



# *Value PFRS Plc*

*Illustrative PFRS consolidated  
financial statements  
December 2018*



This publication presents the sample annual financial reports of a fictional listed company, VALUE PFRS Plc. It illustrates the financial reporting requirements that would apply to such a company under International Financial Reporting Standards as issued at 31 May 2018. Supporting commentary is also provided. For the purposes of this publication, VALUE PFRS Plc is listed on a fictive Stock Exchange and is the parent entity in a consolidated entity.

VALUE PFRS Plc 2018 is for illustrative purposes only and should be used in conjunction with the relevant financial reporting standards and any other reporting pronouncements and legislation applicable in specific jurisdictions.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

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# VALUE PFRS Plc

## Illustrative PFRS consolidated financial statements December 2018

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## Introduction

This publication presents illustrative consolidated financial statements for a fictitious listed company, VALUE PFRS Plc. The financial statements comply with Philippines Financial Reporting Standards (PFRS) and apply to financial years commencing on or after January 1, 2018.

We have attempted to create a realistic set of financial statements for VALUE PFRS Plc, a corporate entity that manufactures goods, provides services and holds investment property. However, as this publication is a reference tool, we have not removed any disclosures based on materiality. Instead, we have included illustrative disclosures for as many common scenarios as possible. Please note that the amounts disclosed in this publication are purely for illustrative purposes and may not be consistent throughout the publication.

### New disclosure requirements and changes in accounting policies

Most companies will have to make changes to their disclosures this year to reflect the adoption of PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*. This publication shows how the adoption of these standards may affect a corporate entity. [Note 26](#) provides example disclosures which explain the impact of the changes in accounting policy. There are also many new disclosures illustrated throughout the publication, in particular in [note 3](#), [note 7](#), [note 12](#) and [note 25](#). You can find new or revised disclosures by looking for shading in the reference column.

In compiling the illustrative disclosures, we have made a number of assumptions in relation to the adoption of PFRS 9 and PFRS 15. In particular:

- PFRS 9 is generally adopted without restating comparatives, with the exception of certain aspects of hedge accounting.
- PFRS 15 is adopted retrospectively without using the practical expedient for completed contracts and contract modifications.

For further specific assumptions made, please refer to the [commentary to note 26](#).

The other amendments to standards that apply from January 1, 2018 and that are unrelated to the adoption of PFRS 9 and PFRS 15 are primarily clarifications, see [Note 25](#). We have assumed that none of them required a change in VALUE PFRS Plc's accounting policies. However, this assumption will not necessarily apply to all entities. Where there has been a change in policy that has a material impact on the reported amounts, this would also need to be disclosed in [note 26](#).

The new leasing disclosures, applicable when an entity has adopted PFRS 16 *Leases* as a lessee, are illustrated in [Appendix D](#).

While the IASB issued a revised *Conceptual Framework for Financial Reporting* in March 2018 which will be used immediately by the Board and Interpretations Committee in developing new pronouncements, preparers will only commence referring to the new framework from January 1, 2020. We have therefore continued referring to the existing framework in this publication.

### Early adoption of standards

VALUE PFRS Plc generally adopts standards early if they clarify existing practice but do not introduce substantive changes. These include standards issued by the IASB as part of the improvements programme such as the [Annual Improvements to PFRS Standards – 2015-2017 Cycle](#).

As required under PFRS, the impacts of standards and interpretations that have not been early adopted and that are expected to have a material effect on the entity are disclosed in accounting policy note [25\(a\)](#). A summary of all pronouncements relevant for annual reporting periods ending on or after December 31, 2018 is included in [Note 25](#). For updates after the cut-off date for our publication please see [www.pwc.com/ifrs](http://www.pwc.com/ifrs).

### Using this publication

The source for each disclosure requirement is given in the reference column. Shading in this column indicates revised requirements that become applicable for the first time this year. There is also commentary that (i) explains some of the more challenging areas, (ii) lists disclosures that have not been included because they are not relevant to VALUE PFRS Plc, and (iii) provides additional disclosure examples.

The appendices give further information about the operating and financial review (management commentary), alternative formats for the statement of profit or loss and other comprehensive income and the statement of cash flows, and industry-specific disclosures. A summary of all standards that apply for the first time to annual reports beginning on or after January 1, 2018 is included in [Note 25](#) and abbreviations used in this publication are listed in [Appendix E](#).

As VALUE PFRS Plc is an existing preparer of PFRS consolidated financial statements, PFRS 1 *First-time Adoption of International Financial Reporting Standards* does not apply.



The example disclosures are not the only acceptable form of presenting financial statements. Alternative presentations may be acceptable if they comply with the specific disclosure requirements prescribed in PFRS. Readers may find our *PFRS disclosure checklist 2018* useful to identify other disclosures that may be relevant under the circumstances but are not illustrated in this publication.

Some of the disclosures in this publication would likely be immaterial if VALUE PFRS Plc was a ‘real life’ company. The purpose of this publication is to provide a broad selection of illustrative disclosures which cover most common scenarios encountered in practice. The underlying story of the company only provides the framework for these disclosures and the amounts disclosed are for illustration purposes only. Disclosures should not be included where they are not relevant or not material in specific circumstances. [Guidance on assessing materiality is provided in PAS 1 Presentation of Financial Statements and the non-mandatory PFRS Practice Statement 2 Making Materiality Judgements.](#)

Preparers of financial reports should also consider local legal and regulatory requirements which may stipulate additional disclosures that are not illustrated in this publication.

