

Quality Holdings (Australian SDS) Pty Ltd

Illustrative Australian Company's
financial report for 31 December
2022 (and 30 June 2023)

Complying with Australian
Accounting Standards - Simplified
Disclosures



Building a better
working world

Foreword

Welcome to the 2022 edition of *Quality Holdings (Australian SDS) Pty Ltd*, previously known as *Good Group (Australian SDS) Pty Ltd*. Australia has a two tier reporting system for entities preparing general purpose financial statements (GPFS). This two tier regime allows certain entities to reduce the costs of financial reporting by simplifying the disclosures otherwise required by Australian Accounting Standards (AAS). Whether an entity is able to apply the simplified disclosure framework (SDS) is dependent upon whether or not it is considered to be publicly accountable. This determination requires the application of judgement.

Australia and the world continue to emerge from the challenges caused by the COVID-19 crisis, however, 2022 has ushered in new challenges in financial reporting. The economic and geopolitical ramifications of the conflict in Ukraine are being felt globally. Inflation, soaring energy costs, interest rate and foreign exchange market volatility and supply chain breakdowns have all conspired to create an uncertain financial reporting landscape. Entities of all sizes, particularly those whose operations are exposed to conditions in Eastern Europe, must deal with the impacts of the conflict, as well as remaining vigilant as to the lingering impacts of the pandemic. For further discussion on this topic, see our publication [Applying IFRS - Accounting considerations for the war in Ukraine](#).

This fourth edition of *Quality Holdings (Australian SDS) Pty Ltd* provides illustrative financial statements that comply with Australian Accounting Standards - Simplified Disclosures. The following assumptions were made in preparing these financial statements:

- ▶ Quality Holdings (Australian SDS) Pty Ltd is an industrial company, incorporated in Australia, not engaged in any insurance or agricultural activities.
- ▶ These financial statements for the year ended 31 December 2022 (30 June 2023) are not the entities first set of SDS financial statements.

In the appendices, we also explain the revised differential reporting framework, transition requirements for adopting SDS and include illustrative transition disclosures for entities moving from special purpose financial statements (SPFS) or RDR, to SDS in the current year.

I trust our [The time has come](#) and [For-profit entities moving from SPFS to GPFS](#) publications together with the accompanying illustrative financial statements will prove useful for entities navigating Australia's financial reporting landscape.

Frank Palmer
Partner - Ernst & Young Australia
EY Oceania IFRS Leader
May 2023

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Tiers of Australian Accounting Standards

AASB 1053 *Application of Tiers of Australian Accounting Standards* creates two tiers of reporting requirements for preparing general purpose financial statements:

- ▶ Tier 1: Australian Accounting Standards (AAS)
- ▶ Tier 2: *Australian Accounting Standards - Simplified Disclosures*. The disclosures are set out in one standard, AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

Tier 1 incorporates International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and includes requirements that are specific to Australian entities.

In this publication, these financial statements illustrate an entity that has adopted Tier 2 (SDS) in a prior year. [Appendices 6](#) and [7](#) however, include illustrative transition disclosures for those entities only adopting SDS in the current year.

For further details of the revised differential reporting framework and transition requirements, see [Appendix 5](#).

SDS comprises the recognition and measurement requirements of Tier 1, but substantially reduced disclosure requirements. The presentation requirements for the financial statements under SDS are the same as Tier 1, except for two matters. SDS does not require a third statement of financial position in circumstances required by Tier 1. Further, SDS gives a choice of presenting a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity if the only changes to equity arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies. See [Appendix 3](#) for an illustrative statement of income and retained earnings.

How to use these illustrative financial statements to prepare entity-specific disclosures

This document contains the consolidated financial statements of a fictitious entity, Quality Holdings (Australian SDS) Pty Ltd, an industrial company with subsidiaries (the Group). Quality Holdings (Australian SDS) Pty Ltd is incorporated in Australia. These financial statements are intended to illustrate transactions, events and circumstances that we consider to be most common for a broad range of companies across a wide variety of industries. 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 Quality Holdings.

Notations shown in the right-hand margin of each page are references to AASB 1060, or other applicable pronouncements that require the specific disclosures, such as *Corporations Regulations 2001* that prescribes the disclosure of parent entity information (see [Note 30](#)), and *Australian Securities & Investments Commission Corporations (ASIC) Instrument 2016/785* that mandates the disclosure of closed group information (see [Note 31](#)). Commentaries are provided to explain the basis for the disclosure or to address alternative disclosures not included in the illustrative financial statements. Additional line items, headings, subtotals and information not specifically required by AASB 1060 have been presented and disclosed in these financial statements on the basis that such presentation is relevant to an understanding of the entity.

Users of this publication are encouraged to prepare entity-specific disclosures. Transactions and arrangements other than those illustrated for the Group may require additional disclosures. For a more comprehensive list of disclosure requirements, refer AASB 1060.

Australian Accounting Standards as at 31 December 2022

The standards applied in these illustrative financial statements are those that were on issue as at 31 December 2022 and effective for annual periods beginning on or after 1 January 2022.

For an overview of the changes in standards and interpretations on issue as at 31 December 2022, please refer to our publication on [new Australian accounting pronouncements](#).

Users of this publication are cautioned to check for any changes in requirements of Australian Accounting Standards between 31 December 2022 and the date on which their financial statements are authorised for issue. Our [Focus On Reporting](#) publication will keep you informed of further changes.

Accounting policy choices

Accounting policies are broadly defined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and include not just the explicit elections available in some standards, but also other conventions and practices that are adopted in applying principle-based standards.

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

AASB 108 requires an entity to select and apply its accounting policies consistently for similar transactions, events and/or conditions, unless an Australian Accounting Standard specifically requires or permits categorisation of items for which different policies may be appropriate. Where an Australian Accounting Standard 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 the entity's accounting policy and must be applied consistently for the relevant category. 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 reliable and more relevant information.

In this publication, when a choice is available in Australian Accounting Standards, 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, and the reasons for this policy selection.

Financial review by management

Many entities present a financial review by management that is outside the financial statements. Australian Accounting Standards do not require the presentation of such information. IFRS Practice Statement 1 *Management Commentary*, provides a non-binding framework for presenting 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.

Preparers of financial statements that comply with Australian Accounting Standards should note that other guidance on management commentary already exists in Australia (for example, ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*) which may take precedence over the IFRS Practice Statement. Further, the content of a financial review by management in relation to the financial statements is often determined by the requirements of the *Corporations Act 2001*.

Changes in the 2022 edition of Quality Holdings (Australian SDS) Pty Ltd annual financial statements

This is the December 2022 edition of Quality Holdings (Australian SDS) Pty Ltd.

The standards and interpretations listed below have become effective since 1 January 2022 to the extent they were not early adopted in the June 2022 edition. 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 of the changes in standards and interpretations are effective for financial periods beginning on or after 1 January 2022, we have disclosed the impact of those changes in [Note 2.4](#).

Other changes from the June 2022 edition have been made in order to reflect practice developments and to improve the overall quality of the illustrative financial statements.

Changes to AAS

The following amendments became effective as at 1 January 2022:

- ▶ AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments
 - ▶ *Amendments to AASB 3 - Reference to the Conceptual Framework*
 - ▶ *Amendments to AASB 116 - Property, Plant and Equipment: Proceeds before Intended Use*
 - ▶ *Amendments to AASB 137 - Onerous Contracts - Cost of Fulfilling a Contract*
 - ▶ *Amendment to AASB 1 - Subsidiary as a First-time Adopter*
 - ▶ *Amendment to AASB 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities*
 - ▶ *Amendment to AASB 141 - Taxation in Fair Value Measurements*

COVID-19

The COVID-19 outbreak was first reported near the end of 2019. On 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic.

The COVID-19 shows considerable signs of easing as many countries have lifted travel bans, ended lockdowns and eased quarantine measures. Many governments have announced curtailment of certain measures to provide financial and non-financial assistance to the affected entities. At the same time, COVID-19 may continue to affect companies and economies. Many entities are still dealing with lost revenue and disrupted supply chains and, as a result, millions of workers have lost their jobs.

These developments have presented entities with challenges in preparing their IFRS financial statements. This publication provides a reminder of the existing disclosure requirements that should be considered when reporting on the financial effects of the COVID-19 pandemic in IFRS financial statements. However, as the impact largely depends on the nature of an entity's business and the extent to which it has been affected, the potential impact has not been illustrated in the numbers reported.

As noted in our publications, [Applying IFRS - Accounting considerations of the coronavirus pandemic \(April 2021\)](#), [Applying IFRS - Disclosure of Covid-19 impact \(October 2020\)](#) and [Applying IFRS - Impact of coronavirus on alternative performance measures and disclosures \(May 2020\)](#), entities should, in particular, consider the accounting and disclosure requirements with regards to: going concern, financial instruments, impairment assessment of non-financial assets, government grants, income taxes, liabilities from insurance contracts, leases, insurance recoveries, onerous contract provisions, fair value measurement, revenue recognition, inventories, events after the reporting period, other financial statement disclosure requirements, other accounting estimates, share-based payments and APMs.

The COVID-19 pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgements applied in the financial statements.

The purpose of the COVID-19 commentaries is to aid companies in making their assessments as to what the COVID-19 impact is on recognition, measurement, presentation, and disclosures. It should be noted that as the COVID-19 pandemic keeps evolving and will likely affect 2021, entities should consider the latest guidance released along with the relevant publications available on ey.com/ifrs, for instance the *Applying IFRS* publications mentioned above. ASIC has also addressed some frequently asked questions¹ relating to COVID-19 implications for financial reporting and audit, and highlighted focus areas² for 31 December 2022 financial reports.

The war in Ukraine

The war in Ukraine, started in 2022, triggers a number of IFRS accounting considerations affecting the financial statements.

Many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Belarus.

The situation together with potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources will directly impact entities that have significant operations or exposures in, or to Russia, Belarus or Ukraine.

The war and its direct and indirect consequences may impact entities other than those with direct interests in the involved countries, for instance, as a result of exposure to fluctuations in commodity prices and foreign exchange rates, as well as the possibility of a protracted economic downturn.

As the war continues and new sanctions are introduced, the overall impact remains fluid. Since the impact also largely depends on the nature of an entity's business, any potential impact has not been illustrated in these consolidated financial statements. Instead, entities that are considering the impact of the war in their financial statements may refer to our publication [Applying IFRS - Accounting considerations for the war in Ukraine Updated March 2022](#).

¹ The frequently asked questions (updated as at 14 December 2021) can be accessed via the ASIC website through this link: <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/covid-19-implications-for-financial-reporting-and-audit-frequently-asked-questions-faqs/>

² The focus areas for 31 December 2022 reporting can be accessed via the ASIC website through this link: <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-333mr-asic-highlights-focus-areas-for-31-december-2022-reporting/>

Independent auditor's report

Quality Holdings (Australian SDS) Pty Ltd is a proprietary limited company incorporated and domiciled in Australia and is a for-profit, private sector entity which is not publicly accountable. Financial statements of such an entity may be subject to audit, in which case an auditor's report should be provided together with the annual financial statements. However, this publication is not intended to provide guidance on the application of relevant auditing standards on auditor reporting. Hence, an illustrative auditor's report on the consolidated financial statements of Quality Holdings (Australian SDS) Pty Ltd is not included.

Abbreviations and key

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

AASB 1060.25	<i>AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i> , paragraph 25
ASIC CI	<i>Australian Securities & Investments Commission Corporations Instrument</i>
ASIC RG	<i>Australian Securities & Investments Commission Regulatory Guide</i>
Reg 2M.3.03(1)	<i>Corporations Regulations 2001</i> , Chapter 2M, Regulation 3.03, paragraph 1
CA 295	<i>Corporations Act 2001</i> , section 295
Commentary	The commentary explains how the requirements of Australian Accounting Standards have been implemented in arriving at the illustrative disclosure
COVID-19 Commentary	This edition of Quality Holdings (Australian SDS) Pty Ltd provides commentary on issues that an entity may need to consider due to the impact of the COVID-19 pandemic

Caveat

The names of people and corporations, and also descriptions of events related to Quality Holdings (Australian SDS) Pty Ltd included in these illustrative financial statements are fictitious and have been created for illustration only. Any resemblance to any person or business 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, seek appropriate professional advice.

Quality Holdings (Australian SDS) Pty Ltd

ABN 00 000 000 000

Illustrative Australian Company's
financial report for 31 December 2022
(and 30 June 2023)

Complying with Australian Accounting
Standards - Simplified Disclosures



Directors' report



Directors' report

The directors of Quality Holdings (Australian SDS) Pty Ltd (the Company) and its subsidiaries (collectively, the Group), present their report for the year ended 31 December 2022.

CA 298(1), 299(2)

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

CA 300(1Xc)

Brigita Riggs (Non-executive Chair)

Frank Canuck (Managing Director)

Mel Simpson

Tony Hardy

Kala Harris

Adelle Gregory - appointed 1 February 2022

Cris Turner - resigned 31 July 2022

Officers who are former partners of the auditors of the Company

CA 300(1Xca)

The following persons were officers of the Company at any time during the year and were previously a partner of the current audit firm, Ernst & Young Australia, at the time when the audit firm undertook the audit of the Group:

Cris Turner

Principal activities

CA 299(1Xc)

The principal activities of the Group are:

- ▶ Production, installation and servicing of extinguishers, fire prevention equipment and fire-retardant fabrics
- ▶ Supply and servicing of electronic equipment for defence, aviation and electrical safety markets
- ▶ Management of investment property
- ▶ Production of rubber hosepipes for commercial applications

Other than the planned discontinuance of the manufacturing of rubber equipment which came about through the decision to sell Hose Limited, there have been no other significant changes in the nature of these activities during the year.

Review of operations

CA 299(1Xa)

Revenue

The Group produces and installs extinguishers, fire prevention equipment and fire-retardant fabrics for industrial markets and has been an assertive player in the fire prevention market over the last few years.

The growth in sale of fire prevention equipment includes revenue generated by the newly acquired subsidiary, Extinguishers Limited, of \$9,857,000. Extinguishers Limited was acquired on 1 May 2022, and therefore these results include eight months of sales from that business. We expect a further increase in revenues in fire prevention for the 31 December 2023 year-end, benefiting from a full year of trading by Extinguishers Limited.

In our traditional market in Australia, the impending publication of the Fire Prevention Act (the Act) in the next 12 months is likely to result in an increased demand for fire prevention equipment. The Act has come about as a direct result of the severe fires that occurred in office buildings in the states of New South Wales and Queensland during the year and will require all companies with more than 250 employees to replace their fire prevention equipment every five years.

Wireworks Inc. was incorporated on 13 May 2013 with a view to expanding the Group's activities in the fire prevention business in the United States, a key growth market for the Group. Wireworks Inc. is still very much in the growth stage and, as expected, is currently running at a loss. However, management anticipates this business will begin to show a return on our investment in 2023, and that revenue streams will stabilise by 2027.

Directors' report

Review of operations *continued*

The Group produces and supplies electronic equipment for electrical safety application, with particular focus on the defence, aviation, property and industrial sectors. Products include electronics, safety, thermal and electrical architecture.

The Group continues to perform strongly in a difficult market with sales of electronic equipment increasing by 4.0% to \$69,263,000 (2021: \$66,621,000) due to continuous improvement of product quality and the contribution by Lightbulbs Limited in its first full year post acquisition. Management expects that the growth in sales of electronic equipment will be modest in the years to come due to heavy competition in the market.

Profit from continuing operations

The Group reported a profit before tax from continuing operations of \$11,088,000 for the year ended 31 December 2022, an increase of 25.1% from the prior year. The increase in profit before tax from continuing operations was substantially driven from the contribution of Lightbulbs Limited in its first full year post acquisition and the acquisition of Extinguishers Limited.

Significant changes in the state of affairs

CA 299(1Xb)

Divestments, acquisitions and formations

Sale of Hose Limited

The Board of Directors of the Company approved the plan to sell Hose Limited, a wholly owned subsidiary on 14 November 2022.

Acquisition of Extinguishers Limited

Our business was substantially strengthened by the acquisition of Extinguishers Limited, a company that has been established in Australia for many years. As well as a strong customer base and quality product line, Extinguishers Limited has a world-leading research and development program that is well placed to contribute to converting our tailored products for the mass market. The acquisition also included a number of highly profitable fire prevention patents that will bring in stable revenue streams for several years to come.

Formation of Fire Equipment Test Lab Limited

The Group has bolstered its ongoing R&D and quality control program with the establishment of Fire Equipment Test Lab Limited. The Lab will provide us with a bespoke facility for testing potential new mass market products, and to support our ongoing quality control program for existing products. Construction of the new facility is due for completion in 2023.

Capital structure

Long-term borrowings

The Group obtained additional funding of \$3,000,000 during the course of the year at the rate of 11%, due for repayment in 2024. This funding was provided by a third-party investor and will be used to finance the start-up of a new entity, the Fire Equipment Test Lab Limited. This entity will test new and existing fire safety products to ensure quality control.

The Group also borrowed USD3,600,000 to address working capital requirements and fund capital expenditures of the two US subsidiaries, Wireworks Inc. and Sprinklers Inc.

Issued shares

The acquisition of Extinguishers Limited was funded by the issue of 2,500,000 ordinary shares with a fair value of \$7,203,000.

Contingent consideration liability

As part of the agreement with the previous owner of Extinguishers Limited, an amount of contingent consideration has been agreed. There will be additional cash payments to the previous owner of Extinguishers Limited of:

- ▶ \$675,000, if the entity generates \$800,000 or more of profit before tax in a 12-month period after the acquisition date

Or

- ▶ \$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

Significant changes in the state of affairs *continued*

At 31 December 2022, the key performance indicators of Extinguishers Limited indicated that it was highly probable it would generate a profit before tax in excess of \$1,500,000. Accordingly, that probability, when considered in combination with the time value of money, resulted in a contingent consideration liability at balance date of \$1,072,000 associated with the acquisition of Extinguishers Limited. The contingent consideration liability is due to be settled on 30 September 2023.

Significant events after the balance date

CA 299(1Xd)

On 14 January 2023, a building with a net book value of \$1,695,000 and inventory with a net book value of \$857,000 were severely damaged by flooding resulting in estimated impairment losses of \$2,552,000. It is expected that insurance proceeds will fall short of the costs of rebuilding and the loss of inventories by \$750,000. The financial effects of these events were not reflected in the 31 December 2022 financial statements.

On 22 January 2023, the directors of Quality Holdings (Australian SDS) Pty Ltd declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is \$1,087,345 which represents a fully franked dividend of 5.01 cents per share. The dividend has not been provided for in the 31 December 2022 financial statements.

Likely developments and expected results of operations

CA 299(1Xe)

The acquisition of Extinguishers Limited adds the area of fire-retardant fabrics to the portfolio of products offered by the Group, and we believe this puts the Group in a strong position in the market as it is now able to offer a full range of fire prevention products to its customers. Similarly, the launch of the Wireworks business in the US market will position us for future growth in this key market.

Future growth in our business is expected to be mainly driven by the sale of fire prevention products.

Dividends

	<u>Cents</u>	<u>\$000</u>	
Dividends paid in the year:			CA 300(1Xa)
Final for 2021 shown as recommended in the 2021 financial report	5.66	1,089	
Interim for the year	4.12	890	
Special cash dividends on ordinary shares declared but not paid	1.89	<u>410</u>	CA 300(1Xb)
		<u>2,389</u>	
Final dividends recommended	5.01	<u>1,087</u>	

Share options

As at the date of this report, there were 725,000 unissued ordinary shares under options in the Company. These options have a weighted average exercise price of \$3.24 and expire in 2025. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

CA 300(1Xe),
(3), (6)

Since the beginning of the year, F. Canuck received 100,000 options over ordinary shares in the Company as part of his compensation. During and since the end of the financial year, employees and executives paid the Company \$177,000 as a result of exercising options to acquire 76,125 fully paid ordinary shares in the Company (no amounts remain unpaid).

CA 300(1Xd), (3), (5)

CA 300(1Xf),
(3), (7)

Commentary

Companies are required to disclose details of unissued shares or interests as at the date the directors' report was issued and the shares or interests issued during the year from exercise of options over unissued shares or interests and up to the date the directors' report was issued.

Directors' report

Environmental regulation and performance

CA 299(1Xf)
ASIC RG 68

The Group holds licences issued by the relevant environmental protection authorities of the various countries in which the Group operates. These licences specify limits and regulate the management of discharges to the air and storm water run-off associated with the fire prevention and rubber equipment operations.

There have been no significant known breaches of the Group's licence conditions or any environmental regulations to which it is subject.

Indemnification and insurance of directors and officers

CA 300(1Xg)

The Company has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Company for which they may be held personally liable. The agreement provides for the Company to pay an amount not exceeding \$200,000 provided that:

CA 300(8Xa),
(9Xa), 9(c), 9(e)

- 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 the year ended 31 December 2022, the Company has paid premiums in respect of a contract insuring all the directors of Quality Holdings (Australian SDS) Pty Ltd against legal costs incurred in defending proceedings for conduct other than:

CA 300(8Xb)

- a. A wilful breach of duty
- b. A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*

Disclosure of the insurance premium is prohibited by the insurance contract.

CA 300(9Xf)

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during the year ended 31 December 2022.

CA 300(8Xa),
(9Xb), 9(c), 9(e)

Proceedings on behalf of the Company

Commentary

CA 300(14, 15)

For any application of leave under section 237 of the *Corporations Act 2001* made in respect of the company, disclosure in the directors' report must include the applicants name and a statement whether leave was granted.

