

A GUIDE TO UNDERSTANDING ANNUAL REPORTS

NEW ZEALAND LISTED COMPANIES
AUGUST 2014

BE HEARD.
BE RECOGNISED.



CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 150,000 members of the financial, accounting and business profession in 121 countries.

ISBN: 978-1-921742-54-5

For information about CPA Australia, visit our website cpaaustralia.com.au

First published 2014

CPA Australia Ltd

ACN 008 392 452

Level 20, 28 Freshwater Place

Southbank Vic 3006

Australia

Copyright © CPA Australia Ltd 2014. CPA Australia owns all copyright in these materials or uses it under licence or applicable law. For permission to reproduce any material, a request in writing is to be made to the Legal Business Unit, CPA Australia Ltd, Level 20, 28 Freshwater Place, Southbank, Victoria 3006.

Disclaimer

CPA Australia Ltd has used reasonable care and skill in compiling the content of these materials. However, CPA Australia Ltd makes no warranty that the materials are accurate and up to date. These materials do not constitute the provision of professional advice whether legal or otherwise. Users should seek their own independent advice prior to relying on or entering into any commitment based on the materials. The materials are purely published for reference purposes alone. CPA Australia, their employees, agents and consultants exclude completely all liability to any person for loss or damage of any kind including but not limited to legal costs, indirect, special or consequential loss or damage (however caused, including by negligence) arising from or relating in any way to the materials and/or any use of the materials. Where any law prohibits the exclusion of such liability, then to the maximum extent permitted by law, CPA Australia's liability for breach of the warranty will, at CPA Australia's option, be limited to the supply of the materials again, or the payment of the cost of having them supplied again.

CONTENTS

Contributors	4
Foreword	5
A guide to understanding annual reports	6
Sample financial statements	15
CPA Silver Fern Resources Limited	16
CPA Silver Fern Resources Limited	17
CPA Silver Fern Resources Limited	18
CPA Silver Fern Resources Limited	19
Notes to the financial statements (extract)	20
Glossary	22

CONTRIBUTORS

CPA Australia acknowledges the work of the External Reporting Centre of Excellence.

EXTERNAL REPORTING CENTRE OF EXCELLENCE

David Hardidge FCPA	Chairman
Indra Abeysekera CPA	
Tong-Gunn Chew FCPA	
Ric De Santi FCPA	
Thomas Egan FCPA	
Amir Ghandar CPA	Technical Support
Piotr Jakubicki CPA	
Alan Lee CPA	
Jeffrey Luckins CPA	
Carmen Ridley	
Mark Shying CPA	Technical Support
Julie Sinclair FCPA	
Ram Subramanian	Technical Support

The Guide has benefited from the work of Staples Rodway. Staples Rodway is a national association of independent practices, with firms in Auckland, Hamilton, Taranaki, Hawkes Bay, Tauranga, Wellington and Christchurch. All Staples Rodway firms are full-service audit, accounting, tax and business advisory firms. Firms within the network also offer specialist services, including valuation, corporate finance and insolvency. Staples Rodway is an independent member of Baker Tilly International.

FOREWORD

Existing and prospective shareholders are entitled to information about the financial performance and state of affairs of the listed company in which they have invested or may invest. The company annual report is one important source of that information. Analysts and media commentaries are others. However, the annual report is only useful to those who can understand and interpret the messages conveyed.

A guide to understanding annual reports: New Zealand listed companies has been written to assist existing and prospective shareholders and other providers of capital without expertise in accounting to further their understanding of the annual report of a listed company. The Guide should assist shareholders and other providers of capital who are not literate in accounting standards to interpret financial statements and therefore to be able to make better use of them.

The Guide is an initiative of the External Reporting Centre of Excellence of CPA Australia and has benefited from the work of Staples Rodway of New Zealand. I congratulate them both on their contribution to a CPA Australia publication that has an important role to play in the promotion of improved financial literacy.

Alex Malley FCPA
Chief Executive
CPA Australia Ltd

A GUIDE TO UNDERSTANDING ANNUAL REPORTS

WHAT IS AN ANNUAL REPORT?

The annual report comprises information about the company, and some commentators believe that it is the primary source of information about a company's activities and strategies.