## Format

There is a general view that financial reports have become too complex and difficult to read and that financial reporting tends to focus more on compliance than communication. At the same time, users’ tolerance for sifting through information to find what they need continues to decline. This has implications for the reputation of companies who fail to keep pace. A global study confirmed this trend, with the majority of analysts stating that the quality of reporting directly influenced their opinion of the quality of management.

To demonstrate what companies could do to make their financial report more relevant, we have ‘streamlined’ the financial report to reflect some of the best practices that have been emerging globally over the past few years. In particular:

- Information is organised to clearly tell the story of financial performance and make critical information more prominent and easier to find.
- Additional information is included where it is important for an understanding of the performance of the company. For example, we have included a summary of significant transactions and events as the first note to the financial statements even though this is not a required disclosure.

Accounting policies that are significant and specific to the entity are disclosed along with other relevant information, generally in the section ‘How the numbers are calculated’. While we have still listed other accounting policies in [note 25](#), this is for completeness purposes. Entities should consider their own individual circumstances and only include policies that are relevant to their financial statements.

The structure of financial reports should reflect the particular circumstances of the company and the likely priorities of its report readers. There is no “one size fits all” approach and companies should engage with their investors to determine what would be most relevant to them. The structure used in this publication is not meant to be used as a template, but to provide you with possible ideas. It will not necessarily be suitable for all companies.

## Specialized companies and industry-specific requirements

VALUE PFRS Plc does not illustrate the disclosures specifically relevant to specialized industries. However, [Appendix C](#) provides an illustration and explanation of the disclosure requirements of PFRS 6 *Exploration for and Evaluation of Mineral Resources* and [PAS 41 Agriculture](#). Further examples of industry-specific accounting policies and other relevant disclosures can be found in the following PwC publications:

- *Illustrative PFRS financial statements – Investment funds*
- *Illustrative PFRS consolidated financial statements – Investment property*
- *Illustrative PFRS financial statements – Private equity funds*
- *PFRS 9 for banks – Illustrative disclosures.*

### **PwC Manual of Accounting – PFRS**

For further insights on the application of the PFRS please refer to the [PwC Manual of Accounting](#) which can be accessed through our [Inform web site](#) (link will only work for registered users). Each chapter has a series of frequently asked questions which provide useful guidance on particular aspects of each accounting standard.

PAS1(49),(51)(a)

# VALUE PFRS Plc

## Annual financial report – December 31, 2018 <sup>1-11</sup>

PAS1(49)

### Financial statements

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PAS1(51)(b),(d)

These financial statements are consolidated financial statements for the group consisting of VALUE PFRS Plc and its subsidiaries. A list of major subsidiaries is included in [note 16](#).

The financial statements are presented in the Oneland currency (CU).

PAS1(138)(a)

VALUE PFRS Plc is a company limited by shares, incorporated and domiciled in Oneland. Its registered office and principal place of business is:

VALUE PFRS Plc  
350 Harbour Street  
1234 Nice Town

PAS10(17)

The financial statements were authorized for issue by the directors on 23 February [2019](#). The directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available at our Shareholders' Centre on our website: [www.valueifrspc.com](http://www.valueifrspc.com)

## Financial statements

### Accounting standard for financial statements presentation and disclosures

- PAS1(10)
- (a) According to PAS 1 *Presentation of Financial Statements*, a 'complete set of financial statements' comprises:
    - a statement of financial position as at the end of the period
    - a statement of profit or loss and other comprehensive income for the period
    - a statement of changes in equity for the period
    - a statement of cash flows for the period
    - notes, comprising a summary of significant accounting policies and other explanatory notes, and
    - if the entity has applied an accounting policy retrospectively, made a retrospective restatement of items or has reclassified items in its financial statements: a statement of financial position as at the beginning of the earliest comparative period.

- PAS1(10)
1. The titles of the individual statements are not mandatory and an entity can, for example continue to refer to the statement of financial position as 'balance sheet' and to the statement of profit or loss as 'income statement'.

### Comparative information

- PAS1(38)
2. Except when a PFRS permits or requires otherwise, comparative information shall be disclosed in respect of the preceding period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.
- PAS1(38B)
3. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

### Three balance sheets required in certain circumstances

- PAS1(40A),(40B)
4. If an entity has
    - (a) applied an accounting policy retrospectively, restated items retrospectively, or reclassified items in its financial statements, and
    - (b) the retrospective application, restatement or reclassification has a material effect on the information presented in the balance sheet at the beginning of the preceding period, it must present a third balance sheet (statement of financial position) as at the beginning of the preceding period (eg January 1, 2017 for December 31, 2018 reporters).
- PAS1(40D)
5. The date of the third balance sheet must be the beginning of the preceding period, regardless of whether the entity presents additional comparative information for earlier periods.
- PAS1(40C)  
IAS8  
PAS1(41)
6. Where the entity is required to include a third balance sheet, it must provide appropriate explanations about the changes in accounting policies, other restatements or reclassifications, as required under PAS 1 paragraph 41 and PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, the entity does not need to include the additional comparatives in the related notes. This contrasts with the position where an entity chooses to present additional comparative information as permitted by PAS 1 paragraphs 38C and 38D.