Where leave is granted under section 237 of the *Corporations Act*, disclosure should be made for any proceeding that a person has brought or intervened in on behalf of the company including the following details:

- ▶ The person's name
- ▶ The name of the parties to the proceedings
- ▶ Sufficient information to enable members to understand the nature and status of proceedings (including the cause of action and any orders made by the court)

True and fair view

CA 298(1A)

Commentary

If the financial statements for the year include additional information under paragraph 295(3)(c) of the *Corporations Act* to give a true and fair view of financial position and performance (e.g., alternative measures of financial performance), the details of directors' reason for inclusion of additional information and the reference to where that additional information can be found in the financial statement should be included in the directors' report.

Rounding

The amounts contained in the directors' report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company as provided in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

ASIC CI 2016/191

Directors' report

Rounding continued

Commentary

Quantitative disclosures in the directors' report are rounded to the nearest thousand dollars under the option available to companies as provided in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, except for amounts relating to indemnities given and insurance premiums paid during or since the end of the year for an officer or an auditor [CA 300(1)(g), (8), (9)]. Such quantitative disclosures are required to be rounded to the nearest dollar (\$1), provided that the total assets of the entity are not more than \$1,000,000,000. Further, the disclosures regarding issue price and amounts paid/unpaid on the exercise of options [CA 300(6)(c), 7(d) and 7(e)] can only be rounded to the nearest cent.

Auditor independence

The directors received the following declaration from the auditor of Quality Holdings (Australian SDS) Pty Ltd.

CA 298(1AA)



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Auditor's Independence Declaration to the Directors of Quality Holdings (Australian SDS) Pty Ltd

As lead auditor for the audit of the financial report of Quality Holdings (Australian SDS) Pty Ltd for the financial year ended 31 December 2022, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- b. no contraventions of any applicable code of professional conduct in relation to the audit, and
- c. no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Quality Holdings (Australian SDS) Pty Ltd and the entities it controlled during the financial year.

Ernst & Young

D. G. Brown

Partner

6 February 2023

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Signed in accordance with a resolution of the directors.

CA 298(2)

Frank Canuck
Managing Director

6 February 2023

Consolidated financial statements



Consolidated statement of profit or loss

for the year ended 31 December 2022

AASB 1060.25(b)(ii),
28, 29, 49(b)

		2022	2021	
		\$000	\$000	
	Note		Restated (Note 2.5)	
Continuing operations				
Revenue from contracts with customers	4	179,058	159,088	
Rental income from investment properties	16, 18	1,404	1,377	
Revenue		180,462	160,465	AASB 1060.52(a), 54
Cost of sales	14	(136,569)	(128,386)	AASB 1060.58(b)
Gross profit		43,893	32,079	
Selling and distribution expenses		(14,001)	(12,964)	AASB 1060.58(b)
Administrative expenses		(18,290)	(12,011)	AASB 1060.58(b)
Other operating income	9.1	2,435	2,548	
Other operating expenses	9.2	(2,554)	(353)	
Operating profit		11,483	9,299	
Finance costs	9.3	(1,366)	(1,268)	AASB 1060.52(b), 54
Finance income		202	145	AASB 1060.119(b)
Share of profit of an associate and a joint venture	7, 8	671	638	AASB 1060.52(c), 54
Other income	9.4	98	66	
Profit before tax from continuing operations		11,088	8,880	
Income tax expense	11	(3,092)	(2,233)	AASB 1060.52(d), 54
Profit for the year from continuing operations		7,996	6,647	
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	10	220	(188)	AASB 1060.52(e), 54
Profit for the year		8,216	6,459	AASB 1060.52(f), 54
Attributable to:				
Equity holders of the parent		7,928	6,220	AASB 1060.54 AASB 1060.53(a)(ii)
Non-controlling interests		288	239	AASB 1060.53(a)(i)
		8,216	6,459	

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Commentary

AASB 1060.25 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 AASB 1060. An entity may use titles for the financial statements other than those used in AASB 1060 as long as they are not misleading.

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 (AASB 1060.61(b)). AASB 1060 requires details to be provided only in the notes. By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of AASB 1060 so that it is clear to the reader that amounts previously presented in prior period financial statements have been adjusted in the comparative period(s) of these financial statements.

AASB 1060 does not require revenue recognised from contracts with customers to be disclosed separately from other sources of revenue. 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. AASB 15 *Revenue from Contracts with Customers* only applies to a subset of total revenue (i.e., revenue from contracts with customers).

AASB 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). AASB 1060 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 AASB 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 AASB 1060.54. 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. AASB 102.34 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.

AASB 1060.58 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. The Group has presented the analysis of expenses by function. In [Appendix 2](#), the statement of profit or loss is presented with an analysis of expenses by nature.

AASB 1060 requires additional line items, headings and subtotals to be presented in the statement of profit or loss when such presentation is relevant to an understanding of the entity's financial performance. However, no items of income and expense should be described as 'extraordinary items' in the statement of profit or loss or in the notes. As such, the Group has presented operating profit in the statement of profit or loss although not required by AASB 1060. The terms 'operating profit' or 'operating income' are not defined in Australian Accounting Standards. The entity should ensure the amount disclosed is representative of activities that would normally be considered to be 'operating'.

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	2022	2021	
	\$000	\$000	
Note		Restated (Note 2.5)	
Profit for the year	8,216	6,459	AASB 1060.25(b)(ii), 28, 29, 49(b) AASB 1060.92 AASB 1060.54
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):</i>			AASB 1060.52(g)(ii), 54
Net gain on hedge of a net investment	195	–	
Exchange differences on translation of foreign operations	(246)	(117)	AASB 1060.180(b)
Net gain/(loss) on cash flow hedges	(618)	24	
Net change in costs of hedging	(22)	–	
Net loss on debt instruments at fair value through other comprehensive income	(15)	(1)	
Share of other comprehensive loss of an associate	(30)	–	AASB 1060.52(h), 54
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(736)	(94)	
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):</i>			AASB 1060.52(g)(i), 54
Net gain/(loss) on equity instruments designated at fair value through other comprehensive income	(18)	7	
Remeasurement gain/(loss) on defined benefit plans	257	(273)	
Revaluation of office properties in Australia	592	–	AASB 1060.136(d)
Share of other comprehensive income of an associate	30	–	AASB 1060.52(h), 54
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	861	(266)	
Other comprehensive income/(loss) for the year, net of tax	125	(360)	
Total comprehensive income for the year, net of tax	8,341	6,099	AASB 1060.52(i), 54
Attributable to:			
Equity holders of the parent	8,053	5,860	AASB 1060.53(b)(ii)
Non-controlling interests	288	239	AASB 1060.53(b)(i)
	8,341	6,099	

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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 1](#).

AASB 1060.26 provides an option to present a single statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity. This choice is available if the only changes to equity during the period for which financial statements are prepared arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies. See [Appendix 3](#) for an illustrative statement of income and retained earnings.

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 (AASB 1060.61(b)). By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of AASB 1060 so that it is clear to the reader that amounts previously presented in prior period financial statements have been adjusted in the comparative period(s) of these financial statements.

AASB 1060 does not explicitly require 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 elected to present each item of OCI net of the related tax effects in the statement above. Another alternative 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 1](#).

AASB 1060.52(g) requires that items that may 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 Australian Accounting Standards.

The Group has presented, in OCI the gains and losses arising from cash flow hedges, including those related to foreign currency and copper forward contracts that are hedges of forecast inventory purchases, that may be reclassified to profit or loss in subsequent periods. Under AASB 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. AASB 101.96 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, OCI 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 (AASB 9.6.5.11(d)(iii)), or if the future cash flows are no longer expected to occur (AASB 9.6.5.12(b)). The Group concluded that it should present OCI arising from cash flow hedges consistently with the requirements for items of OCI that may be reclassified subsequently to profit or loss when specified conditions are met.

Under the requirements of AASB 1060.52(h), entities must present the share of the OCI items of equity method investees (i.e., associates and joint ventures). As at 31 December 2022, the Group's associate has financial assets at fair value through OCI (may be reclassified subsequently to profit or loss) and an office building located in Australia that is accounted for under the revaluation model (will not be reclassified subsequently to profit or loss). Consequently, the Group presents items of OCI related to the associate in two separate line items in the statement of comprehensive income.

Consolidated statement of financial position

as at 31 December 2022

		2022	2021	
		\$000	\$000	AASB 1060.25(a), 28, 29
	Note		Restated (Note 2.5)	
Assets				AASB 1060.92
Current assets				AASB 1060.37
Cash and short-term deposits	12	17,528	14,916	AASB 1060.35(a)
Trade receivables	4, 13	25,672	22,290	AASB 1060.35(b)
Contract assets	4	4,541	5,180	AASB 1060.44(b), 159
Inventories	14	26,027	23,830	AASB 1060.35(d)
Right of return assets	4	1,124	929	
Prepayments		244	165	
Other current financial assets	15.1	551	153	AASB 1060.35(c)
		75,687	67,463	
Assets held for sale	10	13,554	-	AASB 1060.35(r)
		89,241	67,463	
Non-current assets				AASB 1060.37
Investment in a joint venture	7	2,423	1,835	AASB 1060.35(j), 129(b)
Investment in an associate	8	764	681	AASB 1060.35(i), 125(b)
Investment properties	16	8,893	7,983	AASB 1060.35(f)
Property, plant and equipment	17	32,979	24,329	AASB 1060.35(e)
Right-of-use assets	18	2,908	2,732	
Intangible assets	19	6,019	2,461	AASB 1060.35(g)
Non-current financial assets	15.1	3,761	2,816	AASB 1060.35(c)
Deferred tax assets	11	425	365	AASB 1060.35(n)
		58,172	43,202	
Total assets		147,413	110,665	
Liabilities				
Current liabilities				AASB 1060.37
Trade and other payables	20	16,969	20,023	AASB 1060.35(k)
Income tax payable	11	3,511	3,563	AASB 1060.35(m)
Contract liabilities	4	2,880	2,486	AASB 1060.44(d), 159
Refund liabilities	4	6,242	5,844	AASB 1060.44(d)
Interest-bearing loans and borrowings	15.2	2,832	3,142	AASB 1060.35(l)
Dividends payable		410	-	AASB 1060.44(d)
Other current financial liabilities	15.2	2,953	254	AASB 1060.35(l)
Provisions	21	1,042	156	AASB 1060.35(o)
Government grants	23	149	151	AASB 1060.160(a)
		36,988	35,619	
Liabilities directly associated with the assets held for sale	10	13,125	-	AASB 1060.35(s)
		50,113	35,619	
Non-current liabilities				AASB 1060.37
Contract liabilities	4	2,962	888	AASB 1060.44(d), 159
Interest-bearing loans and borrowings	15.2	22,147	23,313	AASB 1060.35(l)
Other non-current financial liabilities	15.2	806	-	AASB 1060.35(l)
Provisions	21	1,898	19	AASB 1060.35(o)
Net employee defined benefit liabilities	22	3,050	2,977	AASB 1060.35(o), 44(e)
Government grants	23	3,300	1,400	AASB 1060.160(a)
Deferred tax liabilities	11	2,454	607	AASB 1060.35(n)
		36,617	29,204	
Total liabilities		86,730	64,823	
Net assets		60,683	45,842	
Equity				AASB 1060.44(f)
Ordinary shares	24	26,668	19,468	
Convertible preference share reserve	24	228	228	
Treasury shares	24	(508)	(654)	
Retained earnings		31,538	25,929	
Other components of equity		301	131	
Reserves of a disposal group held for sale	10	46	-	
Equity attributable to equity holders of the parent		58,273	45,102	AASB 1060.35(q)
Non-controlling interests		2,410	740	AASB 1060.35(p)
Total equity		60,683	45,842	

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In accordance with AASB 1060.37, the Group has presented current and non-current assets, and current and non-current liabilities, as separate classifications in the statement of financial position. AASB 1060 does not require a specific order of the two classifications. The Group has elected to present current assets and liabilities before non-current assets and liabilities. AASB 1060 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 AASB 15. AASB 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).

AASB 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.

Under AASB 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 2022

Attributable to the equity holders of the parent

	Ordinary shares	Convertible preference share reserve	Treasury shares	Retained earnings	Share-based payment reserve	Cash flow hedge reserve	Cost of hedging reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Asset revaluation surplus	Reserves of a disposal group held for sale	Total	Non-controlling interests	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 January 2022	19,468	228	(654)	25,929	636	(70)	-	9	(444)	-	-	45,102	740	45,842
Adoption of amendments to AASB 137 (Note 2.4)	-	-	-	(84)	-	-	-	-	-	-	-	(84)	-	(84)
As at 1 January 2022 (restated)	19,468	228	(654)	25,845	636	(70)	-	9	(444)	-	-	45,018	740	45,758
Profit for the period	-	-	-	7,928	-	-	-	-	-	-	-	7,928	288	8,216
Other comprehensive income	-	-	-	257	-	(618)	(22)	(63)	(51)	622	-	125	-	125
Total comprehensive income	-	-	-	8,185	-	(618)	(22)	(63)	(51)	622	-	8,053	288	8,341
Depreciation transfer for office properties in Australia	-	-	-	80	-	-	-	-	-	(80)	-	-	-	-
Discontinued operations (Note 10)	-	-	-	-	-	-	-	(46)	-	-	46	-	-	-
Issue of share capital (Note 24)	7,203	-	-	-	-	-	-	-	-	-	-	7,203	-	7,203
Exercise of options (Note 24)	29	-	146	-	-	-	-	-	-	-	-	175	-	175
Share-based payments (Note 25)	-	-	-	-	307	-	-	-	-	-	-	307	-	307
Transaction costs	(32)	-	-	-	-	-	-	-	-	-	-	(32)	-	(32)
Dividends	-	-	-	(2,389)	-	-	-	-	-	-	-	(2,389)	(30)	(2,419)
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
Non-controlling interests arising on a business combination (Note 6)	-	-	-	-	-	-	-	-	-	-	-	-	1,547	1,547
Acquisition of non-controlling interests	-	-	-	(190)	-	-	-	-	-	-	-	(190)	(135)	(325)
At 31 December 2022	26,668	228	(508)	31,538	943	(562)	(20)	(107)	(495)	542	46	58,273	2,410	60,683

AASB
1060.25(c),
28, 29, 60, 92

AASB
1060.61(c)(i)
AASB 1060.61
(c)(ii)
AASB
1060.61(a)

AASB 1060.61
(c)(iii)

AASB 1060.61
(c)(iii)
AASB
1060.61(c),
136(d)

Consolidated statement of changes in equity

for the year ended 31 December 2021 (restated)

	Attributable to the equity holders of the parent										AASB 1060.25(c), 28, 29, 60, 92
	Ordinary shares	Convertible preference share reserve	Treasury shares	Retained earnings	Share-based payment reserve	Cash flow hedge reserve	Fair value reserve of financial assets at FVOCI	Foreign currency translation reserve	Total	Non- controlling interests	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
As at 1 January 2021	19,388	228	(774)	22,282	338	(94)	3	(327)	41,044	208	41,252
Adjustment on correction of error (net of tax) (Note 2.5)	-	-	-	(700)	-	-	-	-	(700)	-	(700)
As at 1 January 2021 (adjusted)	19,388	228	(774)	21,582	338	(94)	3	(327)	40,344	208	40,552
Profit for the period	-	-	-	6,220	-	-	-	-	6,220	239	6,459
Other comprehensive income	-	-	-	(273)	-	24	6	(117)	(360)	-	(360)
Total comprehensive income	-	-	-	5,947	-	24	6	(117)	5,860	239	6,099
Exercise of options (Note 24)	80	-	120	-	-	-	-	-	200	-	200
Share-based payments (Note 25)	-	-	-	-	298	-	-	-	298	-	298
Dividends	-	-	-	(1,600)	-	-	-	-	(1,600)	(49)	(1,649)
Non-controlling interests arising on a business combination (Note 6)	-	-	-	-	-	-	-	-	-	342	342
At 31 December 2021 (restated)	19,468	228	(654)	25,929	636	(70)	9	(444)	45,102	740	45,842

AASB 1060.25(c),
28, 29, 60, 92

AASB 1060.61(b)

AASB 1060.61
(c)(i)

AASB 1060.61
(c)(ii)

AASB 1060.61(a)

AASB 1060.61
(c)(iii)

AASB 1060.61(c)

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 (AASB 1060.61(b)). AASB 1060 requires details to be provided only in the notes. By labelling the comparatives 'Restated', the Group illustrates how an entity may supplement the requirements of AASB 1060 so that it is clear to the reader that amounts previously presented in prior period financial statements have been adjusted in the comparative period(s) of these financial statements.

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 AASB 10 *Consolidated Financial Statements*. 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).

The Group recognises remeasurement gains and losses arising on defined benefit pension plans in OCI in accordance with AASB 119 *Employee Benefits*. As they will never be reclassified into profit or loss, they are immediately recorded in retained earnings. AASB 1060 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 change 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 Australia and the remeasurement of debt instruments at fair value through OCI.

AASB 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.

AASB 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.

AASB 1060.26 provides an option to present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity and is available if the only changes to equity during the period for which the financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies. See [Appendix 3](#) for an illustrative statement of income and retained earnings.

Consolidated statement of cash flows

for the year ended 31 December 2022

	2022	2021	
Note	\$000	\$000	
			AASB 1060.25(d), 28, 29, 66
Operating activities			AASB 1060.67, 70(b), 73
Receipts from customers	177,529	161,832	
Payments to suppliers	(129,054)	(115,205)	
Payments to employees	(33,749)	(29,151)	
Interest received	250	221	AASB 1060.82
Interest paid	(1,067)	(1,173)	AASB 1060.82
Income tax paid	(2,935)	(3,999)	AASB 1060.85
Net cash flows from operating activities	10,974	12,525	
Investing activities			AASB 1060.68, 74
Proceeds from sale of property, plant and equipment	1,990	2,319	
Purchase of property, plant and equipment	17 (10,167)	(7,581)	
Purchase of investment properties	16 (1,216)	(1,192)	
Purchase of financial instruments	(272)	(225)	
Proceeds from sale of financial instruments	328	145	
Development expenditures	19 (587)	(390)	
Acquisition of a subsidiary, net of cash acquired	6 230	(1,450)	
Receipt of government grants	23 2,951	642	
Net cash flows used in investing activities	(6,743)	(7,732)	
Financing activities			AASB 1060.69, 74
Proceeds from exercise of share options	175	200	
Acquisition of non-controlling interests	(325)	-	
Transaction costs on issue of shares	(32)	-	
Payment of principal portion of lease liabilities	(406)	(341)	
Proceeds from borrowings	5,649	4,871	
Repayment of borrowings	(2,032)	(4,250)	
Dividends paid to equity holders of the parent	(1,979)	(1,600)	AASB 1060.82
Dividends paid to non-controlling interests	(30)	(49)	
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	AASB 1060.81
Cash and cash equivalents at 1 January	12,266	8,316	
Cash and cash equivalents at 31 December	12 17,856	12,266	

Commentary

AASB 1060.70 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 direct method. A statement of cash flows prepared using the indirect method for operating activities is presented in [Appendix 4](#) for illustrative purposes.

AASB 1060.83 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 interest paid as cash flows from operating activities.

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 AASB 1060 for interest paid; 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 AASB 1060.86 (see [Note 18](#)).

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Notes to the consolidated financial statements

1. Corporate information

The consolidated financial statements of Quality Holdings (Australian SDS) Pty Ltd (the Company or parent) and its subsidiaries (collectively, the Group) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the directors on 6 February 2023. Quality Holdings (Australian SDS) Pty Ltd is a company limited by shares incorporated in Australia. The registered office is located at Bush Avenue, Mulberry Park, Australia.

The Group is principally engaged in the provision of fire prevention and electronics equipment and services and the management of investment property.

The immediate and ultimate holding company of Quality Holdings (Australian SDS) Pty Ltd is S.J. Limited which owns 58.22% (2021: 57.55%) of its ordinary shares.

2. Significant accounting policies

Commentary

The identification of an entity's significant accounting policies is an important aspect of the financial statements. AASB 1060.95 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 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.

COVID-19 commentary

Background

While the negative impact of COVID-19 is gradually declining, entities may still need to consider the impact of COVID-19 in preparing their financial statements. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas.

Although the financial year 2022 is the third annual reporting period impacted by COVID-19, the economic and financial impacts still remain to some extent, and further changes to estimates may need to be made in the measurement of entities' assets and liabilities may still be necessary.

Entities should consider whether to disclose the measures they have taken, in line with the recommendations of the WHO and national health ministries, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduced work shifts in operational areas to minimise the number of workers commuting, rigorous cleaning of workplaces, distribution of personal protective equipment, testing of suspected cases and measuring body temperature.

2.1 Basis of preparation

These general purpose financial statements have been prepared in compliance with the requirements of the *Corporations Act 2001* and *Australian Accounting Standards - Simplified Disclosures*. The Group is a for-profit entity for the purposes of preparing these consolidated financial statements.

Commentary

The Group adopted AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* in a prior period. Where an entity is only adopting SDS in the current year, see:

- ▶ [Appendix 6](#) for illustrative transition disclosures when an entity previously prepared SPFS
- ▶ [Appendix 7](#) for illustrative transition disclosures when an entity previously prepared RDR financial statements

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, certain office properties (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.

AASB 1060.25(e)

AASB 1060.31(a),
31(b), 31(c), 104(a),
186

AASB 1060.32(a)

AASB 1060.32(b)

AASB 1060.192

AASB 1060.91(a), 95(b)

AASB 1060.10,
11(a), 11(b)

AASB 1060.10,
11(a), 11(b)

AASB 1060.95(a)

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2. Significant accounting policies *continued*

2.1 Basis of preparation *continued*

Rounding

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated under the option available to the Company as provided in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

AASB 1060.31(d),
31(e), 181

ASIC CI 2016/191

Commentary

Quantitative disclosures in the financial statements are rounded to the nearest thousand dollars under the option available to companies as provided in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* except for those relating to the following:

- ▶ Auditor's remuneration (AASB 1060.98)
- ▶ Expenses relating to share-based payment arrangements and liabilities arising from such arrangements (AASB 1060.168)
- ▶ Compensation of key management personnel (AASB 1060.194 and 196)
- ▶ Transactions and outstanding balances with related parties (AASB 1060.198 and 199)

Such quantitative disclosures are required to be rounded to the nearest dollar (\$1), provided that the total assets of the entity are not more than \$1,000,000,000.