Information found in the annual report includes material framed by statutory and regulatory requirements articulated in the *Companies Act 1993*, the *Financial Reporting Act 1993* and the *New Zealand Exchange (NZX) listing rules*, including:

- the directors' report
- the financial report
- the auditor's report on the financial report

Additional non-compulsory reporting which supports good corporate governance is normally reflected in reports from the chairman and the chief executive of the company. The emergence of **corporate social responsibility** and **sustainability reports** are further examples of the non-compulsory reporting which companies are choosing to provide shareholders with to enhance market knowledge and understanding of their strategies and performance operating the business.

WHAT IS A DIRECTORS' REPORT?

The directors' report of a **listed company** is required to contain information that shareholders of the company would reasonably require to make an informed assessment of:

- the operations of the company reported on
- the financial position of that company

This information is complemented by, to the extent that it will not be harmful to the business of the company or of any of its subsidiaries, details of any change during the reporting period in the nature the business of the company or any of its subsidiaries, or the classes of business in which the company has an interest.

The report by the directors will identify the names of the directors and is required to contain information about director and employee **remuneration** (for employees earning over \$100,000, with information on employees provided in remuneration bands, rather than in relation to individual employees. The financial statements also include: information about the cost to the company of providing **key management personnel** with short-term employee benefits, post-employment benefits, other long-term employee benefits, termination benefits and **share-based payment arrangements**.

The annual report of a listed company must also include information on large holders of equity securities, directors' equity investments in the company and the names of the directors who are independent.

Listed companies are also required to provide a statement of the corporate governance policies, practices and processes that they have adopted, and are required to state whether and, if so, how the company's corporate governance principles materially differ from the Corporate Governance Best Practice Code, which is published in the **NZX listing rules** (or provide a clear reference to where such a statement may be found on the company's public website).

WHAT IS A FINANCIAL REPORT?

The financial report provides people who are interested in a company – such as shareholders, lenders, analysts and employees – with information about the financial performance and financial position of the company. It is one means by which directors of the company advise shareholders on how the business has performed during the year. The financial report also provides information to shareholders on how the directors have discharged their responsibilities.

Financial reports consist of four primary financial statements for the current financial period and the comparative previous financial period and the notes to the financial statements.

The four primary financial statements are:

- a statement of comprehensive income
- a statement of financial position
- a statement of changes in **equity**
- a statement of cash flows

Financial statements present information relevant to the current financial period and comparative figures for the previous year to illustrate how the financial performance and position of the company have changed.

The notes in the financial report explain the accounting policies used in its preparation, and provide additional information on many of the amounts.

The notes also provide financial information which is not contained in the primary financial statements, such as information about the uncertainties facing the company that meet the definition of **contingent liabilities** and leasing commitments.

Later in this Guide we illustrate the possible form and content of the four financial statements and some notes by providing the partial financial report of a fictitious New Zealand listed gold mining company, CPA Silver Fern Resources Ltd.

The financial statements must be signed by two directors.

WHAT IS THE AUDIT REPORT?

Auditors are independent accountants appointed by shareholders to provide an independent opinion on the financial report prepared by the directors.¹ The audit report includes the auditor's opinion on whether the financial statements comply with generally accepted accounting practice in New Zealand, comply with International Financial Reporting Standards and give a true and fair view of the financial position as at the balance date and a true and fair view of the financial performance and cash flows of the company for the year ended on the balance date.

The audit report will also state whether the auditor has been able to obtain all the information and explanations that she/he has required and whether, in the auditor's opinion, proper accounting records have been kept by the company.

The audit report provides the reader with added assurance of an independent opinion on the information contained in the financial report, but it does not guarantee the accuracy of the financial information, or the continued viability of the company. Further, the auditing framework is designed to enable auditors to make an assessment that is based on a number of factors, including materiality.

The auditor will issue a **modified opinion** when they are of the opinion that the financial report does not present a true and fair view, or is not in accordance with generally accepted accounting practice in New Zealand or International Financial Reporting Standards, or does not give a true and fair view of the financial position of the company as at the balance date and a true and fair view of the financial performance and cash flows of the company for the year ended on the balance date. Their modified opinions will identify the shortcomings of the relevant report.