### Consistency

- PAS1(45)
7. The presentation and classification of items in the financial statements must be retained from one period to the next unless:
    - (a) it is apparent that another presentation or classification would be more appropriate based on the criteria for the selection and application of accounting policies in PAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (eg following a significant change in the nature of the entity's operations or a review of its financial statements), or
    - (b) PFRS requires a change in presentation.



## Financial statements

### Materiality

PAS1(7),(29)-(31),(BC30F)  
PFRS PS2

8. Whether individual items or groups of items need to be disclosed separately in the primary financial statements or in the notes depends on their materiality. Materiality is judged by reference to the size and nature of the item. The deciding factor is whether the omission or misstatement could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. In particular circumstances either the nature or the amount of an item or an aggregate of items could be the determining factor. Preparers generally tend to err on the side of caution and disclose rather too much than too little. However, the IASB has emphasised that too much immaterial information could obscure useful information and hence should be avoided. [Further guidance on assessing materiality is provided in the non-mandatory PFRS Practice Statement 2 Making Materiality Judgements.](#)

### Primary financial statements should be read in conjunction with accompanying notes

9. VALUE PFRS Plc reminds readers by way of a footnote that the primary financial statements should be read in conjunction with the accompanying notes. However, this is not mandatory and we note that there is mixed practice in this regard.

### Disclosures not illustrated: not applicable to VALUE PFRS Plc

10. The following requirements are not illustrated in this publication as they are not applicable to VALUE PFRS Plc:

PAS1(38C),(38D)

PAS27(17)

PAS27(16)(a)

PAS21(51),(53)-(57)

PAS1(36)

Item	Nature of disclosure
Additional comparative information (eg third statement of profit or loss and other comprehensive income)	Include the additional comparative information also in the relevant notes
Separate financial statements	Disclose why they are prepared, a list of significant investments and the policies applied in accounting for these investments
Exemption from preparing consolidated financial statements	Disclose the fact that the exemption has been used and details about the entity that produces consolidated financial statements which include the reporting entity in question
Foreign currency translation	Disclose if the presentation currency is different to the functional currency, if there have been changes in the functional currency and clearly identify supplementary information that is presented in a currency other than the parent entity's functional or presentation currency
Reporting period is shorter or longer than one year	Disclose the period covered, the reason for different period and the fact that the amounts are not entirely comparable

PAS1(10)(b),(10A)

**Consolidated statement of profit or loss** <sup>1-10,12,14,22-25,28-37</sup>PAS1(51)(c),(e)  
PAS1(113)

	Notes	2018 CU'000	2017 Restated * CU'000
<b>Continuing operations</b>			
PAS1(82)(a)	3	197,659	161,604
PAS1(99), PAS2(36)(d)		(76,995)	(65,159)
		(25,447)	(18,288)
		<b>95,217</b>	<b>78,157</b>
PAS1(99)		(35,314)	(29,373)
PAS1(99)		(17,657)	(14,141)
PAS1(82)(ba) New requirement		(849)	(545)
	12(c)	(849)	(545)
	5(a)	11,348	12,033
	5(b)	4,593	(125)
		<b>57,338</b>	<b>46,006</b>
	5(d)	1,616	905
PAS1(82)(b)	5(d)	(7,213)	(6,272)
		(5,597)	(5,367)
PAS1(82)(c)		340	355
	16(e)	340	355
		<b>52,081</b>	<b>40,994</b>
PAS1(82)(d) PAS12(77)	6	(16,437)	(11,987)
		<b>35,644</b>	<b>29,007</b>
PFRS5(33)(a) PAS1(82)(ea) PAS1(81A)(a)	15	727	399
		<b>36,371</b>	<b>29,406</b>
PAS1(81B)(a)			
		33,366	27,087
		3,005	2,319
		<b>36,371</b>	<b>29,406</b>
		<b>Cents</b>	<b>Cents</b>
PAS33(66)			
		<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:</b> <sup>16,17</sup>	
	22	53.7	46.8
	22	52.8	46.6
PAS33(66)			
		<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>	
	22	54.9	47.5
	22	54.0	47.3

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

Not mandatory

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

PAS1(10)(b),(10A)

