

Forward contracts with a physical delivery that qualify for normal purchase, sale or usage and that are therefore not recognised as derivatives are disclosed in Note 21.3.

21.5 Financial risk management objectives and policies *continued*

Commodity price sensitivity

The fo1llowing table shows the effect of price changes in copper net of hedge accounting impact.

	Change in year-end price	Effect on profit before tax	Effect on equity
			NZ IFRS 7.40(a)
2019		**$000**	**$000**
Copper	+15%	(220)	(585)
	-15%	220	585
Brass	+4%	(8)	(8)
	-4%	8	8
Chrome	+2%	(10)	(10)
	-2%	10	10

Equity price risk

The Group's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions. *NZ IFRS 7.33(b)*

At the reporting date, the exposure to non-listed equity investments at fair value was $1,038,000. Sensitivity analyses of these investments have been provided in Note 21.4. *NZ IFRS 7.33(a)*

At the reporting date, the exposure to listed equity investments at fair value listed on the NYSE was $337,000. Given that the changes in fair values of the equity investments held are strongly positively correlated with changes of the NYSE market index, the Group has determined that an increase/ (decrease) of 10% on the NYSE market index could have an impact of approximately $55,000 increase/ (decrease) on the income and equity attributable to the Group. *NZ IFRS 7.40*

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. *NZ IAS 7.33* *NZ IFRS 7.35B*

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. At 31 December 2019, the Group had 55 customers (2018: 65 customers) that owed the Group more than $250,000 each and accounted for approximately 51% (2018: 56%) of all the receivables and contract assets outstanding. There were five customers (2018: seven customers) with balances greater than $1 million accounting for just over 10% (2018: 12%) of the total amounts receivable and contract assets. *NZ IFRS 7.34(c)* *NZ IFRS 7.B8*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 23. The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. *NZ IFRS 7.35F(c)* *NZ IFRS 7.35F(e)* *NZ IFRS 7.35K*

At 31 December 2019, 60% (2018: 65%) of the Groups trade receivables are covered by letters of credit and other forms of credit insurance. These credit enhancements obtained by the Group resulted in a decrease in the ECL of $22,000 as at 31 December 2019 (2018: $21,000). The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

21.5 Financial risk management objectives and policies *continued*

NZ IFRS 7.35M
NZ IFRS 7.35N

31 December 2019		Trade receivables					
		Days past due					
	Contract assets	Current	<30 days	30-60 days	61-90 days	>91 days	Total
	$000	$000	$000	$000	$000	$000	$000
Expected credit loss rate	0.13%	0.12%	1.5%	4%	7%	12%	
Estimated total gross carrying amount at default	**4,547**	16,787	4,864	2,700	1,151	514	**26,016**
Expected credit loss	**6**	20	73	108	81	62	**344**

31 December 2018		Trade receivables					
		Days past due					
	Contract assets	Current	<30 days	30-60 days	61-90 days	>91 days	Total
	$000	$000	$000	$000	$000	$000	$000
Expected credit loss rate	0.10%	0.10%	1.2%	3%	5%	10%	
Estimated total gross carrying amount at default	**5,185**	15,603	3,482	1,897	995	531	**22,508**
Expected credit loss	**5**	16	42	57	50	53	**218**

21.5 Financial risk management objectives and policies *continued*

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

NZ IFRS 7.33
NZ IFRS 7.36
NZ IFRS 7.B10(c)

The Group invests only on quoted debt securities with very low credit risk. The Group's debt instruments at fair value through OCI comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. The Group recognised provision for expected credit losses on its debt instruments at fair value through OCI of $7,000 in 2019 (2018: $6,000).

NZ IFRS 7.16A

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 and 2018 is the carrying amounts as illustrated in Note 21.1 except for derivative financial instruments. The Group's maximum exposure relating to financial derivative instruments is noted in the liquidity table below.

Commentary

As required by NZ IFRS 9, the Group used the simplified approach in calculating ECL for trade receivables and contract assets that did not contain a significant financing component. The Group applied the practical expedient to calculate ECL using a provision matrix. In practice, many entities use a provision matrix to calculate their current impairment allowances. However, in order to comply with the NZ IFRS 9 requirements, corporates would need to consider how current and forward looking information might affect their customers' historical default rates and, consequently, how the information would affect their current expectations and estimates of ECLs.

The Group applied the low credit risk operational simplification in assessing the significant increase in credit risk of its debt instruments at fair value through OCI. This simplification is optional and can be elected on an instrument-by-instrument basis. For low risk instruments for which the simplification is used, an entity would recognise an allowance based on 12-month ECLs. However, if a financial instrument is not, or no longer, considered to have low credit risk at the reporting date, it does not follow that the entity is required to recognise lifetime ECLs. In such instances, the entity has to assess whether there has been a significant increase in credit risk since initial recognition which requires the recognition of lifetime ECLs.

The ECLs relating to cash and short-term deposits of the Group rounds to zero. In practice, an ECL may need to be charged on cash and short-term deposits.

Refer to our *Good Bank – Illustrative Financial Statements publication* for the illustrative disclosures on the general approach of measuring ECLs.

Liquidity risk

The Group monitors its risk to a shortage of funds using a liquidity planning tool.

NZ IFRS 7.33
NZ IFRS 7.39(c)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares and lease contracts. The Group's policy is that not more than 25% of borrowings should mature in the next 12-month period. Approximately 10% of the Group's debt will mature in less than one year at 31 December 2019 (2018: 11%) based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

NZ IFRS 7.B8

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

21.5 Financial risk management objectives and policies *continued*

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total	NZ IFRS 7.39(a)(b)
	$000	$000	$000	$000	$000	$000	
Interest-bearing loans and borrowings (excluding items below)	966	–	1,422	10,554	8,000	20,942	
Lease liabilities (Note 31)	48	117	290	2,454	1,473	4,382	NZ IFRS 16.58
Convertible preference shares	–	–	–	676	2,324	3,000	
Contingent consideration	–	–	1,125	–	–	1,125	
Other financial liabilities	–	–	–	150	–	150	
Trade and other payables	3,620	12,547	802	–	–	16,969	
Derivatives and embedded derivatives	1,970	2,740	391	1,191	1,329	7,621	
	6,604	**15,404**	**4,030**	**15,025**	**13,126**	**54,189**	

Year ended 31 December 2018 (restated)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total	
	$000	$000	$000	$000	$000	$000	
Interest-bearing loans and borrowings (excluding items below)	2,650	–	76	8,872	11,600	23,198	
Lease liabilities (Note 31)	32	90	296	2,386	1,432	4,236	NZ IFRS 16.58
Convertible preference shares	–	–	–	624	2,376	3,000	
Trade and other payables	4,321	13,959	1,743	–	–	20,023	
Other financial liabilities	–	–	–	202	–	202	
Derivatives and embedded derivatives	549	1,255	–	–	–	1,804	
	7,552	**15,304**	**2,115**	**12,084**	**15,408**	**52,463**	

Commentary

NZ IFRS 16.58 requires disclosure of the maturity analysis of lease liabilities applying IFRS 7.39 and IFRS 7.B11 separately from the maturity analyses of other financial liabilities. As such, the Group presented a separate line item for lease liabilities in the maturity analysis of its financial liabilities.

The financial derivative instruments disclosed in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

Year ended 31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total	NZ IFRS 7.39(b)
	$000	$000	$000	$000	$000	$000	
Inflows	800	1,000	250	700	950	3,700	
Outflows	(1,970)	(2,740)	(391)	(1,191)	(1,329)	(7,621)	
Net	(1,170)	(1,740)	(141)	(491)	(379)	(3,921)	
Discounted at the applicable interbank rates	(1,170)	(1,731)	(139)	(463)	(343)	(3,846)	

Year ended 31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	over 5 years	Total
	$000	$000	$000	$000	$000	$000
Inflows	500	1,000	–	–	–	1,500
Outflows	(549)	(1,255)	–	–	–	(1,804)
Net	(49)	(255)	–	–	–	(304)
Discounted at the applicable interbank rates	(49)	(255)	–	–	–	(304)

21.5 Financial risk management objectives and policies *continued*

Collateral

NZ IAS 7.48
NZ IFRS 7.14
NZ IFRS 7.38

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivatives contracts. At 31 December 2019 and 2018, the fair values of the short-term deposits pledged were $5 million and $2 million, respectively. The counterparties have an obligation to return the securities to the Group.

The Group also holds deposit in respects of derivative contracts of $565,000 as at 31 December 2019 (2018: $385,000). The Group has an obligation to repay the deposit to the counterparties upon settlement of the contracts. There are no other significant terms and conditions associated with the use of collateral.

NZ IFRS 7.15
NZ IFRS 7.36(b)

21.6 Changes in liabilities arising from financing activities

NZ IAS 7.44A
NZ IAS 7.44C

NZ IAS 7.44B,
NZ IAS.7.44D

	1 January 2019	Cash flows	Reclassified as part of disposal group	Foreign exchange movement	Changes in fair values	New leases	Other	31 December 2019
	$000	$000	$000	$000	$000	$000	$000	$000
Current interest-bearing loans and borrowings (excluding items listed below)	2,724	(2,032)	–	(6)	–	–	1,691	2,377
Current lease liabilities (Note 31)	418	(406)	–	–	–	42	401	455
Non-current interest-bearing loans and borrowings (excluding items listed below)	20,760	5,649	(5,809)	(51)	–	–	(1,108)	19,441
Non-current lease liabilities (Note 31)	2,553	–	–	–	–	551	(398)	706
Dividends payable	–	–	–	–	–	–	410	410
Derivatives	–	–	–	–	58	–	–	58
Total liabilities from financing activities	26,455	3,211	(5,809)	(57)	58	593	996	25,447

21.6 Changes in liabilities arising from financing activities *continued*

NZ IAS 7.44A
NZ IAS 7.44C

NZ IAS 1.38
NZ IAS 7.44B,
NZ IAS 7.44D

	1 January 2018	Cash flows	Foreign exchange movement	New leases	Other	31 December 2018
	$000 Restated	$000 Restated	$000	$000 Restated	$000 Restated	$000 Restated
Current interest-bearing loans and borrowings (excluding items listed below)	4,479	(4,250)	(10)	–	2,505	2,724
Current lease liabilities (Note 31)	355	(341)	–	22	382	418
Non-current interest-bearing loans and borrowings (excluding items listed below)	18,624	4,871	(57)	–	(2,678)	20,760
Non-current lease liabilities (Note 31)	2,734	–	–	203	(384)	2,553
Total liabilities from financing activities	26,192	280	(67)	225	(175)	26,455

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including lease liabilities to current due to the passage of time, the accrual of special dividends that were not yet paid at year-end, and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings, including lease liabilities. The Group classifies interest paid as cash flows from operating activities.

Commentary

NZ IAS 7.44A requires an entity to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group provided a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, which include the changes identified in NZ IAS 7.44B as applicable. This reconciliation provides a link to the amounts recognised in the statement of cash flows (NZ IAS 7.44D).

An entity may provide the disclosure required by NZ IAS 7.44A in combination with disclosures of changes in other assets and liabilities. However, it is required to disclose the changes in liabilities arising from financing activities separately from the changes on those other assets and liabilities (NZ IAS 7.44E).

22. Inventories

	2019	2018	
	$000	$000	NZ IAS 2.36(b) NZ IAS 1.78(c)
Raw materials (at cost)	6,240	7,136	
Work in progress (at cost)	13,357	9,722	
Finished goods (at lower of cost and net realisable value)	6,930	6,472	
Total inventories at the lower of cost and net realisable value	**26,027**	**23,830**	

During 2019, $286,000 (2018: $242,000) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. *NZ IAS 2.36(e)*

23. Trade receivables and contract assets

	2019	2018	
	$000	$000	NZ IAS 1.78(b) NZ IFRS 7.6
Receivables from third-party customers	24,845	21,376	
Receivables from an associate (Note 35)	551	582	
Receivables from other related parties (Note 35)	620	550	
	26,016	**22,508**	
Allowance for expected credit losses	(344)	(218)	
	26,672	**22,290**	

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. *NZ IAS 24.18(b)*
For terms and conditions pertaining to related party receivables, refer to Note 35.

Contract assets

As at 31 December 2019, the Group has contract assets of $4,541,000 (2018: $5,180,000) which is net of an allowance for expected credit losses of $6,000 (2018: $5,000). *NZ IFRS 15.116(a) NZ IFRS 15.118(c)*

Set out below is the movement in the allowance for expected credit losses of trade receivables and contract assets: *NZ IFRS 7.35H*

	2019	2018	
	$000	$000	
As at 1 January	223	244	
Provision for expected credit losses (Note 13.9)	185	76	
Write-off	(54)	(95)	
Foreign exchange movement	(4)	(2)	NZ IFRS 7.35I(c)
As at 31 December	**350**	**223**	

The significant changes in the balances of trade receivables and contract assets are disclosed in Note 4.2 while the information about the credit exposures are disclosed in Note 21.5. *NZ IFRS 7.35I*

Commentary

NZ IFRS 7.35H requires tabular disclosure of a reconciliation from the opening balance to the closing balance of the loss allowance by class of financial instrument. The Group has provided this required reconciliation for trade receivables and contract assets. The reconciliation for debt instruments at fair value through OCI was not provided as the movement of the loss allowance is not material. A Tier 2 for-profit entity is not required to provide disclosures required by NZ IFRS 7.35H.

NZ IFRS 7.35I requires an entity to provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. However, it does not explicitly require a reconciliation of movements in the gross carrying amounts in a tabular format and the requirement could be addressed using a narrative explanation. A Tier 2 for-profit entity is not required to provide disclosures required by NZ IFRS 7.35I.

24. Cash and short term deposits

	2019	2018
	$000	$000
Cash at banks and on hand	11,732	11,125
Short-term deposits	5,796	3,791
	17,528	**14,916**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 31 December 2019, the Group had available $5,740,000 (2018: $1,230,000) of undrawn committed borrowing facilities. *NZ IAS 7.50(a)*

The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 21.5 for further details. *NZ IAS 7.48*

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December: *NZ IAS 7.45*

	2019	2018
	$000	$000
Cash at banks and on hand	11,732	11,125
Short-term deposits	5,796	3,791
Cash at banks and short-term deposits attributable to discontinued operation	1,294	–
	18,822	14,916
Bank overdrafts	(966)	(2,650)
Cash and cash equivalents	**17,856**	**12,266**

Commentary

The Group included its bank overdrafts as part of cash and cash equivalents. This is because these bank overdrafts are repayable on demand and form an integral part of the Group's cash management (NZ IAS 7.8).

An entity would need to assess whether its banking arrangement is an integral part of its cash management. Cash management includes managing cash and cash equivalents for the purpose of meeting short-term commitments rather than for investment or other purposes. The Interpretations Committee concluded in June 2018 that if the balance of a banking arrangement does not often fluctuate from being negative to positive, then this indicates that the arrangement does not form an integral part of the entity's cash management and, instead represents a form of financing.

25. Issued capital and reserves

Issued shares

	2019	2018	
			NZ IAS 1.78(e)
	Thousands	Thousands	*NZ IAS 1.79(a)(i)*
Ordinary shares	22,588	20,088	*NZ IAS 1.79(a)(iii)*
7% convertible preference shares	2,500	2,500	
	25,088	**22,588**	

Ordinary shares issued and fully paid	Thousands	$000	*NZ IAS 1.79(a)(iv)*
At 1 January 2018 and 31 December 2018	**19,468**	**19,468**	
Issued on 1 May 2019 for acquisition of Extinguishers Limited (Note 8)	2,500	7,200	
At 31 December 2019	**21,968**	**26,668**	

During the year, the authorised issued share capital was increased by $7,200,000 by the issue of 2,500,000 ordinary shares of $2.88 each.

25. Issued capital and reserves *continued*

Treasury shares	Thousands	$000	*NZ IAS 1.79(a)(vi)*
At 1 January 2018	**335**	**774**	
Issued for cash on exercise of share options	(65)	(120)	
At 31 December 2018	**270**	**654**	
Issued for cash on exercise of share options	(75)	(146)	
At 31 December 2019	**195**	**508**	

Share option schemes
The Group has two share option schemes under which options to subscribe for the Group's shares have been granted to certain executives and senior employees. Refer to Note 33 for further details.

Share options exercised in each respective year have been settled using the treasury shares of the Group. The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on a weighted average basis. Any excess of the cash received from employees over the reduction in treasury shares is recorded in share capital.

Other capital reserves	Share-based payments	Convertible preference shares	Total
	$000	$000	$000
As at 1 January 2018	**338**	**228**	**566**
Changes during the period	298	–	298
At 31 December 2018	**636**	**228**	**864**
Changes during the period	307	–	307
At 31 December 2019	**943**	**228**	**1,171**

Nature and purpose of reserves

NZ IAS 1.79(b)

Other capital reserves

Share-based payments
The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 33 for further details of these plans.

Convertible preference shares
The convertible preference share reserve covers the equity component of the issued convertible preference shares. The liability component is included in interest-bearing loans and borrowings (see Note 21.2).

All other reserves are as stated in the consolidated statement of changes in equity.