Further, the following disclosures can only be rounded to the nearest cent:

- ▶ Weighted average exercise price of share options outstanding at the beginning of the period, forfeited, exercised or expired during the period, outstanding at the end of the period, and exercisable at the end of the period

COVID-19 commentary

Going concern

Despite the decrease in the unpredictability of the further impact of COVID-19, there still may be material uncertainties that cast doubt on the entity's ability to operate as a going concern. AASB 1060.14 requires management, when preparing financial statements, to assess an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. In assessing whether the going concern assumption is appropriate, the standard requires an entity to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. When an entity is aware, in making its going concern assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, it must disclose those uncertainties.

Entities will need to disclose the significant judgements made in the assessment of the existence of a material uncertainty.

When making that assessment, management takes into consideration the existing and anticipated effects of the outbreak on the entity's activities. Management should consider all available information about the future that was obtained after the reporting date, up until the date of which the financial statements are issued in their assessment of going concern. This includes, but is not limited to, measures taken by governments and banks to provide relief to affected entities and subsequent gradual curtailment of those measures by governments. These disclosures are equally as important, if not even more so, in situations when the going concern assumption is still applied but there is some doubt as to situations when the going concern assumption is not applied.

Considerations that an entity might disclose to address its going concern basis include:

- ▶ Whether the entity has sufficient cash and/or headroom in its credit facilities to support any downturn whilst noting that the nature of COVID-19 means that uncertainties will remain, and it may not be able to reasonably estimate the future impact
- ▶ Actions the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity
- ▶ Consideration of the entity's business model and related risks
- ▶ Any challenges of the underlying data and assumptions used to make the going concern assessment

When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. 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:

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:

- ▶ 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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of 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 in 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.

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

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 Summary of significant accounting policies

a. Business combinations and goodwill

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.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

a. Business combinations and goodwill *continued*

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.

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 AASB 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 AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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.

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.

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 the cash-generating unit retained.

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.

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.

Commentary

The Group does not have an interest in a joint operation. If the Group had an interest in a joint operation, as per AASB 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 investment in its associate and joint venture are accounted for using the equity method.

AASB 1060.125(a),
129(a)

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

b. Investment in associates and joint ventures *continued*

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.

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.

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.

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:

- ▶ 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:

- ▶ 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.

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

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

d. Fair value measurement

The Group measures certain financial instruments and non-financial assets 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:

- ▶ In the principal market for the asset or liability
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.

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.

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.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration.

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.

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 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 prevention and electronics equipment, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any).

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 specified 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 in the contract. The rights of return and volume rebates give rise to variable consideration.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

e. Revenue from contracts with customers *continued*

► Rights of return

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 returned (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.

► Volume rebates

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).

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

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 program.

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 concludes that a refund liability is not a contract liability, it would present the refund liability separate from any contract liability (or asset). 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 time 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 an interest rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

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.

iii. Non-cash consideration

The Group receives 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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

e. Revenue from contracts with customers *continued*

Commentary

AASB 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 (AASB 15.70). Entities need to include this in their accounting policy disclosures if significant.

Warranty obligations

The Group typically provides warranties for general repairs of unknown 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](#).

The Group also provides a warranty beyond fixing unknown 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.

Commentary

If the customer has the option to purchase the warranty separately or if the warranty provides a service to the customer, beyond fixing unknown defects that existed at the time of sale, AASB 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, AASB 15.B31-33 provides relevant application guidance.

Loyalty points program

The Group has a loyalty points program, Quality Points, 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.

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.

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.

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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

e. Revenue from contracts with customers *continued*

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.

AASB 1060.158

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 the 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.

Contract balances

i. 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.

Contract assets are subject to impairment assessment. Refer to the accounting policies on impairment of financial assets in section [p\) Financial instruments - initial recognition and subsequent measurement](#).

ii. 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](#).

iii. 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).

Assets and liabilities arising from rights of return

i. 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.

ii. 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 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.

iii. Cost to obtain a contract

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.

2. Significant accounting policies *continued*

2.3 Summary of 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.

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 asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

AASB 1060.160(d)

Commentary

AASB 120.24 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, AASB 120.29 permits such grants to be deducted in reporting the related expense.

AASB 120.23 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

i. Income tax

Current 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.

Current 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.

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
- ▶ 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

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

g. Taxes *continued*

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:

- ▶ 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
- ▶ 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

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.

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.

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.

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.

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.

ii. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- ▶ When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- ▶ When receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

h. Foreign currencies

The Group's consolidated financial statements are presented in Australian 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.

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.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

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 recognised in OCI.

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.

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).

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.

ii. Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars 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.

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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

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.

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 sale expected to be completed within one year from the date of the classification.

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

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

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 10 Discontinued operations](#). All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

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. A distribution is authorised when it is approved by the directors. A corresponding amount is recognised directly in equity.

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 depreciates 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 21](#)) for further information about the recognised decommissioning provision.

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

Office properties in Australia 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.

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 surplus.

AASB 1060.134(a)

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

k. Property, plant and equipment *continued*

An annual transfer from the asset revaluation surplus 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 surplus relating to the particular asset being sold is transferred to retained earnings.

Commentary

Under AASB 116 *Property, Plant and Equipment* 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 Australia, 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:

- ▶ Buildings 15 to 20 years
- ▶ Plant, machinery and equipment 5 to 15 years
- ▶ Office properties in Australia 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.

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.

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 AASB 115 (AASB 116.69)
- ▶ 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 AASB 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 AASB 15 (AASB 116.72)

The above requirements also apply to disposals of investment properties (AASB 140.67 and AASB 140.70) and intangible assets (AASB 138.114 and AASB 138.116).

l. Leases

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

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.

AASB 1060.134(b),
134(c)

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

i. Leases *continued*

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

Commentary

Under AASB 16 *Leases*, 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 (AASB 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

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.

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.

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.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see [Note 15.2](#)).

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 expense on a straight-line basis over the lease term.

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.

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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

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.

AASB 1060.134(a)

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).

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.

Commentary

The Group has elected to state investment properties at fair value in accordance with AASB 140 *Investment Property*. As an alternative, AASB 140 permits investment properties to be carried at historical cost less accumulated depreciation and impairment.

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.

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

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.

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.

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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

o. Intangible assets *continued*

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:

- ▶ 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.

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.

AASB 1060.141

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)	AASB 1060.137(a)
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	AASB 1060.137(b)
Internally generated or acquired	Acquired	Acquired	Internally generated	

p. Financial instruments - initial recognition and subsequent measurement

AASB 1060.112

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.

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.

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](#).

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

p. Financial instruments - initial recognition and subsequent measurement *continued*

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.

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 whilst 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.

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.

Subsequent measurement

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

- ▶ 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)

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.

The Group's financial assets at amortised cost includes cash and short-term deposits, trade receivables, a loan to an associate, and a loan to a director.

Commentary

For entities that have more complex financial instruments, the SPPI assessment can be particularly challenging. The application guidance for AASB 9 and EY's *International GAAP 2022* 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. AASB 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)

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)

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 AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

p. Financial instruments - initial recognition and subsequent measurement *continued*

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

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.

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 statement of financial position) when:

- ▶ 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

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.

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.

Impairment

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

p. Financial instruments - initial recognition and subsequent measurement *continued*

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).

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.

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 AASB 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 AASB 16. The policy choice may be applied separately to finance and operating lease receivables

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.

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.

Commentary

AASB 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.

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.

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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

p. Financial instruments - initial recognition and subsequent measurement *continued*

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.

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 AASB 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.

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 AASB 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (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.

Amortised cost is calculated by taking into account any discount or premium on initial recognition 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 15.2](#).

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.

iii. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

q. Derivative financial instruments and hedge accounting *continued*

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
- ▶ 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
- ▶ Hedges of a net investment in a foreign operation

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.

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:

- ▶ 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.

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 hedge adjustment is recognised immediately in profit or loss.

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.

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, whilst 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.

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 15.3](#) for more details.

Notes to the consolidated financial statements

2. Significant accounting policies continued

2.3 Summary of significant accounting policies continued

q. Derivative financial instruments and hedge accounting continued

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.

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.

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 whilst 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.

The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Refer to [Note 15.3](#) for more details.

r. Inventories

Inventories are valued at the lower of cost and net realisable value.

AASB 1060.123(a)

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

- ▶ Raw materials: purchase cost on a first-in/first-out basis
- ▶ 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

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.

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.

s. Impairment of non-financial assets

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

s. Impairment of non-financial assets *continued*

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.

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.

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.

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.

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

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.

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

AASB 136.96 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

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.

For the purpose of the 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

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

u. Convertible preference shares *continued*

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 remeasured in subsequent years.

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

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. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity under the ordinary shares account.

w. Provisions

General

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.

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 unknown 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

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

- ▶ 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
- ▶ The employees affected have been notified of the plan's main features.

Decommissioning liability

The Group records a provision for decommissioning costs of a manufacturing facility for the production of fire retardant materials. Decommissioning 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. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning 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.

Onerous contracts

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.

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

w. Provisions *continued*

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

AASB 137 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.

AASB 15 contains no specific requirements to address contracts with customers that are, or have become, onerous. The requirements of AASB 137 apply to the identification and measurement of onerous customer contracts (AASB 137.5(g)).

Waste Electrical and Electronic Equipment (WEEE)

The Group is a provider of electrical equipment that falls under the EU Directive on Waste Electrical and Electronic Equipment. The directive distinguishes between waste management of equipment sold to private households prior to a date, as determined by each Member State (historical waste), and waste management of equipment sold to private households after that date (new waste). A provision for the expected costs of management of historical waste is recognised when the Group participates in the market during the measurement period, as determined by each Member State, and the costs can be reliably measured. These costs are recognised as other operating expenses in the statement of profit or loss.

With respect to new waste, a provision for the expected costs is recognised when products that fall within the directive are sold, and the disposal costs can be reliably measured. Derecognition takes place when the obligation expires, is settled or is transferred. These costs are recognised as part of costs of sales.

With respect to equipment sold to entities other than private households, a provision is recognised when the Group becomes responsible for the costs of this waste management, with the costs recognised as other operating expenses or cost of sales, as appropriate.

Contingent liabilities recognised in a business combination

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.

x. Pensions

The Group operates a defined benefit pension plan in Australia, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined 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.

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

- ▶ The date of the plan amendment or curtailment, and
- ▶ The date that the Group recognises related restructuring costs

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

x. Pensions *continued*

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 the 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.

Neither AASB 119 nor AASB 1060 specify where in the statement of profit or loss service costs or net interest should be presented.

AASB 1060 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 AASB 119. Entities must apply the requirement in AASB 108.10 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 in exchange 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).

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.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity, 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.

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. 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.

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 non-vesting condition, the transactions are treated as vested irrespective of whether the non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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 vesting 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.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.3 Summary of significant accounting policies *continued*

y. Share-based payments

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 using an appropriate valuation model, with changes in fair value recognised in employee benefits expense. Such amount is expensed over the period until the vesting date with recognition of a corresponding liability. The approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

The Group uses either the Black-Scholes or binomial option pricing model depending on the terms and conditions of the grant. These valuation techniques are consistent with generally accepted valuation methodologies for pricing share options and share appreciation rights.

AASB 1060.165

z. Employee Benefits

Short-term employee benefits

Liabilities recognised for salaries and wages, annual leave and any other short term employee benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are measured at the amounts expected to be paid when the liabilities are settled in respect of services provided by employees up to the reporting date.

Long-term employee benefits

Liabilities recognised in respect of long service leave and any other long-term employee benefits that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary levels, historical employee turnover rates and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Classification

Liabilities for employee benefits where the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date are presented as current. Liabilities for employee benefits where the Group has an unconditional right to defer settlement for at least 12 months after the reporting date are presented as non-current.

2.4 Changes in accounting policies and disclosures

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

AASB 1060.108

The Group re-assessed its accounting for property, plant and equipment 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.

On 1 January 2022, the Group elected to change the method of accounting for office properties in Australia 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.

A net gain from the revaluation of the office properties in Australia of \$847,000 was recognised in OCI on 1 January 2022, as a result of an upward revaluation adjustment of \$1,210,000 to the said properties with a corresponding increase in deferred tax liabilities of \$363,000 as a result of the aforementioned change in accounting policy.

After initial recognition, office properties in Australia are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. During the year a downward revaluation adjustment of \$364,000 has been recognised against the said properties with a corresponding decrease in deferred tax liabilities of \$109,000. For details refer to [Note 17](#).

2. Significant accounting policies *continued*

2.4 Changes in accounting policies and disclosures *continued*

Commentary

AASB 108.17 exempts this change in accounting policy from the retrospective application requirement. Consequently, the Group has applied such change in accounting policy for the measurement of office properties in Australia to the revaluation model prospectively.

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

AASB 2020-3 Amendments to AASB 137 - Onerous Contracts: Costs of Fulfilling a Contract

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period.

Prior to the application of the amendments, the Group had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. As a result of the amendments, certain other directly related costs have been included by the Group in determining the costs of fulfilling the contracts. The Group, therefore, recognised an onerous contract provision as at 1 January 2022, which increased as of 31 December 2022 ([Note 21](#)).

The effect of adoption of the AASB 137 amendments is as follows:

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

	1 January 2022
	\$000
Deferred tax assets	36
Total assets	36
Provisions (current)	(120)
Total liabilities	(120)
Net impact on equity	(84)

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

	2022
	\$000
Cost of sales	(20)
Operating profit	(20)
Income tax expense	6
Profit for the period	(14)
Attributable to:	
Equity holders of the parent	(14)
Non-controlling interests	-

AASB 1060.106

2. Significant accounting policies *continued*

2.4 Changes in accounting policies and disclosures *continued*

AASB 2020-3 Amendments to AASB 3 - Reference to the Conceptual Framework

The amendments replace a reference to a previous version of the AASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of AASB 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or AASB Interpretation 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in AASB 137 or AASB Interpretation 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to AASB 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

AASB 2020-3 Amendments to AASB 16 Leases - Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced whilst bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

AASB 2020-3 Amendment to AASB 1 - Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of AASB 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of AASB 1.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

AASB 2020-3 Amendment to AASB 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for AASB 139 *Financial Instruments: Recognition and Measurement*.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

Notes to the consolidated financial statements

2. Significant accounting policies *continued*

2.4 Changes in accounting policies and disclosures *continued*

AASB 2020-3 Amendment to AASB 141 - Taxation in Fair Value Measurements

The amendment removes the requirement in paragraph 22 of AASB 141 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of AASB 141.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of AASB 141 as at the reporting date.

Commentary

For illustrative purposes, the Group has listed all the disclosures of new and amended standards and interpretations that are effective from 1 January 2022, regardless of whether these have any impact on the Group's financial statements. To the extent that an entity is not affected by a particular amendment, standard or interpretation, it is sufficient to disclose that fact together with its title.

2.5 Correction of an error

In July 2020, 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, under which the subsidiary does not relinquish control of the consigned product until it is sold to an end customer. However, the subsidiary continued to recognise revenue before the control of the goods was transferred to the end customer. As a consequence, revenue was overstated. In January 2022, the subsidiary conducted a detailed review of the terms and conditions of its sales contracts and discovered the error.

AASB 1060.110(a)

The error has been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

AASB 1060.110(b),
110(c)

Impact on equity (increase/(decrease) in equity)

	31 December 2021	1 January 2021
	\$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 2021
	\$000
Revenue from contracts with customers	(2,000)
Cost of sales	500
Income tax expense	450
Net impact on profit for the year	(1,050)
Attributable to:	
Equity holders of the parent	(1,050)
Non-controlling interests	-

The change did not have an impact on OCI for the period or the Group's operating, investing and financing cash flows.

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.

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:

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.

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 periods (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.

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.

Assets held for sale

The operations of Hose Limited are classified as a disposal group held for sale. The subsidiary met the criteria to be classified as held for sale commencing 14 November 2022 for the following reasons:

- ▶ The Board of Directors approved the plan to sell Hose Limited on 14 November 2022
- ▶ 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

See [Note 10](#) for further details.

AASB 1060.96

Notes to the consolidated financial statements

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

Consolidation of a structured entity

In February 2022, 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 2021, 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 2023 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 2022. 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.

AASB 1060.104(b),
114

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 AASB 10 *Consolidated Financial Statements* 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 2015 to 31 December 2022). Since 1 October 2015, 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.

AASB 1060.104(b)

Leases - Determining the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, 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).

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

Estimates and assumptions

AASB 1060.97

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 property, plant and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of 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 Australia 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 2022 for the investment properties and at 1 January 2022 and 31 December 2022 for the office properties in Australia.

The key assumptions used to determine the fair value of the properties are provided in [Notes 16](#) and [17](#).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit 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.

COVID-19 commentary

As the current environment remains uncertain, it is important that entities continue to provide detailed disclosure of the assumptions made, including any updates since prior period, the evidence they are based on and the impact of a change in the key assumptions (sensitivity analysis).

Given the inherent level of uncertainty and the sensitivity of judgements and estimates, disclosures of the key assumptions used, and judgements made in estimating recoverable amounts is important.

It is possible that COVID-19 is still a triggering event for some entities that requires them to perform an impairment test in accordance with AASB 136. Entities will need to assess the key assumptions used to determine the recoverable amount for the different CGUs. Key inputs to both the value in use and the fair value less cost of disposal models used to undertake the impairment assessment should be reassessed to factor in any impact.

The non-financial assets that are likely to be subject to such impairment triggers include: property, plant and equipment; intangible assets (including those with indefinite lives); goodwill; and inventories.

To the extent that the impact of COVID-19 is less severe than previously anticipated and the economic environment is recovering, entities may need to consider whether any impairments recognised in the previous year as a result of the situation at that time should be reversed as required by AASB 136.110.

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

Provision for expected credit losses of trade receivables and contract assets

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 customers 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. Refer to [Note 13 Trade receivables](#).

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 value of the underlying shares, expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group initially measures the cost of cash-settled transactions with employees 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 remeasured 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 Black-Scholes model for General Employee Share Option Plan (GESP).

See [Note 25](#) for further details.

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.

The Group has \$427,000 (2021: \$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.

Further details on taxes are disclosed in [Note 11](#).

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan 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 and mortality rates. 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.

Further details about pension obligations are provided in [Note 22](#).

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

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 values are measured using an appropriate valuation technique. The inputs used in these fair value measurements 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 consideration of inputs such as discount rate and long-term growth rate. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

See [Note 15.4](#) for further disclosures.

Contingent consideration, resulting from business combinations, is measured 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 discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

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 contingent consideration is classified as other financial liability.

See [Notes 6](#) and [15.4](#) for further details.

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 2022, the carrying amount of capitalised development costs was \$2,178,000 (2021: \$1,686,000).

Provision for decommissioning

The Group has recognised a provision for decommissioning obligations associated with a factory owned by Extinguishers Limited. In determining the amount of the provision to be recognised, 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 2022 was \$1,221,000 (2021: 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%

Provision for contingent liability

As part of the identification and measurement of assets and liabilities for the acquisition of Extinguishers Limited in 2022, the Group has recognised a provision for a contingent liability.

The liability resulted 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 2023. As at the reporting date, the contingent liability was re-assessed and is determined to be \$400,000, based on the expected probable outcome.

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

Revenue recognition - Estimating variable consideration for returns and volume rebates

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 2022, the amount recognised as refund liabilities for the expected returns and volume rebates was \$6,242,000 (2021: \$5,844,000).

Commentary

AASB 1060 requires an entity to disclose significant judgements applied in preparing the financial statements (AASB 1060.96) and significant estimates that involve a high degree of estimation uncertainty (AASB 1060.97). 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. Under AASB 1060, 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 AASB 1060 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.

COVID-19 commentary

Given the level of uncertainty and the sensitivity of judgements and estimates, clear disclosure of the key assumptions used and judgements made is particularly important in financial statements prepared during the COVID-19 pandemic. Although assumptions may already have been updated for the impact of COVID-19 in the previous year, entities should again carefully scrutinise their existing judgements and estimates as they may find additional areas in which they will need to make judgements and estimates.

Notes to the consolidated financial statements

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:

AASB 1060.157(b)

	2022	2021
	\$000	\$000 Restated
Type of goods or service		
Sale of fire prevention equipment	85,438	69,107
Sale of electronics equipment	69,263	66,621
Installation services	17,131	16,537
Other*	7,226	6,823
Total revenue from contracts with customers	179,058	159,088
Geographical markets		
Australia	126,834	111,207
United States	52,224	47,881
Total revenue from contracts with customers	179,058	159,088
Timing of revenue recognition		
Goods and services transferred at a point in time	159,404	140,317
Goods and services transferred over time	19,654	18,771
Total revenue from contracts with customers	179,058	159,088

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

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 such as internal reporting and external reporting to shareholders.

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4. Revenue from contracts with customers *continued*

4.2 Performance obligations

Information about the Group's performance obligations are summarised below:

AASB 1060.157(a)

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 unknown 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.

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

AASB 1060.157 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)
- ▶ 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 AASB 15.56-58)
- ▶ 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

COVID-19 commentary

Entities may need to use significant judgement to determine the effect of uncertainties related to COVID-19 on their revenue accounting, e.g., estimates of variable consideration (including the constraint) and provide appropriate disclosures of these judgements. Decisions made in response to the pandemic (e.g., modifying contracts, continuing transacting with customers despite collectability concerns, revising pricing) and its evolution may need to be disclosed. Entities may also need to consider the impact of delays in deliveries due to supply chain issues caused by COVID-19, which may impact volume rebate estimations, amongst other things, due to lower sales during the year. The disruption of supply chains may result in some cases in significant increases in the unavoidable costs of meeting the obligations under certain contracts which, in turn, may impact the measurement of the provision for onerous contracts.