## Consolidated statement of comprehensive income

PAS1(113)		Notes	2018 CU'000	2017 Restated * CU'000
PAS1(81A)(a)	<b>Profit for the period</b>		<b>36,371</b>	<b>29,406</b>
	<b>Other comprehensive income</b> <sup>18-20,26-27</sup>			
PAS1(82A)(a)(ii)	<i>Items that may be reclassified to profit or loss</i>			
PAS1(82A),(7)(da) New illustration	Changes in the fair value of debt instruments at fair value through other comprehensive income	9(c)	126	-
PAS1(82A),(7)(d) PAS39(55)(b)	Changes in the fair value of available-for-sale financial assets	9(c)	-	(830)
PAS1(82A)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method <sup>19</sup>	9(c)	20	15
PAS1(82A),(7)(c) PAS21(32)	Exchange differences on translation of foreign operations	9(c)	(617)	185
PFRS5(38)	Exchange differences on translation of discontinued operation <sup>21</sup>	15	170	58
PAS1(82A),(7)(e)	Gains on cash flow hedges	12(a)	176	70
PAS1(82A),(7)(g),(h) New illustration	Costs of hedging	12(a)	(88)	(77)
PAS1(82A),(7)(e)	Hedging gains reclassified to profit or loss	12(a)	(155)	(195)
PAS1(82A),(7)(c) PFRS9(6.5.13)	Gains on net investment hedge	9(c)	190	-
PAS1(91)	Income tax relating to these items	9(c)	(20)	304
PAS1(82A)(a)(i)	<i>Items that will not be reclassified to profit or loss</i>			
PAS1(82A),(7)(a)	Revaluation of land and buildings	9(c)	7,243	5,840
PAS1(82A),(7)(d) New illustration	Changes in the fair value of equity investments at fair value through other comprehensive income	9(c)	632	-
PAS39(98)(b)	Hedging losses transferred to inventory purchased during the year	12(a)	-	642
PAS1(82A)	Share of other comprehensive income of associates and joint ventures accounted for using the equity method <sup>19</sup>	9(c)	300	100
PAS1(82A),(7)(b) PAS19(120)(c)	Remeasurements of post-employment benefit obligations	9(c)	119	(910)
PAS1(91)	Income tax relating to these items	9(c)	(2,489)	(1,702)
PAS1(81A)(b)	<b>Other comprehensive income for the period, net of tax</b>		<b>5,607</b>	<b>3,500</b>
PAS1(81A)(c)	<b>Total comprehensive income for the period</b>		<b>41,978</b>	<b>32,906</b>
PAS1(81B)(b)	Total comprehensive income for the period is attributable to:			
	Owners of Value PFRS Plc		39,072	30,330
	Non-controlling interests		2,906	2,576
			<b>41,978</b>	<b>32,906</b>
	Total comprehensive income for the period attributable to owners of Value PFRS Plc arises from:			
	Continuing operations		38,187	29,873
PFRS5(33)(d)	Discontinued operations		885	457
			<b>39,072</b>	<b>30,330</b>

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

Not mandatory

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

## Statement of profit or loss and statement of comprehensive income

### Disclosure of specified separate line items in the financial statements

1. Consequential amendments made to PAS 1 *Presentation of Financial Statements* following the release of PFRS 9 *Financial Instruments* now require the separate presentation of the following line items in the statement of profit or loss:

- (a) interest revenue calculated using the effective interest rate method, separately from other revenue \*
- (b) gains and losses from the derecognition of financial assets measured at amortized cost \*
- (c) impairment losses determined in accordance with section 5.5 of PFRS 9, including reversals of impairment losses or impairment gains
- (d) gains and losses recognized as a result of a reclassification of financial assets from measurement at amortized cost to fair value through profit or loss \*
- (a) gains and losses reclassified from OCI as a result of a reclassification of financial assets from the fair value through OCI measurement category to fair value through profit or loss \*

\* not illustrated, as not material or not applicable to Value PFRS Plc. While Value PFRS Plc recognizes interest under the effective interest rate method, it does not consider this to be 'revenue' as the earning of interest is not part of the entity's ordinary activities but rather an incidental benefit.

2. Depending on materiality, it may not always be necessary to present these items separately in the primary financial statements. However, items that are of a dissimilar nature or function can only be aggregated if they are immaterial. Further guidance on assessing materiality is provided in the non-mandatory PFRS Practice Statement 2 *Making Materiality Judgements*.

#### *Finance income and finance cost*

3. PAS 1 requires an entity to present finance costs on the face of the statement of profit or loss, but it does not require the separate presentation of finance income. The classification of finance income will depend on an entity's accounting policy for such items. Refer to the commentary to [note 5](#) for details.

#### **Additional line items**

4. Additional line items, headings and subtotals shall be presented in the statement of comprehensive income and the statement of profit or loss (where applicable) when such presentation is relevant to an understanding of the entity's financial performance. For example, a sub-total of gross profit (revenue from sales less cost of sales) **could** be included where expenses have been classified by function.

5. Having said that, additional sub-headings should be used with care. The *Conceptual Framework for Financial Reporting* states that to be useful, information must be relevant and faithfully represent what it purports to represent. That is, it must be complete, neutral and free from error. The apparent flexibility in PAS 1 can, therefore, only be used to enhance users' understanding of the company's financial performance. It cannot be used to detract from the amounts that must be disclosed under PFRS (statutory measures).

6. PAS 1 specifically provides that additional subtotals must:

- (a) be comprised of items that are recognized and measured in accordance with PFRS
- (b) be presented and labelled such that they are clear and understandable
- (c) be consistent from period to period
- (d) not be displayed with more prominence than the mandatory subtotals **and totals**.

PAS1(82)(a)

PAS1(82)(aa)

PAS1(82)(ba)

PAS1(82)(ca)

PAS1(82)(cb)

PFRS15(Appendix A)

PAS1(29),(30),(30A)  
PFRS PS2(40)-(55)

PAS1(82)(b)

PAS1(85)

Framework(QC4),(QC12)

PAS1(85A)



## Statement of profit or loss and statement of comprehensive income

7. Earnings before interest and tax (EBIT) may be an appropriate sub-heading to show in the statement of profit or loss, as it usually distinguishes between the pre-tax profits arising from operating and from financing activities. In contrast, a subtotal for earnings before interest, tax, depreciation and amortization (EBITDA) can only be included where the entity presents its expenses by nature and the subtotal does not detract from the GAAP numbers, either by implying that EBITDA is the 'real' profit or by overcrowding the statement of profit or loss so that the reader cannot determine easily the entity's GAAP performance.
8. Where an entity presents its expenses by function, it will not be possible to show depreciation and amortization as separate line items in arriving at operating profit, because depreciation and amortization are types of expense, not functions of the business. In this case, EBITDA can only be disclosed by way of supplemental information in a box, in a footnote, in the notes or in the review of operations.
9. Where an entity discloses alternative performance measures, these should not be given greater prominence than the PFRS measure of performance. This might be achieved by including the alternative performance measure in the notes to the financial statements or as a footnote to the primary financial statement. Where an entity presents such a measure on the face of the primary statement, it should be clearly identified. Management should determine the overall adequacy of the disclosures and whether a specific presentation is misleading in the context of the financial statements as a whole. This judgement might be disclosed as a significant judgement in accordance with paragraph 122 of PAS 1.
10. Preparers of financial reports should also consider the view of their local regulator regarding the use of subtotals and disclosure of non-GAAP measures in the financial report where applicable. [Appendix A](#) provides guidance on the use non-GAAP measures in the management commentary.