25. Issued capital and reserves *continued*

OCI, net of tax:

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

As at 31 December 2019	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Asset revaluation reserve	Retained earnings	Total	*NZ IAS 1.106A*
	$000	$000	$000	$000	$000	$000	$000	
Net gain on a hedge of net investment	–	–	-	195	–	–	195	
Exchange differences on translation of foreign operations	–	–	-	(246)	–	–	(246)	
Currency forward contracts	197	4	-	–	–	–	201	
Commodity forward contracts	(617)	(23)	-	–	–	–	(640)	
Reclassified to statement of profit or loss	(198)	(3)	(6)	–	–	–	(207)	
Fair value loss on debt instruments at FVOCI	–	–	(9)	–	–	–	(9)	
Fair value loss on equity instruments designated at FVOCI	–		(18)	–	–	–	(18)	
Share of OCI of an associate	–	–	(30)	–	30	–	–	
Remeasurement on defined benefit plan	–	–		–	–	257	257	
Revaluation of office properties in New Zealand	–	–		–	592	–	592	
	(618)	(22)	(63)	(51)	622	257	125	

As at 31 December 2018	Cash flow hedge reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Retained earnings	Total
	$000	$000	$000	$000	$000
Exchange differences on translation of foreign operations	–	–	(117)	–	(117)
Currency forward contracts	(265)	–	–	–	(265)
Reclassification to statement of profit or loss	289	–	–	–	289
Fair value loss on debt instruments at FVOCI	–	(4)	–	–	(4)
Reclassification to statement of profit or loss	–	3	–	–	3
Fair value gain on equity instruments designated at FVOCI	–	7	–	–	7
Remeasurement on defined benefit plan	–	–	–	(273)	(273)
	24	6	(117)	(273)	(360)

26. Distributions made and proposed

	2019 $000	2018 $000	
Cash dividends on ordinary shares declared and paid:			*NZ IAS 1.107*
Final dividend for 2018:	1,089	749	
5.66 cents per share (2017: 3.93 cents per share)			*NZ IAS 1.RDR 107.1*
Interim dividend for 2019:	890	851	
4.66 cents per share (2018: 4.47 cents per share)			*NZ IAS 1.RDR 107.1*
	1,979	**1,600**	
Special cash dividends on ordinary shares declared but not paid:			
Special dividends for 2019: 2.14 cents per share (2018: Nil)	410		-
Dividends declared after balance date:			*NZ IAS 1.137(a)*
Final cash dividend for 2019: 5.01 cents per share (2018: 5.66 cents per share)	**1,087**	**1,082**	

Special dividends were approved by an extraordinary shareholders meeting on 15 December 2019 and are included as a separate line item in to the statement of financial position. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

Commentary

Tier 2 for-profit entities are not required to disclose the related amount per share of dividends recognised as distributions to owners during the period. *NZ IAS 1.RDR 107.1*

27. Provisions

	Assurance-type warranties	Restruc-turing	Decommis-sioning	Disposal of electrical and electronic equipment	Contingent considerati on	Total	
	$000	$000	$000	$000	$000	$000	
At 1 January 2019	**118**	**–**	**–**	**57**	**–**	**175**	*NZ IAS 37.84(a)*
Acquisition of a subsidiary (Note 8)	–	900	1,200	–	380	2,480	
Arising during the year	112	–	–	128	20	260	*NZ IAS 37.84(b)*
Utilised	(60)	(59)	–	(27)	–	(146)	*NZ IAS 37.84(c)*
Unused amounts reversed	(6)	(6)	–	–	–	(12)	*NZ IAS 37.84(d)*
Unwinding of discount and changes in the discount rate	2	17	21	3	–	43	*NZ IAS 37.84(e)*
At 31 December 2019	**166**	**852**	**1,221**	**161**	**400**	**2,800**	
Current	166	305	–	31	400	902	
Non-current	-	547	1,221	130	–	1,898	

Assurance-type warranties

A provision is recognised for expected warranty claims on products sold during the year, based on past experience of the level of repairs and returns. It is expected that these costs will be incurred in the next financial year. *NZ IAS 37.85*

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty period for all products sold. *NZ IAS 37.RDR 85.1*

Restructuring

Extinguishers Ltd recorded a restructuring provision prior to the Group's acquisition. The provision relates principally to the elimination of certain of its product lines. The restructuring plan was drawn up and announced to the employees of Extinguishers Limited in 2019 when the provision was recognised in its financial statements. The restructuring is expected to be completed by 2021.

27. Provisions *continued*

Decommissioning

A provision has been recognised for decommissioning costs associated with a factory owned by Extinguishers Limited. The Group is committed to decommissioning the site as a result of the construction of the manufacturing facility for the production of fire retardant fabrics.

Disposals of electrical and electronic equipment

The provision for disposal of electrical and electronic equipment is calculated based on quote estimates received from third parties using approved disposal methods as detailed in the Group's environmental policy.

28. Government grants

NZ IAS 20.39(b)

	2019	2018
	$000	$000
At 1 January	1,551	1,450
Received during the year	2,951	642
Released to the statement of profit or loss	(1,053)	(541)
At 31 December	**3,449**	**1,551**
Current	149	151
Non-current	3,300	1,400

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants. *NZ IAS 20.39(c)*

29. Contract liabilities

	2019	2018
	$000	$000
Long term advances for equipment	2,820	844
Short-term advances for installation services	1,374	1,258
Customer loyalty points	900	678
Service-type warranties	524	410
Equipment received from customers	224	184
Total contract liabilities (Note 4)	5,842	3,374
Current	2,880	2,486
Non-current	2,962	888

29.1 GoodPoints transactions

	2019	2018
	$000	$000
At 1 January	**674**	**551**
Deferred during the year	1,385	1,256
Released to the statement of profit or loss	(1,159)	(1,129)
At 31 December	**900**	**678**
Current	398	346
Non-current	502	332

These amounts relate to the accrual and release of *GoodPoints* transactions. As at 31 December 2019, the estimated liability for unredeemed points amounted to $900,000 (2018: $678,000).

30. Trade and other payables

	2019 $000	2018 $000
Trade payables	15,421	18,551
Other payables	1,465	1,181
Interest payable	43	269
Related parties	40	22
	16,969	**20,023**

Terms and conditions of the above financial liabilities: *NZ IFRS 7.39*

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- Other payables are non-interest bearing and have an average term of six months
- Interest payable is normally settled quarterly throughout the financial year
- For terms and conditions with related parties, refer to Note 35

For explanations on the Group's credit risk management processes, refer to Note 21.5. *NZ IFRS 7.39(c)*

31. Leases

NZ IFRS 16.51
NZ IFRS 16.52

Group as a lessee

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which is further discussed below. *NZ IFRS 16.59(a)* *NZ IFRS 16.59(c)*

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. *NZ IFRS 16.60*

Commentary

NZ IFRS 16.52 requires lessees to disclose information in a single note or a separate section in the financial statements. However, there is no need to duplicate certain information that is already presented elsewhere, provided that information is incorporated by cross-reference in a single note or separate section. The Group provided most of the required disclosures by NZ IFRS 16 in this section of the financial statements. Cross-references are provided for certain required information outside of this section.

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

	Plant and machinery	Motor vehicles	Other equipment	Total	
	$000	$000	$000	$000	
As at 1 January 2018 (restated)	**1,552**	**699**	**664**	**2,915**	
Additions (Note 8)	124	58	46	**228**	
Depreciation expense	(158)	(131)	(122)	**(411)**	*NZ IFRS 16.53(h)*
As at 31 December 2018 (restated)	**1,518**	**626**	**588**	**2,732**	*NZ IFRS 16.53(a)*
Additions (Note 8)	424	108	78	**610**	*NZ IFRS 16.53(j)*
Depreciation expense	(173)	(136)	(125)	**(434)**	*NZ IFRS 16.53(h)*
As at 31 December 2019	**1,769**	**598**	**541**	**2,908**	*NZ IFRS 16.53(a)* *NZ IFRS 16.53(j)*

31. Leases *(continued)*

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period: *NZ IFRS 16.54*

	2019 $000	2018 $000 Restated	
As at 1 January	2,971	3,089	*NZ IFRS 16.RDR 54.1*
Additions	593	225	
Accretion of interest	178	185	*NZ IFRS 16.54*
Payments	(581)	(528)	
As at 31 December 2019	**3,161**	**2,971**	
Current (Note 21.2)	455	418	
Non-current (Note 21.2)	2,706	2,553	

The maturity analysis of lease liabilities is disclosed in Note 21.5. *NZ IFRS 16.58*

The following are the amounts recognised in profit or loss: *NZ IFRS 16.54*

	2019 $000	2018 $000 Restated	
Depreciation expense of right-of-use assets	434	411	*NZ IFRS 16.53(a)*
Interest expense on lease liabilities	178	185	*NZ IFRS 16.53(b)*
Expense relating to short-term leases (included in cost of sales)	22	21	*NZ IFRS 16.53(c)*
Expense relating to leases of low-value assets (included in administrative expenses)	18	17	*NZ IFRS 16.53(d)*
Variable lease payments (included in cost of sales)	32	28	*NZ IFRS 16.53(e)*
Total amount recognised in profit or loss	**684**	**662**	

The Group had total cash outflows for leases of $653,000 in 2019 ($594,000 in 2018). The Group also had non-cash additions to right-of-use assets and lease liabilities of $593,000 in 2019 ($225,000 in 2018). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 34. *NZ IFRS 16.53(g) NZ IFRS 16.59(b)(iv) NZ IAS 7.43*

31. Leases (*continued*)

Commentary

NZ IFRS 16.53 requires disclosure of the following information, which users of the financial statements have identified as being most useful to their analysis:

- Depreciation charge for right-of-use assets, split by class of underlying asset
- Interest expense on lease liabilities
- Short-term lease expense for such leases with a lease term greater than one month
- Low-value asset lease expense (except for portions related to short-term leases)
- Variable lease expense (i.e., for variable lease payments not included in the lease liability)
- Income from subleasing right-of-use assets
- Total cash outflow for leases
- Additions to right-of-use assets
- Gains and losses arising from sale and leaseback transactions
- Carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset

All of the above disclosures are required to be presented in a tabular format, unless another format is more appropriate. The amounts to be disclosed must include costs that the lessee has included in the carrying amount of another asset during the reporting period (NZ IFRS 16.54 and NZ IFRS 16 RDR 54.1).

A Tier 2 entity is not required to make the disclosures required by NZ IFRS 16.53 in a tabular format. *NZ IFRS 16.54*

The standard requires disclosure of the total cash outflow for leases. The Group also included the cash outflow related to leases of low-value assets and short-term leases in the disclosure of the total cash outflow.

NZ IFRS 16.55 requires disclosure of the amount of lease commitments for short-term leases when short-term lease commitments at the end of the reporting period are dissimilar to the same period's short-term lease expense (that is otherwise required to be disclosed). This disclosure requirement is not applicable to the Group.

NZ IFRS 16.59 requires additional qualitative and quantitative information about a lessee's leasing activities necessary to meet the disclosure objective of the standard. This additional information may include, but is not limited to, information that helps users of the financial statements to assess:

- The nature of the lessee's leasing activities
- Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:
  - Variable lease payments
  - Extension options and termination options
  - Residual value guarantees
  - Leases not yet commenced to which the lessee is committed
- Restrictions or covenants imposed by leases
- Sale and leaseback transactions

NZ IFRS 16.59(b)(i)
NZ IFRS 16.B49

The Group has lease contracts for machinery that contains variable payments based on the number of units to be manufactured. These terms are negotiated by management for certain machinery that is used to manufacture products without steady customer demand. Management's objective is to align the lease expense with the units manufactured and revenue earned. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

	Fixed payments	Variable payments	Total
	$000	$000	$000
2019			
Fixed rent	352	–	**352**
Variable rent with minimum payment	176	47	**223**
Variable rent only	–	24	**24**
As at 31 December 2019	**528**	**71**	**599**
2018			
Fixed rent	392	–	**392**
Variable rent with minimum payment	189	45	**234**
Variable rent only	–	21	**21**
As at 31 December 2019	**581**	**66**	**647**

A 5% increase in units produced for the relevant products would increase total lease payments by 1%.

31. Leases (*continued*)

Commentary

Disclosures of additional information relating to variable lease payments could include (NZ IFRS 16.B49):

- The lessee's reasons for using variable lease payments and the prevalence of those payments
- The relative magnitude of variable lease payments to fixed payments
- Key variables upon which variable lease payments depend on how payments are expected to vary in response
- to changes in those key variables
- Other operational and financial effects of variable lease payments

Entities would need to exercise judgement in determining the extent of disclosures needed to satisfy the disclosure objective of the standard (i.e., to provide a basis for users to assess the effect of leases on the financial position, financial performance, and cash flows of the lessee).

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

NZ IFRS 16.59(b)(ii)
NZ IFRS 16.B50

	Within five years	More than five years	Total
	$000	$000	$000
2019			
Variable rent with minimum payment	525	403	**928**
Variable rent only	424	202	**626**
	949	**605**	**1,554**
2018			
Variable rent with minimum payment	504	398	902
Variable rent only	388	176	564
	892	**574**	**1,466**

Commentary

Disclosures of additional information relating to extension and termination options could include (NZ IFRS 16.B50):

- The lessee's reasons for using extension options or termination options and the prevalence of those options
- The relative magnitude of optional lease payments to lease payments
- The prevalence of the exercise of options that were not included in the measurement of lease liabilities
- Other operational and financial effects of those options

Entities would need to exercise judgement in determining the extent of disclosures needed to satisfy the disclosure objective of the standard (i.e., to provide a basis for users to assess the effect of leases on the financial position, financial performance, and cash flows of the lessee).

31. Leases (*continued*)

Group as a lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain office and manufacturing buildings (see Note 18). These leases have terms of between five and 20 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Group during the year is $1,404,000 (2018: $1,377,000). *NZ IFRS 16.90* *NZ IFRS 16.91* *NZ IFRS 16.92*

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows: *NZ IFRS 16.97*

	2019	2018
	$000	$000
Within one year	1,418	1,390
After one year but not more than five years	5,630	5,520
More than five years	5,901	5,864
	12,949	**12,774**

Commentary

For operating leases, a Tier 2 lessor is not required to separately disclose income relating to variable lease payments that do not depend on an index or a rate. *NZ IFRS 16 RDR 90.1*

A Tier 2 lessor shall provide disclosures specified in NZ IFRS 16.90 in a tabular format, unless another format is more appropriate. *NZ IFRS 16.91*

32. Pensions and other post-employment benefit plans

Net employee defined benefit liability:

	2019	2018
	$000	$000
US post-employment healthcare benefit plan	339	197
New Zealand pension plan	2,711	2,780
Total	**3,050**	**2,977**

The Group has a defined benefit pension plan in New Zealand (funded). Also, in the United States, the Group provides certain post-employment healthcare benefits to employees (unfunded). *NZ IAS 19.135 NZ IAS 19.136 NZ IAS 19.138*

The Group's defined benefit pension plan is a final salary plan for New Zealand employees, which requires contributions to be made to a separately administered fund. *NZ IAS 19.139*

Under the terms of the plan, final salary payments are required to be adjusted for the consumer price index once in payment during retirement. The level of benefits provided depends on the member's length of service and salary at retirement age. The defined benefit pension plan requires contributions to be made to a separately administered fund. The fund has the legal form of a foundation and it is governed by the Board of Trustees, which consists of an equal number of employer's and employee's representatives. The Board of Trustees is responsible for the administration of the plan assets and for the definition of the investment strategy. *NZ IAS19.139(a)(ii)* *NZ IAS 19.139(a)(iii)*

Each year, the Board of Trustees reviews the level of funding in the New Zealand pension plan as required under the terms of the plan. The Board of Trustees decides its contribution based on the results of this annual review. Generally, it aims to have a portfolio mix of a combined 40% in equity and property and 60% in debt instruments. Under the terms of the plan, the Group is required to clear any plan deficit over a period of no more than five years after the period in which the deficit arises. *NZ IAS 19.146 NZ IAS 19.147(a)*

Since the pension liability is adjusted to consumer price index, the pension plan is exposed to New Zealand's inflation, interest rate risks and changes in the life expectancy for pensioners. As the plan assets include significant investments in listed equity shares of entities in manufacturing and consumer products sector, the Group is also exposed to equity market risk arising in the manufacturing and consumer products sector.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and the funded status and amounts recognised in the statement of financial position for the respective plans:

Post-employment healthcare benefit plan

Net benefit expense (recognised in profit or loss)	2019	2018
	$000	$000
Current service cost	142	108
Interest cost on benefit obligation	11	5
Net benefit expense	**153**	**113**

NZ IAS 19.53

Changes in the present value of the defined benefit obligation:

	$000
Defined benefit obligation at 1 January 2018	**88**
Interest cost	5
Current service cost	108
Benefits paid	(34)
Exchange differences	30
Defined benefit obligation at 31 December 2018	**197**
Interest cost	11
Current service cost	142
Benefits paid	(21)
Exchange differences	10
Defined benefit obligation at 31 December 2019	**339**

NZ IAS19.141 *NZ IAS 19.RDR 140.2*

32. Pensions and other post-employment benefit plans *continued*

New Zealand Plan

2019 changes in the defined benefit obligation and fair value of plan assets

NZ IAS 19.140
NZ IAS 19.141
NZ IAS 19.RDR 141.1

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in OCI						
	1 January 2019	Service cost	Net Interest	Sub-total included in profit or loss (Note 13.7)	Benefits paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in OCI	Contributions by employer	31 December 2019
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Defined benefit obligation	(5,610)	(1,267)	(256)	(1,523)	868	–	211	(80)	(20)	111	–	(6,154)
Fair value of plan assets	2,830	–	125	125	(868)	256	–			256	1,100	3,443
Benefit liability	**(2,780)**			**(1,398)**	**–**	**256**	**211**	**(80)**	**(20)**	**367**	**1,100**	**(2,711)**

2018 changes in the defined benefit obligation, fair value of plan assets and unrecognised past service costs

NZ IAS 19.RDR 140.2

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in OCI						
	1 January 2018	Service cost	Net Interest	Sub-total included in profit or loss (Note 13.7)	Benefits paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in OCI	Contributions by employer	31 December 2018
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Defined benefit obligation	(5,248)	(1,144)	(283)	(1,427)	1,166	–	(201)	70	30	(101)	–	(5,610)
Fair value of plan assets	2,810	–	161	16	(1,166)	(289)	–			(289)	1,314	2,830
Benefit liability	**(2,438)**			**(1,266)**	**–**	**(289)**	**(201)**	**70**	**30**	**(390)**	**1,314**	**(2,780)**

Commentary

An entity must assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks under the requirements of NZ IAS 19.138. For example, an entity may disaggregate disclosure about plans showing one or more of the following features: different geographical locations, characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans, regulatory environments, reporting segments and/or funding arrangements (e.g., wholly unfunded, wholly or partly funded).

Entities must exercise judgement and assess the grouping criteria according to their specific facts and circumstances. In this case, the Group has only one defined benefit pension plan in New Zealand, hence there is no further disaggregation shown. Additional disclosures may also be provided to meet the objectives in NZ IAS 19.135. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:
(a) between amounts owing to active members, deferred members, and pensioners
(b) between vested benefits and accrued but not vested benefits
(c) between conditional benefits, amounts attributable to future salary increases and other benefits

32. Pensions and other post-employment benefit plans *continued*

Commentary

Tier 2 for-profit entities are not required to disclose the reconciliation specified by NZ IAS 19.140 and 141 for prior periods. NZ IAS 19.RDR 140.2

In respect of each reconciliation listed in NZ IAS 19.140 a Tier 2 for-profit entity shall disclose *NZ IAS 19.RDR 141.1*

(a) Contributions to the plan; and

(b) Payments from the plan.

The acquisitions of Extinguishers Limited in 2019 and Lightbulbs Limited in 2018 did not affect plan assets or the defined benefit obligation, as neither of the entities had defined benefit plans.

The fair value of each major class of plan assets are as follows: *NZ IAS 19.142* *NZ IAS 19.RDR 142.1*

	New Zealand plan	
	2019	2018
	$000	$000
Investments quoted in active markets:		
Listed equity investments		
Manufacturing and consumer products sector	830	655
Telecom sector	45	33
Bonds issued by New Zealand Government	1,670	1,615
Cash and cash equivalents	400	250
Unquoted investments:		
Debt instruments issued by Good Bank Limited	428	222
Property	70	55
Total	**3,443**	**2,830**

The plan assets include a property occupied by the Group with a fair value of $50,000 (2018: $50,000). *NZ IAS 19.143*

Commentary

Under NZ IAS 19.142, the Group has separated the plan assets within different classes. The Group has a class, 'property', which has not been further classified into categories. The amount is not determined to be material to the consolidated financial statements.

NZ IAS 19.RDR 142.1 states that a Tier 2 for-profit entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, and therefore the entity does not have to disaggregate the fair values of the plan assets into the classes specified by NZ IAS 19.142.