Notes to the consolidated financial statements

5. Subsidiaries

The consolidated financial statements of the Group include:

AASB 1060.192

Name	Country of incorporation	% equity interest	
		2022	2021
Extinguishers Limited	Australia	80	–
Bright Sparks Limited	Australia	95	95
Fire Equipment Test Lab Limited	Australia	100*	–
Wireworks Inc.	United States	98	98
Sprinklers Inc.	United States	100	100
Lightbulbs Limited	Australia	87.4	80
Hose Limited**	Australia	100	100
Electronics Limited	Australia	48***	48

* Quality Holdings (Australian SDS) Pty Ltd holds 20% of the equity in Fire Equipment Test Lab Limited but consolidates this entity. See [Note 3](#) for details on interest held in Fire Equipment Test Lab Limited.

** Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*, relief has been granted to Hose Limited from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of its financial reports (see [Note 31](#)).

*** Quality Holdings (Australian SDS) Pty Ltd consolidates this entity based on de facto control. See [Note 3](#) for more details.

Commentary

AASB 1060.104(d)

When there are significant restrictions (for example resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans, AASB 1060 requires disclosure of the nature and extent of significant restrictions. The Group did not have any such restrictions.

6. Business combinations

Acquisitions in 2022

Acquisition of Extinguishers Limited

On 1 May 2022, the Group acquired 80% of the voting shares of Extinguishers Limited, a company based in Australia and specialising in the manufacture of fire-retardant fabrics.

AASB 1060.142(a),
142(b), 142(c)

Assets acquired and liabilities assumed

AASB 1060.142(e)

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

	Fair value recognised on acquisition	
	\$000	
Assets		
Cash and cash equivalents	230	
Trade receivables	1,716	
Inventories	3,330	
Property, plant and equipment (Note 17)	7,042	
Right-of-use assets (Note 18)	248	
Patents and licences (Note 19)	1,200	
	13,766	
Liabilities		
Trade payables	(1,901)	
Contract liabilities	(428)	
Lease liabilities	(213)	
Provision for restructuring (Note 21)	(900)	
Provision for decommissioning costs (Note 21)	(1,200)	
Contingent liability (Note 21)	(380)	
Deferred tax liability (Note 11)	(1,511)	
	(6,533)	
Total identifiable net assets at fair value	7,233	
Non-controlling interest measured at fair value	(1,547)	AASB 1060.142(h)
Goodwill arising on acquisition (Note 19)	2,231	AASB 1060.142(e)
Purchase consideration transferred	7,917	

Notes to the consolidated financial statements

6. Business combinations continued

The goodwill of \$2,231,000 comprises the value of expected synergies arising from the acquisition and a customer list, which cannot be separately recognised due to the contractual terms imposed on acquisition.

AASB 1060.142(g)

Purchase consideration	\$000	
Shares issued (Note 24)	7,203	AASB 1060.142(d)
Contingent consideration liability	714	
Total consideration	7,917	

Contingent consideration

As part of the purchase agreement with the previous owner of Extinguishers Limited, a contingent consideration has been agreed. There will be additional cash payments to the previous owners of Extinguishers Limited of:

AASB 1060.114,
142(d)

- \$675,000, if the entity generates \$800,000 or more of profit before tax in a 12-month period after the acquisition date
Or
- \$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

The contingent consideration liability is due to be settled on 30 September 2023.

As at 31 December 2022, 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 2022 reflects this development, among other factors and a remeasurement charge of \$358,000 has been recognised through profit or loss. The significant assumptions used in the fair value measurement as at 31 December 2022 are provided in [Note 15.4](#).

AASB 1060.115

AASB 1060.119(a)(ii)

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 AASB 132 and AASB 9; a provision in accordance with AASB 137; 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 it to be a financial liability (AASB 132.11). 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 AASB 9 (AASB 3.58(b)(i)).

Acquisitions in 2021

On 1 December 2021, the Group acquired 80% of the voting shares of Lightbulbs Limited, a company based in Australia, specialising in the production and distribution of lightbulbs.

AASB 1060.142(a),
142(b), 142(c)

Assets acquired and liabilities assumed

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

AASB 1060.142(e)

	Fair value recognised on acquisition	
Assets	\$000	
Cash and cash equivalents	50	
Trade receivables	853	
Inventories	765	
Land and buildings	1,280	
	2,948	
Liabilities		
Trade payables	(807)	
Provision for maintenance warranties	(50)	
Deferred tax liability (Note 11)	(380)	
	(1,237)	
Total identifiable net assets at fair value	1,711	
Non-controlling interest (20% of net assets)	(342)	AASB 1060.142(h)
Goodwill arising on acquisition (Note 19)	131	AASB 1060.142(e)
Purchase consideration transferred (cash)	1,500	AASB 1060.142(d)

Notes to the consolidated financial statements

6. Business combinations *continued*

The goodwill of \$131,000 comprises the fair value of expected synergies arising from acquisition.

AASB 1060.142(g)

Commentary

In the 2021 business combination, the Group elected to value the non-controlling interest using its proportionate share of the acquiree's identifiable net assets. In the 2022 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 (AASB 3.19).

7. Investment in a joint venture

The Group owns 50% interest in a joint venture. The Group's share of the profit of the joint venture amounted to \$588,000 during the year ended 31 December 2022 (2021: \$557,000), including the Group's share of discontinued operations of the joint venture of nil (2021: \$25,000).

AASB 1060.130

The joint venture had trade purchase commitments as at 31 December 2022 of \$620,000 (2021: \$1,032,000), for which the Group has a corresponding commitment, as disclosed in [Note 26](#).

AASB 1060.129(d)

COVID-19 commentary

Entities will need to consider whether there is any impairment of their investments in joint ventures. Impairment charges relating to investments in joint ventures should be accounted for in accordance with the equity method under AASB 128. AASB 128 requires the investment in a joint venture to be considered as a single cash-generating unit, rather than 'drilling down' into the separate cash-generating units determined by the joint venture. The impairment test should be undertaken in accordance with the requirements of AASB 136.

8. Investment in an associate

The Group owns 25% interest in an associate. The Group's share in the profit of the associate amounted to \$83,000 during the year ended 31 December 2022 (2021: \$81,000).

AASB 1060.127

COVID-19 commentary

Entities will need to consider whether there is any impairment of their investments in associates. Impairment charges relating to investments in associates should be accounted for in accordance with the equity method under AASB 128. AASB 128 requires the investment in an associate to be considered as a single cash-generating unit, rather than 'drilling down' into the separate cash-generating units determined by the associate. The impairment test should be undertaken in accordance with the requirements of AASB 136.

9. Other income/expenses

Commentary

The Group discloses a breakdown of other operating income, other operating expenses, finance costs and other income due to the dissimilar nature or function of the items in the statement of profit or loss. Such an analysis is not necessary to the extent the amounts are not material, they are not relevant to the understanding of the financial statements or are not otherwise required to be disclosed.

9.1 Other operating income

	2022	2021	
	\$000	\$000	
Government grants (Note 23)	1,053	541	AASB 1060.160(a)
Gain on derivative instruments at fair value through profit or loss	850	–	AASB 1060.119(a)(i), 119(a)(ii)
Net gain on disposal of property, plant and equipment	532	2,007	
Total other operating income	2,435	2,548	

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 from their host contract.

Notes to the consolidated financial statements

9. Other income/expenses continued

9.2 Other operating expenses

	2022	2021	
	\$000	\$000	
Patent defence costs	579	31	
Cost of WEEE (Note 21)	102	22	
Change in fair value of investment properties (Note 16)	306	300	
Loss on derivative instruments at fair value through profit or loss	1,502	–	AASB 1060.119(a)(i), 119(a)(ii)
Ineffectiveness on forward commodity contracts designated as cash flow hedges (Note 15.3)	65	–	AASB 1060.122(e)
Total other operating expenses	2,554	353	

The 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 from their host contract.

Commentary

AASB 1060 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' (IAS 1.BC56). As AASB 101 does not provide any further guidance on operating profits, an entity needs to apply judgement in developing its own accounting policy under AASB 108.10.

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 (AASB 108.10(b)(ii)). Other entities may take alternative views and, hence, there is diversity in practice.

9.3 Finance costs

	2022	2021	
	\$000	\$000	
Interest on financial liabilities not measured at fair value through profit or loss	1,214	1,205	AASB 1060.119(b)
Interest on other liabilities	152	63	
Total finance costs	1,366	1,268	

9.4 Other income

	2022	2021	
	\$000	\$000	
Foreign exchange gains on interest-bearing loans and borrowings	57	67	AASB 1060.180(a)
Fair value gain on equity instruments at fair value through profit or loss	37	9	AASB 1060.119(a)(i)
Gain (loss) on sale of debt instruments at fair value through OCI	8	(4)	AASB 1060.119(a)(vi)
Dividend income from equity instruments at fair value through OCI	3	–	AASB 1060.119(a)(v)
Impairment loss on debt instruments at fair value through OCI	(7)	(6)	AASB 1060.119(c)
Total other income	98	66	

Notes to the consolidated financial statements

9. Other income/expenses continued

9.4 Other income continued

Commentary

Income is defined in the conceptual framework as "increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims" (chapter 4.68). In this note, the Group has presented a net measure of income with impairment losses on debt instruments at fair value through OCI offsetting other income items. AASB 1060.24 does not permit the offsetting of income and expenses unless required or permitted by an Australian Accounting Standard. In this case, the Group does not consider this to be offsetting as it is for presentation purposes only and the balances are not material enough to warrant separate presentation.

9.5 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 2022, this was \$2,235,000 (2021: \$1,034,000)), and they are recognised in administrative expenses.

AASB 1060.139

10. Discontinued operations

On 14 November 2022, the Board of Directors of the Company approved the plan to sell Hose Limited, a wholly owned subsidiary, as a result of a strategic review which identified manufacturing of rubber equipment as no longer aligned with the Group's business objectives. The sale of Hose Limited is expected to be completed within a year from the date the directors approved the plan to sell. At 31 December 2022, Hose Limited was classified as a disposal group held for sale and as a discontinued operation.

AASB 1060.47(b)

The major classes of assets and liabilities of Hose Limited classified as held for sale as at 31 December 2022 are, as follows:

AASB 1060.47(a)

	\$000
Assets	
Cash and short-term deposits (Note 12)	1,294
Trade receivables	7,180
Equity investments - non-listed	308
Property, plant and equipment (Note 17)	4,637
Intangible assets (Note 19)	135
Assets held for sale	<u>13,554</u>
Liabilities	
Trade and other payables	(7,241)
Interest-bearing loans and borrowings	(5,809)
Deferred tax liability	(75)
Liabilities directly associated with assets held for sale	<u>(13,125)</u>
Net assets directly associated with disposal group	<u>429</u>

Write-down of property, plant and equipment

Immediately before the classification of Hose Limited as discontinued operations, 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 14 November 2022 to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell. This was recognised in discontinued operations in the statement of profit or loss.

AASB 1060.169(a)

Notes to the consolidated financial statements

11. Income tax

AASB 1060.176

AASB 1060.9(a)

Commentary

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalisation of the global economy.

The Pillar Two Global anti-Base Erosion rules (GloBE Rules) represent the first substantial overhaul of the international tax rules in almost a century. The GloBE Rules propose four new taxing mechanisms under which multinational enterprises (MNEs) would pay a minimum level of tax (Minimum Tax): the Subject to Tax Rule is a tax treaty-based rule that generally proposes a Minimum Tax on certain cross-border intercompany transactions that otherwise are not subject to a minimum level of tax, the Income Inclusion Rule (IIR), the Under Taxed Payments Rule (UTPR), and the Qualified Domestic Minimum Top-up Tax (QDMT) generally propose a Minimum Tax on the income arising in each jurisdiction in which an MNE operates.

Under AASB 112 a new tax law is effective when it is enacted or substantively enacted in a particular jurisdiction. MNEs need to monitor the regulatory developments in respect of (substantive) enactment of the GloBE Rules in all of the jurisdictions where they operate either through wholly- or partially-owned subsidiaries, joint ventures, flow through entities or permanent establishments.

If the GloBE Rules have not yet been (substantively) enacted in the jurisdictions in which an MNE operates, there is no specific IFRS disclosure requirement. However, entities may consider whether to provide additional information on the potential impact of the GloBE Rules if it is helpful to understand the financial statements.

The major components of income tax expense for the years ended 31 December 2022 and 2021 are:

Consolidated profit or loss	2022	2021	
	\$000	\$000	
Current tax:		Restated	
Current income tax charge	2,883	2,770	AASB 1060.177(a)
Adjustments in respect of current income tax of previous year	(18)	(44)	AASB 1060.177(b)
Deferred tax:			
Relating to origination and reversal of temporary differences	227	(493)	AASB 1060.177(c)
Income tax expense reported in the statement of profit or loss	3,092	2,233	
Deferred tax benefit (expense) recognised in OCI during the year	(158)	104	AASB 1060.178(a)
Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for 2022 and 2021			AASB 1060.178(c)(i)
	2022	2021	
	\$000	\$000	
		Restated	
Accounting profit before tax from continuing operations	11,088	8,880	
Profit/(loss) before tax from a discontinued operation	213	(193)	
Accounting profit before income tax	11,301	8,687	
At Australia's statutory income tax rate of 30% (2021: 30%)	3,390	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)	AASB 1060.177(e)
Share of results of an associate and joint venture	(201)	(191)	
Non-deductible expenses for tax purposes:			
Impairment of goodwill	60	-	
Contingent consideration remeasurement	107	-	
Other non-deductible expenses	10	-	
Effect of higher tax rates in the United States	284	108	
	3,085	2,228	
Income tax expense reported in the statement of profit or loss	3,092	2,233	
Income tax benefit attributable to a discontinued operation	(7)	(5)	
	3,085	2,228	

Notes to the consolidated financial statements

11. Income tax *continued*

COVID-19 commentary

Current tax

As a measure to assist entities during the COVID-19, economic stimulus packages in some jurisdictions have included income tax concessions and other rebates. If entities are active in a jurisdiction in which such measures are still in place, the following disclosures may also be impacted:

- ▶ An explanation of changes in the applicable tax rate compared to the prior period
- ▶ The amount and expiry date of any tax losses carried forward
- ▶ The nature of evidence supporting the recognition of deferred tax assets when the entity has suffered a loss in the current period

Business disruption resulting from COVID-19 may lead to an entity recognising asset impairments or forecasting future losses. These circumstances may involve uncertainties that an entity must consider in its analysis of the recoverability of deferred tax assets. Entities should update their projections of income for recent events. Tax losses that were otherwise expected to be utilised in the near term should be reviewed to determine if they might expire unutilised and how this would impact management's judgement on the amount of deferred tax asset to be recognised.

As the impact of COVID-19 is less severe in many countries in 2022 than in prior years, entities should update their projections accordingly taking into account the amended forecasts for the future periods. Entities should further consider whether they need to provide additional financial statement disclosures to explain the use of estimates or management's judgement in reaching its conclusions on the amount of unrecognised deferred tax assets.

Such judgements may include whether the tax laws were substantively enacted as of the reporting date, and the determination of the accounting for income tax credits. Similarly, the impact of expected or already enacted curtailments of previously introduced measures must be considered.

In applying judgement, entities should consider Australian Interpretation 23 *Uncertainty over Income Tax Treatments*. Although Interpretation 23 was not specifically developed to deal with a scenario such as COVID-19, it, nonetheless, provides helpful guidance to consider in accounting for the uncertainties that exist with respect to the application of complex tax legislation that was newly issued in response to the pandemic. It requires an entity to consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If the entity concludes that the position is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes.

Notes to the consolidated financial statements

11. Income tax continued

AASB 1060.178(e)

	1 January 2022 (Restated)	Additions due to business combination (Note 6)	Discontinue operations (Note 10)	Deferred tax expense recognised in profit or loss	Deferred tax expense recognised in OCI	31 December 2022
	\$000	\$000	\$000	\$000	\$000	\$000
Accelerated depreciation for tax purposes	(188)	(477)	-	(348)	-	(1,013)
Fair value adjustment on property, plant and equipment and intangible assets acquired in business combinations	(411)	(1,034)	-	(375)	-	(1,820)
Revaluations of investment properties to fair value	(1,422)	-	-	92	-	(1,330)
Revaluations of office properties in Australia to fair value	-	-	-	-	(254)	(254)
Revaluations of equity instruments to fair value through profit or loss	(5)	-	-	(11)	-	(16)
Revaluations of financial assets at fair value through OCI	(4)	-	(2)	-	14	8
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)	(83)
Share-based payments	100	-	-	(49)	-	51
Pension	893	-	-	132	(110)	915
Revaluations of an interest rate swap (fair value hedge) to fair value	-	-	-	11	-	11
Revaluations of cash flow hedges	30	-	-	(35)	275	270
Expected credit losses of debt financial assets	70	-	-	40	-	110
Contract liabilities for customer loyalty points	203	-	-	67	-	270
Leases	72	-	-	4	-	76
Convertible preference shares	55	-	-	36	-	91
Losses available for offsetting against future taxable income	401	-	-	24	-	425
	(206)	(1,511)	(2)	(227)	(158)	(2,104)
Reflected in the statement of financial position as follows:						
Deferred tax assets	365					425
Deferred tax liabilities:						
Continuing operations	(607)					(2,454)
Discontinued operations	-					(75)
Deferred tax liabilities, net	(242)					(2,104)

Notes to the consolidated financial statements

11. Income tax *continued*

	1 January 2021	Additions due to business combination (Note 6)	Deferred tax benefit recognised in profit or loss	Deferred tax benefit recognised in OCI	31 December 2021
	\$000	\$000	\$000	\$000	\$000
Accelerated depreciation for tax purposes	(261)	(104)	177	-	(188)
Fair value adjustment on property, plant and equipment and intangible assets acquired in business combinations	(256)	(276)	121	-	(411)
Revaluations of investment properties to fair value	(1,512)	-	90	-	(1,422)
Revaluations of equity instruments to fair value through profit or loss	(2)	-	(3)	-	(5)
Revaluations of financial assets at fair value through OCI	(1)	-	-	(3)	(4)
Share-based payments	100	-	-	-	100
Pension	798	-	(22)	117	893
Revaluations of cash flow hedges	40	-	-	(10)	30
Expected credit losses of debt financial assets	73	-	(3)	-	70
Contract liabilities for customer loyalty points	165	-	38	-	203
Leases	52	-	20	-	72
Convertible preference shares	24	-	31	-	55
Losses available for offsetting against future taxable income	321	-	44	-	365
	(459)	(380)	493	104	(242)
Reflected in the statement of financial position as follows:					
Deferred tax assets	321				365
Deferred tax liabilities	(780)				(607)
Deferred tax liabilities, net	(459)				(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.

The Group has not recognised deferred tax assets in respect of tax losses that arose in Australia of \$427,000 (2021: \$1,198,000) that are available indefinitely for offsetting against future taxable profits.

AASB 1060.178(f)

There are no income tax consequences attached to the payment of dividends in either 2022 or 2021 by the Group to its shareholders.

AASB 1060.178(a)

Franking credits

The Group has franking credits of \$10,157,000 (2021: \$8,890,000) available for use in the subsequent reporting periods.

AASB 1060.101

Commentary

For the purposes of determining the amount of imputation credits (or 'franking credits' in Australia) available for use in the subsequent reporting periods, AASB 1060.102 clarifies that entities may have:

- imputation credits that will arise from the payment of the amount of the provision for income tax;
- imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- 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, AASB 1060.103 requires that disclosures be made about the nature of those entitlements for each class where this is relevant to an understanding of them.

The above disclosures, should be made separately in respect of any New Zealand imputation credits and any Australian imputation credits.

Notes to the consolidated financial statements

12. Cash and short-term deposits

	<u>2022</u>	<u>2021</u>	
	<u>\$000</u>	<u>\$000</u>	
Cash at banks and on hand	11,732	11,125	AASB 1060.88
Short-term deposits	5,796	3,791	
	<u>17,528</u>	<u>14,916</u>	

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. AASB 1060.114

As at 31 December 2022, the Group has pledged short-term deposits of \$5,000,000 (2021: \$2,000,000) as collateral for obligations arising under derivative contracts. Such deposits will not be used to settle the derivative contracts unless a default event occurs. AASB 1060.117

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December: AASB 1060.88

	<u>2022</u>	<u>2021</u>
	<u>\$000</u>	<u>\$000</u>
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 operations (Note 10)	1,294	-
	18,822	14,916
Bank overdrafts	(966)	(2,650)
Cash and cash equivalents	<u>17,856</u>	<u>12,266</u>

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 (AASB 107.8).

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.

13. Trade receivables

	<u>2022</u>	<u>2021</u>	
	<u>\$000</u>	<u>\$000</u>	
Receivables from third-party customers	24,501	21,158	AASB 1060.44(b)
Receivables from related parties (Note 27)	1,171	1,132	
	<u>25,672</u>	<u>22,290</u>	

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. For terms and conditions relating to related party receivables, refer to [Note 27](#). AASB 1060.114, 198(b)(i)

Expected credit losses of trade receivables recognised amounted to \$185,000 during the year ended 31 December 2022 (2021: \$76,000). AASB 1060.119(c)

Notes to the consolidated financial statements

13. Trade receivables *continued*

COVID-19 commentary

Large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Changes in credit quality of loan portfolios and trade receivables (amongst other items) as a result of COVID-19 in prior years and its declining impact in 2022 in many countries may have a significant influence on an entity's expected credit loss (ECL) measurement.

A number of regulators have published guidance on the regulatory and accounting implications of the impact of the COVID-19. In March 2020, the IASB published a document, for educational purposes, entitled *Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic* to help support the consistent application of accounting standards on expected credit losses. The document is broadly consistent with the guidance from the regulators and emphasises that IFRS 9 does not set bright lines or a mechanistic approach to determining when there is a significant increase in credit risk (SICR), nor does it dictate the exact basis on which entities should determine forward looking scenarios to measure expected credit losses.