### *Operating profit*

11. An entity may elect to include a sub-total for its result from operating activities. While this is permitted, care must be taken that the amount disclosed is representative of activities that would normally be considered to be 'operating'. Items that are clearly of an operating nature, for example inventory write-downs, restructuring or relocation expenses, must not be excluded simply because they occur infrequently or are unusual in amount. Similarly, expenses cannot be excluded on the grounds that they do not involve cash flows (eg depreciation or amortization). As a general rule, operating profit would be the subtotal after 'other expenses', ie excluding finance costs and the share of profits of equity-accounted investments.

### **Re-ordering of line items**

12. Entities should re-order the line items and descriptions of those items where this is necessary to explain the elements of performance. However, entities are again governed by the overall requirement for a 'fair presentation' and should not make any changes unless there is a good reason to do so. For example, it will generally be acceptable to present finance cost as the last item before pre-tax profit, thereby separating financing activities from the activities that are being financed.
13. Another example is the share of profit of associates [and joint ventures](#). Normally, this would be shown after finance cost. However, there may be circumstances when the line item showing the investor's share of the [results](#) is included before finance cost. [This could be appropriate where the associates and joint ventures are an integral vehicle through which the group conducts its operations and its strategy. In such cases, it may also be appropriate either to insert a sub-total 'profit before finance costs' or to include the share of profits from associates and joint ventures in arriving at operating profit \(where disclosed\).](#)
14. However, the share of the profit or loss of associates and joint ventures accounted for using the equity method should not be included as part of the entity's [revenue](#). [Combining](#) the entity's share of the associate's revenue with its own revenue would be inconsistent with the balance sheet treatment where the entity's investment is presented as a separate line item. This is different to the accounting for joint operations where the entity combines its share of the joint operation's revenue with its own. Where a group conducts a significant proportion of its business through equity-accounted investments and wishes to highlight that fact to the reader of the statement of comprehensive income, it may choose to give additional financial information by way of a footnote and cross-reference to the notes.

PAS1(BC56)

PAS1(86)

PAS1(82)(c),  
PFRS15(Appendix A)  
Framework(4.29)

## Statement of profit or loss and statement of comprehensive income

**Discontinued operations**PFRS5(33)(a),(b)  
PAS1(82)(ea)

15. Entities shall disclose a single amount in the statement of comprehensive income (or separate statement of profit or loss) comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation. An analysis of this single amount is also required by paragraph 33 of PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This analysis may be presented in the notes or in the statement of comprehensive income (separate statement of profit or loss). In the case of Value PFRS Plc it is presented in [note 15](#). If it is presented in the statement of profit or loss it must be presented in a section identified as relating to discontinued operations; that is, separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (refer to paragraph 11 of PFRS 5).

**Earnings per share**

PAS33(73)

16. While entities are permitted to disclose earnings per share based on alternative measures of earnings, these must be presented in the notes to the financial statements only (see [note 22](#)).

PAS33(68)

17. An entity that reports a discontinued operation must disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes to the financial statements. Value PFRS Plc provides this information in [note 22](#).

**Components of other comprehensive income**

PAS1(7)

18. Components of other comprehensive income (OCI) are items of income and expense (including reclassification adjustments, see [paragraph 27](#) below) that are specifically required or permitted by other PFRS to be included in other comprehensive income and are not recognized in profit or loss. They include:
- (a) revaluation gains and losses relating to property, plant and equipment or intangible assets
  - (b) remeasurements of [net defined benefit liabilities/\(assets\)](#)
  - (c) gains and losses arising from translating the financial statements of a foreign operation
  - (d) gains and losses on remeasuring [financial assets that are measured or designated as at fair value through other comprehensive income](#)
  - (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge
  - (f) [for particular liabilities designated as at fair value through profit or loss, the change in the fair value that is attributable to changes in the liability's credit risk](#)
  - (g) [changes in the value of the time value of options, in the value of the forward elements of forward contracts and in the value of the foreign currency basis spread of financial instruments, where these are not included in the designation of the related instruments as hedging instruments](#)
  - (h) the investor's share of the other comprehensive income of equity-accounted investments, and
  - (i) current and deferred tax credits and charges in respect of items recognized in other comprehensive income.

PAS1(82A)

19. Items of OCI arising from equity accounted investments must be presented in total for items which [may be reclassified and those that](#) will not be reclassified to profit or loss.