The fair values of each classes of plan assets were determined in accordance with the requirements of NZ IFRS 13. However, the fair value disclosures required by NZ IFRS 13 do not apply to plan assets measured at fair value in accordance with NZ IAS 19.

The principal assumptions used in determining pension and post-employment medical benefit obligations for the Group's plans are shown below: *NZ IAS 19.144* *NZ IAS 19.RDR 144.1*

	2019	2018
	%	%
Discount rate:		
New Zealand pension plan	4.9	5.5
Post-employment medical plan	5.7	5.9
Future salary increases:		
New Zealand pension plan	3.5	4.0
Future pension increases:		
New Zealand pension plan	2.1	2.1
Healthcare cost increase rate	7.2	7.4
Life expectation for pensioners at the age of 65:	**Years**	**Years**
New Zealand pension plan		
Male	20.0	20.0
Female	23.0	23.0
Post-employment health care benefit plan		
Male	19.0	19.0
Female	22.0	22.0

Commentary

Tier 2 for-profit entities need only disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. *NZ IAS 19.RDR 144.1*

32. Pensions and other post-employment benefit plans *continued*

A quantitative sensitivity analysis for significant assumption as at 31 December 2019 is as shown below:

New Zealand pension plan:

NZ IAS 19.145

Assumptions	Discount rate		Future salary increases		Future pension cost increase	
Sensitivity Level	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease	1% increase	1% decrease
Impact on the net defined benefit obligation	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
2019	(90)	80	120	(110)	70	(80)
2018	(100)	70	110	(130)	60	(70)

Assumptions	Life expectancy of male pensioners		Life expectancy of female pensioners	
Sensitivity Level	Increase by 1 year	Decrease by 1 year	Increase by 1 year	Decrease by 1 year
Impact on defined benefit obligation	**$000**	**$000**	**$000**	**$000**
2019	110	(120)	70	(60)
2018	100	(130)	60	(70)

US post-employment healthcare benefit plan:

Assumptions	Discount rate		Estimated healthcare cost increase	
Sensitivity Level	0.5% increase	0.5% decrease	1% increase	1% decrease
Impact on defined benefit obligation	**$000**	**$000**	**$000**	**$000**
2019	(90)	100	110	(90)
2018	(120)	80	105	(95)

Assumptions	Life expectancy of male pensioners		Life expectancy of female pensioners	
Sensitivity Level	Increase by 1 year	Decrease by 1 year	Increase by 1 year	Decrease by 1 year
Impact on defined benefit obligation	**$000**	**$000**	**$000**	**$000**
2019	130	(150)	90	(80)
2018	125	(155)	75	(95)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. *NZ IAS 19.145(b)*

The following are the expected payments or contributions to the defined benefit plan in future years:

	2019	2018	
	$000	**$000**	*NZ IAS 19.147(a)* *NZ IAS 19.147(b)*
Within the next 12 months (next annual reporting period)	1,500	1,350	*NZ IAS 19.147(c)*
Between 2 and 5 years	2,150	2,050	
Between 5 and 10 years	2,160	2,340	
Beyond 10 years	3,000	2,600	
Total expected payments	**8,810**	**8,340**	

The average duration of the defined benefit plan obligation at the end of the reporting period is 26.5 years (2018: 25.3 years).

32. Pensions and other post-employment benefit plans *continued*

Commentary

NZ IAS 19.145(c) also requires disclosure of changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes. The Group did not have such changes.

NZ IAS 19.145(a) requires disclosure of sensitivity analyses showing how the defined benefit obligation would be affected by reasonably possible changes in actuarial assumptions. The purpose of this publication is to illustrate the disclosures required and the changes in the assumption provided in the sensitivity analyses above are not necessarily reflective of those in the current markets.

The standard includes some overarching disclosure objectives and considerations that provide a framework to identify the overall tone and extent of disclosures that should be included in the financial statement notes. For example, NZ IAS 19.136 indicates that entities should consider the following when providing defined benefit plan disclosures:

The level of detail necessary to satisfy the disclosure requirements

How much emphasis to place on each of the various requirements

How much aggregation or disaggregation to undertake and

Whether users of financial statements need additional information to evaluate the quantitative information disclosed

These considerations are meant to assist entities in reconciling the overriding disclosure objective along with the fact that an extensive list of required disclosures still remains in the standard. In the Basis for Conclusions accompanying NZ IAS 19the IASB emphasise that information that is immaterial is not required to be disclosed as set out in NZ IAS 1.31.

The addition of clear disclosure objectives provides entities with an opportunity to take a fresh look at their defined benefit plan disclosures. Eliminating immaterial disclosures would enhance the financial statement user's ability to focus on those transactions and details that truly matter.

33. Share-based payments

Senior Executive Plan

NZ IFRS 2.45(a)

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent with more than 12 months of service. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest if and when the Group's EPS (non-market condition) increases by 10% three years from the date of grant and the senior executive remains employed on such date. The share options granted will not vest if the EPS performance condition is not met.

NZ IFRS 2.46
NZ IFRS 2.RDR 46.1

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted. However, the above performance condition is only considered in determining the number of instruments that will ultimately vest.

The contractual term of each option granted is five years. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the SEP as an equity-settled plan.

NZ IFRS 2.45(a)

General Employee Share-option Plan

Under the General Employee Share-option Plan (GESP), the Group, at its discretion, may grant share options of the parent to non-senior executive employees, once the employee has completed two years of service. Vesting of the share options is dependent on the Group's total shareholder return (TSR) as compared to a group of principal competitors. Employees must remain in service for a period of three years from the date of grant.

NZ IFRS 2.47(a)(iii)
NZ IFRS 2.RDR 46.1

The fair value of share options granted is estimated at the date of grant using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share options were granted. The model simulates the TSR and compares it against the group of principal competitors. It takes into account historical and expected dividends, and the share price fluctuation covariance of the Group and its competitors to predict the distribution of relative share performance.

NZ IFRS 2.46

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The contractual term of the share options is five years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

33. Share-based payments *continued*

Share Appreciation Rights

The Group's business development employees are granted share appreciation rights (SARs), settled in cash. The SARs vest when a specified target number of new sales contracts (non-market vesting condition) are closed and the employee continues to be employed by the Group at the vesting date. The contractual term of the SARs is six years. *NZ IFRS 2.45(a)*

The liability for the SPRs is measured initially and at the end of each reporting period until settled, at the fair value of the SARs, by applying an option pricing model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the employees have rendered services to date. *NZ IFRS 2.46* *NZ IFRS 2.RDR 46.2*

Commentary

Tier 2 for-profit entities are granted a disclosure concession from NZ IFRS 2.46, which requires entities to disclose information that enables users of the financial statements to understand how the fair value of the good or services received, or the fair value of the equity instruments granted during the period, was determined. However, Tier 2 for-profit entities are required to disclose:

For equity settled share-based payment arrangements, a Tier 2 for-profit entity is required to disclose information about how it measured the fair value of goods or services received or the fair value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it. *NZ IFRS 2.RDR 46.1*

For cash settled share-based payment arrangements, a Tier 2 for-profit entity is required to disclose information about how the liability was measured *NZ IFRS 2.RDR 46.2*

The carrying amount of the liability relating to the SARs at 31 December 2019 was $299,000 (2018: $194,000). *NZ IFRS 2.51(b)* *NZ IFRS 2.RDR 50.1(b)*

No SARs had vested, granted or forfeited at 31 December 2019 and 2018. *NZ IFRS 2.51(b)*

The expense recognised for employee services received during the year is shown in the following table: *NZ IFRS 2.51(a)*

	2019 $000	2018 $000	
Expense arising from equity-settled share-based payment transactions	307	298	
Expense arising from cash-settled share-based payment transactions	105	194	
Total expense arising from share-based payment transactions	**412**	**492**	*NZ IFRS 2.RDR 50.1(a)*

There were no cancellations or modifications to the awards in 2019 or 2018. *NZ IFRS 2.47(c)*

Movements during the year

NZ IFRS 2.45(b)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs):

	2019 Number	2019 WAEP	2018 Number	2018 WAEP	
Outstanding at 1 January	575,000	$2.85	525,000	$2.75	
Granted during the year	250,000	$3.85	155,000	$3.13	
Forfeited during the year	–	–	(25,000)	$2.33	
Exercised during the year	(75,000)[2]	$2.33	(65,000)[1]	$3.08	*NZ IFRS 2.45(c)*
Expired during the year	(25,000)	$3.02	(15,000)	$2.13	
Outstanding at 31 December	**725,000**	$3.24	**575,000**	$2.85	*NZ IFRS 2.45(d)*
Exercisable at 31 December	110,000	$2.98	100,000	$2.51	*NZ IFRS 2.45(b)*

[1] *The weighted average share price at the date of exercise of these options was $4.09.* *NZ IFRS 2.45(c)*

[2] *The weighted average share price at the date of exercise of these options was $3.13.*

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 2.94 years (2018: 2.60 years).

The weighted average fair value of options granted during the year was $1.32 (2018: $1.18). *NZ IFRS 2.47(a)*

The range of exercise prices for options outstanding at the end of the year was $2.33 to $3.85 (2018: $2.13 to $3.13). *NZ IFRS 2.45(d)*

33. Share-based payments *continued*

The following tables list the inputs to the models used for the three plans for the years ended 31 December 2019 and 2018, respectively: *NZ IFRS 2.47(a)(i)*

	2019 SEP	2019 GESP	2019 SAR
Weighted average fair values at the measurement date ($)	3.45	3.10	2.80
Dividend yield (%)	3.13	3.13	3.13
Expected volatility (%)	15.00	16.00	18.00
Risk-free interest rate (%)	5.10	5.10	5.10
Expected life of share options/SARs (years)	4.25	3.00	6.00
Weighted average share price ($)	3.10	3.10	3.12
Model used	Binomial	Monte Carlo	Binomial

	2018 SEP	2018 GESP	2018 SAR
Weighted average fair values at the measurement date ($)	3.30	3.00	2.60
Dividend yield (%)	3.01	3.01	3.01
Expected volatility (%)	16.30	17.50	18.10
Risk-free interest rate (%)	5.00	5.00	5.00
Expected life of options/SARs (years)	4.25	3.00	6.00
Weighted average share price ($)	2.86	2.86	2.88
Model used	Binomial	Monte Carlo	Binomial

The expected life of the share options and SARs is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. *NZ IFRS 2.47(a)(ii)*

34. Commitments and contingencies

Commitments

NZ IAS 16.74(c)
NZ IFRS 12.23 (a)
NZ IFRS 12.B18-B19

At 31 December 2019, the Group had commitments of $2,310,000 (2018: $4,500,000) including $2,000,000 (2018: $Nil) relating to the completion of the fire equipment safety facility and $310,000 (2018: $516,000) relating to the Group's joint venture.

NZ IFRS 16.59(b)(iv)

The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are $48,000 within one year, $195,000 within five years and $107,000 thereafter.

Legal claim contingency

NZ IAS 37.86

An overseas customer has commenced an action against the Group in respect of equipment claimed to be defective. The estimated payout is $850,000 should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of the payment, if any.

The Group has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.

Guarantees

NZ IAS 24.21(h)
NZ IAS 24.19 (d)
NZ IAS 24.19 (e)

- The Group has provided the following guarantees at 31 December 2019:
- Guarantee to an unrelated party for the performance in a contract by the joint venture. No liability is expected to arise *NZ IAS 37.86*
- Guarantee of its share of $20,000 (2018: $13,000) of the associate's contingent liabilities which have been incurred jointly with other investors *NZ IFRS 12.23 (b)*

Contingent liabilities

The Group recognised a contingent liability of $400,000 in the course of the acquisition of Extinguishers Limited (see Note 8 and 27).

35. Related party transactions

Note 7 above provides the information about the Group's structure including the details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

NZ IAS 24.18
NZ IAS 24.21

		Sales to related parties	Purchases from related parties	Amounts owed by related parties*	Amounts owed to related parties*
		$000	$000	$000	$000
Entity with significant influence over the Group:					
International Fires P.L.C.	2019	7,115	–	620	–
	2018	5,975	–	550	–
Associate:					
Power Works Limited	2019	2,900	–	551	–
	2018	2,100	–	582	–
Joint venture in which the parent is a venturer:					
Showers Limited	2019	–	590	–	30
	2018	–	430	–	12
Key management personnel of the Group:					
Other directors' interests	2019	225	510	–	10
	2018	135	490	–	10

** The amounts are classified as trade receivables and trade payables, respectively (see Note 23 and Note 30).*

35. Related party disclosures *continued*

NZ IAS 24.13

NZ IAS 24.18

Loans from/to related parties		Interest received $000	Amounts owed by related parties $000
Associate:			
Power Works Limited	2019	20	200
	2018	–	–
Key management personnel of the Group:			
Directors' loans	2019	1	13
	2018	–	8

There were no transactions other than dividends paid between the Group and S.J. Limited, the ultimate parent during the financial year (2018: $Nil).

Loan to an associate

The loan granted to Power Works Limited is intended to finance an acquisition of new machines for the manufacturing of fire prevention equipment. The loan is fully secured and repayable in full on 1 June 2019. Interest is charged at 10%.

Terms and conditions of transactions with related parties

NZ IAS 24.21
NZ IAS 24.18(b)

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has recognised a provision for expected credit losses of $2,000 relating to amounts owed by related parties (2018: $1,000).

Commentary

The disclosure that transactions with related parties are made on terms equivalent to an arm's length transaction is provided only if an entity can substantiate such terms, but NZ IAS 24.23 does not require such a disclosure. The Group was able to substantiate the terms and therefore provides the disclosure.

Commitments with related parties

NZ IAS 24.18(b)
NZ IAS 24.21

On 1 July 2019, Bright Sparks Limited entered into a two-year agreement ending 30 June 2021 with Power Works Limited to purchase specific electrical and optical cables that Bright Sparks Limited uses in its production cycle. Bright Sparks Limited expects the potential purchase volume to be $750,000 in 2020 and $250,000 in the first six months of 2021. The purchase price is based on Power Works Limited's actual cost plus a 5% margin and will be settled in cash within 30 days of receiving the inventories.

The Group has provided a contractual commitment to Fire Equipment Test Lab Limited, whereby if the assets held as collaterals by Fire Equipment Test Lab Limited for its borrowing falls below a credit rating of 'AA', the parent will substitute assets of an equivalent of 'AA' rating. The maximum fair value of the assets to be replaced is $200,000 as at 31 December 2019 (2018: $210,000).

Transactions with key management personnel

Director's loans

NZ IAS 24.18

The Group offers senior management a facility to borrow up to $20,000, repayable within five years from the date of disbursement. Such loans are unsecured and the interest rate is based on BKBM + 0.8%. Any loans granted are included in financial instruments on the face of the statement of financial position.

35. Related party disclosures *continued*

Other directors' interests

NZ IAS 24.18
NZ IAS 24.19(f)

During both 2019 and 2018, Group companies made purchases at market prices from Gnome Industries Limited, of which the spouse of one of the directors of the Group is a director and controlling shareholder.

One director has a 25% (2018: 25%) equity interest in Home Fires Limited. The Group has a contract for the supply of fire extinguishers to Home Fires Limited. During 2019 and 2018, the Group supplied fire extinguishers to Home Fires Limited at market prices.

Compensation of key management personnel of the Group

NZ IAS 24.17
NZ IAS 24.RDR 17.1

	2019 $000	2018 $000
Short-term employee benefits	435	424
Post-employment pension and medical benefits	110	80
Termination benefits	40	–
Share-based payment transactions	18	12
Total compensation paid to key management personnel	**603**	**516**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Generally, the non-executive directors do not receive pension entitlements from the Group. During 2019, an amount of $40,000 was paid to a director who retired from an executive director's position in 2018.

Directors' interests in the Senior Executive Plan

Share options held by executive members of the Board of Directors under the Senior Executive Plan to purchase ordinary shares have the following expiry dates and exercise prices:

NZ IAS 24.17(e)
NZ IAS 24.RDR 17.1

Issue date	Expiry date	Exercise price	2019 Number outstanding	2018 Number outstanding
2018	2022	$2.33	10,000	10,000
2018	2022	$3.13	83,000	83,000
2019	2023	$3.85	27,000	–
Total			**120,000**	**93,000**

No share options have been granted to the non-executive members of the Board of Directors under this scheme. Refer to Note 33 for further details on the scheme.

Commentary

Tier 2 for-profit entities are not required to disclose a breakdown of compensation paid to key management personnel.

36. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

NZ IAS 8.30
NZ IAS 8.31(d)

Commentary

NZ IAS 8.30 requires disclosure of those standards that have been issued but are not yet effective. These disclosures are required to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such NZ IFRSs on an entity's financial statements. For illustrative purposes, the Group has listed all standards and interpretations that are not yet effective. However, a preferred alternative would be to only list and address the ones expected to have an impact on the Group's financial position, performance, and/or disclosures.

For a listing of NZ IFRS standards and Interpretations that have been issued but are not yet effective please refer to our quarterly New Accounting Standards and Interpretations publications. This publication is updated in March, June, September and December and is available from your local EY contact.

NZ IFRS 17 *Insurance Contracts*

NZ IFRS 17 *Insurance Contracts* (IFRS 17) was issued in August 2017 and is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, NZ IFRS 17 will replace NZ IFRS 4 *Insurance Contracts* (NZ IFRS 4) that was issued in 2005. NZ IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of NZ IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in NZ IFRS 4, which are largely based on grandfathering previous local accounting policies, NZ IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of NZ IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

NZ IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies NZ IFRS 9 and NZ IFRS 15 on or before the date it first applies NZ IFRS 17. This standard is not applicable to the Group.

Amendments to NZ IFRS 3: *Definition of a Business*

In December 2018, the New Zealand Accounting Standards Board (NZASB) issued amendments to the definition of a business in NZ IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Amendments are effective for reporting periods beginning on or after 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*

In December 2018, the NZASB issued amendments to NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Amendments are effective for reporting periods beginning on or after 1 January 2020.The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting

In May 2018, the NZASB issued the *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting* (*2018 NZ Conceptual Framework*) that describes the objective of, and the concepts for, general purpose financial reporting. The *2018 NZ Conceptual Framework* is not a Standard. Nothing in the *2018 NZ Conceptual Framework* overrides any Standard or any requirement in a Standard.

The *2018 NZ Conceptual Framework* is effective for reporting periods beginning on or after 1 January 2020. It does not have an impact on the Group's consolidated financial statements.

36. Standards issued but not yet effective *continued*

Updating References to the Conceptual Framework in NZ IFRS

This Standard sets out amendments to NZ IFRSs to reflect the issue of the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting in 2018.

The Standard is effective for reporting periods beginning on or after 1 January 2020. It does not have an impact on the Group's consolidated financial statements.

2019 Amendments to XRB A1 Appendix A – When is an Entity a Public Benefit Entity (PBE)?

This Standard includes amendments to the guidance on the definition of a PBE in XRB A1 as well as the indicators to be considered in determining whether an entity is a PBE.

Amendments are effective for reporting periods beginning on or after 1 January 2020. The Group will not have an impact on adoption of these amendments.