In addition, **emphasis of matter** paragraphs (which draw attention to information within the financial statements that is important to the reader) and other matter paragraphs will be included in the audit report in certain circumstances.

¹ The other information that forms the directors' report along with the directors' report itself are not subjected to a report from the auditor.

WHAT DO THE FOUR PRIMARY FINANCIAL STATEMENTS SHOW?

The primary purpose of financial statements is to aid current and prospective shareholders and other providers of capital in their resource-allocation decisions.

The statement of comprehensive income provides a complete picture of company performance by reporting the total monetary measure of all events that have changed the value of an owner's interest in the company, other than those events with owners when acting in their capacity as owners. The statement of financial position shows the monetary measure of all the resources controlled by a company and all the obligations due by the company at one point in time classified as current or non-current or in order of **liquidity**. The statement of changes in equity reports all changes to equity during the financial period. The statement of cash flows shows the historical cash inflows and outflows for the financial period from operating, investing and financing activities. The content of the four statements is supported by notes.

Financial statements are prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards and other Financial Reporting Standards issued by the New Zealand Accounting Standards Board of the External Reporting Board. The standards and interpretations provide the principles to follow when accounting for and disclosing transactions and events.

WHY IS THE STATEMENT OF COMPREHENSIVE INCOME DIFFERENT FROM THE STATEMENT OF CASH FLOWS?

Companies prepare their financial statements using the accrual basis of accounting. This means the financial effect of a transaction is recorded in the financial statements when the transaction occurs. This may be different from when the cash relating to the transaction is received or paid. For example, our fictitious mining company CPA Silver Fern Resources Ltd may have entered into a contract to sell gold, and will recognise the sale proceeds as **revenue** when the customer has taken delivery of the gold, the risks and rewards are transferred to the customer and there is a valid sales contract. However, the cash may not be received until later, which may be after the end of the financial year. Thus, the sale will be included in the statement of comprehensive income for the year and a receivable recognised in the statement of financial position. However, as no cash has changed hands, the proceeds will not be reflected in the statement of cash flows until the next year.

WHY ARE THE FIGURES IN A FINANCIAL STATEMENT SOMETIMES SUBJECT TO DISPUTES AND DISAGREEMENTS?

Financial statements portray the financial effects of what are often complex commercial transactions, and judgement may be required to determine how some transactions and events are to be represented. Accounting standards play an important part in ensuring that similar transactions are treated in a similar manner. However, a principles-based approach to setting accounting standards means that accounting rules are not written to cover all situations. Therefore, professional judgement may be needed when interpreting and applying an accounting standard.

Returning to the CPA Silver Fern example, the monetary amount shown as exploration expenditure in the statement of financial position is the cost that directors estimate will be recovered in future financial years. The application of accounting standards means the effect of the directors' estimate is also seen in the statement of comprehensive income as an impairment expense. Judgement is frequently required in determining those monetary amounts and directors will often make use of an external valuation expert.

Directors are also required to use judgement to decide how long an **asset** will remain useful and the resulting effect on **depreciation** of property, plant and equipment assets.

FEATURES OF THE FINANCIAL STATEMENTS

The performance report of CPA Silver Fern Resources Ltd uses the single statement format of the statement of comprehensive income, and will always start with revenue.²

Note 3 in the statement of comprehensive income identifies the types of revenue earned by CPA Silver Fern. Accounting standards require that the **expenses** present finance costs and tax expense separately, and the notes would contain further information on some items of expense. For some expenses, the accounting standards allow the company to choose between presenting the information in the statement of comprehensive income or in the notes to the financial statements.

The statement of financial position does not purport to be a valuation of the company, rather it is the outcome of applying accounting standards. Therefore, it would be incorrect to conclude that the current monetary value of CPA Silver Fern is \$266,358,000. Some of the assets of CPA Silver Fern are adjusted for impairment (such as trade and other receivable), while other assets, for example property, plant and equipment, are presented at their cost of purchase less **accumulated depreciation**. Notes 2(a) and (e) provide some further information about the approach taken by CPA Silver Fern in the preparation of the financial statements. The accounting standards only allow the recognition of purchased **goodwill**,

² Some listed companies use the following two statements to present information about performance:

- a profit or loss statement
- a statement displaying components of other comprehensive income

Whatever the format used, the minimum information presented is that specified by the accounting standard.

whereas the goodwill a company builds up during its years of operation is not recognised on the statement of financial position.