## Statement of profit or loss and statement of comprehensive income

### Summary

20. The requirements surrounding components of OCI can be summarized as follows:

Item	Reference	Requirement in standard	Presentation in Value PFRS Plc
Each component of OCI recognized during the period, classified by nature	PAS 1(82A)	Statement of comprehensive income	Statement of comprehensive income
Reclassification adjustments during the period relating to components of OCI (see paragraph 27 below)	PAS 1(92)	Statement of comprehensive income or notes	Note 9
Tax relating to each component of OCI, including reclassification adjustments	PAS 1(90)	Statement of comprehensive income or notes	Note 9
Reconciliation for each component of equity, showing separately <ul style="list-style-type: none"> <li>• profit/loss</li> <li>• OCI</li> <li>• transactions with owners</li> </ul> See commentary 1 to 3 on page 23.	PAS 1(106)(d)	Statement of changes in equity and notes, see related commentary	Statement of changes in equity and note 9

### Discontinued operations

21. PFRS 5 is unclear as to whether entities need to separate out items of other comprehensive income between continuing and discontinued operations. We believe that it would be consistent with the principles of PFRS 5 to do so, as it would provide a useful base for predicting the future results of the continuing operations. We also note that entities must present separately any cumulative income or expense recognized in other comprehensive income that relates to a non-current asset or disposal group classified as held for sale.

PFRS5(38)

### Information to be presented either in the statement of comprehensive income or in the notes

#### Material items of income and expense

22. When items of income and expense are material, their nature and amount must be disclosed separately either in the statement of comprehensive income (statement of profit or loss) or in the notes. In the case of Value PFRS Plc these disclosures are made in note 4.

PAS1(97)

23. PAS 1 does not provide a specific name for the types of items that should be separately disclosed. Where an entity discloses a separate category of 'significant' or 'unusual' items either in their statement of comprehensive income or in the notes, the accounting policy note should include a definition of the chosen term. The presentation and definition of these items must be applied consistently from year to year.

PAS1(86),(97)

24. Where an entity classifies its expenses by nature, it must take care to ensure that each class of expenses includes all items related to that class. Material restructuring cost may, for example, include redundancy payments (ie employee benefit cost), inventory write-downs (changes in inventory) and impairments in property, plant and equipment. It would not be acceptable to show restructuring costs as a separate line item in an analysis of expenses by nature where there is an overlap with other line items.

25. Entities that classify their expenses by function will have to include the material items within the function to which they relate. In this case, material items can be disclosed as footnote or in the notes to the financial statements.

## Statement of profit or loss and statement of comprehensive income

### *Reclassification adjustments*

- PAS1(92),(94) 26. An entity shall also disclose separately any reclassification adjustments relating to components of other comprehensive income either in the statement of comprehensive income or in the notes. Value PFRS Plc provides this information in [note 9\(c\)](#).
- PAS1(7),(95),(96) 27. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods. They arise, for example, on disposal of a foreign [operation and](#) when a hedged forecast transaction affects profit or loss. They do not arise on [the disposal of property, plant and equipment measured at fair value under the revaluation model or the settlement of defined benefit pension schemes](#). While these components are also recognized in OCI, they are not reclassified to profit or loss in subsequent periods. [Reclassification adjustments also do not arise in relation to cash flow hedge accounting, where amounts are removed from the cash flow hedge reserve, or a separate component of equity, and are included directly in the initial cost or other carrying amount of an asset or liability. These amounts are directly transferred to assets or liabilities.](#)

### *Dividends: statement of changes in equity or notes only*

- PAS1(107) 28. The amount of dividends recognized as distributions to owners during the period, and the related amount per share must be presented either in the statement of changes in equity or in the notes. In the case of Value PFRS Plc these disclosures are made in [note 13\(b\)](#).

### **Classification of expenses**

#### *By nature or function*

- PAS1(99),(100) 29. An analysis of expenses shall be presented using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. Entities are encouraged, but not required, to present the analysis of expenses in the statement of comprehensive income (or statement of profit or loss, where applicable).
- PAS1(105) 30. The choice of classification between nature and function will depend on historical and industry factors and the nature of the entity. The entity should choose the classification that provides the most relevant and reliable information about its financial performance.
31. Within a functional statement of comprehensive income (statement of profit or loss), costs directly associated with generating revenues should be included in cost of sales. Cost of sales should include direct material and labour costs but also indirect costs that can be directly attributed to generating revenue; for example, depreciation of assets used in the production. Impairment charges should be classified according to how the depreciation or amortization of the particular asset is classified. Entities should not mix functional and natural classifications of expenses by excluding certain expenses such as inventory write-downs, employee termination benefits and impairment charges from the functional classifications to which they relate. [An exception are impairment charges on financial and contract assets that must be presented separately as per PAS 1 paragraph 82\(ba\) if they are material.](#)
- PAS1(104),(105) 32. Entities classifying expenses by function shall disclose additional information about the nature of their expenses in the notes to the financial statements, see [note 5\(c\)](#). According to PAS 1 this includes disclosure of depreciation, amortization and employee benefits expense. Other classes of expenses should also be disclosed where they are material, as this information assists users in predicting future cash flows.
33. We have illustrated a classification of expenses by nature on the face of the statement of profit or loss in [Appendix B](#).

#### *Materiality*

- PAS1(29) 34. Regardless of whether expenses are classified by nature or by function, materiality applies to the classification of expenses. Each material class should be separately disclosed, and unclassified expenses ([eg as 'other expenses'](#)) should be immaterial both individually and in aggregate.
35. The classification of expenses may vary with the type of expense. For example, where expenses are classified by nature, wages and salaries paid to employees involved in research and development (R&D) activities would be classified as employee benefits expense, while amounts paid to external organisations for R&D would be classified as external R&D expense. However, where expenses are classified by function, both the wages and salaries and external payments should be classified as R&D expense.