2019 Omnibus Amendments to NZ IFRS

This Standard amends:

- NZ IFRS 10 Consolidated Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures to defer the effective date of the amendments in Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to NZ IFRS 10 and NZ IAS 28) to annual periods beginning on or after 1 January 2025.
- FRS-44 *New Zealand Additional Disclosures* to (a) require that, if an IFRS has been issued by the IASB but the equivalent NZ IFRS has not yet been issued by the XRB, an entity must disclose the information specified in paragraphs 30 and 31 of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS; and (b) delete paragraphs 12.1–12.10 and Appendix A of FRS-44, which deal with elements in the statement of service performance.

Amendments are effective for reporting periods beginning on or after 1 January 2020. The Group will not be affected by these amendments on the date of transition.

37. Auditors' remuneration

The auditor of Good Group New Zealand Limited is EY.

	2019 $000	2018 $000	
Fees to EY for:			
Audit or review of financial statements	1,206	1,185	*FRS-44.8.1(a)* *CA93 s211(1)(j)*
Other services			*FRS-44.8.1(b)*
- Tax compliance	37	43	*FRS-44.8.2*
- Special audits required by regulators	88	83	*FRS-44.8.2*
- Due diligence services	55	35	*FRS-44.8.2*
	1,440	**1,551**	

Fees to non EY audit firm for:			
- Review of the financial report	105	102	*FRS-44.8.1(a)*
- Tax compliance services	21	19	*FRS-44.8.1(b)*
- Accounting advisory services	8	8	*FRS-44.8.1(b)*
	134	**129**	

Commentary

Fees paid to each auditor or reviewer include fees paid to any network firm of the auditor or review.

Tier 2 for-profit entities should be aware that although there is an RDR concession for disclosing audit fees, the disclosure of audit fees is still required by section 211(1)(j) of the Companies Act 1993.

38. Imputation credits

	2019 $000	2018 $000	
The amount of imputation credits available for use in subsequent reporting periods	7,621	5,867	*FRS-44.9.2*

Commentary

FRS 44-9.2 requires an entity to disclose the amount of imputation credits available for use in subsequent reporting periods. This includes taking into account any post-balance-date debits or credits to the imputation credit account arising from the settlement of assets/liabilities recognised at balance date.

In particular, for the purposes of determining the amount required to be disclosed in accordance with FRS-44.9.2, entities may have:

(c) imputation credits that will arise from the payment of the amount of the provision for income tax;

(d) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(e) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Where there are different classes of investors with different entitlements to imputation credits, FRS-44.9.4 requires disclosures about the nature of those entitlements for each class where this is relevant to an understanding of them.

The disclosures required by paragraphs FRS-44.9.2 and 9.4 shall be made separately in respect of any New Zealand imputation credits and any Australian imputation credits/franking credits.

39. Events after the reporting period

On 14 January 2020, a building with a net book value of $1,695,000 was severely damaged by flooding and inventories with a net book value of $857,000 were destroyed. It is expected that insurance proceeds will fall short of the costs of rebuilding and loss of inventories by $750,000.

NZ IAS 10.21
NZ IAS 10.10

Appendix 1: Alternative method of adopting NZ IFRS 16 *Leases*

Commentary

This Appendix illustrates the key changes to the Group's consolidated financial statements had the Group elected to adopt NZ IFRS 16 using the modified retrospective method.

An entity that elects the modified retrospective method would apply NZ IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings (or other component of equity) at the date of initial application. In addition, the standard includes specific transition requirements as well as practical expedients not available under the full retrospective method (NZ IFRS 16.C8-C11).

The following would be the key changes to the Group's consolidated financial statements had the Group elected to adopt NZ IFRS 16 using the modified retrospective method. These changes are illustrated in this Appendix.

- The comparative information for each of the primary financial statements would not have been restated and would have been presented based on the requirements of previous standards (i.e., NZ IAS 17 *Leases*, NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*, NZ SIC-15 *Operating Leases-Incentives* and NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). The Group would also not have needed to present a statement of financial position as at 1 January 2018 (i.e., no third balance sheet).
- The cumulative effect of initially applying the standard would have been recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) as at 1 January 2019 in the statement of changes in equity for the year ended 31 December 2019. The narrative in Note 2.4, describing the changes and impact of adopting NZ IFRS 16, would have changed accordingly (i.e., the information required by NZ IAS 8.28(f) would not be disclosed).
- In addition, the weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019, and an explanation of any difference between the discounted operating lease commitments as at 31 December 2018 and the lease liabilities as at 1 January 2019, as required by NZ IFRS 16.C12, would have been disclosed.

While not illustrated in this Appendix, the following changes in the notes to the consolidated financial statements of the Group would also have been needed:

- The summary of significant accounting policies section in Note 2.4 and the significant accounting, judgements, estimates and assumptions section in Note 3 would have included the significant accounting policies, judgements, estimates and assumptions under the previous standards and interpretations. A description would have been provided to distinguish between the accounting policies, judgements, estimates and assumptions that applied before and those that applied after 1 January 2019.
- The disclosures for the comparative period in the notes to the consolidated financial statements would have followed the requirements of the previous standards and interpretations, while the disclosures required by the NZ IFRS 16 would not have included comparative information.

The modified retrospective method eliminates the need to restate comparative information on transition, thereby reducing the cost of implementation for entities. However, entities may want to consider providing users with additional information that allows them to undertake trend analyses of the financial statements. For example, entities may provide voluntary disclosure of the amount by which each financial statement line item is affected in the current period as a result of the adoption of NZ IFRS 16, or provide certain information outside the financial statements, such as in a management commentary or a risk report.

Appendix 1: Alternative method of adopting NZ IFRS 16 *Leases* - Consolidated statement of profit or loss

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000	
				NZ IAS 1.51(d),(e)
Continuing operations				*NZ IAS 1.81A*
Revenue from contracts with customers	4	179,058	159,088	*NZ IFRS 15.113(a)*
Rental income	18	1,404	1,377	
Revenue		**180,462**	**160,465**	*NZ IAS 1.82(a)*
Cost of sales		(136,549)	(128,407)	*NZ IAS 1.103*
Gross profit		**43,913**	**32,058**	*NZ IAS 1.85, NZ IAS 1.103*
Other operating income	13.1	2,435	2,548	*NZ IAS 1.103*
Selling and distribution expenses		(14,001)	(12,964)	*NZ IAS 1.99, NZ IAS 1.103*
Administrative expenses	13.9	(18,290)	(12,042)	*NZ IAS 1.99, NZ IAS 1.103*
Other operating expenses	13.2	(2,554)	(353)	*NZ IAS 1.99, NZ IAS 1.103*
Operating profit		**11,503**	**9,247**	*NZ IAS 1.85, NZ IAS 1.BC55-56*
Finance costs	13.3	(1,366)	(1,156)	*NZ IAS 1.82(b), NZ IFRS 7.20*
Finance income	13.4	202	145	
Other income	13.5	98	66	
Share of profit of an associate and a joint venture	10,11	671	638	*NZ IAS 1.82(c)*
Profit before tax from continuing operations		**11,108**	**8,940**	*NZ IAS 1.85*
Income tax expense	15	(3,098)	(2,251)	*NZ IAS 1.82(d), NZ IAS 12.77*
Profit for the year from continuing operations		**8,010**	**6,689**	*NZ IAS 1.85*
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	14	220	(188)	*NZ IAS 1.82 (ea)* *NZ IFRS 5.33(a)*
Profit for the year		**8,230**	**6,501**	*NZ IAS 1.81A(a)*
Attributable to:				
Equity holders of the parent		7,942	6,257	*NZ IAS 1.81B (a)(ii)*
Non-controlling interests		288	244	*NZ IAS 1.81B (a)(i)*
		8,230	**6,501**	
Earnings per share	16			*NZ IAS 33.66*
▸ Basic, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.34	
▸ Diluted, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.33	
Earnings per share for continuing operations	16			
▸ Basic, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.36	
▸ Diluted, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.35	

Appendix 1: Alternative method of adopting the new standards – Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000	
				NZ IAS 1.51(c)
				NZ IAS 1.81A
				NZ IAS 1.10(b)
				NZ IAS 1.51(d),(e)
				NZ IAS 1.90
				NZ IAS 12.61A
Profit for the year		8,230	6,501	*NZ IAS 1.81A (a)*
Other comprehensive income				*NZ IAS 1.82A*
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):				
Net gain on hedge of a net investment		195	–	*NZ IFRS 9.6.5.13*
Exchange differences on translation of foreign operations	21.3,25	(246)	(117)	*NZ IAS 21.32* *NZ IAS 21.52(b)*
Net gain/(loss) on cash flow hedges	21.3,25	(618)	24	*NZ IFRS 7.23(c)*
Net change in costs of hedging	21.3,25	(22)	–	
Net loss on debt instruments at fair value through other comprehensive income	21.3,25	(15)	(1)	*NZ IFRS 7.20(a)(viii)*
Share of other comprehensive loss of an associate	11	(30)	–	*NZ IAS 1.82A(b)*
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(736)	(94)	*NZ IAS 1.82A*
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):				*NZ IFRS 7.20(a)(vii)* *NZ IAS 19.120(c)* *NZ IAS 19.122*
Net loss on equity instruments designated at fair value through other comprehensive income	25	(18)	7	
Remeasurement gain/(loss) on defined benefit plans	32	257	(273)	
Revaluation of office properties in New Zealand	17	592	–	*NZ IAS 16.39*
Share of other comprehensive income of an associate	11	30	–	*NZ IAS 1.82A(b)*
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		861	(266)	*NZ IAS 1.82A*
Other comprehensive income/(loss) for the year, net of tax		125	(360)	*NZ IAS 1.81A(b)*
Total comprehensive income for the year, net of tax		8,355	6,141	*NZ IAS 1.81A(c)*
Attributable to:				
Equity holders of the parent		8,067	5,897	*NZ IAS 1.81B (b)(ii)*
Non-controlling interests		288	244	*NZ IAS 1.81B (b)(i)*
		8,355	6,141	

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Consolidated statement of financial position

as at 31 December 2019

	Notes	2019 $000	2018 $000	NZ IAS 1.10(a), NZ IAS 1.10(f) NZ IAS 1.51(c) NZ IAS1.51(d),(e)
Assets				
Non-current assets				NZ IAS 1.60
Property, plant and equipment	17	32,979	25,817	NZ IAS 1.54(a)
Investment properties	18	8,893	7,983	NZ IAS 1.54(b)
Intangible assets	19	6,019	2,461	NZ IAS 1.54(c)
Right-of-use assets	31	2,908	–	NZ IFRS 16.47
Investment in an associate and a joint venture	10,11	3,187	2,516	NZ IAS 1.54(e) NZ IAS 28.38
Non-current financial assets	21	3,761	2,816	NZ IAS 1.54(d) NZ IFRS 7.8
Deferred tax assets	15	383	365	NZ IAS 1.54(o) NZ IAS 1.56
		58,130	**41,958**	
Current assets				NZ IAS 1.60 NZ IAS 1.66
Inventories	22	26,027	23,830	NZ IAS 1.54(g)
Right of return assets	4	1,124	929	NZ IFRS 15.B21
Trade receivables	4,23	25,672	22,290	NZ IAS 1.54(h) NZ IFRS 15.105
Contract assets	4,23	4,541	5,180	NZ IFRS 15.105
Prepayments		244	217	NZ IAS 1.55
Other current financial assets	21	551	153	NZ IAS 1.54(d) NZ IFRS 7.8
Cash and short-term deposits	24	17,528	14,916	NZ IAS 1.54(i)
		75,687	67,515	
Assets held for sale	14	13,554	–	NZ IAS 1.54(j) NZ IFRS 5.38
		89,241	67,515	
Total assets		**147,371**	**109,473**	
Equity and liabilities				
Equity				
Issued capital	25	26,668	19,468	NZ IAS 1.54(r), NZ IAS 1.78(e)
Treasury shares	25	(508)	(654)	
Other capital reserves	25	1,171	864	
Retained earnings		31,636	26,039	
Other components of equity		(642)	(505)	
Reserves of a disposal group held for sale	14	46	–	
Equity attributable to equity holders of the parent		**58,371**	**45,212**	
Non-controlling interests		2,410	754	NZ IAS 1.54(q)
Total equity		**60,781**	**45,966**	
Non-current liabilities				NZ IAS 1.60
Interest-bearing loans and borrowings	21	22,147	21,920	NZ IAS 1.54(m)
Other non-current financial liabilities	21	806	–	NZ IAS 1.54(m) NZ IFRS 7.8
Provisions	27	1,898	19	NZ IAS 1.54(l)
Government grants	28	3,300	1,400	NZ IAS 20.24
Contract liabilities	4,29	2,962	888	NZ IFRS 15.105
Net employee defined benefit liabilities	32	3,050	2,977	NZ IAS 1.55 NZ IAS 1.78(d)
Deferred tax liabilities	15	2,454	660	NZ IAS 1.54(o) NZ IAS 1.56
		36,617	27,864	

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Consolidated statement of financial position *continued*

	Notes	2019 $000	2018 $000	*NZ IAS 1.10(a), NZ IAS 1.10(f) NZ IAS 1.51(c) NZ IAS1.51(d),(e)*
				NZ IAS 1.60 NZ IAS 1.69
Current liabilities				
Trade and other payables	30	16,969	20,047	*NZ IAS 1.54(k)*
Contract liabilities	4,29	2,880	2,486	*NZ IFRS 15.105*
Refund liabilities	4	6,242	5,844	*NZ IFRS 15.B21*
Interest-bearing loans and borrowings	21	2,832	3,142	*NZ IAS 1.54(m) NZ IFRS 7.8(g)*
Other current financial liabilities	21	2,953	254	*NZ IAS 1.54(m) NZ IFRS 7.8*
Government grants	28	149	151	*NZ IAS 1.55 NZ IAS 20.24*
Income tax payable		3,511	3,563	*NZ IAS 1.54(n)*
Provisions	27	902	156	*NZ IAS 1.54(l)*
Dividends payable	26	410	–	
		36,848	35,643	
Liabilities directly associated with the assets held for sale	14	13,125	–	*NZ IAS 1.54(p), NZ IFRS 5.38*
		49,973	35,643	
Total liabilities		86,590	63,507	
Total equity and liabilities		147,371	109,473	

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Consolidated statement of changes in equity

for the year ended 31 December 2019

	Issued capital (Note 25)	Treasury shares (Note 25)	Other capital reserves (Note 25)	Retaine earning	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Asset revaluation surplus	Reserve of disposal group held for sale	Total	Non-controlling interests	Total equity	*NZ IAS 1.10l NZ IAS 1.49 NZ IAS 1.51(b),(c) NZ IAS 1.106(d)*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	*NZ IAS 1.51(d),(e)*
As at 1 January 2019	**19,468**	**(654)**	**864**	**26,039**	**(70)**	–	**9**	**(444)**	**–**	**–**	**45,212**	**754**	**45,966**	
Effect of adoption of new accounting standards (Note 2.4)	–	–	–	(110)	–	–	–	–	–	–	(110)	(14)	(124)	
As at 1 January 2019 (adjusted)	**19,468**	**(654)**	**864**	**25,929**	**(70)**	–	**9**	**(444)**	**–**	**–**	**45,102**	**740**	**45,842**	
Profit for the period	–	–	–	7,942	–	–	–	–	–	–	7,942	288	8,230	*NZ IAS 1.106(d)(i)*
Other comprehensive income (Note 25)	–	–	–	257	(618)	(22)	(63)	(51)	622	–	125	–	125	*NZ IAS 1.106(d)(ii)*
Total comprehensive income	–	–	–	8,199	(618)	(22)	(63)	(51)	622	–	8,067	288	8,355	*NZ IAS 1.106(a)*
Depreciation transfer for office properties in New Zealand	–	–	–	80	–	–	–	–	(80)	–	–	–	–	*NZ IAS 1.96*
Discontinued operations (Note 14)	–	–	–	–	–	–	(46)	–	–	46	–	–	–	*NZ IFRS 5.38*
Issue of share capital (Note 25)	7,203	–	–	–	–	–	–	–	–	–	7,203	–	7,203	*NZ IAS 1.106(d)(iii)*
Exercise of options (Note 25)	29	146	–	–	–	–	–	–	–	–	175	–	175	*NZ IAS 1.106(d)(iii),*
Share-based payments (Note 33)	–	–	307	–	–	–	–	–	–	–	307	–	307	*NZ IFRS 2.50*
Transaction costs (Note 8)	(32)	–	–	–	–	–	–	–	–	–	(32)	–	(32)	*NZ IAS 32.39, NZ IAS 1.109*
Cash dividends (Note 26)	–	–	–	(2,389)	–	–	–	–	–	–	(2,389)	(30)	(2,419)	*NZ IAS 1.107*
Transfer of fair value reserve of equity instruments designated at FVOCI	–	–	–	7	–	–	(7)	–	–	–	–	–	–	
Transfer of cash flow hedge reserve to inventories	–	–	–	–	126	2	–	–	–	–	128	–	128	
Acquisition of a subsidiary (Note 8)	–	–	–	–	–	–	–	–	–	–	–	1,547	1,547	*NZ IAS 1.106(d)(iii)*
Acquisition of non-controlling interests (Note 8)	–	–	–	(190)	–	–	–	–	–	–	(190)	(135)	(325)	*NZ IAS 1.106(d)(iii)*
At 31 December 2019	**26,668**	**(508)**	**1,171**	**31,636**	**(562)**	**(20)**	**(107)**	**(495)**	**542**	**46**	**58,371**	**2,410**	**60,781**	

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Consolidated statement of changes in equity

for the year ended 31 December 2018

	Issued capital (Note 25)	Treasury shares (Note 25)	Other capital reserves (Note 25)	Retained earnings	Cash flow hedge reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Total	Non-controlling interests	Total equity	*NZ IAS 1.10l NZ IAS 1.49 NZ IAS 1.51(b),(c) NZ IAS 8.28 NZ IAS 1.106(d) NZ IAS 1.51(d),(e)*
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	
As at 1 January 2018	**19,388**	**(774)**	**566**	**21,655**	**(94)**	**3**	**(327)**	**40,417**	**217**	**40,634**	
Profit for the period	–	–	–	6,257	–	–	–	6,257	244	6,501	*NZ IAS 1.106(d)(i)*
Other comprehensive income (Note 25)	–	–	–	(273)	24	6	(117)	(360)	–	(360)	*NZ IAS 1.106(d)(ii)*
Total comprehensive income	–	–	–	5,984	24	6	(117)	5,897	244	6,141	*NZ IAS 1.106(a)*
Exercise of options (Note 25)	80	120	–	–	–	–	–	200	–	200	*NZ IAS 1.106(d)(iii),*
Share-based payments (Note 33)	–	–	298	–	–	–	–	298	–	298	*NZ IFRS 2.50*
Dividends (Note 26)	–	–	–	(1,600)	–	–	–	(1,600)	(49)	(1,649)	*NZ IAS 1.107*
Non-controlling interests arising on a business combination (Note 8)	–	–	–	–	–	–	–	–	342	342	*NZ IAS 1.106(d)(iii)*
At 31 December 2018	**19,388**	**(654)**	**864**	**26,039**	**(70)**	**9**	**(444)**	**45,212**	**754**	**45,966**	