Entities should consider the following in updating their ECL calculations due to COVID-19:

- ▶ The use of reasonable and supportable information. Given the unprecedented circumstances, it is critical that entities provide transparent disclosure of the critical assumptions and judgements used to measure the ECL
- ▶ Re-segmentation of loan portfolios or groups or receivables
- ▶ Individual and collective assessment of loans, receivables and contract assets. In order to accelerate the detection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers
- ▶ Changes in payment terms. If payment terms are extended or reduced in light of the current economic circumstances, the terms and conditions of the extension or reduction will have to be assessed to determine their impacts on the ECL estimate

The ECL calculation and the measurement of significant deterioration fluctuation in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios and, as such, entities need to reassess the inputs to their provision matrix used to calculate ECLs. Uncertainties in market trends and economic conditions may persist due to COVID-19, which may impact actual results which differ materially from the estimates in ECL.

14. Inventories

	2022	2021	
	\$000	\$000	
		Restated	
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)	6,430	6,972	
Total inventories at the lower of cost and net realisable value	26,027	23,830	

AASB 1060.44(c),
123(b)

Cost of inventories sold to customers amounting to \$130,249,000 was recognised as an expense during the year (2021: \$120,000,000).

AASB 1060.123(c)

During 2022, \$286,000 (2021: \$242,000) was recognised as an expense for inventories carried at net realisable value.

AASB 1060.123(d)

COVID-19 commentary

Inventories might need to be written down to their net realisable value because of reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower-than-expected sales.

AASB 102 *Inventories* requires that fixed production overheads are included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory.

Entities should assess the significance of any write-downs and whether they require disclosure in accordance with AASB 1060.

Disclosures about inventories, including the measurement bases used, assist users in understanding how transactions, events and conditions are reflected in the financial statements and the sensitivity to change. At a minimum, entities will need to disclose the amount of any write-down of inventories recognised in profit or loss, as well as any subsequent reversal of such write-downs.

Notes to the consolidated financial statements

15. Financial assets and financial liabilities

15.1 Financial assets

AASB 1060.44

	2022	2021	
	\$000	\$000	
Derivatives not designated as hedging instruments			
Foreign exchange forward contracts	640	-	
Embedded derivatives	210	-	
Equity investments at fair value through profit or loss	337	300	
Financial assets measured at fair value through profit or loss	1,187	300	AASB 1060.113(a)
Equity investments designated at fair value through OCI	1,038	898	AASB 1060.113(eXii)
Debt instruments at fair value through OCI	1,622	1,610	AASB 1060.113(eXi)
Financial assets measured at fair value through OCI	2,660	2,508	
Derivatives designated as hedging instruments			
Foreign exchange forward contracts (Note 15.3)	252	153	AASB 1060.120(b)
Financial assets measured at fair value	4,099	2,961	
Cash and short-term deposits (Note 12)	18,822	14,916	
Trade receivables (Note 13)	25,672	22,290	
Loans to related parties (Note 27)	213	8	
Financial assets measured at amortised cost	44,707	37,214	AASB 1060.113(b)

The aggregate balance of financial assets measured at fair value and loans to related parties is reflected in the statement of financial position as follows:

Current	551	153
Non-current	3,761	2,816

Derivatives not designated as hedging instruments include:

AASB 1060.114

- i. 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.
- ii. embedded foreign exchange derivatives bifurcated from long-term sale contracts.

In 2022, 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.

Equity investments at fair value through profit or loss include investments in listed equity shares.

Equity investments 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. The Group recognised \$26,000 fair value remeasurement loss (2021: \$10,000 gain) on these equity investments in OCI during the year.

AASB 1060.119(aXv)

Debt instruments at fair value through OCI include investments in quoted government and corporate bonds. The Group recognised \$13,000 fair value remeasurement loss (2021: \$5,000 loss) on these debt instruments in OCI and reclassified a \$8,000 gain (2021: \$4,000 loss) upon derecognition from accumulated OCI to profit and loss during the year.

AASB 1060. 119(aXvi)

Notes to the consolidated financial statements

15. Financial assets and financial liabilities *continued*

15.2 Financial liabilities

AASB 1060.44

	2022	2021
	\$000	\$000
Derivatives not designated as hedging instruments		
Foreign exchange forward contracts	720	-
Embedded derivatives	782	-
Contingent consideration (Note 6)	1,072	-
Financial liabilities measured at fair value through profit or loss	2,574	-
Derivatives designated as hedging instruments (Note 15.3)		
Foreign exchange forward contracts	170	254
Copper forward contracts	980	-
Interest rate swaps	35	-
Financial liabilities measured at fair value	3,759	254
Trade and other payables (Note 20)	16,969	20,023
Interest-bearing loans and borrowings (refer below)	24,979	26,455
Financial liabilities measured at amortised cost	41,948	46,478

AASB 1060.113(c)

AASB 1060.120(b)

AASB 1060.113(d)

The aggregate balance of financial liabilities measured at fair value is reflected in the statement of financial position as follows:

Current	2,953	254
Non-current	806	-

Derivatives not designated as hedging instruments include:

AASB 1060.114

- i. 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.
- ii. embedded commodity derivatives bifurcated from certain purchase contracts.

In 2022, 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.

Notes to the consolidated financial statements

15. Financial assets and financial liabilities continued

15.2 Financial liabilities continued

Interest-bearing loans and borrowings consist of:

AASB 1060.114

	Interest rate %	Maturity	2022 \$000	2021 \$000
Current interest-bearing loans and borrowings				
Lease liabilities (Note 18)	4.5-7.8	2023	455	418
Bank overdrafts	BBSW+1.0	On demand	966	2,650
\$3,700,000 unsecured bank loan (2021: \$3,600,000)	BBSW+0.5	Mar 2022 to Nov 2023	1,411	74
Total current interest-bearing loans and borrowings			2,832	3,142
Non-current interest-bearing loans and borrowings				
Lease liabilities (Note 18)	4.5-7.8	2024-2035	2,706	2,553
8.25% secured loan of USD3,600,000 (Note 15.3)	*LIBOR+0.2	31 May 2027	2,246	-
Secured bank loan	BBSW+1.1	31 Jul 2027	9,339	8,872
\$3,700,000 unsecured bank loan (2021: \$3,600,000)	BBSW+0.5	Nov 2023 to Mar 2025	2,078	3,435
\$5,809,000 bank loan	7.5	1 Jan 2025	-	5,809
Loan from a third-party investor in Fire Equipment Test Lab Limited (Note 3)	11.0	2024	3,000	-
Convertible preference shares	11.6	2027	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.

Bank overdrafts

The bank overdrafts are secured by the Group's cash at banks amounting to \$966,000 as at 31 December 2022 (2021: \$2,650,000).

AASB 1060.117

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 (2021: 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 2027. The total amount repayable on maturity is \$9,500,000. The facility is secured by a first charge over certain of the Group's land and buildings and machinery, with an aggregate carrying value of \$9,500,000 as at 31 December 2022 (2021: \$8,900,000).

\$5,809,000 bank loan

This loan has been transferred to the net balance of the liabilities held for sale (see [Note 10](#)).

Notes to the consolidated financial statements

15. Financial assets and financial liabilities *continued*

15.2 Financial liabilities *continued*

Convertible preference shares

At 31 December 2022 and 2021, 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 2024 on the basis of one ordinary share for every three preference shares held.

AASB 1060.45(aXiii)

Any preference shares not converted will be redeemed on 31 December 2027 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 equity portion of these shares amounted to \$228,000 as at 31 December 2022 and 2021.

AASB 1060.45(aXv)

Commentary

AASB 1060.114 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity).

COVID-19 commentary

Entities may have obtained additional financing, amended the terms of existing debt agreements or obtained waivers if they no longer satisfied debt covenants. In such cases, they will need to consider the guidance provided in AASB 9 to determine whether changes to existing contractual arrangements represent a substantial modification or, potentially, a contract extinguishment, which would have accounting implications in each case. Furthermore, entities may need to determine whether a breach of covenants will require non-current liabilities to be reclassified as current liabilities in their financial statements.

AASB 1060.118

Guarantees

Where guarantees are issued by governments for a below market rate fee, entities will have to assess whether this constitutes a government grant to be accounted for and disclosed in accordance with AASB 120 (Refer to [Note 2.3\(f\)](#)). In performing such an assessment, entities will need to consider the level of the interest rate offered to the borrower on the guaranteed loan and whether the economics of the overall transaction are providing a benefit to the lender, the borrower or to both. For example, if a benefit to a lender from a below market-rate fee on a guarantee is required to be partially offset by a reduction in the interest earned on the loan to the borrower, the value of any government grant to the lender may be reduced or eliminated. In such a case, the value of the grant accrues mainly to the borrower in the form of a below market-rate loan relative to the borrower's credit risk.

Where such guarantees are provided at below market rates by holding companies or other group entities, the initial benefit provided may need to be accounted for as an equity transaction between group entities.

15.3 Hedging activities and derivatives

Derivatives designated as hedging instruments

Cash flow hedges

Foreign currency risk

It is the Group's policy to hedge 25% of the Group's total expected sales in US dollars and 65% of its total expected purchases in GBP over a 12 month period. The Group uses foreign exchange forward contracts as hedging instruments in cash flow hedges of forecast sales in US dollars and forecast purchases in GBP. Key terms of these forward contracts are as follows:

AASB 1060.120(a),
120(c)

For highly probable forecast sales:

AASB 1060.114,
120(b)

- i. Aggregate notional amount in Australian dollars: \$15,800,000 (2021: \$14,600,000)
- ii. Average AUD/USD forward rate: 1.172 (2021: 1.206)
- iii. Settlement date: Various dates within the next 12 months

For highly probable purchases:

- i. Aggregate notional amount in Australian dollars: \$7,960,000 (2021: \$6,950,000)
- ii. Average AUD/GBP forward rate: 0.878 (2021: 0.883)
- iii. Settlement date: Various dates within the next 12 months

Notes to the consolidated financial statements

15. Financial assets and financial liabilities *continued*

15.3 Hedging activities and derivatives *continued*

The forecasted transactions are highly probable and expected to occur at various dates within the next 12 months. AASB 1060.122(a)

During the year ended 31 December 2022, the Group recognised \$287,000 hedging gain (2021: \$106,000) on the foreign exchange forward contracts in OCI and reclassified \$286,000 hedging gain (2021: \$72,000) from OCI to profit or loss. There is no ineffectiveness recognised in profit or loss. AASB 1060.122(c),
122(d), 122(e)

Commodity price risk

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 prices over the past 12 months has led to the decision to enter into copper forward contracts. AASB 1060.120(a),
120(c)

These contracts, which commenced on 1 July 2022, are expected to reduce the volatility of net profit attributable to copper price fluctuations. Key terms of these forward contracts are as follows: AASB 1060.114,
120(b)

- i. Aggregate notional amount in tonnes: 980,000
- ii. Aggregate notional amount in Australian dollars: \$5,600,000
- iii. Average hedged rate in thousands of AUD per tonne: 5.75
- iv. Settlement date: Various dates within the next 9 months

Hedging the price volatility of forecast copper purchases is in accordance with the risk management strategy outlined by the Board of Directors. The hedging relationships are for a period between 3 and 9 months, based on existing purchase agreements. AASB 1060.122(a)

The Group recognised \$915,000 hedging loss on the copper forward contracts in OCI during the year ended 31 December 2022. Hedge ineffectiveness amounting to \$65,000 was recognised in profit or loss during the same period. AASB 1060.122(c),
122(e)

Fair value hedges

Interest rate risk

At 31 December 2022, the Group had an interest rate swap agreement in place with a notional amount of USD3,600,000 (\$2,246,000) (2021: 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 fixed rate 8.25% secured loan attributable to movements in interest rates. AASB 1060.114,
120(a),
120(b), 120(c)

The decrease in fair value of the interest rate swap of \$35,000 (2021: Nil) has been recognised in finance costs and offset with a similar gain on the loan. AASB 1060.121(a),
121(b)

Hedge of net investments in foreign operations

Foreign currency risk

Included in interest-bearing loans at 31 December 2022 was a borrowing of USD3,600,000 (\$2,246,000) 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 2022. This borrowing is being used to hedge the Group's exposure to the USD foreign exchange translation risk on these investments. Gains of \$278,000 on the retranslation of this borrowing were transferred to OCI to offset any gains or losses on translation of the net investments in the subsidiaries. AASB 1060.120(a),
120(b), 120(c)

There is no ineffectiveness recognised in profit or loss. AASB 1060. 122(e)

15. Financial assets and financial liabilities *continued*

15.3 Hedging activities and derivatives *continued*

COVID-19 commentary

Hedging

An entity's transactions may be postponed or cancelled, or occur in significantly lower volumes than initially forecast as a result of the COVID-19 pandemic. If the entity designated such transactions as a hedged forecast transaction in a cash flow hedge, it would need to consider whether the transaction was still a 'highly probable forecast transaction'.

That is, if COVID-19 affects the probability of hedged forecast transactions occurring and/or the time period designated at the inception of a hedge, an entity would need to determine whether it can continue to apply hedge accounting to the forecast transaction or a proportion of it, and for continuing hedges whether any additional ineffectiveness has arisen.

- ▶ If an entity determines that a forecast transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively
- ▶ If an entity determines that the timing of a forecast transaction has changed, and the cash flows are now expected to occur at a different time than initially forecast, the outcome would depend on the nature of the hedged item and how the hedge relationship was documented, and judgement will be needed in considering the appropriate accounting treatment
- ▶ If an entity determines that a forecast transaction is no longer expected to occur, in addition to discontinuing hedge accounting prospectively, it must immediately reclassify to profit or loss any accumulated gain or loss on the hedging instrument that has been recognised in other comprehensive income

15.4 Fair values

The fair values of the quoted debt instruments and listed equity investments are based on price quotations at the reporting date.

AASB 1060.115

The following methods and assumptions were used to estimate the fair value of financial assets and financial liabilities measured at fair value using a valuation technique:

	Valuation technique	Significant assumptions	Range (weighted average)
Derivative assets not designated as hedging instruments			
Foreign exchange forward contracts (USD)	DCF method	Discount rate	2022: 6% 2021: –
		AUD/USD forward foreign exchange rates at various tenors	2022: 1.215 to 1.337 (1.291) 2021: –
Embedded derivative assets	DCF method	Discount rate	2022: 5% 2021: –
		AUD/CAD forward foreign exchange rates at various tenors	2022: 2.333 to 2.545 (2.418) 2021: –
Equity investments designated at fair value through OCI	DCF method	Long-term growth rate for cash flows for subsequent years	2022: 3.1% - 5.2% (4.2%) 2021: 3.1% - 5.1% (4%)
		Long-term operating margin	2022: 5.0% - 12.1% (8.3%) 2021: 5.2% - 12.3% (8.5%)
		WACC	2022: 11.2% - 14.3% (12.6%) 2021: 11.5% - 14.1% (12.3%)
		Discount for lack of marketability	2022: 5.1% - 15.6% (12.1%) 2021: 5.4% - 15.7% (12.3%)

Notes to the consolidated financial statements

15. Financial assets and financial liabilities *continued*

15.4 Fair values *continued*

	Valuation technique	Significant assumptions	Range (weighted average)
Derivative assets designated as hedging instruments			
Foreign exchange forward contracts (USD)	DCF method	Discount rate	2022: 6% 2021: 5%
		AUD/USD forward foreign exchange rates at various tenors	2022: 1.164 to 1.190 (1.181) 2021: 1.031 to 1.157 (1.112)
Derivative liabilities not designated as hedging instruments			
Foreign exchange forward contracts (USD)	DCF method	Discount rate	2022: 7% 2021: –
		AUD/USD forward foreign exchange rates at various tenors	2022: 1.214 to 1.381 (1.286) 2021: –
Embedded derivative liabilities	DCF method	Discount rate	2022: 8% 2021: –
		Copper forward rates at various tenors	2022: \$5,789 to \$8,912 per tonne (\$7,221) 2021: –
		Electricity forward rates at various tenors	2022: \$55 to \$72 per megawatt hour (\$65 per megawatt hour) 2021: –
Contingent consideration liability	DCF method	Assumed probability-adjusted profit before tax of Extinguishers Limited	2022: \$1,514,000 2021: –
		Discount rate	2022: 14% 2021: –
Derivative liabilities designated as hedging instruments			
Foreign exchange forward contracts (GBP)	DCF method	Discount rate	2022: 6% 2021: 5%
		AUD/GBP forward foreign exchange rates at various tenors	2022: 0.765 to 0.921 (0.834) 2021: 0.675 to 0.892 (0.759)
Copper forward contracts	DCF method	Discount rate	2022: 7% 2021: –
		Copper forward rates at various tenors	2022: \$32,090 to \$37,800 per tonne (\$35,662 per tonne) 2021: –

Notes to the consolidated financial statements

16. Investment properties

	\$000	AASB 1060.132(e)
At 1 January 2022	7,983	
Additions (subsequent expenditure)	1,216	AASB 1060.132(e)(i)
Net loss from fair value remeasurement	(306)	AASB 1060.132(e)(ii)
At 31 December 2022	8,893	

As at 31 December 2022 and 2021, the fair values of the properties are based on valuations performed by an accredited independent valuer. AASB 1060.132(b)

Description of valuation technique and significant assumptions applied in the fair value measurement of investment properties is as follows: AASB 1060.132(a)

Valuation technique	Significant valuation inputs	Range (weighted average)	
		2022	2021
DCF method	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%

Using 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.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements. AASB 1060.132(c),
132(d)

Commentary

The Group has elected to value investment properties at fair value in accordance with AASB 140.

AASB 140 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 for property, plant and equipment) would be required.

COVID-19 commentary

The impact on fair value measurement (FVM) arising from COVID-19 and the continuing economic and market disruptions varies across countries, markets and industries. Some uncertainty is likely to continue, even as many jurisdictions begin to ease the restrictions and open up their economies. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of possible estimates of FVM, the entity is required to apply judgement to determine the point within that range that is most representative of FVM in the circumstances.

While market volatility may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly.

A significant increase or decrease in volume or activity in a market can also influence the valuation techniques used in the FVM. Entities will need to assess how those techniques are applied and whether inputs are observable at the measurement date.

Notes to the consolidated financial statements

17. Property, plant and equipment

AASB 1060.44(a)

	Freehold land and buildings	Office properties in Australia	Construction in progress	Plant and machinery	Other equipment	Total	
	\$000	\$000	\$000	\$000	\$000	\$000	
Cost or valuation							
At 1 January 2022	10,261	1,122	-	23,682	5,650	40,715	AASB 1060.134(e)
Change in accounting policy (Note 2.4)	-	1,210	-	-	-	1,210	AASB 1060.134(e)(viii)
Additions	1,612	-	4,500	4,403	190	10,705	AASB 1060.134(e)(xi)
Acquisition of a subsidiary (Note 6)	2,897	-	-	4,145	-	7,042	AASB 1060.134(e)(xiii)
Disposals	-	-	-	(4,908)	-	(4,908)	AASB 1060.134(e)(viii)
Assets held for sale (Note 10)	(4,144)	-	-	(3,980)	-	(8,124)	AASB 1060.134(e)(xii)
Revaluation adjustment	-	(364)	-	-	-	(364)	AASB 1060.134(e)(iv)
Transfer*	-	(219)	-	-	-	(219)	AASB 1060.134(e)(viii)
Exchange differences	30	-	-	79	-	109	AASB 1060.134(e)(viii)
At 31 December 2022	10,656	1,749	4,500	23,421	5,840	46,166	AASB 1060.134(d)
Depreciation and impairment							
At 1 January 2022	1,348	102	-	13,586	1,350	16,386	AASB 1060.134(d)
Depreciation charge for the year	383	117	-	2,827	470	3,797	AASB 1060.134(e)(vii)
Disposals	-	-	-	(3,450)	-	(3,450)	AASB 1060.134(e)(viii)
Assets held for sale (Note 10)	(1,283)	-	-	(2,094)	-	(3,377)	AASB 1060.134(e)(xii)
Transfer*	-	(219)	-	-	-	(219)	AASB 1060.134(e)(viii)
Exchange differences	20	-	-	30	-	50	AASB 1060.134(e)(viii)
At 31 December 2022	468	-	-	10,899	1,820	13,187	AASB 1060.134(d)
Net book value							
At 31 December 2022	10,188	1,749	4,500	12,522	4,020	32,979	
At 31 December 2021	8,913	1,020	-	10,096	4,300	24,329	

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

Commentary

If a lessee does not present right-of-use assets separately in the statement of financial position, AASB 16.47 requires the right-of-use assets to 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 18](#).

Capitalised borrowing costs

In February 2021, the Group started the construction of a new fire safety facility which is financed by a third party in a common arrangement.

The amount of borrowing costs capitalised during the year ended 31 December 2022 was \$303,000 (2021: Nil).

AASB 1060.162

Land and buildings and machinery

Land and buildings and machinery with an aggregate carrying amount of \$11,900,000 (2021: \$8,900,000) are subject to a first charge to secure two of the Group's bank loans (see [Note 15.2](#)).

AASB 1060.135(a)

Notes to the consolidated financial statements

17. Property, plant and equipment *continued*

Revaluation of office properties in Australia*

Fair value of the properties as at 31 December 2022 was determined using the market comparable method which uses prices based on proprietary databases of transactions involving identical or comparable assets and adjusted to reflect differences in size, location and other conditions. This has resulted in an assumed price per square meter ranging from \$325 to \$350. Such valuations have been performed by an accredited independent valuer.

AASB 1060.136(a),
136(b), 136(c)

* The Group changed the accounting policy with respect to the measurement of office properties in Australia as at 1 January 2022 on a prospective basis (see [Note 2.4](#)).