Although CPA Silver Fern is profitable and has operated for a number of years, its statement of financial position does not include goodwill as it has not purchased other businesses.

CPA Silver Fern classifies its assets and **liabilities** presented in the statement of financial position as current or non-current.

The distinction is based on an assessment of the expected timing of recovering or settling the amounts. An item will be classified as “current” when its amount is expected to be recovered or settled no more than 12 months after the date of the report, otherwise its classification is as “non-current”.

Some companies may choose to classify their assets and liabilities only in order of liquidity and not separately presented as current or non-current.

The equity section of the CPA Silver Fern statement of financial position includes capital invested by shareholders and **accumulated profits** retained from previous years not yet paid out as dividends. For companies that adopt accounting policies different from those used by CPA Silver Fern, the equity section might include **reserves** that result from the accounting standards requirements for **asset revaluations**, the designation of financial assets as available for sale, cash flow hedges and foreign currency translations (the example does not include reserves). Some reserves are available for distribution to shareholders.

Listed companies will sometimes control other companies, while CPA Silver Fern does not. In those situations, the financial statements of the controlling company show information for the consolidated group.

The equity section of the statement of financial position would separately present equity attributed to the shareholders of the controlling company, and the non-controlling interest.

The statement of changes in equity shows the overall change in equity during a period which represents:

- the total amount of income and expenses, including gains and losses, generated by the company’s activities during that period
- the changes resulting from transactions with owners acting in their capacity as owners and associated costs. In the current financial year, CPA Silver Fern activities with its owners are the issue of new shares at \$336,000 and the payment of dividends of \$35,912,000

The statement of cash flows shows movements of cash (cash on hand and demand deposits) and cash equivalents (short-term, highly liquid investments that are readily convertible to cash). It highlights the sources and uses of cash and cash equivalents, and analyses the areas of CPA Silver Fern activity as follows:

- operating activities
- investing activities
- financing activities

The information in a statement of cash flows about cash and cash equivalents including their source can be used to assess the company’s ability to meet its financial commitments, fund its activities and generate positive cash flows in the future.

AN APPROACH TO READING FINANCIAL STATEMENTS

Financial statement reporting by listed companies is all about communicating monetary measures and supporting information to current and prospective shareholders and other providers of capital. Other stakeholders, including analysts and employees, may also be interested. Some parts of the story might be of interest to all, while other parts will be of interest to a particular group. Also, those readers planning to use the financial statements to make decisions need to be aware that a listed company's financial statements do not and cannot provide all the information they need. Analysts' reports, the financial press, and the NZX website are other sources of information to assist decision-making.

A final warning – financial statements are not designed to show the market value of the company, but they do provide information to assist shareholders, other providers of capital and others stakeholders in estimating that value.

Step 1

The importance of preparation should not be underestimated as you settle down to analyse the financial statements of a listed company. Making yourself knowledgeable about the environment in which the company operates in now and its direction in the future, for example getting information about local, national or global macro and micro economic conditions and the risk profile of the company's business(es) is a good and necessary start. Returning again to our fictitious New Zealand listed gold mining company example, the current and prospective shareholders of CPA Silver Fern Resources Ltd are likely to be interested

in the projected international demand for gold. Most readers gain an overview of the company, an understanding of the business it's in and the risks the business is facing from reading other parts of the annual report. The statements from the chairman and the Chief executive officer (CEO) that put the company's performance highlights into context against strategies are often read. Readers should be mindful that statements from the chairman or CEO may highlight the positive side of the company's operations and that none of this information is subject to the opinion of the auditor.

Step 2

Read the audit report to see if the audit opinion has been modified or contains some other communication by the auditor. If so, read carefully why the auditor has issued a modified opinion or included another communication such as an emphasis of matter paragraph.