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Consolidated statement of cash flows

for the year ended 31 December 2019

	Notes	2019 $000	2018 $000	NZ IAS 1.49 NZ IAS 1.51(c) NZ IAS 1.10(d) NZ IAS 1.51(d),(e) NZ IAS 7.10, NZ IAS 7.18(b)
Operating activities				
Profit before tax from continuing operations		11,108	8,940	
Profit/(loss) before tax from discontinued operations	14	213	(193)	
Profit before tax		**11,321**	**8,747**	
Adjustments to reconcile profit before tax to net cash flows:				NZ IAS 7.20(b)
Depreciation and impairment of property, plant and equipment and right-of-use assets	17	4,341	3,539	
Amortisation and impairment of intangible assets	19	325	174	
Equipment received from customers	17	(190)	(150)	
Share-based payment expense	33	412	492	
Decrease in fair value of investment properties	18	306	300	
Net foreign exchange differences		(365)	(240)	
Gain on disposal of property, plant and equipment	13.1	(532)	(2,007)	
Fair value adjustment of a contingent consideration	8	358	–	
Finance income	13.4	(202)	(145)	NZ IAS 7.20(c)
Finance costs	13.3	1,366	1,156	NZ IAS 7.20(c)
Other income	13.5	(98)	(66)	
Net loss on derivative instruments at fair value through profit or loss		652	–	
Share of profit of an associate and a joint venture	10,11	(671)	(638)	
Movements in provisions, pensions and government grants		(835)	(65)	
Working capital adjustments:				NZ IAS 7.20(a)
Decrease/(increase) in trade receivables, contract assets and prepayments		(7,102)	2,443	
Decrease in inventories		1,129	1,111	
Increase in trade and other payables, contract liabilities and refund liabilities		4,511	2,536	
		14,726	17,187	
Interest received		250	221	NZ IAS 7.31
Interest paid		(1,067)	(1,061)	NZ IAS 7.31
Income tax paid		(2,935)	(3,999)	NZ IAS 7.35
Net cash flows from operating activities		**10,974**	**12,348**	
Investing activities				NZ IAS 7.10, NZ IAS 7.21
Proceeds from sale of property, plant and equipment		1,990	2,319	NZ IAS 7.16(b)
Purchase of property, plant and equipment	17	(10,167)	(7,581)	NZ IAS 7.16(a)
Purchase of investment properties	18	(1,216)	(1,192)	NZ IAS 7.16(a)
Purchase of financial instruments		(272)	(225)	NZ IAS 7.16(c)
Proceeds from sale of financial instruments		328	145	NZ IAS 7.16(d)
Development expenditures	19	(587)	(390)	NZ IAS 7.16(a)
Acquisition of a subsidiary, net of cash acquired	8	230	(1,450)	NZ IAS 7.39
Receipt of government grants	28	2,951	642	
Net cash flows used in investing activities		**(6,743)**	**(7,732)**	
Financing activities				NZ IAS 7.10, NZ IAS 7.21
Proceeds from exercise of share options		175	200	NZ IAS 7.17(a)
Acquisition of non-controlling interests	8	(325)	–	NZ IAS 7.42A
Transaction costs on issue of shares	25	(32)	–	NZ IAS 7.17(a)
Payment of principal portion of lease liabilities		(406)	–	NZ IAS 7.17(e)
Payment of principal portion of finance lease liabilities		–	(164)	NZ IAS 7.17(e)
Proceeds from borrowings		5,649	4,871	NZ IAS 7.17(c)
Repayment of borrowings		(2,032)	(4,250)	NZ IAS 7.17(d)
Dividends paid to equity holders of the parent	26	(1,979)	(1,600)	NZ IAS 7.31
Dividends paid to non-controlling interests		(30)	(49)	NZ IFRS 12.B10(a)
Net cash flows from/(used in) financing activities		**1,020**	**(992)**	
Net increase in cash and cash equivalents		5,251	3,624	
Net foreign exchange difference		339	326	NZ IAS 7.28
Cash and cash equivalents at 1 January		12,266	8,316	
Cash and cash equivalents at 31 December	24	**17,856**	**12,266**	NZ IAS 7.45

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases – Notes to the consolidated statements

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations *NZ IAS 8.28*

IFRS 16 *Leases* *NZ IFRS 16.C12*

NZ IFRS 16 supersedes NZ IAS 17 *Leases*, NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*, NZ SIC-15 *Operating Leases-Incentives* and NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. *NZ IFRS 16.C21* *NZ IFRS 16.1*

Lessor accounting under NZ IFRS 16 is substantially unchanged from NZ IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in NZ IAS 17. Therefore, NZ IFRS 16 did not have an impact for leases where the Group is the lessor. *NZ IFRS 16.62*

The Group adopted NZ IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying NZ IAS 17 and NZ IFRIC 4 at the date of initial application. *NZ IFRS 16.C5(b)* *NZ IFRS 16.C3* *NZ IFRS 16.5*

Commentary

As a transition practical expedient, an entity is permitted to make an election not to reassess whether existing contracts contain a lease as defined under NZ IFRS 16 (NZ IFRS 16.C3) at the date of initial application. If an entity elects this practical expedient, contracts that do not contain a lease under NZ IAS 17 and NZ IFRIC 4 (e.g., service arrangements) are not reassessed either. If an entity chooses to apply the practical expedient, it must be applied to all contracts that are ongoing at the date of initial application (i.e., an entity is not permitted to apply the option on a lease-by-lease basis) and that fact must be disclosed.

The effect of adoption NZ IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	$000
Assets	
Right-of-use assets	2,732
Property, plant and equipment	(1,488)
Prepayments	(52)
Total assets	**1,192**
Liabilities	
Interest-bearing loans and borrowings	1,393
Deferred tax liabilities	(53)
Trade and other payables	(24)
Total liabilities	**1,316**
Total adjustment on equity:	
Retained earnings	(110)
Non-controlling interests	(14)
	(124)

Commentary

The impact of adoption as at 1 January 2019 in the above illustration happens to be equal to the impact as at 31 December 2018 under the full retrospective method. In practice, the impact would differ because of the different transition requirements and additional practical expedients available under the modified retrospective method.

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of NZ IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.3 (l) *Leases* for the accounting policy prior to 1 January 2019.

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Notes to the consolidated statements

2.4 Changes in accounting policies and disclosures *continued*

Upon adoption of NZ IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.3 (l) *Leases* for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

- *Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under NZ IAS 17). The requirements of NZ IFRS 16 were applied to these leases from 1 January 2019. *NZ IFRS 16.C11*

Commentary

Under NZ IFRS 16.C11, for leases that were classified as finance leases applying NZ IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is the carrying amount of the lease asset and lease liability immediately before that date measured applying NZ IAS 17.

- *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. *NZ IFRS 16.C8*

The Group also applied the available practical expedients wherein it: *NZ IFRS 16.C10* *NZ IFRS 16.C13*

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Commentary

Under NZ IFRS 16.C8, for leases previously classified as operating leases under NZ IAS 17, a lessee is required to:

- Recognise a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
- Measure the right-of use asset on a lease by lease basis, at either:
  - Its carrying amount as if NZ IFRS 16 had always been applied since the commencement date, but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application or
  - An amount equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments
- Apply NZ IAS 36 *Impairment of Assets* to right-of-use assets at the date of initial application, unless it applies the practical expedient for onerous leases.

The Group applied these requirements, as set out in the standard. The requirements of NZ IAS 36 were not applied at the date of initial application as the Group applied the practical expedient for onerous leases.

Despite the above requirements, under NZ IFRS 16.C9, a lessee is not required to make adjustments on transition for leases of low-value assets. The Group has applied this transition requirement. A lessee is also not required to make adjustments on transition for leases previously accounted for as investment property using the fair value model in NZ IAS 40. However, it is required to measure the right-of-use asset at fair value at the date of initial application for leases previously accounted for as operating leases under NZ IAS 17 and that will be accounted for as investment property using the fair value model in NZ IAS 40 from the date of initial application. The Group is not a lessee of investment properties.

Appendix 1: Alternative method of adopting NZ IFRS 16 Leases - Notes to the consolidated statements

2.4 Changes in accounting policies and disclosures *continued*

Commentary *continued*

In addition, under NZ IFRS 16.C10, a lessee may use one or more of the following practical expedients to leases previously classified as operating leases when applying the standard using the modified retrospective method:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (e.g., leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- Rely on its assessment of whether leases are onerous applying NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review.
- Elect to apply the accounting for short-term leases in NZ IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group applied these available practical expedients. NZ IFRS 16.C13 provides that if an entity uses any of these available practical expedients, it is required to disclose that fact.

Based on the above, as at 1 January 2019:

- Right-of -use assets of $2,732,000 were recognised and presented separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of $1,488,000 that were reclassified from Property, plant and equipment.
- Additional lease liabilities of $1,393,000 (included in Interest bearing loans and borrowings) were recognised.
- Prepayments of $52,000 and trade and other payables of $24,000 related to previous operating leases were derecognised.
- Deferred tax liabilities decreased by $53,000 because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings ($110,000) and non-controlling interest ($14,000).

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows: *NZ IFRS 16.C12*

	$000
Assets	
Operating lease commitments as at 31 December 2018	**1,985**
Weighted average incremental borrowing rate as at 1 January 2019	5.5%
Discounted operating lease commitments as at 1 January 2019	**1,365**
Less:	
Commitments relating to short-term leases	(22)
Commitments relating to leases of low-value assets	(96)
Add:	
Commitments relating to leases previously classified as finance leases	1,578
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	146
Lease liabilities as at 1 January 2019	**2,971**

Commentary

Under NZ IFRS 16.C12, a lessee that elected to apply the modified retrospective method is required to disclose the following:

- The weighted average incremental borrowing rate applied to lease liabilities recognised at the date of initial application
- An explanation of any difference between the result of discounting the operating lease commitments reported under NZ IAS 17 at the end of the annual reporting period preceding the date of initial application and lease liabilities recognised on the statement of financial position immediately after posting the cumulative catch-up adjustment on the date of initial application

The Group has provided the disclosure in the form of a table to reconcile the operating lease commitments reported under IAS 17 as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019. This is one way that entities can comply with the disclosure requirement under IFRS 16.C12 and represents the leading practice.

Appendix 2: Consolidated statement of profit or loss and other comprehensive income (example of a single statement)

for the year ended 31 December 2019

NZ IAS 1.49
NZ IAS 1.10(b)

Commentary

The Group presents the statement of profit or loss and statement of comprehensive income in two separate statements. For illustrative purposes, the disclosure of a single statement of profit or loss and other comprehensive income is presented as a single statement in this Appendix.

	Notes	2019 $000	2018 $000 Restated* (Note 2.4)	
				NZ IAS 1.51(d),(e)
				NZ IAS 1.81A
Continuing operations				
Revenue from contracts with customers	4	179,058	159,088	*NZ IFRS 15.113(a)*
Rental income	18	1,404	1,377	
Revenue		**180,462**	**160,465**	*NZ IAS 1.82(a)*
Cost of sales		(136,549)	(128,386)	*NZ IAS 1.103*
Gross profit		**43,913**	**32,079**	*NZ IAS 1.85*
Other operating income	13.1	2,435	2,548	*NZ IAS 1.103*
Selling and distribution expenses		(14,001)	(12,964)	*NZ IAS 1.103*
Administrative expenses	13.9	(18,290)	(12,011)	*NZ IAS 1.103*
Other operating expenses	13.2	(2,554)	(353)	*NZ IAS 1.103*
Operating profit		**11,503**	**9,299**	*NZ IAS 1.85*
Finance costs	13.3	(1,366)	(1,268)	*NZ IAS 1.82(b)| NZ IFRS 7.20*
Finance income	13.4	202	145	
Other income	13.5	98	66	*NZ IAS 1.82(c)*
Share of profit of an associate and a joint venture	10,11	671	638	
Profit before tax from continuing operations		**11,108**	**8,880**	*NZ IAS 1.85*
Income tax expense	15	(3,098)	(2,233)	*NZ IAS 1.82(d)* *NZ IAS 12.77*
Profit for the year from continuing operations		**8,010**	**6,647**	*NZ IAS 1.85*
Discontinued operations				
				NZ IAS 1.82(ea)
Profit/(loss) after tax for the year from discontinued operations	14	220	(188)	*NZ IFRS 5.33(a)*
Profit for the year		**8,230**	**6,459**	*NZ IAS 1.81A(a)*
Other comprehensive income				*NZ IAS 1.82A*
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Net gain on hedge of net investment	21.3,25	278	–	*NZ IFRS 9.6.5.13*
Exchange differences on translation of foreign operations	21.3,25	(246)	(117)	*NZ IAS 21.32*
Net gain/(loss) on cash flow hedges	21.3,25	(883)	34	*NZ IFRS 7.24C(b)(i)*
Net change in costs of hedging		(32)	–	
Net loss on debt instruments at fair value through OCI	13.5	(21)	(1)	*NZ IFRS 7.20(a)(viii)*
Share of other comprehensive income of an associate	11	(30)	-	*NZ IAS 1.82A(b)*
Income tax effect relating to the components of OCI	15	198	(10)	*NZ IAS 1.91*
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(736)**	**(94)**	

Appendix 2: Consolidated statement of profit or loss and other comprehensive income (example of a single statement) *continued*

	Notes	2019 $000	2018 $000 Restated* (Note 2.4)	NZ IAS 8.28
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Net gain/(loss) on equity instruments design. at fair value through OCI		(26)	10	NZ IFRS 7.20(a)(vii)
Re-measurement gain/(loss) on defined benefit plans	32	367	(390)	NZ IAS 19.120(c) NZ IAS 19.122
Revaluation of office properties in New Zealand	17	846	–	NZ IAS 16.39
Share of other comprehensive income of an associate	11	30	-	NZ IAS 1.82A(b)
Income tax effect relating to the components of OCI	15	(356)	114	NZ IAS 1.90
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		**861**	**(266)**	
Other comprehensive income for the year, net of tax		**125**	**(360)**	NZ IAS 1.81A(b)
Total comprehensive income for the year, net of tax		**8,355**	**6,099**	NZ IAS 1.81A(c)
Profit attributable to:				
Equity holders of the parent		7,942	6,220	NZ IAS 1.81B(a)(ii)
Non-controlling interests		288	239	NZ IAS 1.81B(a)(i)
		8,230	**6,459**	
Total comprehensive income attributable to:				
Equity holders of the parent		8,188	5,856	NZ IAS 1.81(b)(ii)
Non-controlling interests		288	239	NZ IAS 1.81B(b)(i)
		8,476	**6,095**	
Earnings per share	16			NZ IAS 33.66
▸ Basic, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.33	
▸ Diluted, profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.32	
Earnings per share for continuing operations	16			
▸ Basic, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.34	
▸ Diluted, profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.33	

Commentary

NZ IAS 1.92 requires the disclosure of reclassification adjustments relating to components of OCI. Reclassification adjustments may be presented either in the of OCI section of the statement of profit or loss and other comprehensive income or in the notes. The Group has elected to present components of OCI on a net basis in the statement above. Therefore, an additional note is required to present the amount of reclassification adjustments (see Note 13.8). Alternatively, the individual components together with reclassification adjustments could have been presented within the statement of profit or loss and other comprehensive income.

In this Appendix, the Group illustrates the presentation of the income tax effects on OCI items on an aggregated basis as allowed under NZ IAS 1.91(b).

Appendix 3: Consolidated statement of profit or loss (example of expenses disclosed by nature)

NZ IAS 1.49
NZ IAS 1.10(b)
NZ IAS 1.10A
NZ IAS 1.51(c)

for the year ended 31 December 2019

Commentary

The Group presents the statement of profit or loss disclosing expenses by function. For illustrative purposes, the statement of profit or loss disclosing expenses by nature is presented in this Appendix.

	Notes	2019 $000	2018 $000 Restated* (Note 2.4)	
				NZ IAS 1.51(d)(e)
				NZ IAS 8.28
				NZ IAS 1.81A
Continuing operations				*NZ IAS 1.81A*
Revenue from contracts with customers	4	179,058	159,088	*NZ IFRS 15.113(a)*
Rental income	18	1,404	1,377	
Revenue		**180,462**	**160,465**	*NZ IAS 1.82(a)*
Other operating income	13.1	2,435	2,548	*NZ IAS 1.102*
Changes in inventories of finished goods and work in progress		(1,133)	(3,842)	*NZ IAS 1.102*
Raw materials and consumables used		(129,402)	(116,900)	*NZ IAS 1.102*
Employee benefits expense	13.7	(33,749)	(29,151)	*NZ IAS 1.102*
Depreciation and amortisation	17,19, 31	(4,356)	(3,667)	*NZ IAS 1.102*
Impairment of non-current assets	17,20	(200)	(301)	*NZ IAS 36.126*
Other expenses	13.2	(2,554)	(353)	*NZ IAS 1.102*
Finance costs	13.3	(1,366)	(1,268)	*NZ IAS 1.82(b), NZ IFRS 7.20*
Finance income	13.4	202	145	
Other income	13.5	98	66	
Share of profit of an associate and a joint venture	10,11	671	638	*NZ IAS 1.82(c)*
Profit before tax from continuing operations		**11,108**	**8,880**	*NZ IAS 1.85*
Income tax expense	15	(3,098)	(2,233)	*NZ IAS 1.82(d) NZ IAS 12.77*
Profit for the year from continuing operations		**8,010**	**6,647**	*NZ IAS 1.85*
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	14	220	(188)	*NZ IAS 1.82(ea) NZ IFRS 5.33(a)*
Profit for the year		**8,230**	**6,459**	*NZ IAS 1.81A(a)*
Attributable to:				
Equity holders of the parent		7,942	6,220	*NZ IAS 1.81B(a)(ii)*
Non-controlling interests		288	239	*NZ IAS 1.81B(a)(i)*
		8,230	**6,459**	
Earnings per share	16			*NZ IAS 33.66*
▸ Basic profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.33	
▸ Diluted profit for the year attributable to ordinary equity holders of the parent		$0.38	$0.32	
Earnings per share for continuing operations	16			
▸ Basic profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.34	
▸ Diluted profit from continuing operations attributable to ordinary equity holders of the parent		$0.37	$0.33	

Appendix 4: Consolidated statement of cash flows

(example of the direct method)

for the year ended 31 December 2019

Commentary

NZ IAS 7.18 allows entities to report cash flows from operating activities using either the direct or indirect methods. The Group presents cash flows using the indirect method.

The statement of cash flows prepared using the direct method for operating activities is presented in this Appendix for illustrative purposes.

When an entity uses the direct method to present its statement of cash flows, FRS-44.10 requires entities to provide a reconciliation of the net cash flow from operating activities to profit (loss) in the financial statements.