## Statement of profit or loss and statement of comprehensive income

### Offsetting

- PAS1(32) 36. Assets and liabilities, and income and expenses, must not be offset unless required or permitted by a PFRS. Examples of income and expenses that are required or permitted to be offset are as follows:
- PAS1(34)(a) (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses
- PAS1(34)(b) (b) expenditure related to a provision that is recognized in accordance with PAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (eg a supplier's warranty agreement) may be netted against the related reimbursement
- PAS1(35) (c) gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
37. Income which falls under the scope of [PFRS 15 Revenue from Contracts with Customers](#) cannot be netted off against related expenses. However, this does not preclude an entity from presenting interest income followed by interest expense and a sub-total such as 'net interest expense' on the face of the statement of profit or loss as we have done in this publication.

PAS1(10)(a),(54)

## Consolidated balance sheet <sup>1-5</sup>

PAS1(51)(c),(e)  
PAS1(113)

	Notes	2018 CU'000	2017 Restated * CU'000	January 1, 2017 Restated * <sup>6</sup> CU'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
PAS1(60),(66)				
PAS1(54)(a)	8(a)	131,410	105,080	93,145
PAS1(54)(b)	8(b)	13,300	10,050	8,205
PAS1(54)(c)	8(c)	24,550	20,945	20,910
PAS1(54)(o),(56)	8(d)	7,307	4,933	3,654
PFRS15(105) New illustration	3(b)	312	520	-
PAS1(54)(e)	16(e)	3,775	3,275	3,025
PFRS7(8)(h) New requirement	7(c)	6,782	-	-
PFRS7(8)(a)	7(d)	2,390	-	-
PFRS7(8)(f) New requirement	7(b)	3,515	-	-
PAS1(54)(d) PFRS7(8)(a)	12(a)	308	712	-
PAS1(54)(d) PFRS7(8)(b)	7(b)	-	1,175	-
PAS1(54)(d) PFRS7(8)(d)	7(c)	-	8,228	8,397
PAS1(54)(h) PFRS7(8)(c)	7(b)	-	1,380	6,011
		<b>193,649</b>	<b>156,298</b>	<b>143,347</b>
<b>Current assets</b>				
PAS1(60),(66)				
PAS1(54)(g)	8(e)	22,153	19,672	18,616
	8(f)	576	513	504
PFRS15(105) New requirement	3(b)	1,486	2,597	1,897
PAS1(54)(h) PFRS7(8)(c)	7(a)	15,736	8,270	5,138
PFRS7(8)(f) New requirement	7(b)	1,100	-	-
	7(b)	-	842	783
PAS1(54)(d) PFRS7(8)(a)	12(a)	1,854	1,417	156
PAS1(54)(d) PFRS7(8)(a)	7(d)	11,300	10,915	10,370
PAS1(54)(i)	7(e)	57,098	31,268	25,193
		<b>111,303</b>	<b>75,494</b>	<b>62,657</b>
PAS1(54)(j) PFRS5(38)	8(f),15	250	4,955	-
		<b>111,553</b>	<b>80,449</b>	<b>62,657</b>
		<b>305,202</b>	<b>236,747</b>	<b>206,004</b>

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

	Notes	2018 CU'000	2017 Restated * CU'000	January 1, 2017 Restated *6 CU'000
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
PAS1(60),(69)				
PAS1(54)(m) PFRS7(8)(g)	7(g)	91,754	79,330	76,250
PAS1(54)(o),(56)	8(d)	12,465	6,968	4,532
	8(g)	6,749	4,881	4,032
PAS1(54)(l)	8(h)	1,573	1,382	1,304
		<b>112,541</b>	<b>92,561</b>	<b>86,118</b>
<b>Current liabilities</b>				
PAS1(60),(69)				
PAS1(54)(k)	7(f)	15,760	11,723	13,004
PFRS15(105) New requirement	3(b)	1,982	1,525	655
PAS1(54)(n)		1,700	1,138	989
PAS1(54)(m), PFRS7(8)(g)	7(g)	9,155	8,750	7,869
PAS1(54)(m) PFRS7(8)(e)	12(a)	1,376	1,398	445
	8(g)	690	470	440
PAS1(54)(l)	8(h)	2,697	1,240	730
		<b>33,360</b>	<b>26,244</b>	<b>24,132</b>
PAS1(54)(p) PFRS5(38)	15	-	500	-
		<b>33,360</b>	<b>26,744</b>	<b>24,132</b>
		<b>145,901</b>	<b>119,305</b>	<b>110,250</b>
<b>Net assets</b>				
		<b>159,301</b>	<b>117,442</b>	<b>95,754</b>
<b>EQUITY</b>				
PAS1(54)(r)	9(a)	83,054	63,976	62,619
	9(b)	1,774	(550)	(251)
PAS1(54)(r)	9(c)	17,057	11,512	7,286
	9(d)	47,954	36,815	21,160
PAS1(54)(r)		149,839	111,753	90,814
PAS1(54)(q)	16(b)	9,462	5,689	4,940
		<b>159,301</b>	<b>117,442</b>	<b>95,754</b>

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

Not mandatory

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

## Balance sheet

### Accounting standard for the balance sheet (statement of financial position)

- PAS1(10) 1. PAS 1 *Presentation of Financial Statements* refers to the balance sheet as 'statement of financial position'. However, since this title is not mandatory, Value PFRS Plc has elected to retain the better known name of 'balance sheet'.