Step 3

Next, have a look to the statement of comprehensive income and the statement of financial position and assess the size of the company and its profitability. CPA Silver Fern generated **profit** after income tax for the current period of \$40,674,000. But this figure means little unless we compare it to another time period or another company to give it context. Horizontal or trend analysis can be used for intracompany comparative analysis. For example, you might decide to evaluate performance by using the comparative information in the CPA Silver Fern financial statements to benchmark the current year performance (profit after income tax \$40,674,000 compared to the previous year figure of \$26,705,000). Vertical analysis can be used for intracompany and intercompany

comparative analysis. A base amount is established and the monetary measure in the current period financial statement of CPA Silver Fern would be expressed as a percentage of this base amount. For example, you might be interested in the relationship of cash and cash equivalents to total assets and how it compares to the previous year. For the current financial year the relationship expressed as a percentage is 26.8 per cent (and the comparative financial year 25.6 per cent). Ratio analyses compares the relationships of financial statement information, and are worked out by dividing one monetary measure by another and can be used for intracompany and intercompany comparative analysis. For example, CPA Silver Fern has current period **current assets** of \$117,387,000 and \$57,623,000 in **current liabilities**, a current ratio of 2.04:1. You can use the outcomes from performing horizontal, vertical and ratio analysis to compare the results for the previous year, the industry sector or competitors. You can use the web to increase your understanding of how to use these tools.

Now consider the statement of cash flows and the information this provides on the company's cash and cash equivalents transactions and position.

For the listed companies of some sectors such as property, banking and insurance, the current and prospective shareholder is likely to pay particular attention to the statement of financial position, while retaining a focus on the statement of comprehensive income. For companies of other sectors, it is more likely current and prospective shareholders will be

interested in the statement of comprehensive income. This is because they reason that an understanding and assessment of the economic productivity of the company is all important to estimating performance which in turn will determine their actions of buy, sell or hold.

Step 4

Turn to the notes to the financial statements. For example, Note 2 to the financial statements of CPA Silver Fern states the basis of preparation for the financial statements are on an accruals basis and are based on historical costs and do not take into account changing money values. Cost is based on the fair value of the consideration given in exchange for assets. Further, the accounting policies have been consistently applied, unless otherwise stated.

Read the accounting policies which are used for any items which have attracted your attention in the financial statements. Look for accounting policies which have changed during the year, the reasons for the change and effect of the change on the financial statements. Companies are required to provide information on changes to accounting policies in the notes.

Step 5

The remaining notes to the financial statements contain detailed financial information, including information on the areas in which the company operates, specific items of revenue and expense, and an explanation of the tax expense. Again, look for the notes which elaborate on any amounts which have come to your attention in the financial statements.

WHEN ARE FINANCIAL REPORTS PREPARED?

Listed companies are required to prepare and issue to shareholders a financial report annually. They must also issue the auditors' report on the financial reports.

Most company reports are prepared for the period from 1 July to 30 June, but this is not obligatory. The period of the financial report is referred to as the financial year. Companies are required to lodge the issued reports with the NZX within three months of the end of the full financial year. Half-year reports are lodged with NZX within two months of the end of the half-year.

WHERE ARE FINANCIAL REPORTS PUBLISHED?

Most listed companies publish their financial statements and reports on their website and notify shareholders of its action. Alternatively, a company may elect to send shareholders a hard copy or a concise report. A shareholder has the right to receive a hard copy.

Copies are lodged with NZX and are available for inspection online.

OPPORTUNITIES FOR SHAREHOLDERS

Shareholders are sent a notice of the Annual General Meeting (AGM), which is an opportunity for shareholders to ask questions of the auditor about their report and the directors on any aspect of the company's operations and performance and of the annual accounts tabled at the AGM.

SAMPLE FINANCIAL STATEMENTS

CPA Silver Fern Resources Ltd is a fictitious New Zealand listed gold mining company with primary operations in New Zealand and secondary operations in Brazil. These sample financial statements of CPA Silver Fern show the way in which many listed companies present yearly financial statements. The figures are simplified to assist you in reading the statements. A subset of the notes to the financial statements is provided for illustrative purposes.