	Notes	2019 $000	2018 $000	NZ IAS 1.10(d) NZ IAS 1.51(c) NZ IAS 7.10 NZ IAS 1.51(d)(e)
Operating activities				NZ IAS 7.18(a)
Operating activities			**Restated** (Note 2.4)	NZ IAS 7.10,
Receipts from customers		177,529	161,832	NZ IAS 7.18(a)
Payments to suppliers		(129,054)	(115,205)	
Payments to employees		(33,749)	(29,151)	
Interest received		250	221	NZ IAS 7.31
Interest paid		(1,067)	(1,173)	NZ IAS 7.31
Income tax paid		(2,935)	(3,999)	NZ IAS 7.35
Net cash flows from operating activities		**10,974**	**12,525**	
Investing activities				NZ IAS 7.21
Purchase of property, plant and equipment	17	(10,167)	(7,581)	NZ IAS 7.16(a)
Purchase of investment properties	18	(1,216)	(1,192)	NZ IAS 7.16(a)
Purchase of financial instruments		(272)	(225)	NZ IAS 7.16(c)
Proceeds from sale of financial instruments		328	145	NZ IAS 7.16(d)
Purchase of intangible assets	19	(587)	(390)	NZ IAS 7.16(a)
Acquisition of a subsidiary, net of cash acquired	8	230	(1,450)	NZ IAS 7.39
Receipt of government grants	28	2,951	642	
Net cash flows used in investing activities		**(6,743)**	**(7,732)**	
Financing activities				NZ IAS 7.21
Proceeds from exercise of share options		175	200	NZ IAS 7.17(a)
Acquisition of non-controlling interests	8	(325)	–	NZ IAS 7.42A
Transaction costs of issue of shares	25	(32)	–	NZ IAS 7.17(a)
Payment of principal portion of lease liabilities	31	(406)	(341)	NZ IAS 7.17(e)
Proceeds from borrowings		5,649	4,871	NZ IAS 7.17(c)
Repayment of borrowings		(2,032)	(4,250)	NZ IAS 7.17(d)
Dividends paid to equity holders of the parent	26	(1,979)	(1,600)	NZ IAS 7.31
Dividends paid to non-controlling interests		(30)	(49)	NZ IFRS 12.B10(a)
Net cash flows from/(used in) financing activities		**1,020**	**(1,169)**	
Net increase in cash and cash equivalents		5,251	3,624	
Net foreign exchange difference		339	326	NZ IAS 7.28
Cash and cash equivalents at 1 January		12,266	8,316	
Cash and cash equivalents at 31 December	24	**17,856**	**12,266**	NZ IAS 7.45

Commentary

NZ IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received and paid as cash flows from operating activities.

Appendix 4: Consolidated statement of cash flows

(example of the direct method) *continued*

Reconciliation of the net cash flow from operating activities to profit/(loss)

	2019	2018	
	$000	$000	
Reconciliation of profit before tax to net cash flows from operations			*FRS-44.10*
Profit before tax from continuing operations	11,108	8,880	
Profit/(loss) before tax from discontinued operations	213	(193)	
Profit before tax	11,321	8,687	
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	4,341	3,794	
Amortisation and impairment of intangible assets	325	174	
Equipment received from customers	(190)	(150)	
Share-based payment expense	412	492	
(Gain)/loss on revaluation of investment properties	306	300	
Net foreign exchange differences	(365)	(240)	
Gain on disposal of property, plant and equipment	(532)	(2,007)	
Fair value adjustment of a contingent consideration	358	–	
Finance income	(202)	(145)	
Finance costs	1,366	1,268	
Other income	(98)	(66)	
Net loss on derivative instruments at fair value through profit or loss	652	-	
Share of profit of an associate and a joint venture	(671)	(638)	
Movements in provisions, pensions and government grant	(835)	(65)	
	16,188	11,404	
Changes in assets and liabilities			
(Increase)/decrease in trade receivable, contract assets and prepayments	(7,102)	2,431	
Decrease in inventories and right of return assets	1,129	1,111	
Increase in trade and other payables, contract liabilities and refund liabilities	4,511	2,530	
	14,726	17,476	
Interest received	250	221	
Interest paid	(1,067)	(1,173)	
Income tax paid	(2,935)	(3,999)	
Net cash flows from operating activities	**10,974**	**12,525**	

Commentary

When an entity uses the direct method to present its statement of cash flows, FRS-44 requires that the financial statements provide a reconciliation of the net cash flow from operating activities to profit/(loss).

Appendix 5: Biological assets

(example of disclosures)

Commentary

The Good Group New Zealand Limited and its subsidiaries are not involved in agricultural activities and, therefore, do have biological assets. This Appendix was created in New Zealand to illustrate disclosures for biological assets, including bearer plants, as required by NZ IAS 16 *Property, Plant and Equipment* and NZ IAS 41 *Agriculture*. This illustration considers the management of vineyards, located in South Australia and the South Island of New Zealand, to grow grapes that are to be used in the production of wine. The Group has a 31 December year end.

Consolidated statement of profit or loss (extract)

For the year ended 31 December 2019

	Note	2019	2018	
		$000	$000	
Gain/(loss) from changes in fair value of biological assets	40	10,500	8,940	*NZ IAS 41.40*

Consolidated statement of financial position (extract)
As at 31 December 2019

	Note	2019	2018	
Assets		$000	$000	
Non-current assets				
Property, plant and equipment	17	xx	xx	*NZ IAS 1.54(a)*
Current assets				
Biological assets – grapes growing on the vine	40	8,770	7,240	*NZ IAS 1.54(f)*

Commentary

NZ IAS 1.54 requires biological assets (which includes produce growing on a bearer plant) and property, plant and equipment (which includes bearer plants) to be presented separately on the face of an entity's statement of financial position. Agricultural produce after the point of harvest is typically accounted for under NZ IAS 2. That standard does not require such inventories to be disclosed separately on the face of the statement of financial position.

In accordance with NZ IAS 1.55, the carrying amount disaggregated for each major class of property, plant and equipment is either be presented in the notes or on the face of the statement of financial position, if such presentation is relevant to an understanding of the entity's financial position.

In accordance with NZ IAS 1.60, the Group has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. The group has classified its grapes growing on the vine as a current asset and bearer plants (included within property, plant and equipment) as non-current.

The classification of agricultural produce is usually consistent with an entity's assessment for its inventories, i.e., typically classified as a current asset because it will be sold, consumed or realised as part of the normal operating cycle. The classification of biological assets (including produce growing on a bearer plant) typically varies based on the nature of the biological asset and the time it takes to mature. For consumable biological assets that only have one harvest, classification will depend on when the asset will be harvested and sold. For example, livestock held for slaughter would likely be realised within 12 months after the end of the reporting period or as part of the normal operating cycle, and, therefore, would be classified as a current asset. In contrast pine trees in a forest usually take more than 20 years to mature and are, therefore, usually classified as non-current.

NZ IAS 1 does not require a specific order of the two classifications. The Group has elected to present non-current assets and liabilities before current assets and liabilities. NZ IAS 1 requires entities to present assets and liabilities in order of liquidity when this presentation is reliable and more relevant.

This appendix does not illustrate changes that may be needed to the statement of changes in equity. No additional line items were needed in the statement of changes in equity.

Appendix 5: Biological assets

(example of disclosures) *continued*

Consolidated statement of cash flow (extract) for the year ended 31 December 2019

	Note	2019	2018	
Operating activities		$000	$000	
Adjustments to reconcile profit before tax to net cash flows:				*NZ IAS 7.20(b)*
Depreciation vineyard improvements	17	750	700	
Depreciation mature grape vines	17	1,100	900	
(Increase) decrease in fair value of grapes growing on the vine	40	(10,050)	(8,940)	
Investing activities				
Development of new vineyards	17	5,500	500	*NZ IAS 7.20(a)*
Additions to vineyard improvements	17	1,000	-	*NZ IAS 7.20(a)*

Commentary

A number of costs, such as fertilising, pruning and thinning are incurred after maturity and can improve the quality of the produce or extend the productive life of a bearer plant. Entities need to use judgement to determine whether these costs are maintenance costs or are considered to be improvements. In addition, after maturity, many costs are incurred to benefit both the bearer plant and the produce growing on the bearer plant. Entities need to carefully consider the basis on which to allocate costs between a bearer plant and the produce growing on a bearer plant when the costs are incurred in relation to both assets (e.g., fertilising costs).

An entity's policy in respect of such costs will impact the presentation of the statement of cash flows, as cash flows relating to maintenance costs will ordinarily be presented within operating activities and cash flows in respect of costs capitalised as part of bearer plants will ordinarily be presented within investing activities.

2.3 Significant accounting policies (extract)

k) Property, plant and equipment (extract)

NZ IAS 16.73(a)

Grape vines are stated at cost, net of accumulated depreciation and accumulated impairment losses. Immature vines are stated at accumulated cost. Capitalisation of costs ceases when the vines reach maturity, which is when the grapes can be commercially harvested. Refer to significant accounting judgements, estimates and assumptions for further information (Note 3).

NZ IAS 16.30
NZ IAS 16.15
NZ IAS 16.16
NZ IAS 41.43

Vineyard improvements are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the vineyard improvements and borrowing costs for long-term construction projects if the recognition criteria are met.

...

Commentary

Under NZ IAS 16, an entity has a policy choice in respect of the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment. The Group has elected to apply the cost model for all classes of property, plant and equipment, including bearer plants.

If an entity elects the revaluation model to its bearer plants, valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. In accordance with NZ IAS 16.39, a revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, in accordance with NZ IAS 16.40, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

In accordance with NZ IAS 16.41, an entity would recognise an annual transfer from the asset revaluation surplus to retained earnings for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings. Refer to main content of this publication for illustrative disclosures for revaluations and for decommissioning liabilities that may be related to property plant and equipment.

NZ IAS 16.16(b) requires an entity to cease capitalising costs as part of the initial cost of a bearer plant when it reaches maturity (i.e., when it is in the 'location and condition necessary for it to be capable of operating in the manner intended by management'). The Group has determined that its vines are mature when the growing grapes can be commercially harvested.

Appendix 5: Biological assets

(example of disclosures) *continued*

2.2 Significant accounting policies (extract) *continued*

Depreciation commences when the grape vines are considered mature, which is when they produce their first commercially viable crop. *NZ IAS 16.73(b)* *NZ IAS 16.73(c)*

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

...

- Mature grape vines 20 to 25 years
- Vineyard improvements 15 to 20 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. *NZ IAS 16.67* *NZ IAS 16.68* *NZ IAS 16.71*

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. *NZ IAS 16.51*

Commentary

On disposal of property, plant and equipment (including bearer plants):

- The date of disposal of the asset is the date the recipient obtains control of the asset in accordance with the requirements for determining when a performance obligation is satisfied in NZ IFRS 15 (NZ IAS 16.69).
- The amount of consideration to be included in the gain or loss arising from the derecognition is determined in accordance with the requirements for determining the transaction price in NZ IFRS 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss shall be accounted for in accordance with the requirements for changes in transaction price in NZ IFRS 15 (NZ IAS 16.72).

The above requirements also apply to disposals of investment properties (NZ IAS 40.67 and NZ IAS 40.70) and intangible assets (NZ IAS 38.114 and NZ IAS 38.116).

This appendix does not illustrate disclosures related to impairment of non-financial assets, such as property, plant and equipment. Refer to the main content of this publication.

(ab) Biological assets

Grapes growing on vines are accounting for as biological assets until the point of harvest. Biological assets are measured on initial recognition and at the end of the each reporting period at fair value less costs to sell. Changes in fair value of growing grapes are recognised in profit or loss as part of cost of sales. Costs related to growing the grapes and harvesting the grapes are expensed as incurred. *NZ IAS 41.12* *NZ IAS 41.26* *NZ IAS 1.117-124*

Harvesting of the grape crop is ordinarily performed in late March or early April. Costs incurred in growing the grapes, including any applicable harvest costs, are recognised as part of cost of sales. At the time of harvest, grapes are measured at fair value less costs to sell and transferred to inventories. *NZ IAS 41.13*

Methods used to measure fair value less costs to sell are provided in Note 3. Key assumptions used to determine the fair value of biological assets and sensitivity analysis are provided in Note 40.

Commentary

The Group has elected as an accounting policy to expense subsequent expenditure as incurred, rather than capitalise them. NZ IAS 41 does not specify the accounting requirements for subsequent expenditure on biological assets. The Interpretations Committee concluded in September 2019 that an entity may either capitalise subsequent expenditure or recognise it as an expense when incurred. Therefore, an entity applies NZ IAS 8.13 to determine its accounting policy for subsequent expenditure consistently to each group of biological assets. An entity discloses the selected accounting policy in accordance with NZ IAS 1.117–124 if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance. See Note 13 for presentation and disclosure considerations.

The processing of agricultural produce after the point of harvest is not within the scope of NZ IAS 41. For example, the processing of grapes into wine is not included within the definition of agricultural activity in the standard. Instead, NZ IAS 2 (or another applicable standard) is applied. If NZ IAS 2 applies to the agricultural produce after the point of harvest, the agricultural produce is initially recognised as inventory at its fair value less costs to sell (measured in accordance with NZ IAS 41), which becomes its cost for NZ IAS 2 purposes.

This appendix does not illustrate disclosures that may be relevant for agricultural produce after the point of harvest. Refer to the main content of this publication for disclosures of inventories.

Commentary *continued*

Under NZ IAS 41, there is a presumption that the fair value of all biological assets (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset (not agricultural produce). See Note 3 for further discussion. If an entity rebuts the presumption and demonstrates that the fair value cannot be measured reliably, it applies the cost model to the biological asset until fair value becomes reliably measurable. If an entity applies the cost model, the biological asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. When determining cost, accumulated depreciation and accumulated impairment losses, an entity needs to consider the requirements of NZ IAS 2, NZ IAS 16 and NZ IAS 36 (NZ IAS 41.33). The Group does not hold any biological assets for which fair value could not be reliably measured.

An entity that previously measured a biological asset at its fair value less costs to sell cannot revert to a cost-based measurement in a later period, even if a fair value can no longer be measured reliably (NZ IAS 41.31). If it becomes possible at a later date to measure the fair value of a biological asset reliably, the entity is required to apply the fair value model to that asset from that date onwards (NZ IAS 41.30).

3. Significant accounting judgements, estimates and assumptions (extract)

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Capital management — Note 6
- Financial instruments' risk management and policies — Note 21.5
- Sensitivity analyses disclosures — Notes 17, 18, 20, 21.4, 21.5, 32 and 40

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements: *NZ IAS 1.122*

...

Distinction between immature and mature vines

The Group has determined that its vines are mature when the growing grapes can be commercially harvested, which is when the vineyards have produced approximately 50-60% of expected yield at full production. This normally takes approximately three years after planting the vines. This represents the point at which the Group ceases capitalisation of costs and the vines are reclassified as mature vines. *NZ IAS 16.16(b)*

Allocation of cost between immature vines and grapes growing on them

Costs incurred in growing the grapes and maintaining the vines may benefit both the vines and the grapes. While the vines are immature, costs of pruning and approximately 70-80% of other viticulture costs (e.g., fertiliser) are capitalised as part of the cost of the vines. Such costs are expensed as incurred after the vines reach maturity. Any costs allocable to the grapes growing on the vines are expensed as incurred.

Commentary

NZ IAS 16.16(b) requires an entity to determine when a bearer plant reaches maturity, that is, when it is in the "location and condition necessary for it to be capable of operating in the manner intended by management". This determination is important because it is when an entity must cease capitalising costs as part of the initial cost of the asset and begin depreciating the bearer plant.

The life cycles of plants can vary widely. Therefore, determining at what stage during biological transformation a bearer plant could be considered mature may require judgement. Alternatives could include, but are not limited to: when the bearer plant is capable of producing its first crop; when the produce is expected to be of sufficient quality to be sold; or when the growth phase of biological transformation is complete for the bearer plant (and is thereafter expected to degenerate or for its productive capacity to decline).

While NZ IAS 16.31-42 provides guidance that entities need to consider for bearer plants, there are differences between traditional plant and equipment and biological assets. As such, entities need to apply judgement in determining which costs can be capitalised. For example, as a plant is growing, an entity will incur costs related to water, fertiliser, greenhouses, etc. An entity needs to assess whether these costs are directly attributable to the bearer plant reaching maturity.

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary *continued*

Costs incurred after maturity may benefit both the bearer plant and the produce growing on the bearer plant. The basis for allocation of costs between the bearer plant and the produce needs to be carefully considered by an entity.

Under NZ IAS 41, there is a presumption that the fair value of all biological assets (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset (not agricultural produce). Rebutting the presumption that fair value can be reliably measured is a judgement that may require significant judgement. To do so, NZ IAS 41.30 requires an entity to demonstrate both of the following:

- quoted market prices for the biological asset (including produce growing on a bearer plant) are not available
- alternative fair value measurements for the biological asset are determined to be clearly unreliable.

NZ IAS 41 presumes that the fair value of a non-current biological asset that meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations can always be measured reliably.

If an entity rebuts the presumption and demonstrates that the fair value cannot be measured reliably, it applies the cost model to the biological asset until fair value becomes reliably measurable (NZ IAS 41.3). If an entity applies the cost model, the biological asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. An entity that previously measured a biological asset at its fair value less costs to sell cannot revert to a cost-based measurement in a later period, even if a fair value can no longer be measured reliably (NZ IAS 41.31).

The Group does not hold any biological assets for which fair value could not be reliably measured.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur. *NZ IAS 1.125*

…

Fair value of biological assets

The Group carries its biological assets (growing grapes on vines) and grape at the time of harvest (recorded in inventories immediately after harvest) at fair value less costs to sell.

The fair value of grapes growing on the vines is determined by reference to market prices for grapes for that local area for each variety of grape grown, adjusted for expected costs to reach maturity, which is typically three to four months after the end of the reporting period. Significant estimates include the expected grape yield and quality, costs to incur until harvest and the expected market price for the harvested grapes.

The key assumptions used to determine the fair value of biological assets and sensitivity analysis are provided in Note 40.

The fair value of grapes at the point of harvest is determined by reference to the market prices for each variety of grape grown in the local area and the market price paid to independent grape growers. Any gains or losses on remeasuring fair value are included within in profit or loss as part of cost of sales.

Commentary

This appendix does not illustrate disclosures of judgements and estimates that may be relevant for bearer plants for which an entity applies the revaluation model under NZ IAS 16 or impairment under NZ IAS 36. Refer to main content of this publication for disclosures on impairment.

If an entity elects to apply the revaluation model to bearer plants, it would also need to consider which cash inflows are attributable to the bearer plant, rather than any produce currently growing on the bearer plant. Since NZ IFRS 13 requires an entity to measure fair value consistent with its unit of account, an entity could not measure fair value for the bearer plant and produce growing on the bearer plant on a combined basis. Significant judgement and estimation may, therefore, be needed to measure the fair value of bearer plants.

NZ IAS 1 requires an entity to disclose significant judgements applied in preparing the financial statements (NZ IAS 1.122) and significant estimates that involve a high degree of estimation uncertainty (NZ IAS 1.125). The disclosure requirements go beyond the requirements that exist in some other NZ IFRS, such as NZ IAS 37.