Commentary

The Group has changed its accounting policy to measure the office properties in Australia at the revalued amount in accordance with AASB 116. Under AASB 116.36, 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. AASB 116.37 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 Australia constitute separate class of property, plant and equipment, based on their nature, characteristics and risks.

Under AASB 116.31, 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 Australia during 2022 the Group performed a revaluation as at 31 December 2022.

COVID-19 commentary

Many entities will have to assess property, plant and equipment for impairment. Entities may need to update their assumptions about the future use of an asset, specifically the remaining useful life and residual values. Property, plant and equipment may be under-utilised or idled for a period, which may lead entities to change plans and require a reassessment of the useful life estimates used in the depreciation calculations. Additionally, a weak economy may affect the residual value of property, plant and equipment that will also need to be included in any estimates of depreciation expense. Considering the weakening of the impact of COVID-19 in many countries, the economic environment may in some cases be experiencing signs of recovery, in which case, entities may need to consider whether any impairments recognised in previous years should be reversed as required by paragraph 110 of AASB 136.

18. Leases

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.

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.

Some 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.

Several lease contracts 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](#)).

AASB 1060.144(c)

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18. Leases continued

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 2022	1,518	626	588	2,732	AASB 1060.44
Additions (Note 6)	424	108	78	610	AASB 1060.134(e)(i), 145
Depreciation expense	(173)	(136)	(125)	(434)	AASB 1060.134(e)(vii), 145
As at 31 December 2022	1,769	598	541	2,908	AASB 1060.144(a)

Presented below is a maturity analysis of future lease payments:

	2022	2021
	\$000	\$000
Not later than 1 year	485	438
Later than 1 year and not later than 5 years	2,424	1,132
Later than 5 years	573	300
	3,482	1,870

The amount of expense relating to short-term leases and leases of low-value assets recognised in profit or loss during the year ended 31 December 2022 was \$40,000 (2021: \$38,000).

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 16](#)). 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.

Operating leases

Future lease payments receivable under non-cancellable operating leases as at 31 December are as follows:

	2022	2021
	\$000	\$000
Not later than 1 year	1,418	1,390
Later than 1 year but not later than 5 years	5,630	5,520
Later than 5 years	5,901	5,864
	12,949	12,774

COVID-19 commentary

As described in [Note 2.4](#), the AASB 2020-4 Amendments to Australian Accounting Standards Covid-19-Related Rent Concessions was issued to provide relief to lessees from applying AASB 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

The amendment was intended to apply until 30 June 2021, but as the impact of COVID-19 is continuing, the IASB, on 31 March 2021, extended the period of the application of the practical expedient until 30 June 2022. Many lessors have provided rent concessions to lessees as a result of the COVID-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in AASB 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted COVID-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under AASB 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19.

Notes to the consolidated financial statements

18. Leases continued

COVID-19 commentary continued

A lessee that applies the practical expedient discloses that it has applied the practical expedient to all rent concessions that meet the conditions for the practical expedient or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient. In addition, a lessee discloses the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient.

The Group did not have any leases impacted by the amendment.

AASB 1060.44

19. Intangible assets

	Development costs	Patents and licences with definite useful life	Licences with indefinite useful life	Goodwill	Total	
	\$000	\$000	\$000	\$000	\$000	
Cost						
At 1 January 2022	1,975	395	240	250	2,860	AASB 1060.137(c)
Additions - internally developed	587	-	-	-	587	AASB 1060.137(e)(i)
Acquisition of a subsidiary (Note 6)	-	30	1,170	2,231	3,431	AASB 1060.137(e)(iii), 143(a)
Assets held for sale (Note 10)	-	(138)	-	-	(138)	AASB 1060.137(e)(ii)
At 31 December 2022	2,562	287	1,410	2,481	6,740	AASB 1060.137(c)
Amortisation and impairment						
At 1 January 2022	289	110	-	-	399	AASB 1060.137(c)
Amortisation*	95	30	-	-	125	AASB 1060.137(e)(v)
Impairment	-	-	-	200	200	AASB 1060.143(b)
Assets held for sale (Note 10)	-	(3)	-	-	(3)	AASB 1060.137(e)(ii)
At 31 December 2022	384	137	-	200	721	AASB 1060.137(c)
Net book value						
At 31 December 2022	2,178	150	1,410	2,281	6,019	AASB 1060.141
At 31 December 2021	1,686	285	240	250	2,461	

*The amortisation expense relating to intangible assets is included in cost of sales.

AASB 1060.137(d)

Licences with indefinite useful life

Licences include intangible assets acquired through business combinations. The 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.

AASB 1060.141

Impairment

Management has recognised an impairment charge of \$200,000 in the current year against goodwill (2021: Nil). The impairment charge is recorded within administrative expenses in the statement of profit or loss.

AASB 1060.169(a)

Commentary

Other disclosures (AASB 1060.138) not relevant to the Group that should be considered:

- to the extent that there is an individually material intangible asset, an entity shall disclose its description, carrying amount and remaining amortisation period
- for intangible assets acquired by way of a government grant and initially recognised at fair value:
 - the fair value initially recognised for these assets
 - their carrying amounts
- the existence and carrying amounts of intangible assets to which the entity has restricted title or that are pledged as security for liabilities
- the amount of contractual commitments for the acquisition of intangible assets

Notes to the consolidated financial statements

20. Trade and other payables

AASB 1060.44(d)

	2022	2021
	\$000	\$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:

AASB 1060.114

- ▶ 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 27](#).

21. Provisions

	Assurance-type warranties	Restructuring	Decommissioning	Social security contributions on share options	Waste electrical and electronic equipment	Contingent liability (Note 26)	Onerous contracts	Total	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
At 1 January 2022	118	-	-	4	53	-	-	175	AASB 1060.44(e)
Adoption of amendments to AASB 137	-	-	-	-	-	-	120	120	AASB 1060.153(a)(i)
Acquisition of a subsidiary (Note 6)	-	900	1,200	-	-	380	-	2,480	AASB 1060.153(a)(ii)
Arising during the year	112	-	-	26	102	20	20	280	AASB 1060.153(a)(ii)
Utilised	(60)	(59)	-	(19)	(8)	-	-	(146)	AASB 1060.153(a)(iii)
Unused amounts reversed	(6)	(6)	-	-	-	-	-	(12)	AASB 1060.153(a)(iv)
Unwinding of discount and changes in the discount rate	2	17	21	1	2	-	-	43	AASB 1060.153(a)(ii)
At 31 December 2022	166	852	1,221	12	149	400	140	2,940	AASB 1060.153(a)(i)
Current	166	305	-	3	28	400	140	1,042	
Non-current	-	547	1,221	9	121	-	-	1,898	

Assurance-type warranties

AASB 1060.153(b)

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. 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.

Restructuring

Extinguishers Limited recorded a restructuring provision prior to being acquired by the Group. 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 2022 when the provision was recognised in its financial statements. The restructuring is expected to be completed by 2024.

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.

Notes to the consolidated financial statements

21 Provisions continued

Social security contributions on share options

The provision for social security contributions on share options is calculated based on the number of options outstanding at the reporting date that are expected to be exercised. The provision is based on fair value of the shares at the reporting date which is the best estimate of the fair value at the date of exercise. It is expected that the costs will be incurred during the exercise period of 1 January 2023 to 31 December 2024.

Waste electrical and electronic equipment

The provision for waste electrical and electronic equipment is calculated based on sales after 13 August 2007 (new waste) and expected disposals of historical waste (sales up to 13 August 2007).

Onerous contracts

A provision is recognised for certain contracts with suppliers for which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received. It is anticipated that these costs will be incurred in the next financial year.

22. Net employee defined benefit liabilities

The Group's defined benefit pension plan in Australia is a final salary plan for the Australian employees, which requires contributions to be made to a separately administered fund.

AASB 1060.173(a)

This plan is governed by the employment laws of Australia, which require final salary payments to be adjusted for the consumer price index upon payment during retirement. The level of benefits provided depends on the member's length of service and salary at retirement age.

Each year, the Board of Trustees reviews the level of funding in the Australia pension plan as required by Australia's employment legislation. The Board of Trustees decides its contribution based on the results of this annual review. Australia's employment legislation requires the Group to clear any plan deficit (based on a valuation performed in accordance with the regulations in Australia) over a period of no more than five years after the period in which the deficit arises. The Board of Trustees aim to keep annual contributions relatively stable at a level such that no plan deficits (based on valuation performed in accordance with the regulations in Australia) will arise.

The following tables show the net benefit expense recognised in the statement of profit or loss and the breakdown of the amounts recognised in the statement of financial position:

	<u>2022</u>	<u>2021</u>	
	<u>\$000</u>	<u>\$000</u>	
Net benefit expense recognised in profit or loss	1,561	1,379	AASB 1060.173(d)
		<u>\$000</u>	AASB 1060.173(b)
Defined benefit obligation at 1 January 2022		5,807	
Interest cost		267	
Current service cost		1,419	
Benefits paid		(889)	
Remeasurement gain		(111)	
Defined benefit obligation at 31 December 2022		6,493	
Plan assets at 1 January 2022		2,830	AASB 1060.173(c)
Interest income		125	
Contributions by employer		1,100	
Benefits paid		(868)	
Remeasurement gain		256	
Plan assets at 31 December 2022		3,443	

The actual return on plan assets amounted to \$381,000 for the year ended 31 December 2022 (2021: \$128,000 loss).

AASB 1060.173(g)

Notes to the consolidated financial statements

22. Net employee defined benefit liabilities continued

The fair values of each major class of plan assets are as follows:

AASB 1060.173(e)

	2022	2021
	\$000	\$000
Investments quoted in active markets		
Listed equity investments	875	688
Bonds issued by Australian Government	1,670	1,615
Cash and cash equivalents	400	250
Unquoted investments		
Debt instruments issued by Quality Bank International 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 (2021: \$50,000).

AASB 1060.173(f)(ii)

Commentary

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.

The principal assumptions used in determining the Group's post-employment obligation are shown below:

	2022	2021
	%	%
Discount rate	4.9	5.5
Future salary increases	3.5	4.0
Life expectation for pensioners at the age of 65:	Years	Years
Male	20.0	20.0
Female	23.0	23.0

AASB 1060.173(h)(i)

AASB 1060.173(h)(iii)

AASB 1060.173(h)(v)

Commentary

If an entity has a defined contribution plan, the entity shall disclose any significant accounting policy and the amount recognised in the profit and loss as an expense for defined contribution plans.

If an entity treats a defined benefit multi-employer plan as a defined contribution plan, in accordance with AASB 119.34 because sufficient information is not available to use defined benefit accounting, it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

AASB 1060.172

COVID-19 commentary

COVID-19 at its current stage has had a significant impact on interest rates, expected inflation and asset values which may trigger the need for a re-measurement of the defined benefit obligation and pension plan assets. The current environment is likely to continue to affect the values of the plan assets and obligations resulting in potential volatility in the amount of the net defined benefit pension plan surplus/deficit recognised.

The impact of COVID-19 will vary by entity, with some entities recognising increases in net pension assets, whilst others having to recognise decreases. Entities should ensure that sufficient disclosures are made such that users are able to understand the impacts of COVID-19 on pension plans.

Notes to the consolidated financial statements

23. Government grants

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.

AASB 1060.160(a),
160(b)

COVID-19 commentary

In an attempt to mitigate the impact of the COVID-19 pandemic, governments in many countries have introduced measures to aid entities. These measures include direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low interest loans. Whilst some of these measures meet the definition of government grants under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, others do not. Accordingly, entities should analyse all facts and circumstances carefully to apply the appropriate relevant accounting standards which may include, for instance, AASB 9 *Financial Instruments*, AASB 112 *Income Taxes*, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB Interpretation 21 *Levies*.

AASB 1060.160 requires entities to disclose the following information:

- ▶ The accounting policy adopted for government grants, including methods of presentation adopted in the financial statements
- ▶ The nature and amounts of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited
- ▶ Unfulfilled conditions and other contingencies attaching to government grants that have been recognised in income

24. Equity

	Ordinary shares issued and fully paid	Treasury shares	Ordinary shares outstanding
	'000	'000	'000
At 1 January 2022	19,388	270	19,118
Issued on 1 May 2021 for acquisition of Extinguishers Limited (Note 6)	2,500	-	2,500
Issued for cash on exercise of share options	-	(75)	75
At 31 December 2022	21,888	195	21,693

AASB 1060.45(a)(iv)

AASB 1060.45(a)(ii),
45(a)(vi)

The ordinary shares have no par value and there is no limit on authorised capital.

AASB 1060.45(a)(i),
45(a)(iii)
AASB 1060.45(a)(vii)

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 senior executives and certain other employees. Refer to [Note 25](#) 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 equity under ordinary shares account.

Nature and purpose of reserves

AASB 1060.45(b)

Share-based payments reserve

The share-based payments 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.

Convertible preference share reserve

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 15.2](#)).

All other reserves are as stated in the consolidated statement of changes in equity.

Notes to the consolidated financial statements

25. Share-based payments

Senior Executive Plan

AASB 1060.164(a)

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent, including members of key management personnel with more than 12 months' service. The share options vest if and when the Group's net income (non-market condition) increases by 20% within 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 performance condition is not met.

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 on which the share options were granted. However, the above performance condition is only considered in determining the number of instruments that will ultimately vest.

AASB 1060.165

The share options can be exercised up to two years after the three-year vesting period and therefore, the contractual term of each option granted is five years. There are no cash settlement alternatives.

General Employee Share Option Plan

AASB 1060.164(a)

Under the General Employee Share Option Plan (GESP), the Group, at its discretion, may grant share options of the parent to managerial employees other than senior executives, once the employee has completed two years of service. Employees must remain in service for a period of three years from the date of grant in order for the share options to vest.

The fair value of share options granted is estimated at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions on which the share options were granted.

AASB 1060.165

The contractual term of the share options is five years and there are no cash settlement alternatives for the employees.

Share Appreciation Rights

The Group's business development employees are granted Share Appreciation Rights (SARs), settled in cash.

AASB 1060.164(a)

The SARs vest when a specified target number of new sales contracts (non-market vesting condition) are closed within three years from the date of grant and the employee continues to be employed by the Group at the vesting date. The SARs can be exercised up to three years after the three-year vesting period and therefore, the contractual term of the SARs is six years. The liability for the Share Appreciation Rights is measured, initially and at the end of each reporting period until settled, at the fair value of the Share Appreciation Rights, by applying the binomial option pricing model, taking into account the terms and conditions on which the Share Appreciation Rights were granted, and the extent to which the employees have rendered services to date.

AASB 1060.166

The carrying amount of the liability relating to the SARs at 31 December 2022 was \$299,000 (2021: \$194,000). No SARs had vested, granted or forfeited at 31 December 2022 and 2021, respectively.

AASB 1060.168(b)

The total expense arising from share-based payment transactions during the year is \$412,000 (2021: \$492,000).

AASB 1060.168(a)

There were no cancellations or modifications to the awards in 2022 or 2021.

AASB 1060.167

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs):

	2022 Number	2022 WAEP	2021 Number	2021 WAEP	
Outstanding at 1 January	575,000	\$2.85	525,000	\$2.75	AASB 1060.164(b)(xi)
Granted during the year	250,000	\$3.85	155,000	\$3.13	AASB 1060.164(b)(xii)
Forfeited during the year	-	-	(25,000)	\$2.33	AASB 1060.164(b)(xiii)
Exercised during the year	(75,000)	\$2.33	(65,000)	\$3.08	AASB 1060.164(b)(xiv)
Expired during the year	(25,000)	\$3.02	(15,000)	\$2.13	AASB 1060.164(b)(xv)
Outstanding at 31 December	725,000	\$3.24	575,000	\$2.85	AASB 1060.164(b)(xvi)
Exercisable at 31 December	110,000	\$2.98	100,000	\$2.51	AASB 1060.164(b)(xvii)

Notes to the consolidated financial statements

26. Commitments and contingencies

Commitments

At 31 December 2022, the Group had commitments of \$2,310,000 (2021: \$4,500,000) including \$2,000,000 (2021: Nil) relating to the completion of the fire equipment safety facility and \$310,000, (2021: \$516,000) relating to trade purchase commitments by the Group's joint venture.

AASB 1060.135(b),
129(d)

Legal claim contingency

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. Therefore, it is not practicable to state the timing of the payment, if any.

AASB 1060.154

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

The Group has provided the following guarantees at 31 December 2022:

- ▶ Guarantee to an unrelated party for the performance in a contract by the joint venture. No liability is expected to arise
- ▶ Guarantee of its share of \$20,000 (2021: \$13,000) of the associate's contingent liabilities which have been incurred jointly with other investors

AASB 1060.201(h)

AASB 1060.154

Contingent liabilities

The Group recognised a contingent liability of \$380,000 in the course of the acquisition of Extinguishers Limited. The liability resulted 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 early 2023. 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 21](#)). The charge to profit or loss has been recognised.

AASB 1060.153

27. Related party disclosures

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Sales to related parties	Purchases from related parties	Amounts owed by related parties*	Amounts owed to related parties*	
		\$	\$	\$	\$	
Entity with significant influence over the Group	2022	7,115,213	-	620,140	-	AASB 1060.198(a), 198(b), 199, 201
	2021	5,975,416	-	550,357	-	
Associate	2022	2,900,390	-	551,195	-	
	2021	2,100,211	-	582,004	-	
Joint venture in which the parent is a venturer	2022	-	590,122	-	30,117	
	2021	-	430,076	-	12,437	
Key management personnel of the Group	2022	225,213	510,457	-	10,091	
	2021	135,421	490,186	-	10,320	

* The amounts are classified as trade receivables and trade payables, respectively (see [Notes 13](#) and [20](#)).

Notes to the consolidated financial statements

27. Related party disclosures *continued*

		Interest received	Amounts owed by related parties	AASB 1060.198(a), 198(b), 199, 201
		\$	\$	
Loans to related parties				
Associate	2022	20,055	200,321	
	2021	-	-	
Key management personnel of the Group	2022	1,020	13,010	
	2021	-	8,070	

Loan to an associate

The loan granted to the associate is intended to finance acquisition of new machines for the manufacturing of fire prevention equipment. The loan is fully-secured and repayable in full on 1 June 2023. Interest is charged at 10%.

Loans to key management personnel

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 BBSW plus 0.8%.

Any loans granted are included in financial instruments on the face of the statement of financial position.

Terms and conditions of transactions with related parties

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 2022, the Group recognised a provision for expected credit losses of \$3,000 relating to amounts owed by related parties (2021: \$1,000). As at 31 December 2022, the allowance for expected credit losses relating to amounts owed by related parties amounted to \$8,500 (2021: \$5,500).

AASB 1060.198(b)(i),
198(b)(ii)

AASB 1060.198(d)

AASB 1060.198(c)

Commentary

The disclosure that transactions with related parties are made on terms equivalent to an arm's length transaction is only appropriate if an entity can substantiate such terms. Although AASB 1060.202 does not require such a disclosure, the Group was able to substantiate the terms and therefore has made this statement.

Commitments with related parties

On 1 July 2022, Bright Sparks Limited entered into a two-year agreement ending 30 June 2024 with the associate 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 2023 and \$250,000 in the first 6 months of 2024. The purchase price is based on the associate's actual cost plus a 5% margin and will be settled in cash within 30 days of receiving the inventories.

AASB 1060.198,
199, 201

Compensation of key management personnel of the Group

Compensation expense of key management personnel amounted to \$603,000 during the year ended 31 December 2022 (2021: \$516,000).

AASB 1060.194

Commentary

AASB 1060.196 requires disclosure of amounts incurred by the Group in relation to the key management personnel services obtained from a separate management entity.

Notes to the consolidated financial statements

28. Auditor's remuneration

The auditor of Quality Holdings (Australian SDS) Pty Ltd is Ernst & Young Australia.

	<u>2022</u>	<u>2021</u>	
	\$	\$	
Fees to Ernst & Young (Australia)			
▶ For auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	1,050,000	986,000	AASB 1060.98(a)
▶ For tax compliance services	37,000	44,000	AASB 1060.98(b), 99
	<u>1,087,000</u>	<u>1,030,000</u>	
Fees to other overseas member firms of Ernst & Young (Australia)			
▶ For auditing the financial report of any controlled entities	387,000	283,000	AASB 1060.98(a)
▶ For tax compliance services	57,000	55,000	AASB 1060.98(b), 99
	<u>444,000</u>	<u>338,000</u>	
Total auditor's remuneration	<u>1,531,000</u>	<u>1,368,000</u>	

29. Events after the reporting period

On 14 January 2023, 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.

AASB 1060.187

On 22 January 2023, the directors of Quality Holdings (Australian SDS) Pty Ltd declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is \$1,087,345 which represents a fully franked dividend of 5.01 cents per share. The dividend has not been provided for in the 31 December 2022 financial statements.

COVID-19 commentary

As the impact of COVID-19 is declining in many countries, many governments have been curtailing the measures they implemented in prior years to address the resulting public health issues and the economic impact. At the same time, in some jurisdictions, governments may re-introduce certain restrictions that had earlier been lifted. Entities will again need to assess if they are affected, or expect to be impacted, by any further developments and measures taken after the end of their reporting period. A critical judgement and evaluation management needs to make is whether and, if so, what these events provide of evidence of conditions that existed at the end of the reporting period for the entity's activities or their assets and liabilities.

If management concludes an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect unless it is impractical to do so.