CPA SILVER FERN RESOURCES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 20XC

	NOTE	20XC \$'000	20XB \$'000
Revenue	3	643,066	539,189
Corporate expenditure		(300,105)	(206,844)
Depreciation		(29,367)	(44,461)
Employee benefits expense		(114,986)	(105,909)
Exploration expenses written off		-	(10,660)
Finance expenditure		(18,779)	(19,408)
Impairment of exploration expenditure		(114,251)	(103,422)
Other expenses	4	(7,498)	(10,174)
Profit before income tax expense		58,080	38,311
Income tax expense	5	(17,406)	(11,606)
Profit after income tax for the period	24	40,674	26,705
Other comprehensive income			
(Loss) / gain on translation of foreign operations		31	1,678
Other comprehensive income for the period, net of tax		31	1,678
Total comprehensive income for the period attributable to CPA Silver Fern Resources Limited		40,705	28,383
Earnings per share for profit from comprehensive income		cents	cents
Basic earnings per share	27	20.62	15.19
Diluted earnings per share	27	20.62	15.19

The statement of comprehensive income should be read in conjunction with the accompanying notes.

CPA SILVER FERN RESOURCES LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 20XC

	NOTE	20XC \$'000	20XB \$'000
Current assets			
Cash and cash equivalents	6	102,801	98,879
Trade and other receivables	7	8,945	5,474
Inventories	8	5,641	7,131
Total current assets		117,387	111,484
Non-current assets			
Trade and other receivables	9	42,323	23,021
Property, plant and equipment	10	27,370	40,142
Exploration expenditure	11	184,540	201,135
Deferred tax	12	11,353	10,345
Total non-current assets		265,586	274,643
Total assets		382,973	386,127
Current liabilities			
Trade and other payables	13	29,054	4,689
Provisions	14	6,875	37,303
Income tax	15	11,266	4,268
Employee benefits	16	10,428	9,953
Borrowings	17	-	5,700
Total current liabilities		57,623	61,913
Non-current liabilities			
Provisions	18	22,911	8,326
Borrowings	19	18,374	37,476
Deferred tax	20	4,081	3,917
Employee benefits	21	13,626	13,266
Total non-current liabilities		58,992	62,985
Total liabilities		116,615	124,898
Net assets		266,358	261,229
Equity			
Contributed equity	22	223,610	223,274
Reserves	23	5,500	5,469
Retained profits	24	37,248	32,486
Total equity		266,358	261,229

The statement of financial position should be read in conjunction with the accompanying notes.

CPA SILVER FERN RESOURCES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 20XC

	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL EQUITY \$'000
Balance at 1 July 20XA	128,238	3,791	27,313	159,342
Profit after income tax for the period	-	-	26,705	26,705
Other comprehensive income for the period	-	1,678	-	1,678
Total comprehensive profit for the period	-	1,678	26,705	28,383
Transactions with owners in their capacity as owners				
Shares issued, net of costs	95,036	-	-	95,036
Dividends paid	-	-	(21,532)	(21,532)
Balance at 30 June 20XB	223,274	5,469	32,486	261,229
Balance at 1 July 20XB	223,274	5,469	32,486	261,229
Profit after income tax for the period	-	-	40,674	40,674
Other comprehensive income for the period	-	31	-	31
Total comprehensive profit for the period	-	31	40,674	40,705
Transactions with owners in their capacity as owners				
Shares issued, net of costs	336	-	-	336
Dividends paid	-	-	(35,912)	(35,912)
Balance at 30 June 20XC	223,610	5,500	37,248	266,358

The statement of changes in equity should be read in conjunction with accompanying notes.

CPA SILVER FERN RESOURCES LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 20XC

	NOTE	20XC \$'000	20XB \$'000
Cash flows from operating activities			
Receipts from customers		619,933	579,800
Payments to suppliers and employees		(529,674)	(501,952)
Interest received		1,325	660
Interest paid		(2,633)	(4,142)
Income taxes paid		(11,264)	(10,341)
Net cash flows from operating activities	26	77,687	64,025
Cash flows from investing activities			
Proceeds from sale of plant and equipment			7,776
Payments for exploration		(13,402)	(11,386)
Environmental bonds refunded		-	190
Net cash flows used in investing activities		(13,402)	(3,420)
Cash flows from financing activities			
Proceeds from issue of shares	22	336	95,036
Repayment of borrowings		(24,802)	-
Dividends paid	25	(35,912)	(21,532)
Net cash used in/from financing activities		(60,378)	73,504
Net increase in cash and cash equivalents		3,907	134,109
Cash and cash equivalents at beginning of period		98,879	(35,240)
Effect of exchange rate changes on cash		15	10
Cash and cash equivalents at end of period	6	102,801	98,879

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS (EXTRACT)

NOTE 1: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amended Accounting Standards and Interpretations adopted

The company has adopted all of the new, revised or amended financial reporting standards that are relevant to the operations and mandatory in the current reporting period.