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary *continued*

These disclosures represent a very important source of information in the financial statements because they highlight the areas in the financial statements that are most prone to change in the foreseeable future. Therefore, any information given should be sufficiently detailed to help readers of the financial statements understand the impact of possible significant changes.

The Group has, for illustrative purposes, included disclosures about significant judgements and estimates beyond what is normally required, and potentially also beyond what is decision-useful. Under NZ IAS 1, it is only those judgements that have the most significant effect on the amounts recognised in the financial statements and those estimates that have a significant risk of resulting in material adjustments in respect of assets and liabilities within the next financial year that should be addressed in this section.

It is important that entities carefully assess which judgements and estimates are most significant as required by NZ IAS 1 and make the disclosures accordingly, to allow the users of the financial statements to appreciate the impact of the judgements and estimation uncertainties. Disclosures of judgements and estimation uncertainties that do not have a significant risk f resulting in material adjustments may clutter the financial statements in a way that reduces the users' ability to identify the key judgements and estimation uncertainties.

12. Fair value measurement (extract)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

NZ IFRS 13.91(a)
NZ IFRS 13.93(a)

Fair value measurement hierarchy for assets as at 31 December 2019:

NZ IFRS 13.93(b)
NZ IFRS 13.97

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$000	$000	$000	$000
Assets measured at fair value:					
…					
Biological Assets (Note 40):					
Grapes growing on the vines	31 December 2019	8,770	–	–	8,770
…					

There were no transfers between Level 1 and Level 2 during 2019.

Fair value measurement hierarchy for assets as at 31 December 2018:

NZ IFRS 13.93(b)
NZ IFRS 13.97

			Fair value measurement using		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		$000	$000	$000	$000
Assets measured at fair value:					
…					
Biological Assets (Note 40):					
Grapes growing on the vines	31 December 2018	7,240	–	–	7,240
…					

There were no transfers between Level 1 and Level 2 during 2018.

Commentary

NZ IFRS 13.94 requires appropriate determination of classes of assets and liabilities on the basis of:

- The nature, characteristics and risks of the asset or liability; and
- The level of the fair value hierarchy within which the fair value measurement is categorised

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary *continued*

The Group has applied the factors and disclosed the quantitative information under NZ IFRS 13 based on the classes of assets and liabilities determined as per NZ IFRS 13.94. As judgement is required to determine the classes of properties, other criteria and aggregation levels for classes of assets may also be appropriate, provided they are based on the risk profile of the assets (e.g., the risk profile of properties in an emerging market may differ from that of properties in a mature market).

Inputs used in a valuation technique may fall into different levels of the fair value hierarchy. However, for disclosure purposes, the fair value measurement must be categorised in its entirety (i.e., depending on the unit of account) within the hierarchy. That categorisation may not be so obvious when there are multiple inputs used. NZ IFRS 13.73 clarifies that the hierarchy categorisation of a fair value measurement, in its entirety, is determined based on the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement and consideration of factors specific to the asset or liability (or group of assets and/or liabilities) being measured and any adjustments made to the significant inputs in arriving at the fair value. These considerations have a follow-on impact on the disclosures of valuation techniques, processes and significant inputs and entities should tailor their disclosures to the specific facts and circumstances.

Tier 2 for-profit entities are not required to disclose, for each class of assets and liabilities measured at fair value, the level of the fair value hierarchy within which the fair value measurements are categorised. However, Tier 2 for-profit entities are required to disclose, for each class of assets and liabilities measured at fair value, the fair value measurements at the end of the period, as well as the valuation techniques and inputs used to develop those measurements.

For assets and liabilities held at the end of the reporting period measured at fair value on a recurring basis, IFRS 13.93(c) requires disclosure of the amounts of transfers between Level 1 and Level 2 of the hierarchy, the reasons for those transfers and the entity's policy for determining when the transfers are deemed to have occurred. Transfers into each level must be disclosed and discussed separately from transfers out of each level.

...

Although NZ IAS 41 requires agricultural produce at the point of harvest to also be measured at fair value, such produce is typically not on hand at the end of the reporting period as it would be transferred to inventory immediately after harvest and accounted for in accordance with NZ IAS 2. Harvesting of the grape crop is ordinarily performed in late March or early April. Therefore, the Group did not have agricultural produce at the point of harvest on hand.

13. Other income/expense (extract)

...

13.6 Depreciation, amortisation, lease payments, foreign exchange differences and costs of inventories

	2019 $000	2018 $000	
Included in cost of sales:			
Depreciation mature grape vines (Note 17)	900	1,100	*NZ IAS 1.104*
Depreciation vineyard improvements (Note 17)	750	700	*NZ IAS 1.104*
Depreciation other	3,820	3,063	*NZ IAS 1.104*
Viticulture and harvest costs	5,200	5,000	*NZ IAS 1.99*
Gain/(loss) from changes in fair value of grapes growing on the vine (Note 40)	305	194	*NZ IAS 41.40*

Commentary

NZ IAS 1 is silent on the presentation of gains and losses on biological assets (including produce growing on a bearer plant) and agricultural produce in the income statement. NZ IAS 41.40 requires that an entity disclose "the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets". NZ IAS 41 only requires disclosure of the aggregate gain or loss; it does not require or encourage disaggregating the gain or loss. NZ IAS 41 illustrates presentation of gains on biological assets and agricultural produce near the top of the income statement in Example 1 of the Illustrative Examples to the standard, although it is not entirely clear from the example whether losses on biological assets should be presented in the same position or elsewhere in the income statement.

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary *continued*

NZ IAS 41 does not specify how gains should be presented in the income statement. However, NZ IAS 1.32 prohibits offsetting of income and expenses in the income statement. If the sale of biological assets or agricultural produce meets the definition of revenue under Appendix A of NZ IFRS 15 *Revenue from Contracts with Customers* (i.e., "income arising from the ordinary activities of the entity"), it is presented on a gross basis in the income statement. Furthermore, if the sale of biological assets results from a contract with a customer and is within the scope of NZ IFRS 15, it would be presented as revenue from contracts with customers. However, if sales of non-current biological assets are incidental to the main revenue-generating activities of the entity they should be presented on a net basis in accordance with NZ IAS 1.34. However, the gross margin on biological assets or agricultural produce sold shortly after harvest may be negligible, as the produce may have been previously carried at a valuation near to its sales price.

Whether an entity elects to present expenses by nature or by function will impact whether the depreciation expense for bearer plants is disclosed in the primary financial statements or in the notes. Likewise, an entity's policy regarding whether to apply the revaluation model under NZ IAS 16 to measure bearer plants will affect presentation within comprehensive income. The Group has not elected to apply the revaluation model to its bearer plants.

An entity's policy to either capitalise or expense costs related to the biological transformation (subsequent expenditure) for biological assets measured at fair value less costs to sell is also relevant to presentation within profit or loss. The Interpretations Committee concluded in September 2019 that, in relation to a biological asset accounted for at fair value less costs to sell under NZ IAS 41, an entity may either capitalise subsequent expenditure or recognise it as an expense when incurred. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity applies the requirements in NZ IAS 1.81–105. In particular:

- In accordance with NZ IAS 1.85, an entity may need to "present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance"; and
- In accordance with NZ IAS 1.99, in the statement(s) presenting profit or loss and other comprehensive income or in the notes, an entity would present an analysis of expenses recognised in profit or loss using a classification that is based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

The Group elected to expense subsequent expenditure and includes such amounts within cost of sales. For the purpose of this appendix, these expenses are included in the notes to the financial statements.

The Group has presented expenses by function, rather than nature. Grapes growing on the vine have a short maturation cycle (less than 12 months) and the Group intends to sell the grapes as soon as they are harvested. Therefore, the Group's costs directly related to growing and harvesting the grapes have been included within cost of sales.

Judgement may be needed to determine the appropriate classification of expenses. Factors that will affect classification include the nature of related biological assets and/or agricultural produce, including the relevant maturation cycle, and whether an entity presents expenses by nature or by function.

NZ IAS 41 illustrates the presentation of expenses by nature, rather than function. The level of disaggregation may require judgement. For illustrative purposes, presenting such expenses by nature may have resulted in the following additional line items within the consolidated statement of profit or loss with expenses disclosed by nature (refer to Appendix 3) for an illustration of the complete consolidated statement of profit or loss with expenses disclosed by nature). For the purpose of this illustration, depreciation and amortisation includes depreciation of mature grape vines and vineyard improvements. Alternatively, an entity may have disclosed this information within the notes to the financial statements.

	Notes	2019 $000	2018 $000	
Continuing operations				
...		...	...	
Depreciation and amortisation	17,19, 31	5,647	4,682	*NZ IAS 1.102*
Viticulture and harvest costs		5,200	5,000	*NZ IAS 1.99*
Gain/(loss) from changes in fair value of grapes growing on the vine	40	305	194	*NZ IAS 1.99*
...				

Appendix 5: Biological assets

(example of disclosures) *continued*

17. Property, plant and equipment (extract)

	Buildings	Plant and equipment	Immature grape vines	Mature grape vines	Vineyard improvements	Total	*NZ IAS 1.78(a)*
	$000	$000	$000	$000	$000	$000	
Cost							
At 1 January 2018	xx	xx	9,000	24,000	14,000	xx	*NZ IAS 16.73(e)*
Additions	xx	xx	500	-	-	xx	*NZ IAS 16.RDR 73.1*
Disposals	(xx)	(xx)	-	-	-	(xx)	*NZ IAS 16.73(d)*
Transfer	xx	xx	(5,000)	5,000	-	xx	
At 31 December 2018	**xx**	**xx**	**4,500**	**29,000**	**14,000**	**xx**	*NZ IAS 16.73(c)*
Additions	xx	xx	5,500	-	1,000	xx	
Disposals	xx	xx	-	-	-	xx	
Transfer	(xx)	(xx)	(5,000)	5,000	-	(xx)	*NZ IAS 16.35(b)*
At 31 December 2019	**xx**	**xx**	**5,000**	**34,000**	**15,000**	**xx**	*NZ IAS 16.73(c)*
Depreciation and impairment							
At 1 January 2018	xx	xx	-	730	8,000	xx	
Depreciation charge for the year	xx	xx	-	900	700	xx	*NZ IAS 16.RDR 73.1*
Impairment	xx	xx	-	-	-	xx	*NZ IAS 16.73(c)*
At 31 December 2018	**xx**	**xx**	**-**	**1,630**	**8,700**	**xx**	*NZ IAS 16.73(c)*
Depreciation charge for the year	xx	xx	-	1,100	750	xx	
Impairment	xx	xx	-	-	-	xx	
At 31 December 2019	**xx**	**xx**	**-**	**2,730**	**9,450**	**xx**	*NZ IAS 16.73(c)*
Net book value							
At 31 December 2018	xx	xx	4,500	31,270	5,550	xx	*NZ IAS 16.RDR 73.1*
At 31 December 2019	xx	xx	5,000	27,370	5,300	xx	

...

Commentary

This appendix does not illustrate all disclosures relevant to property, plant and equipment nor disclosures related to impairment of non-financial assets, such as bearer plants. Refer to main content of this publication for disclosures related to impairment.

Tier 2 for-profit entities are not required to disclosure the reconciliation specified by NZ IAS 41.50 for prior periods (NZ IAS 41.RDR 50.1)

Appendix 5: Biological assets

(example of disclosures) *continued*

40. Biological assets

The Group's biological assets consist of growing grapes. *NZ IAS 41.41*

The Group grows grapes to use in the production of wine, as part of its normal operations. Vineyards are located in South Australia, and in the South Island of New Zealand. Grapes are harvested between March and May each year. *NZ IAS 41.46(a)*

As at 31 December 2019, the group had 1,300 hectares of grapevines with growing grapes (2018: 1,250 hectares). 1,133 hectares were mature (2018: 910) and 167 hectares were immature (2018: 340).

During the year ended 31 December 2019, the Group harvested approximately 35,000 tonnes of grapes (2018: 31,000 tonnes) in New Zealand. The Group harvested approximately 11,050 tonnes grapes in Australia (2018: 10,000 tonnes). *NZ IAS 41.46(b)(ii)*

	2019 $000	2018 $000	
Growing grapes			
Carrying amount at 1 January	7,240	6,500	*NZ IFRS 13.93(a)*
Gain/(loss) from changes in fair value less costs to sell	10,500	8,940	*NZ IAS 41.50(a)*
Acquisition of a subsidiary	-	-	*NZ IAS 41.50(e)*
Grapes included in discontinued operations held for sale	-	-	*NZ IAS 41.50(c)*
Transfer of harvested grapes to inventories	(8,520)	(8,200)	*NZ IAS 41.50(d)*
Net foreign exchange	-	-	*NZ IAS 41.50(f)*
Carrying amount at 31 December	8,770	7,240	*NZ IFRS 13.93(a)*

Commentary

Tier 2 for-profit entities are not required to disclosure the reconciliation specified by NZ IAS 41.50 for prior periods. *NZ IAS 41.RDR 50.1*

NZ IAS 41.50 requires an entity to disclose a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period, which includes:

- the gain or loss arising from changes in fair value less costs to sell
- increases due to purchases
- decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- decreases due to harvest
- increases resulting from business combinations
- net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity
- other changes

Under NZ IAS 41, there is a presumption that the fair value of all biological assets (including produce growing on a bearer plant) can be measured reliably. This presumption can only be rebutted on initial recognition for a biological asset (not agricultural produce). If an entity rebuts the presumption and demonstrates that the fair value cannot be measured reliably, it applies the cost model to the biological asset until fair value becomes reliably measurable. If an entity applies the cost model, the biological asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. The Group does not hold any biological assets for which fair value could not be reliably measured. Entities that do must provide additional disclosures.

NZ IAS 41.54 requires all of the following information to be disclosed if the cost model is applied:

- a description of the biological assets
- an explanation of why fair value cannot be measured reliably
- if possible, the range of estimates within which fair value is highly likely to lie
- the depreciation method used
- the useful lives or the depreciation rates used
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary *continued*

If the entity held such assets at any point during the current period, NZ IAS 41.55 requires the following:

- Disclosure of any gain or loss recognised on disposal of such biological assets
- The entity's reconciliation of biological assets required by NZ IAS 41.50 must separately disclose amounts related to such biological assets and include the following amounts that were included in profit or loss related to those assets:
  - impairment losses
  - reversals of impairment losses
  - depreciation

If the entity held such assets and during the period their fair value became reliably measurable during the current period, the following must be disclosed in accordance with NZ IAS 41.56:

- a description of the biological assets
- an explanation of why fair value has become reliably measurable
- the effect of the change

Valuation of biological assets

Growing grapes have been classified as level 3 in the fair value hierarchy. *NZ IFRS 13.93(b)*

The fair value less costs to sell of growing grapes is determined based on estimates of yield, costs to incur until harvest, expected grape market prices at harvest and grape quality. In 2019, grape market prices ranged from $530 to $600 per tonne (2018: $595 - $600 per tonne), depending on the variety sold, current vintage and grade quality of grapes in each region. Significant unobservable inputs used in fair value measurements of growing grapes are the followings: *NZ IFRS 13.91(a)*

	2019	2018
Average annual yield per hectare of mature vineyards	6 tonnes	6 tonnes
Average viticulture and harvest costs per hectare of mature vines	$5,300	$5,400

NZ IFRS 13.93(d)

For the 2020 harvest, it was assumed that yields, grape prices, grape quality, viticulture and harvest costs will remain at current levels. The effect of discounting future cash flows is not material as the grapes will be harvested within 6 months of the reporting date.

Sensitivity analysis *NZ IFRS 13.93(h)(i)*

Assuming all other unobservable inputs are held constant, the following changes in these above assumptions will cause an increase in the fair value of growing grapes, (i) an increase in average yields; (ii) increase in grape quality; (iii) increase in the market prices for grapes; and (iv) a reduction in viticulture and harvest costs and vice versa.

Significant unobservable input	Variance	Estimated increase/ (decrease) in fair value $000	Estimated fair value $000	$000
Average annual yield per hectare of mature vineyards	+/- 1 tonne per hectare	1,100	9,631	7,410
Average viticulture and harvest costs per hectare of mature vines	+/- $100 per hectare	(113)	8,407	8,633
Grape market prices	+/- 10%	999	9,519	7,521

Appendix 5: Biological assets

(example of disclosures) *continued*

Valuation processes — *NZ IFRS 13.93(g)*

The Group has a team within the External Reporting department that performs the valuation of biological assets. When considering the appropriate market prices for grapes to use, the team reviews available information, including: the quantity of grapes growing on the vines; relevant terroir; expected yield; current health of the grapes and vines on which they grow; current market prices for grapes; expected viticulture and harvest costs through to harvest; and the expected timing of harvest.

The valuation policies and procedures, as well as changes in the fair value measurements are reviewed by the chief financial officer (CFO) annually. The CFO is responsible for the Group's internal valuation team. The Group's internal valuation team comprises two employees, both of whom hold relevant internationally recognised professional qualifications and are experienced in valuations in the wine industry.

Commentary

If, for recurring and non-recurring fair value measurements, the highest and best use of a non-financial asset differs from its current use, an entity must disclose that fact and the reason why the asset is being used in a manner that differs from its highest and best use (NZ IFRS 13.93(i)). The Group has assessed that the highest and best use of its properties does not differ from their current use.

In addition to the disclosure requirements in NZ IFRS 13, IAS 1 requires disclosure of the significant judgements that management has made about the future and sources of estimation uncertainty. NZ IAS 1.129(b) includes, as an example of such a disclosure, the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity. As such, information beyond that required by NZ IFRS 13.93(h) may be needed in some circumstances.

NZ IFRS 13.99 requires an entity to present the quantitative disclosures of NZ IFRS 13 in a tabular format, unless another format is more appropriate. The Group included the quantitative disclosures in tabular format, above.

Other disclosures

Grapes were not pledged as security for any of the Group's loans or borrowings in 2019 (2018: None) — *NZ IAS 41.49(a)*

At 31 December 2019, the Group had no commitments in relation to its growing grapes (2018: Nil). — *NZ IAS 41.49(b)*

No government grants were received in relation to Groups agricultural activities in 2019 (2018: Nil). — *NZ IAS 41.57*

Financial risk management strategies — *NZ IAS 41.49(c)*

The Group is exposed to risks arising from environmental changes, changes in grape prices as well as the financial risk in respect of agricultural activity.

- The Group manages environmental risks, such as droughts, floods and disease outbreak, by diversifying its vineyards across New Zealand regions. Frost protection is provided on all vineyards to protect against the risk of crop loss or damage. The measures taken by management also include consultation with experts on viticulture and frost protection.
- The Group's exposure to fluctuations in the grape prices and sales volume is managed by entering into long term supply contracts for wine with major customers.
- The primary financial risk associated with Group's agricultural activity occurs due to the length of time between expending cash on the purchase, or planting and maintenance, of grape vines and on harvesting grapes and making the wine, and ultimately receiving cash from the sale of wine to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements. In addition, the Group maintains credit facilities at a level sufficient to fund its working capital during the period between cash expenditure and cash inflow. At 31 December 2019, the Group had unused credit facilities in the form of undrawn unsecured bank overdrafts of $882,000 (2018: $750,000). — *NZ IAS 41.53*

No events occur in the current and prior periods that give rise to material items of income or expense as a result of climate, disease and other natural risks.