Areas that an entity should consider disclosing in its subsequent events note may include:

- ▶ The curtailment of the measures taken in prior years to minimise the impact of COVID-19 and to continue operations
- ▶ That the entity continues to monitor COVID-19 situation and will take further action as necessary in response to the economic disruption
- ▶ Any issuance of debt or equity or refinancing undertaken after reporting. Entities should disclose any amendments or waivers of covenants agreed by lenders to accommodate COVID-19 related concerns
- ▶ Reorganisations to reduce the impact of COVID-19 and whether any disposals of business units have been decided
- ▶ Any decisions made to suspend or alter dividends made after considering the inherent uncertainty surrounding the financial impact of COVID-19
- ▶ Whether COVID-19 may continue to cause disruption to economic activity and whether there could be further adverse impacts on revenue

Notes to the consolidated financial statements

30. Information relating to Quality Holdings (Australian SDS) Pty Ltd (the Parent)

The accounting policies of the Parent are the same as those disclosed in [Note 2](#) other than:

Tax consolidation

Quality Holdings (Australian SDS) Pty Ltd and its wholly owned Australian controlled entities are members of a tax-consolidated group under Australian tax law. The Company is the head entity of the tax consolidated group and accounts for its own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned controlled entities.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are accounted for at cost.

	<u>2022</u>	<u>2021</u>	
	<u>\$000</u>	<u>\$000</u>	
Current assets	44,183	39,413	<i>Reg 2M.3.01(1Xk)</i>
Current liabilities	17,444	20,233	<i>Reg 2M.3.01(1Xa)</i>
Total assets	82,946	72,419	<i>Reg 2M.3.01(1Xc)</i>
Total liabilities	22,980	25,223	<i>Reg 2M.3.01(1Xb)</i>
Ordinary shares	26,668	19,468	<i>Reg 2M.3.01(1Xd)</i>
Convertible preference share reserve	228	228	<i>Reg 2M.3.01(1Xe)</i>
Treasury shares	(508)	(654)	<i>Reg 2M.3.01(1Xe)</i>
Retained earnings	33,357	27,975	<i>Reg 2M.3.01(1Xe)</i>
Other components of equity	221	179	<i>Reg 2M.3.01(1Xe)</i>
	<u>59,966</u>	<u>47,196</u>	<i>Reg 2M.3.01(1Xe)</i>
Profit or loss of the Parent	7,771	5,228	<i>Reg 2M.3.01(1Xf)</i>
Total comprehensive income of the Parent	8,021	4,971	<i>Reg 2M.3.01(1Xg)</i>

The Parent has issued the following guarantees in relation to the debts of its subsidiary:

- Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*, Quality Holdings (Australian SDS) Pty Ltd and Hose Limited have entered into a deed of cross guarantee on 12 March 2005. The effect of the deed is that Quality Holdings (Australian SDS) Pty Ltd has guaranteed to pay any deficiency in the event of winding up of Hose Limited or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. Hose Limited has also given a similar guarantee in the event that Quality Holdings (Australian SDS) Pty Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The Parent has a contingent liability whereby an overseas customer has commenced an action against the Group in respect of equipment claimed to be defective. It has been estimated that the liability, should the action be successful, is \$850,000.

The Parent has no contractual obligation to purchase any property, plant and equipment at year end (2021: Nil).

Notes to the consolidated financial statements

ASIC CI 2016/785

31. Closed group disclosures

Pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, relief has been granted to Hose Limited from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial report.

As a condition of the Corporations Instrument, Quality Holdings (Australian SDS) Pty Ltd and Hose Limited (representing the closed group), entered into a deed of cross guarantee on 12 March 2007. The effect of the deed is that Quality Holdings (Australian SDS) Pty Ltd has guaranteed to pay any deficiency in the event of winding up of Hose Limited or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. Hose Limited has also given a similar guarantee in the event that Quality Holdings (Australian SDS) Pty Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The consolidated statement of profit or loss, consolidated statement of comprehensive income, summary of movements in consolidated retained earnings and consolidated statement of financial position of the entities that are members of the Closed Group are as follows:

	2022	2021
	\$000	\$000
Closed group consolidated statement of profit or loss		
Revenue	85,017	78,583
Cost of sales	(62,506)	(60,443)
Gross profit	22,511	18,140
Selling and distribution expenses	(5,636)	(6,049)
Administrative expenses	(7,326)	(5,575)
Other operating income	1,793	1,474
Other operating expenses	(1,127)	(237)
Operating profit	10,215	7,753
Finance costs	(210)	(187)
Finance income	175	112
Share of profit of an associate and a joint venture	671	638
Profit before tax from continuing operations	10,851	8,316
Income tax expense	(3,253)	(2,292)
Profit for the year from continuing operations	7,598	6,024
Profit/(loss) after tax for the year from discontinued operations	220	(188)
Profit for the year	7,818	5,836
Closed group consolidated statement of comprehensive income		
Profit for the year	7,818	5,836
Other comprehensive income		
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Net loss on cash flow hedges	(27)	(12)
Share of other comprehensive loss of an associate	(30)	-
<i>Other comprehensive income not to be reclassified to profit or loss (net of tax):</i>		
Revaluation of office properties in Australia	124	-
Share of other comprehensive income of an associate	30	-
Other comprehensive income, net of tax	97	(12)
Total comprehensive income for the year, net of tax	7,915	5,824
Retained earnings at the beginning of the year	25,945	21,709
Profit for the year	7,818	5,836
Cash dividends	(2,389)	(1,600)
Depreciation transfer for office properties in Australia	12	-
Retained earnings at the end of the year	31,386	25,945

Notes to the consolidated financial statements

31. Closed group disclosures *continued*

	2022	2021
	\$000	\$000
Closed group consolidated statement of financial position		
Assets		
Current assets		
Cash and short-term deposits	12,819	5,697
Trade receivables	13,809	18,224
Inventories	8,072	6,993
Prepayments	90	79
	<u>34,790</u>	<u>30,993</u>
Assets classified as held for sale	13,554	-
	48,344	30,993
Non-current assets		
Investment in an associate and a joint venture	3,187	2,516
Investment properties	8,893	7,983
Property, plant and equipment	14,443	12,359
Intangible assets	-	58
Non-current financial assets	17,036	8,314
	<u>43,559</u>	<u>31,230</u>
Total assets	91,903	62,223
Liabilities		
Current liabilities		
Trade and other payables	5,783	4,086
Interest-bearing loans and borrowings	516	690
Income tax payable	3,113	2,500
	<u>9,412</u>	<u>7,276</u>
Liabilities directly associated with assets classified as held for sale	13,125	-
	22,537	7,276
Non-current liabilities		
Interest-bearing loans and borrowings	8,472	8,360
Deferred tax liabilities	2,312	1,189
	<u>10,784</u>	<u>9,549</u>
Total liabilities	33,321	16,825
Net assets	58,582	45,398
Equity		
Ordinary shares	26,668	19,468
Convertible preference share reserve	228	228
Treasury shares	(508)	(654)
Retained earnings	31,386	25,945
Other components of equity	762	411
Reserves of a disposal group held for sale	46	-
	<u>58,582</u>	<u>45,398</u>

Directors' declaration

for the year ended 31 December 2022

In accordance with a resolution of the directors of Quality Holdings (Australian SDS) Pty Ltd (the Company), I state that: CA 295(5Xa)

In the opinion of the Directors:

- a. the financial statements and notes of the Company and its Subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including: CA 295(4X(d)(i)), 295(4X(d)(ii))
- i. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the year then ended on that date; and
 - ii. complying with Australian Accounting Standards - *Simplified Disclosures* and the *Corporations Regulations 2001*.
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and CA 295(4Xc)
- c. as at the date of this declaration, there are reasonable grounds to believe that the Company and the Subsidiary identified in [Note 31](#) to the financial statements, will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee between the Company and the Subsidiary. ASIC CI 2016/785

On behalf of the Board

Frank Canuck

Frank Canuck
Director
Sydney

6 February 2023

CA 295(5Xc)

CA 295(5Xb)

Appendix 1 - Consolidated statement of profit or loss and other comprehensive income (example of a single statement)

for the year ended 31 December 2022

Commentary

The Group presents the statement of profit or loss and statement of comprehensive income in two separate statements. For illustrative purposes, the statement of profit or loss and other comprehensive is presented as a single statement in this Appendix.

		2022	2021	
		\$000	\$000	
	Note		Restated (Note 2.5)	
Continuing operations				AASB 1060.25(b)(i), 28, 29, 49(a), 51
Revenue from contracts with customers	4	179,058	159,088	
Rental income from investment properties	16, 18	1,404	1,377	
Revenue		180,462	160,465	AASB 1060.92
Cost of sales	14	(136,569)	(128,386)	AASB 1060.52(a)
Gross profit		43,893	32,079	AASB 1060.58(b)
Selling and distribution expenses		(14,001)	(12,964)	AASB 1060.58(b)
Administrative expenses		(18,290)	(12,011)	AASB 1060.58(b)
Other operating income	9.1	2,435	2,548	
Other operating expenses	9.2	(2,554)	(353)	
Operating profit		11,483	9,299	
Finance costs	9.3	(1,366)	(1,268)	AASB 1060.52(b)
Finance income		202	145	AASB 1060.119(b)
Share of profit of an associate and a joint venture	7, 8	671	638	AASB 1060.52(c)
Other income	9.4	98	66	
Profit before tax from continuing operations		11,088	8,880	
Income tax expense	11	(3,092)	(2,233)	AASB 1060.52(d)
Profit for the year from continuing operations		7,996	6,647	
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	10	220	(188)	AASB 1060.52(e)
Profit for the year		8,216	6,459	AASB 1060.52(f)
Other comprehensive income				
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>				
Net gain on hedge of net investment	15.3	278	–	AASB 1060.52(g)(ii)
Exchange differences on translation of foreign operations		(246)	(117)	AASB 1060.180(b)
Net gain/(loss) on cash flow hedges	15.3	(883)	34	
Net change in costs of hedging	15.3	(32)	–	
Net loss on debt instruments at fair value through OCI		(21)	(1)	
Share of other comprehensive loss of an associate		(30)	–	AASB 1060.52(h)
Income tax effect relating to the components of OCI	11	198	(10)	
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		(736)	(94)	

Appendix 1 - Consolidated statement of profit or loss and other comprehensive income (example of a single statement)

		2022	2021	
		\$000	\$000	
	Note		Restated (Note 2.5)	
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>				
				AASB 1060.52(g)(i)
Net gain/(loss) on equity instruments designated at fair value through OCI		(26)	10	AASB 1060.119(a)(v)
Remeasurement gain/(loss) on defined benefit plans	22	367	(390)	
Revaluation of office properties in Australia	17	846	–	
Share of other comprehensive income of an associate		30	–	AASB 1060.52(h)
Income tax effect relating to the components of OCI	11	(356)	114	
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods		861	(266)	
Other comprehensive income/(loss) for the year, net of tax		125	(360)	
Total comprehensive income for the year, net of tax		8,355	6,099	AASB 1060.52(i)
Profit attributable to:				
Equity holders of the parent		7,942	6,220	AASB 1060.53(a)(ii)
Non-controlling interests		288	239	AASB 1060.53(a)(i)
		8,230	6,459	
Total comprehensive income attributable to:				
Equity holders of the parent		8,067	5,860	AASB 1060.53(b)(ii)
Non-controlling interests		288	239	AASB 1060.53(b)(i)
		8,341	6,099	

Appendix 2 - Consolidated statement of profit or loss (example of expenses disclosed by nature)

for the year ended 31 December 2022

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.

		2022	2021	
	Note	\$000	\$000	
			Restated (Note 2.5)	
Continuing operations				
Revenue from contracts with customers	4	179,058	159,088	
Rental income	16, 18	1,404	1,377	
Revenue		180,462	160,465	AASB 1060.25(b)(ii), 28, 29, 49(b)
Changes in inventories of finished goods and work in progress		(1,133)	(3,342)	AASB 1060.52(a), 54
Raw materials and consumables used		(129,422)	(116,900)	AASB 1060.58(a)
Employee benefits expense		(33,749)	(29,151)	
Depreciation and amortisation	17, 18, 19	(4,356)	(3,667)	
Impairment of non-current assets	19	(200)	(301)	
Other operating income	9.1	2,435	2,548	
Other operating expenses	9.2	(2,554)	(353)	
Finance costs	9.3	(1,366)	(1,268)	AASB 1060.52(b), 54
Finance income		202	145	AASB 1060.119(b)
Share of profit of an associate and a joint venture	7, 8	671	638	AASB 1060.52(c), 54
Other income	9.4	98	66	
Profit before tax from continuing operations		11,088	8,880	
Income tax expense	11	(3,092)	(2,233)	AASB 1060.52(d), 54
Profit for the year from continuing operations		7,996	6,647	
Discontinued operations				
Profit/(loss) after tax for the year from discontinued operations	10	220	(188)	AASB 1060.52(e), 54
Profit for the year		8,216	6,459	AASB 1060.52(f), 54

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Appendix 3 - Statement of income and retained earnings

for the year ended 31 December 2022

Commentary

The Group presents separately a statement of comprehensive income and a statement of changes in equity. For illustrative purposes, a single statement of income and retained earnings is presented in this Appendix. If the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity as permitted by AASB 1060.26.

The items and figures presented below are for illustrative purposes only and do not necessarily relate to the items and figures presented in the primary financial statements.

AASB 1060.26,
28, 29 62

	<u>2022</u>	<u>2021</u>	
	<u>\$000</u>	<u>\$000</u>	
		Restated	
		(Note 2.5)	
Continuing operations			
Revenue from contracts with customers	89,529	80,818	
Rental income	702	689	
Revenue	90,231	81,507	AASB 1060.52(a)
Cost of sales	(68,275)	(64,193)	AASB 1060.58(b)
Gross profit	21,956	17,314	
Selling and distribution expenses	(7,001)	(6,482)	AASB 1060.58(b)
Administrative expenses	(9,145)	(6,006)	AASB 1060.58(b)
Other operating income	1,218	1,274	
Other operating expenses	(1,277)	(177)	
Operating profit	5,751	5,923	
Finance costs	(683)	(634)	AASB 1060.52(b)
Finance income	101	73	AASB 1060.119(b)
Share of profit of an associate and a joint venture	336	319	AASB 1060.52(c)
Other income	49	33	
Profit before tax	5,554	5,714	
Income tax expense	(1,549)	(1,117)	AASB 1060.52(d)
Profit for the year from continuing operations	4,005	4,597	
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	110	(94)	AASB 1060.52(e)
Profit for the year	4,115	4,503	AASB 1060.27, 52(i)
Retained earnings at start of year	14,494	11,141	AASB 1060.63(a)
Adjustment on correction of error (net of tax)	-	(350)	AASB 1060.63(c)
Dividends	(1,195)	(800)	AASB 1060.63(b)
Retained earnings at end of year	17,414	14,494	AASB 1060.61(c), 63(e)

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Appendix 4 - Consolidated statement of cash flows (example of the indirect method)

for the year ended 31 December 2022

Commentary

AASB 1060.70 allows entities to report cash flows from operating activities using either the direct or indirect methods. The Group presents cash flows using the direct method. For illustrative purposes, the statement of cash flows prepared using the indirect method for operating activities is presented in this Appendix.

		2022	2021	
		\$000	\$000	
	Note		Restated (Note 2.5)	
Operating activities				AASB 1060.25(d), 28, 29, 66
Profit before tax from continuing operations		11,088	8,880	
Profit/(loss) before tax from discontinued operations	10	213	(193)	AASB 1060.70(a), 92
Profit before tax		11,301	8,687	
Adjustments to reconcile profit before tax to net cash flows:				AASB 1060.71(b)
Depreciation and impairment of property, plant and equipment and right-of-use assets	17, 18	4,341	3,794	
Amortisation and impairment of intangible assets	19	325	174	
Equipment received from customers		(190)	(150)	
Share-based payment expense	25	412	492	
Decrease in fair value of investment properties	16	306	300	
Net foreign exchange differences		(365)	(240)	AASB 1060.81
Gain on disposal of property, plant and equipment		(532)	(2,007)	AASB 1060.71(c)
Fair value adjustment of a contingent consideration	6	358	-	
Finance income		(202)	(145)	
Finance costs	9.3	1,366	1,268	
Other income	9.4	(98)	(66)	
Net loss on derivative instruments at fair value through profit or loss	9.1, 9.2	652	-	
Share of profit of an associate and a joint venture	7, 8	(671)	(638)	
Movements in provisions, pensions and government grants		(815)	(65)	AASB 1060.71(c)
Working capital changes:				AASB 1060.71(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	AASB 1060.82
Interest paid		(1,067)	(1,173)	AASB 1060.82
Income tax paid		(2,935)	(3,999)	AASB 1060.85
Net cash flows from operating activities		10,974	12,525	
Investing activities				AASB 1060.68, 74
Proceeds from sale of property, plant and equipment		1,990	2,319	
Purchase of property, plant and equipment	17	(10,167)	(7,581)	
Purchase of investment properties	16	(1,216)	(1,192)	
Purchase of financial instruments		(272)	(225)	
Proceeds from sale of financial instruments		328	145	
Development expenditures	19	(587)	(390)	
Acquisition of a subsidiary, net of cash acquired	6	230	(1,450)	
Receipt of government grants	23	2,951	642	
Net cash flows used in investing activities		(6,743)	(7,732)	

Appendix 4 - Consolidated statement of cash flows (example of the indirect method)

	2022	2021	
	\$000	\$000	
	Note		
Financing activities			AASB 1060.69, 74
Proceeds from exercise of share options	175	200	
Acquisition of non-controlling interests	(325)	–	
Transaction costs on issue of shares	(32)	–	
Payment of principal portion of lease liabilities	(406)	(341)	
Proceeds from borrowings	5,649	4,871	
Repayment of borrowings	(2,032)	(4,250)	
Dividends paid to equity holders of the parent	(1,979)	(1,600)	AASB 1060.82
Dividends paid to non-controlling interests	(30)	(49)	
Net cash flows from/(used in) financing activities	1,020	(1,169)	
Net increase in cash and cash equivalents	5,2511	3,624	
Net foreign exchange difference	339	326	AASB 1060.81
Cash and cash equivalents at 1 January	12,266	8,316	
Cash and cash equivalents at 31 December	12	12,266	

Commentary

The Group has reconciled profit before tax to net cash flows from operating activities. However, reconciliation from profit after tax is also acceptable.

AASB 1060.83 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.

Certain working capital adjustments and other adjustments included in the statement of cash flows, reflect the change in balances between 2022 and 2021, including the 2022 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'.

Appendix 5 - Revised differential reporting framework

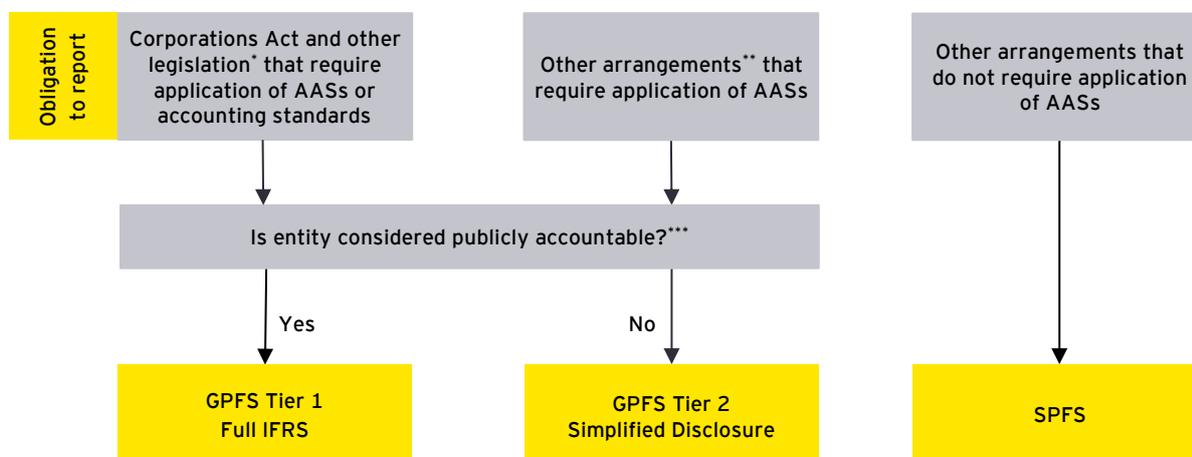
Tiers of Australian Accounting Standards

In March 2020, the AASB completed its reporting framework reform for for-profit private sector entities which will result in certain companies no longer being permitted to prepare SPFS and replacing RDR with SDS for GPFS (Tier 2) reports. The changes became mandatory for annual periods beginning on or after 1 July 2021, and from this point AASB 1053 *Application of Tiers of Australian Accounting Standards* creates two tiers of reporting requirements for preparing general purpose financial statements (GPFS):

- ▶ Tier 1: Australian Accounting Standards, incorporating IFRS issued by the IASB and includes requirements that are specific to Australian entities
- ▶ Tier 2: Australian Accounting Standards - Simplified Disclosures. The disclosures are set out in one standard, AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

Tier 2 comprises the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. The presentation requirements for the financial statements under SDS are the same as Tier 1, except for two matters. SDS does not require a third statement of financial position in circumstances required by Tier 1. Further, SDS gives a choice of presenting a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity if the only changes to equity arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies.

Below is a diagram that shows the application of the tiers of financial reporting for for-profit private sector entities under the revised AAS:



* Includes Commonwealth, State and Territory legislation

** When preparing financial reports according to AAS by other than legislation (e.g., constitution, trust deed), only if document is created or amended (for any reason) on or after 1 July 2021. Those created before 1 July 2021 are grandfathered to be permitted to prepare special purpose financial statements

*** An entity that is not publicly accountable has the option to use either Tier 1 or Tier 2 reporting requirements in preparing general purpose financial statements

For-profit public sector entities and not for-profit entities preparing GPFS (Tier 2) will also need to transition to SDS from 1 July 2021.

Appendix 5 - Revised differential reporting framework

Transitioning of GPFS (Tier 2) reports from RDR to SDS requirements

Entities that have previously prepared GPFS (Tier 2) reports complying with RDR will already be complying with all the recognition and measurement requirements (R&M) of AAS. Therefore, transition will only require consideration of the changes in disclosure.