Any new, revised or amended financial reporting standards that are not yet mandatory have not been early adopted.

NOTE 2: SUMMARY SIGNIFICANT ACCOUNTING POLICIES (EXTRACT)

(a) Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values. Cost is based on the fair value of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements are presented in New Zealand Dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

(b) Statement of compliance

These financial statements have been prepared in accordance with the generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for for-profit entities. They also comply with International Financial Reporting Standards.

These financial statements also comply with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(c) Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management bases these assumptions on experience and on other factors such as expected future events it believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(d) Estimation of useful lives of assets

The company determines the estimated useful lives and related depreciation charges for its property, plant and equipment and deferred exploration expenditure. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives.

NOTE 3: REVENUE

	20XC \$'000	20XB \$'000
Sales revenue		
Sales of gold	629,249	536,661
Sales of other metal	12,492	1,868
	641,741	538,529
Other revenue		
Interest	1,325	660
	643,066	539,189

NOTE 6: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	20XC \$'000	20XB \$'000
Cash on hand	95	103
Cash at bank	45,706	51,776
Cash on deposit	57,000	47,000
	102,801	98,979

GLOSSARY

A glossary of key technical words used in this Guide has been provided to aid understanding. Bold font is used on the first appearance of the term.

Accumulated depreciation

The cumulative depreciation of an asset to the date of the current financial year.

Accumulated profits

The amount of past years profits not paid in dividends. Sometimes referred to as retained profits. In contrast, losses from previous years not absorbed by past years profits are accumulated losses.

Asset revaluation

The application of an accounting policy choice, whereby the monetary measure of the asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arms-length transaction.

Assets

Items of value which the company can trade or use in its business.

Contingent liabilities

A potential liability dependent on uncertain future events which are beyond the control of the company.

Corporate social responsibility report

A report on how the company manages its business processes to produce an overall positive impact on society.

Current assets

Cash and cash equivalents and assets which are expected to be turned into cash in the next year.

Current liabilities

Amounts which the company is obliged to pay to others in the next year.

Depreciation

The systematic allocation of the cost of the asset over its useful life.

Emphasis of matter

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

Equity

Total assets less total liabilities; includes share capital, reserves and accumulated profits.

Expenses

The costs of deriving revenue.

Goodwill

An asset representing the future economic benefits arising from other assets acquired by a company when gaining control of one or more other businesses that are not individually identified and separately recognised.

Liabilities

Amounts which the company is obliged to pay to others.

Liquidity

The ease with which assets and liabilities may be converted into cash.

Listed company

A company which is publicly listed on a securities exchange like the NZX.

Key management personnel

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that company.

Modified opinion

The auditor may issue a modified opinion, being a qualified opinion, an adverse opinion or a disclaimer of opinion.

NZX listing rules

Listing rules govern the admission of companies to the official list of listed companies, quotation of their shares, suspension of those shares from quotation and removal of companies from the official list. The listing rules also govern disclosure and some aspects of a listed company's conduct.

Profit

Surplus of revenues over expenses.

Remuneration

Remuneration of directors or executives will typically include all or some of cash salary, shares or **share options**, superannuation, annual and long service leave.

Reserves

Surpluses arising from (for example) revaluations of certain assets.

Revenue

Earnings arising in the ordinary activities of the company. Interest, fees from the rendering of services are examples of revenue, as is revenue from the sale of goods.

Share option

A contract that gives the holder of the option the right, but not the obligation, to subscribe to the company's shares at a fixed or determinable price for a specified period of time.

Share-based payment arrangement

An arrangement between the company and another party (including an employee) that entitles the other party, on satisfying any conditions specific to the arrangement, to shares or share options of the company, or cash or other assets of the company that are based on the price of those shares or share options.

Sustainability report

A report that provides information about the company's performance towards the goal of sustainable development.