Appendix 5: Biological assets

(example of disclosures) *continued*

Commentary

NZ IAS 41.49 requires an entity to disclose the following information:

- the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
- the amount of commitments for the development or acquisition of biological assets; and
- financial risk management strategies related to agricultural activity.

The Group does not have any government grants related to biological assets. If an entity receives government grants related to agricultural activity, NZ IAS 41.57 requires the following to be disclosed:

- the nature and extent of government grants recognised
- unfulfilled conditions and other contingencies attached to the grants
- any significant decreases expected in the level of government grants

An entity should also consider the disclosure requirements of other standards that might apply to its agricultural activity, such as NZ IAS 36 *Impairment of Assets* in relation to any impairment losses to bearer plants and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should any contracts the entity might have entered into for the future sale of agricultural produce become onerous.

Appendix 6: Correction of a prior period error

NZ IAS 8.49

In July 2017, a subsidiary entered into a sales contract with a new customer to sell fire prevention equipment for a two-year period. As part of the negotiations, a variation was made to the standard terms and conditions to sell the equipment to this customer on consignment basis. However, the subsidiary continued to recognise revenue at the point of delivery to the customer instead of deferring the revenue recognition until the customer has sold the goods. As a consequence, revenue was overstated. In January 2019, the subsidiary conducted a detailed review of the terms and conditions of its sales contracts and discovered the error.

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

Impact on equity (increase/(decrease) in equity)

	31 December 2018	1 January 2018
	$000	$000
Inventories	1,000	500
Trade receivables	(3,500)	(1,500)
Total assets	**(2,500)**	**(1,000)**
Income tax payable	750	300
Total liabilities	**750**	**300**
Net impact on equity	**(1,750)**	**(700)**

Impact on statement of profit or loss (increase/(decrease) in profit)

	31 December 2018
	$000
Sale of goods	(2,000)
Cost of sales	500
Income tax expense	450
Net impact on profit for the year	(1,050)
Net impact on profit for the year	**(1,050)**
Attributable to:	
Equity holders of the parent	(1,050)
Non-controlling interests	–

Impact on basic and diluted earnings per share (EPS) (increase/(decrease) in EPS)

	31 December 2018
Earnings per share	
Basic, profit for the year attributable to ordinary equity holders of the parent	($0.06)
Diluted, profit for the year attributable to ordinary equity holders of the parent	($0.05)
Earnings per share for continuing operations	
Basic, profit from continuing operations attributable to ordinary equity holders of the parent	($0.06)
Diluted, profit from continuing operations attributable to ordinary equity holders of the parent	($0.05)

Commentary

While Tier 2 for-profit entities must comply with all the provisions of NZ IAS 33, the scope restrictions in NZ IAS 33.2 result in this Standard having minimal impact on Tier 2 entities.

The change did not have an impact on OCI for the period or the Group's operating, investing and financing cash flows.

Appendix 7: Companies Act 1993 disclosures

Commentary

This Appendix provides illustrative disclosures for the Companies Act 1993 annual report disclosure requirements. The illustrative disclosures are based on a company that was incorporated in, and for which the primary place of operations is, New Zealand.

Please note non-compliance with certain Companies Act 1993 annual report disclosure requirements is permitted under section 211(3) of the Act. The annual report of the company need not comply with any paragraphs (a), and (e) to (j) of subsection (1) or subsection (2) of section 211 of the Act if shareholders who together hold at least 95% of the voting shares agreed that the report need not do so. Please refer to the Annual Report for the year ended 31 December 2019 - Alternative Version for illustrated disclosures.

Annual Report
For the year ended 31 December 2019

The Board of Directors present their annual report, including the financial statements, for Good Group New Zealand Limited for the year ended 31 December 2019 and the auditor's report thereon. *CA93 s208*

For and on behalf of the Board of Directors:

J. *BARRACLOUGH* *CA93 s211(1)(k)*

Director

29 January 2020

M. P. BOITEAU

Director

29 January 2020

Commentary

Where there is only one director, only one signature is required.

The annual report of a reporting entity needs to be dated before the relevant deadline after year end. This is typically five months after balance date.

Appendix 7: Companies Act 1993 disclosures *continued*

Directors

CA93 s211(1)(i)

J. Barraclough (Non-executive Chairman)

M.P. Boiteau, B.Sc (Director and Chief Executive Officer)

C.P. Muller, B.Com., F.C.A. (Finance Director)

F. van den Berg, LL.B.

A.N. Lockwood, M. Eng.

M. Evans

M.A. Vlahov, B.Com., C.A.

C. Smart, M.Sc.

P.R. Garcia, B.Com., C.A.

The following persons ceased to hold office as directors of Good Group New Zealand Limited during the period:

J. Pope, MBA

E. Blake, M.Com

Principal activities

CA93 s211(1)(a)

Good Group New Zealand Limited is a company registered under the Companies Act 1993. The principal activities of Good Group New Zealand Limited and its subsidiaries (the Group) during the year were:

- Supply and servicing of electronic equipment for defence, aviation and electrical safety markets
- Production, installation and servicing of extinguishers, fire prevention equipment and fire retardant fabrics
- Production of rubber hosepipes for commercial applications
- Leasing of offices and manufacturing sites that are surplus to the Group's requirements.

Significant changes in the state of affairs

CA93 s211(1)(a)

Total equity increased to $60,781,000 from $45,842,000, an increase of $14,939,000. The movement was largely the result of increased profits. During 2019, the issued share capital was increased by $7,200,000 by the issue of 2,500,000 ordinary shares. Refer Note 25 for further information on movements in share capital.

The Group is in the final stage of negotiating the sale of Hose Limited, a wholly owned subsidiary, to shareholders of Good Group New Zealand Limited. The distribution of Hose Limited is expected to be completed by 28 February 2020. This is discussed in further detail in Note 14.

The acquisition of Extinguishers Limited has further strengthened the fire prevention division of the Group. This company has a well-established research and development department, which will help ensure that the Group's products remain state-of-the-art. Additionally, the acquisition of Extinguishers Limited has allowed the Group to gain control of a significant fire prevention patent, thus ensuring future strong sales opportunities for the Group.

Appendix 7: Companies Act 1993 disclosures *continued*

Remuneration of Directors

CA s211(1)(f)

For the year ended 31 December 2019

	Short-term benefits				Post employment		Long-term benefits		Share-based payments		Termination payments	Total
	Salary & fees $	Cash bonus $	Non monetary benefits $	Other $	Super-annuation** $	Retirement benefits $	Cash Incentives $	Long service leave $	Options $	Shares* $	$	$
Non-executive directors												
J. Barraclough	290,000	-	-	-	-	-	-	-	-	10,000	-	300,000
F. van den Berg	250,000	-	-	-	-	-	-	-	-	10,000	-	260,000
A.N. Lockwood	190,000	-	-	-	-	-	-	-	-	10,000	-	200,000
M. Evans	90,000	-	-	-	-	-	-	-	-	5,000	-	95,000
M.A. Vlahov	230,000	-	-	-	-	-	-	-	-	10,000	-	240,000
C. Smart	110,000	-	-	-	-	-	-	-	-	5,000	-	115,000
P.R. Garcia	10,000	-	-	-	-	-	-	-	-	-	-	10,000
Total non-executive directors	**1,170,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,000**	**-**	**1,220,000**
Executive directors												
M.P. Boiteau	425,000	240,000	19,000	1,000	38,250	-	-	1,000	22,000	-	-	746,250
C.P. Muller	375,000	60,000	6,000	-	33,750	-	-	2,000	22,000	-	-	498,750
Total executive directors	**800,000**	**300,000**	**25,000**	**1,000**	72,000	**-**	**-**	**3,000**	**44,000**	**-**	**-**	**1,245,000**
Totals	**1,970,000**	**300,000**	**25,000**	**1,000**	72,000	**-**	**-**	**3,000**	**44,000**	**50,000**	**-**	**2,465,000**

* NEDs are required to sacrifice up to $10,000 of their fixed remuneration in shares in the Company.

** In respect of defined benefit plans, the amount disclosed relates to the total costs under the plan in relation to that person as determined in accordance with NZ IAS 19.

Appendix 7: Companies Act 1993 disclosures *continued*

Employee Remuneration

CA93 s211(1)(g)

Remuneration of employees, not including directors, whose remuneration and benefits in their capacity as employees exceeded $100,000 during the period.

	Group
100,001 - 110,000	12
130,001 - 140,000	8
150,001 - 160,000	7
190,001 - 200,000	6
220,001 - 230,000	2
230,001 - 240,000	1
280,001 - 290,000	1
310,001 - 320,000	1
320,001 - 330,000	1
400,000 - 410,000	1
420,001 - 430,000	1
450,001 - 460,000	2
460,001 - 470,000	1

Auditor's Remuneration

CA93 s211(1)(j)

Total audit fees payable to EY as the Group Auditor for the 2019 financial statements totalled $1,440,000. Fees payable to EY for other services totalled $134,000 for the period.

Donations

CA93 s211(1)(h)

Donations paid by the Group during the year were $10,000.

Interests Register

CA93 s211(1)(e)

Directors interests in the following transactions were recorded in the interest register during the year ended 31 December 2019:

- During the year, the Group provided a housing loan to C.P. Muller of $150,000 repayable within 5 years on interest free terms, secured by a registered first mortgage over the property. No amount was payable during the year. The loan was approved by shareholders at the Annual General Meeting. *CA93 s140*

CA93 s162

The following indemnification and insurance of directors and officers were recorded in the interest register during the year ended 31 December 2019:

- During the financial year, the Group indemnified Mr Boiteau against a liability for costs and expenses incurred in defending proceedings brought against him for a breach by Bright Sparks Ltd of employment regulations. Mr Boiteau was acquitted. The amount of the indemnity was $8,000.
- The Group has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Group for which they may be held personally liable. The agreement provides for the Group to pay an amount not exceeding $200,000 provided that:
  - (a) The liability does not arise out of conduct involving a lack of good faith
  - (b) The liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.
- During or since the financial year, the Group has paid premiums (as permitted by sections 162(3)-(5) of the Companies Act 1993) in respect of a contract insuring all the directors of the Group against legal costs incurred in defending proceedings for conduct involving:
  - (a) Costs and expenses incurred by a director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted
  - (b) Liability to a third party for any act or omission in their capacity as a director or employee
  - (c) Non-criminal liability for any act or omission in their capacity as director or employee, including costs incurred in defending or settling that claim.

The total amount of insurance contract premiums paid was $12,800.

Appendix 7: Companies Act 1993 disclosures *continued*

Commentary

Companies Act 1993 (CA93) Disclosures – s211 Contents of an annual report

CA93 s211(1)(k) requires the annual report to be signed on behalf of the Board by two directors, or, if there is only one director, by that director.

CA93 s211(1)(i) requires disclosure of the names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period.

CA93 s211(1)(a) requires the annual report to describe, so far as the board believes it is material for the shareholders to have an appreciation of the state of the company's affairs and will not be harmful to the business of the company or of any of its subsidiaries, any change during the period in:

i. The nature of the business of the company or any of its subsidiaries; or

ii. The classes of business in which the company has an interest, whether as a shareholder of another company or otherwise.

CA93 s211(1)(f) requires the annual report to state, in respect of each director or former director of the company, the total of the remuneration and the value of the other benefits received by that director or former director from the company during the accounting period.

CA93 s211(1)(g) requires the annual report to state the number of employees or former employees of the company, not being directors of the company, who, during the accounting period, received remuneration and other benefits in their capacity as employees, the value of which was or exceeded $100,000 per annum, and must state the number of such employees in brackets of $10,000.

CA93 s211(1)(j) requires the annual report to state, the amounts payable by the company to the person or firm holding office as auditor of the company as audit fees and, as a separate item, fees payable by the company for other services provided by that person or firm.

CA93 s211(1)(h) requires the annual report to state, the total amount of donations made by the company during the accounting period.

CA93 s211(1)(e) requires disclosure of the entries in the interests register made during the accounting period.

Companies Act 1993 Disclosures- s211(3) Non-compliance by agreement

The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) of section 211 of the Act if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.

The annual report on the next page illustrates the alternative disclosure where the shareholders who together hold at least 95% of the voting rights have made such decision.

Appendix 7: Companies Act 1993 disclosures *continued*

Annual Report – Alternative Version

For the year ended 31 December 2019

The Board of Directors present their annual report including the financial statements of Good Group New Zealand Limited for the year ended 31 December 2018 and the auditor's report thereon.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993, whereby pursuant to a decision of the shareholders of the Company who together hold at least 95% of the voting shares, they have agreed not comply with paragraphs (a) and (e) to (j) of section 211 (1) and section 211(2) of the Act.

For and on behalf of the board:

J. *BARRACLOUGH*
Director
29 January 2020

M. P. BOITEAU
Director
29 January 2020

Commentary

Companies Act 1993 Disclosures- s211(3) Non-compliance by agreement

The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) of section 211 of the Act if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.

The above annual report illustrates the alternative disclosure where the shareholders who together hold at least 95% of the voting rights have made such decision.

Key contacts

The EY member firms' Assurance Partners have the courage, integrity and knowledge to help you meet the challenging demands of business and financial reporting considerations consistently.

EY people are able to meet the needs of local and multinational clients through access to the latest accounting and auditing information, by following a global audit methodology and by using leading audit support tools.

Auckland

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Graeme is the Head of Financial Accounting Advisory Services. He is a dedicated financial services professional with more than 20 years' industry experience gained in New Zealand and the United Kingdom. Graeme brings an in-depth knowledge of financial products and markets and has performed a range of transaction support, regulatory reporting and other engagements for financial services clients.

Simon Brotherton
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Simon has extensive New Zealand and international experience working with a range of companies from the manufacturing, logistics, real estate and hospitality sectors. He has worked closely with listed, privately held and entrepreneurial companies. He has governance experience through Board roles and his previous experience of valuations, due diligence and independent appraisals gives a broad appreciation of commercial issues.

Lloyd Bunyan
Partner
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Lloyd has nearly 30 years' experience working in audit in New Zealand and London and is the auditor of several listed entities and numerous growth clients across a broad range of industries. Lloyd has experience in acquisition due diligence and has spent six months in a senior financial accounting role at a listed company.

Susan Jones
Partner
New Zealand Assurance Leader
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Susan has more than 25 years' experience in New Zealand, New York and London. She is the Assurance People Partner at Ernst & Young, New Zealand and is a member of the EY Oceania Diversity and Inclusiveness Council. Susan has significant experience in a number of industries including Forestry, Fishing, Property, Tertiary Education, Retail, Media and Entertainment, Food and Beverage and not for profit sector.

Key contacts

Auckland

Simon O'Connor
Managing Partner
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Simon O'Connor is the Managing Partner at Ernst & Young, New Zealand and an Industry Leader in the EY Oceania Leadership Team. He has more than 20 years' experience in New Zealand, San Jose and New York. Simon is experienced in leading and managing the delivery of audit and transaction support services to major organisations, both in New Zealand and internationally, and is focused on providing audit services in the Financial Services, Media, Consumer Products and Telecommunications industries.

Brent Penrose
Partner
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Brent is a senior audit partner at Ernst & Young, New Zealand and the New Zealand CFO Programme leader. He has 30 years' audit experience in New Zealand, San Jose and London. Currently he is experienced in working with clients in the financial services sector, he is responsible for leading the audit of some of the Ernst & Young, New Zealand's largest listed, private and public sector clients. In addition, Brent has led a number of buy side acquisition advisory teams across various sectors, as well as having significant IPO experience.

Emma Winsloe
Partner
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Emma has more than 20 years' experience with EY member firm in New Zealand and Ireland and significant experience in auditing a wide variety of organisations. Emma is a partner in the Auckland Assurance practice at Ernst & Young, New Zealand and is experienced in the financial services industry. Emma's experience includes secondments to EY technical accounting team.

David Pacey
Associate Partner
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David works in the International Financial Reporting Standards Professional Practice team at EY providing advice on the application of accounting standards across a range of technical topics and industries. David's areas of expertise include insurance, banking and capital markets. Prior to re-joining EY in 2011 David worked in London both for EY and an international investment bank. David currently leads EYs Asia Pacific Insurance subject matter group.

Key contacts

Wellington

Stuart Mutch
Partner
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Stuart has over 20 years of experience in New Zealand focused on assurance and related advisory services. Stuart is seasoned in the Public sector, Aged care, Consumer products and Funds Management sectors. Stuart has historically worked with a range of large infrastructure organisation focused on the management of large portfolios of assets.

Grant Taylor
Partner
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Grant has over 20 years' experience providing assurance and financial management related services. His experience includes leading and managing the provision of external audit support and other services to major organisations including considerable transaction support work, both in New Zealand and internationally.

David Borrie
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David has experience leading the assurance and accounting services in New Zealand, London and Dublin. His experience includes coordinating assurance services for large multinationals spread across countries that have different accounting and legislative requirements. He currently provides assurance services to organisations across a wide range of sectors including Insurance, Technology and Media, Government and Public Sector and Not for Profit.

Sam Nicolle
Partner
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Sam is a partner at Ernst & Young, New Zealand in the Wellington Office with more than 13 years experience working for EY member firm. He has served a range of clients including listed companies, multinationals, private businesses and public sector entities providing assurance and advisory services.
Sam has experience in a broad range of industries including technology, banking, asset management, aged care, energy and government estate.
Sam has extensive experience in accounting and auditing of valuations of financial instruments and non-financial assets.
Responsible for Talent and Performance (Assurance) for the EY member firm's office in Wellington.

Lara Truman
Associate Partner
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Lara has worked in the Financial Accounting Advisory Services team providing advice on the application of accounting standards across a range of technical issues and industry sectors for the past 14 years. Lara's areas of knowledge include income taxes, share-based payments, financial instruments and public benefit entity (PBE) Accounting. During her time with EY, Lara spent 2 years on the staff of the International Accounting Standards Board in London. Lara currently represents EY on the New Zealand Accounting Standards Boards Technical Reference Group.

Key contacts

Christchurch

John Hodge
Partner
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John has extensive audit experience working with a range of companies from issuers and large corporates through to private clients and not for profit organisations. His portfolio consists of clients from the agribusiness and technology sector and related manufacturing. John has audited numerous NZ IFRS compliant financial statements and provides IFRS and technical advice to clients. His clients include a number of US owned companies making John familiar with Sarbanes Oxley regulations and associated audit procedures along with US GAAP reporting.

Bruce Loader
Partner
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Bruce's clients range from significant New Zealand FMC Act registered groups, to foreign controlled companies and large family owned groups. As the most experienced Agri sector audit partner at Ernst & Young, New Zealand, Bruce understands the complexity of the sector and the significant current and future challenges the sector faces.

Brendan Summerfield
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Brendan brings over 15 years' experience in auditing clients both in New Zealand and internationally in a wide range of industries and from significant New Zealand FMC Act registered groups to family owned businesses. Brendan is currently focused on providing audit services in the Aged Care, Consumer Products, Agriculture and Manufacturing industries.

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