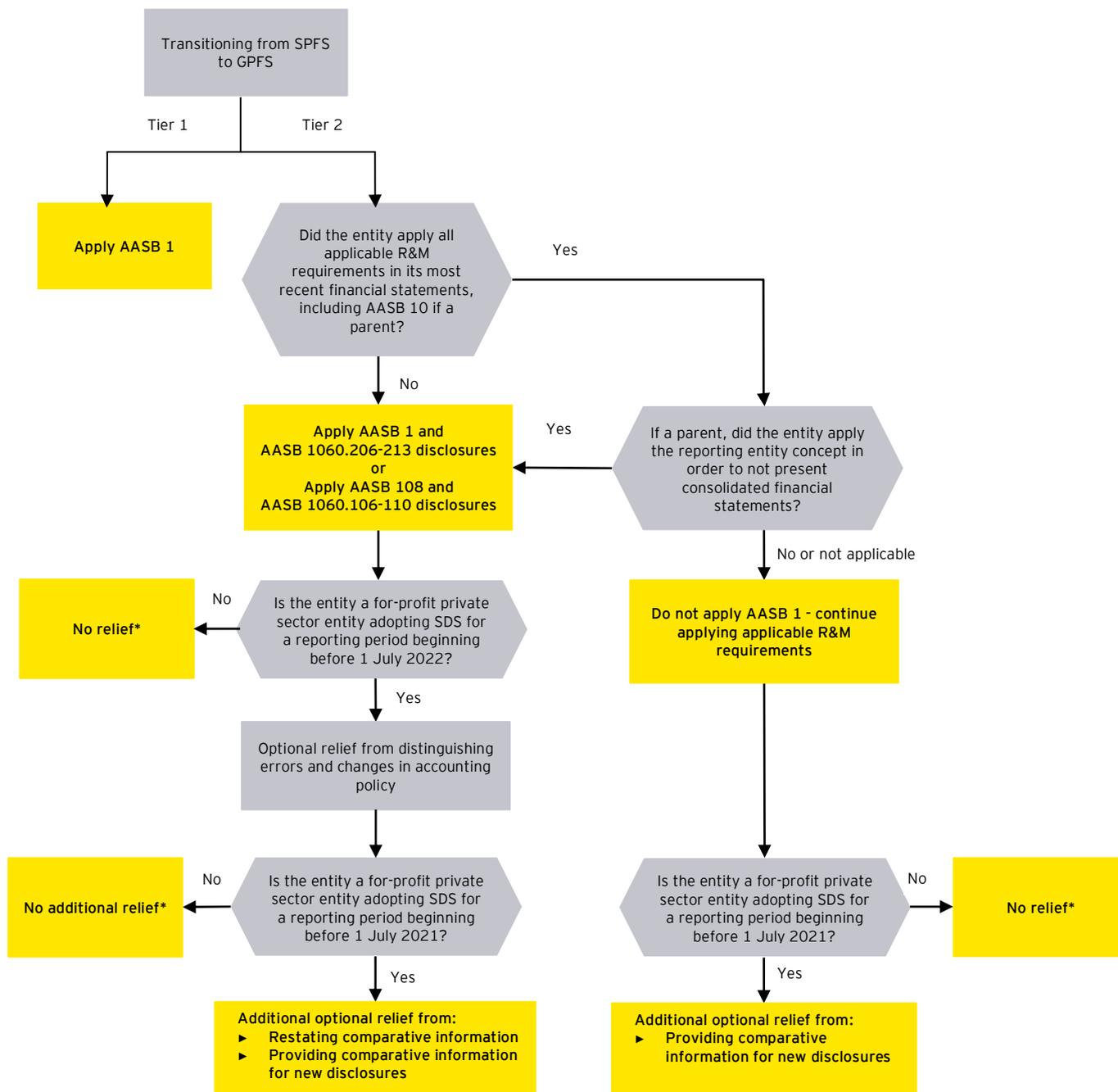
In addition, an entity can no longer prepare only stand-alone GPFS where it is the ultimate Australian parent and was previously a non-reporting entity (as the exemption from preparing consolidated financial statements has been revised to no longer link to the reporting entity definition). In such instances (where the ultimate Australian parent must now prepare consolidated financial statements), it will be considered a first-time adopter for its consolidated financial statements and the entity has the choice of applying AASB 1 *First-time Adoption of Australian Accounting Standards* or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix 5 - Revised differential reporting framework

Transitioning from SPFS to GPFS (Tier 2) reporting requirements

For entities that have been preparing SPFS, an assessment of the extent of the entity's compliance with all recognition and measurement requirements (including consolidation) of AASs will need to be made before any transition to GPFS is made.

For-profit entities transitioning from SPFS to GPFS (Tier 2) reporting requirements for the first-time should refer to the following decision tree to determine the basis on which any changes to accounting policies should be recognised and other relief that may be available:



* AASB 1060.B1 provides optional relief from presenting comparative information for new disclosures for not-for-profit entities transitioning early from either GPFS (Tier 1) or GPFS (Tier 2) RDR to SDS

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Appendix 5 - Revised differential reporting framework

As noted above, when preparing a GPFS (Tier 2) report that applies SDS for the first time, an entity that has not previously complied with the recognition and measurement requirements of AASs (including consolidation) in full may adopt SDS through application of either AASB 1 or AASB 108. Below is a comparison of the two approaches:

AASB 1	AASB 108
Overview	
<p>The fundamental principle of AASB 1 is to require full retrospective application of the standards in force at the end of an entity's first full AAS reporting period, but with limited exceptions for the opening restated statement of financial position. AASB 1 requires a first-time adopter to use the same accounting policies in its opening restated statement of financial position and for all periods presented in its first full AAS financial statements. Retrospective application has its challenges and as a consequence when AASB 1 was developed a number of mandatory and voluntary exemptions were introduced to assist in the adoption of full AAS.</p> <p>The requirement to apply the same accounting policies to all periods also prohibits a first-time adopter from applying previous versions of standards that were effective at earlier dates. Unless the exceptions apply, in preparing its opening restated statement of financial position, an entity should:</p> <ol style="list-style-type: none"> Recognise all assets and liabilities if recognition is required by full AAS Not recognise assets or liabilities if full AAS do not permit it Reclassify items recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with full AAS Measure all recognised assets and liabilities by applying full AAS 	<p>If an entity chooses not to apply AASB 1, it must retrospectively restate its financial statements in accordance with AASB 108 as if it always applied the recognition and measurement requirements of AAS. AASB 108 generally requires a change in accounting policy to be applied retrospectively, that is applied to transactions, other events and conditions as if it had always been applied, unless the change in accounting policy arises from the initial application of a Standard that contains specific transitional provisions or retrospective application is impracticable.</p> <p>Similarly, errors should be retrospectively corrected unless impracticable.</p>
Commentary	
<p>The retrospective application requirements of AASB 108 may be challenging (and hence not an option) where an entity has not maintained compliance with the recognition and measurement requirements of AAS and retrospective application of Standards requires information potentially not obtained at the time the transaction occurred. In addition, if an entity adopted AASB 1 back in 2005 when Australia first transitioned to IFRS and applied exemptions from retrospective application, it may be difficult to retrospectively apply today. However, where an entity has been complying with the recognition and measurement requirements of all AAS, then transitions may simply require an increase in disclosures.</p>	
Relief available when preparing a GPFS (Tier 2) report that applies SDS prior to 1 July 2022	
Relief from distinguishing correction of errors and changes in accounting policies (<i>applies only to for-profit private sector entities</i>)	Same as AASB 1
Relief available when preparing a GPFS (Tier 2) report that applies SDS prior to 1 July 2021	
<i>For-profit private sector entities</i>	<i>For-profit private sector entities</i>
Relief from:	Relief from presenting comparative information not disclosed in the notes of the previous financial statements
<ul style="list-style-type: none"> ▶ Presenting comparative information not disclosed in the notes of the previous financial statements ▶ Relief from restating comparative information 	<i>Not-for-profit entities</i>
<i>Not-for-profit entities</i>	Relief from presenting comparative information not disclosed in the notes of the previous GPFS
Relief from presenting comparative information not disclosed in the notes of the previous GPFS	

Appendix 6 - Illustrative transition disclosures when moving from SPFS to SDS in the current year

Commentary

For the Group this is not the first-year of adoption SDS. For illustrative purposes, this Appendix presents illustrative transition disclosures where recognition and measurements adjustments were required based on the following scenarios.

Scenario 1: The entity previously prepared SPFS and adopts SDS through application of AASB 1.

Scenario 2: Same as Scenario 1, except that the adoption was made through application of AASB 108.

Scenario 1: The entity previously prepared SPFS and adopts SDS through application of AASB 1

xx. Explanation of transition to SDS

Commentary

This note to the financial statements illustrates one way in which an entity might choose to set out an explanation of its transition to Australian Accounting Standards. This example is not intended to, and does not, illustrate every potential first-time adoption adjustment that entities may have to disclose.

On transition to SDS, an entity is required to provide certain reconciliations from its previously reported financial information to that recognised on transition. Adopting SDS before 1 July 2022 allows an entity to not distinguish errors from changes in accounting policy. This scenario assumes such relief has been applied. Should an entity transition to SDS on or after 1 July 2022 this relief is no longer be available and an entity applying AASB 1 would have to clearly distinguish those adjustments arising from changes in accounting policy from any adjustments arising from the correction of errors made in its most recent SPFS.

These general purpose financial statements for the year ended 31 December 2022, are the first the Group has prepared complying with *Australian Accounting Standards - Simplified Disclosures*. The Group has availed itself of the relief from distinguishing corrections of errors from changes in accounting policies, as permitted by AASB 1053 *Application of Tiers of Australian Accounting Standards*. The Group has been preparing special purpose financial statements for periods up to and including the year ended 31 December 2021.

AASB 1053.E2

The Group changed its accounting policies on 1 January 2022 to comply with SDS. The transition is accounted for in accordance with AASB 1 *First-time Adoption of Australian Accounting Standards*, with 1 January 2021 as the date of transition. An explanation of how the transition from previous SPFS to a GPFS (Tier 2) report complying with SDS has affected its reported financial position, financial performance and cash flows of the Group is set out in this note.

AASB 1060.208

Consolidation

Historically, the Group has prepared separate special purpose financial statements on the basis that the Group was not considered a reporting entity and therefore did not consolidate its subsidiaries. To determine the consolidated opening balances as at 1 January 2021, the Group has applied the relief in AASB 1 and has elected to not retrospectively apply AASB 3 Business Combinations on business combinations that occurred prior to 1 January 2021. Instead the Group has recognised the subsidiaries' assets and liabilities in the consolidated financial statements at the amounts recognised in the subsidiaries' financial statements and the deemed cost of goodwill has been recognised as the difference between:

AASB 1060.210(a)

- i. the parent's interest in those carrying amounts; and
- ii. the cost in the parent's separate financial statements of its investment in the subsidiaries.

To the extent a subsidiary's net assets exceeds the carrying amount of the investment, an adjustment has been recognised in retained earnings.

Annual leave

Historically, annual leave was recognised at the amounts expected to be paid to settle the obligation including associated on-costs. Under AAS, where this amount is not expected to be settled within one year it has been discounted to its present value using a high-quality corporate bond rate.

Appendix 6 - Illustrative transition disclosures when moving from SPFS to SDS in the current year

xx. Explanation of transition to SDS *continued*

Leases

Historically, the Group did not adopt AASB 16 *Leases* but continued to apply AASB 117 *Leases* and as a consequence many operating leases remained off balance sheet. Under AASB 16, the Group must apply 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 therefore has recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The following adjustments were recognised in equity as a result of the transition from special purpose financial statements to general purpose financial statements:

AASB 1060.210(b)(i)(ii)

	2021	2020
	\$000	\$000
Equity as reported in the SPFS as at 31 December	XXX	XXX
Consolidation	XXX	XXX
Annual leave	XXX	XXX
Leases	XXX	XXX
Deferred tax	XXX	XXX
Consolidated equity as at 1 January	XXX	XXX

Reconciliation of profit and loss

The following adjustments were recognised in profit or loss as a result of the transition from special purpose financial statements to general purpose financial statements:

AASB 1060.210(c)

	\$000
Profit or loss reported in the SPFS for the year-ended 31 December 2021	XXX
Consolidation	XXX
Annual leave	XXX
Leases	XXX
Deferred tax	XXX
Consolidated profit or loss for the year-ended 31 December 2021	XXX

Appendix 6 - Illustrative transition disclosures when moving from SPFS to SDS in the current year

Scenario 2: The entity previously prepared SPFS and adopts SDS through application of AASB 108

xx. Explanation of transition to SDS

These general purpose financial statements for the year ended 31 December 2022, are the first the Group has prepared complying with *Australian Accounting Standards - Simplified Disclosures*. The Group has availed itself of the relief from distinguishing corrections of errors from changes in accounting policies, as permitted by AASB 1053 *Application of Tiers of Australian Accounting Standards*. The Group has been preparing special purpose financial statements for periods up to and including the year ended 31 December 2021.

AASB 1053.E2

The Group changed its accounting policy for inventories when complying with SDS due to the requirements of AASB 102 *Inventories*. Specifically, the Group now includes in the cost of inventories a portion of allocated fixed production overhead such as depreciation of factory buildings, equipment and right-of-use assets used in the production. Such policy change was applied retrospectively. The effect of the change in accounting policy is presented below:

AASB 1060.106(a)

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

AASB 1060.106(b),
106(c)

	<u>31 December 2021</u>	<u>1 January 2021</u>
	\$000	\$000
Assets		
Inventories	XXX	XXX
Equity		
Retained earnings	XXX	XXX
Non-controlling interests	XXX	XXX
Liabilities		
Income tax payable	XXX	XXX

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

	<u>2022</u>
	\$000
Cost of sales	XXX
Income tax expense	XXX
Profit for the period	XXX
Attributable to:	
Equity holders of the parent	XXX
Non-controlling interests	XXX

Appendix 7 - Illustrative transition disclosures when moving from RDR to SDS in the current year

2.1 Basis of preparation

These general purpose financial statements have been prepared in compliance with the requirements of the *Corporations Act 2001* and *Australian Accounting Standards - Simplified Disclosures*. The Group is a for-profit entity for the purposes of preparing these consolidated financial statements.

AASB 1060.10, 11(a),
11(b)

The Group has adopted AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* in the current year. Other than the change in disclosure requirements, the adoption of AASB 1060 has no significant impact on the consolidated financial statements because the Group's previous consolidated financial statements complied with *Australian Accounting Standards - Reduced Disclosure Requirements*.

Commentary

To the extent RDR consolidated financial statements were not prepared due to the application of the reporting entity concept, additional transitional disclosures will be required. See [Appendix 6](#) for illustrative disclosures.

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Appendix 8 - Agriculture disclosures

Commentary

Quality Holdings (Australian SDS) Pty Ltd and its subsidiaries are not involved in agricultural activities and, therefore, do not have biological assets. This Appendix was created to illustrate disclosures for biological assets, including bearer plants, as required by AASB 1060. This illustration considers the management of vineyards, to grow grapes that are to be used in the production of wine.

Consolidated statement of financial position (extract) as at 31 December 2022

	Notes	2022 \$000	2021 \$000	AASB 1060.25(ai), 28, 29
Assets				AASB 1060.92
Non-current assets				
Property, plant and equipment	17	74,799	61,499	AASB 1060.35(e)
...				
Current assets				
Biological assets - grapes growing on the vine	32	8,770	7,240	AASB 1060.35(h)
...				

Commentary

...

AASB 1060.35 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 AASB 102 but is not required to be disclosed separately on the face of the statement of financial position.

In accordance with AASB 1060.37, 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.

AASB 1060 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. AASB 1060 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 profit or loss and comprehensive income or to the statement of changes in equity. While an entity may elect to present additional line items in profit or loss, the additional line items have been presented by the Group in the notes to the financial statements. No additional line items were needed in the statement of changes in equity.

Appendix 8 - Agriculture disclosures

Consolidated statement of financial position (extract) for the year ended 31 December 2022

AASB 1060.25(d),
28, 29, 66

	Notes	2022 \$000	2021 \$000
Investing activities			
...			
Development of new vineyards	17	5,500	500
Additions to vineyard improvements	17	1,000	-

AASB 1060.68, 74

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.

Where a statement of cash flows has presented cash flows from operating activities using the indirect method as illustrated in Appendix 4 the adjustments to reconcile profit before tax to net cash flows may include:

- ▶ Depreciation vineyard improvements
- ▶ Depreciation mature grape vines
- ▶ (Increase)/decrease in fair value of grapes growing on the vine

Appendix 8 - Agriculture disclosures

2. Significant accounting policies (extract)

2.3 Summary of significant accounting policies (extract)

AASB 1060.25(e)

k. Property, plant and equipment (extract)

...

AASB 1060.134(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 \(extract\)](#)).

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 AASB 116, 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 AASB 116.39, a revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, in accordance with AASB 116.40, 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 AASB 116.41, 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 [Note 17](#) and [21](#) for illustrative disclosures for revaluations and for decommissioning liabilities that may be related to property, plant and equipment.

AASB 116.16(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.

Depreciation commences when the grape vines are considered mature, which is when they produce their first commercially viable crop.

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

AASB 1060.134(b),
134(c)

...

- ▶ Mature grape vines 20 to 25 years
- ▶ Vineyard improvements 15 to 20 years

...

ab. Biological assets

Grapes growing on vines are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition and at the end of 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.

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.

Methods used to measure fair value less costs to sell are provided in [Note 3](#) (extract). Key assumptions used to determine the fair value of biological assets are provided in [Note 32](#) (extract).

AASB 1060.204(b)

Appendix 8 - Agriculture disclosures

2.3 Summary of significant accounting policies (extract) continued

ab. Biological assets continued

Commentary

The processing of agricultural produce *after* the point of harvest is not within the scope of AASB 141. For example, the processing of grapes into wine is not included within the definition of agricultural activity in the standard. Instead, AASB 102 (or another applicable standard) is applied. If AASB 102 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 AASB 141), which becomes its cost for AASB 102 purposes.

This appendix does not illustrate disclosures that may be relevant for agricultural produce after the point of harvest. Refer to [Note 14](#) for disclosures of inventories.

The Group does not hold any biological assets for which fair value could not be reliably measured.

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 together with 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.

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:

...

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.

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

...

AASB 116.16(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 AASB 116.31-42 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.

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.

Appendix 8 - Agriculture disclosures

3. Significant accounting judgements, estimates and assumptions (extract) *continued*

Under AASB 141, 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, AASB 141.30 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.

AASB 141 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 AASB 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 (AASB 141.3). 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 (AASB 141.31).

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. However, existing circumstances and assumptions about future developments 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.

...

Fair value of biological assets

The Group carries its biological assets (grapes growing on vines) and grapes 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 yields 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 are provided in [Note 32 \(extract\)](#).

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 AASB 116 or impairment under AASB 136. Refer to [Note 10](#) and [19](#) 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 AASB 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.

AASB 1060.97

Appendix 8 - Agriculture disclosures

17. Property, plant and equipment (extract)

	Immature grape vines	Mature grape vines	Vineyard improvements	Total	AASB 1060.44(a), 134(e)
	\$000	\$000	\$000	\$000	
Cost					
At 1 January 2022	...	4,500	29,000	88,215	AASB 1060.134(d)
Additions	...	5,500	-	17,205	AASB 1060.134(e)(i)
Acquisition of a subsidiary (Note 6)	...	-	-	7,042	AASB 1060.134(e)(iii)
Disposals	...	-	-	(4,908)	AASB 1060.134(e)(viii)
Assets held for sale (Note 10)	...	-	-	(8,124)	AASB 1060.134(e)(ii)
Revaluation adjustments	...	-	-	846	AASB 1060.134(e)(iv)
Transfer	...	(5,000)	5,000	(219)	AASB 1060.134(e)(viii)
Exchange differences	...	-	-	109	AASB 1060.134(e)(viii)
At 31 December 2022	...	5,000	34,000	100,166	AASB 1060.134(d)
Depreciation and impairment	...				
At 1 January 2022	...	-	1,630	26,716	AASB 1060.134(d)
Depreciation charge for the year	...	-	1,100	5,647	AASB 1060.134(e)(vii)
Disposals	...	-	-	(3,450)	AASB 1060.134(e)(viii)
Assets held for sale (Note 10)	...	-	-	(3,377)	AASB 1060.134(e)(ii)
Transfer	...	-	-	(219)	AASB 1060.134(e)(viii)
Exchange differences	...	-	-	50	AASB 1060.134(e)(viii)
At 31 December 2022	...	-	2,730	25,367	AASB 1060.134(d)
Net book value					
At 31 December 2022	...	5,000	31,270	74,799	
At 31 December 2021	...	4,500	27,370	61,459	

...

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 [Note 17](#) for disclosures related to impairment.

Appendix 8 - Agriculture disclosures

32. Biological assets

The Group's biological assets consist of growing grapes.

AASB 1060.204(a)
AASB 1060.204(c)

	\$000
Carrying amount at 1 January 2022	7,240
Gain/(loss) from changes in fair value less costs to sell	10,050
Transfer of harvested grapes to inventories	(8,520)
Carrying amount at 31 December 2022	8,770

Commentary

AASB 1060.204(c) 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 resulting from purchases
- ▶ Decreases resulting from 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

AASB 1060.205 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
- ▶ 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

Valuation of biological assets

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.

AASB 1060.204(b)

In 2022, grape market prices ranged from \$530 to \$600 per tonne (2021: \$595 to \$650 per tonne), depending on the variety sold, current vintage and grade quality of grapes in each region. Significant assumptions applied in the fair value measurements of grapes are the following:

	2022	2021
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

For the 2023 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 10 months of the reporting date.

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App 6 Illustrative transition disclosures when moving from SP 5 to SDS early

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App 7 Illustrative transition disclosures when moving from RDR to SDS in the current year

App 8 Agriculture disclosures

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