### Current/non-current distinction

- PAS1(60) 2. An entity presents current and non-current assets and current and non-current liabilities as separate classifications in its balance sheet except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities are presented broadly in order of liquidity.
- PAS1(61) 3. Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period, and (b) more than twelve months after the reporting period.
- PAS1(66)-(70) 4. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within 12 months after the reporting period. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than 12 months after the reporting period.
- PAS1(68) 5. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in the form of cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months.

### Three balance sheets required in certain circumstances

- PAS1(40A),(40B) 6. If an entity has applied an accounting policy retrospectively, restated items retrospectively or reclassified items in its financial statements, it must provide a third balance sheet (statement of financial position) as at the beginning of the preceding comparative period. However, where the retrospective change in policy or the restatement has no effect on the preceding period's opening balance sheet, we believe that it would be sufficient for the entity merely to disclose that fact.

### Separate line item for employee benefit obligations

- PAS1(54) 7. Paragraph 54 of PAS 1 sets out the line items that are, as a minimum, required to be presented in the balance sheet. Additional line items, heading and subtotals should be added when they are relevant to an understanding of the entity's financial position. For example, PAS 1 does not prescribe where employee benefit obligations should be presented in the balance sheet. Value PFRS Plc has elected to present all employee benefit obligations together as separate current and non-current line items, as this provides more relevant information to users.

### Separate line items for financial assets/liabilities and contract assets/liabilities

- PFRS7(8) 8. Paragraph 8 of PFRS 7 requires disclosure, either in the balance sheet or in the notes, of the carrying amounts of financial assets and liabilities by the following categories:
- Financial assets measured at fair value through profit or loss (FVPL), showing separately those mandatorily classified and those designated upon initial recognition.
  - Financial liabilities measured at FVPL, showing those that meet the definition of held for trading and those designated upon initial recognition.
  - Financial assets measured at amortized cost.
  - Financial liabilities measured at amortized cost.
  - Financial assets measured at fair value through other comprehensive income (FVOCI), showing separately debt and equity instruments.
9. Value PFRS Plc has chosen to disclose the financial assets by major category, but is providing some of the more detailed information in the notes. However, depending on the materiality of these items and the nature of the entity's business, it may also be appropriate to choose different categories for the balance sheet and provide the above information in the notes.



**Balance sheet**

PFRS15(105),(BC320),  
(BC321)

10. Similarly, PFRS 15 *Revenue from Contracts with Customers* requires the presentation of any unconditional rights to consideration as a receivable separately from contract assets. Value PFRS Plc has therefore reclassified its contract assets and contract liabilities upon adoption of PFRS 15 and presented them as a separate line items in the balance sheet. However, contract assets, contract liabilities and receivables do not have to be referred to as such and do not need to be presented separately in the balance sheet, as long as the entity provides sufficient information so users of financial statements can distinguish them from other items.

## Consolidated statement of changes in equity <sup>1-3</sup>

		Attributable to owners of Value PFRS Plc							
		Share capital and premium	Other equity	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity	
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	
		Notes							
PAS1(106)(d)	<b>Balance at January 1, 2017</b>	62,619	(251)	7,311	21,024	90,703	4,940	95,643	
<b>New illustration</b>	Change in accounting policy	26	-	(25)	53	28	-	28	
PAS1(106)(b)	Correction of error (net of tax)	11(b)	-	-	83	83	-	83	
<b>Restated total equity at the beginning of the financial year</b>		<b>62,619</b>	<b>(251)</b>	<b>7,286</b>	<b>21,160</b>	<b>90,814</b>	<b>4,940</b>	<b>95,754</b>	
PAS1(106)(d)(i)	Profit for the period (restated*)	-	-	-	27,087	27,087	2,319	29,406	
PAS1(106)(d)(ii)	Other comprehensive income (restated*)	-	-	3,646	(403)	3,243	257	3,500	
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>3,646</b>	<b>26,684</b>	<b>30,330</b>	<b>2,576</b>	<b>32,906</b>	
<b>New requirement</b>	Costs of hedging transferred to the carrying value of inventory purchased during the year	12(a)	-	-	25	-	25	-	25
PAS1(106)(d)(iii)	<b>Transactions with owners in their capacity as owners:</b>								
PAS32(22),(35)	Contributions of equity net of transaction costs	9(a)	1,357	-	-	-	1,357	-	1,357
PAS32(33)	Acquisition of treasury shares	9(b)	-	(299)	-	-	(299)	-	(299)
	Dividends provided for or paid	13(b)	-	-	-	(11,029)	(11,029)	(1,827)	(12,856)
PFRS2(50)	Employee share schemes – value of employee services	9(c)	-	-	555	-	555	-	555
			1,357	(299)	555	(11,029)	(9,416)	(1,827)	(11,243)
PAS1(106)(d)	<b>Balance at December 31, 2017</b>	<b>63,976</b>	<b>(550)</b>	<b>11,512</b>	<b>36,815</b>	<b>111,753</b>	<b>5,689</b>	<b>117,442</b>	

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

		Attributable to owners of Value PFRS Plc						
		Share capital and premium	Other equity	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
	Notes							
PAS1(106)(d) New illustration	<b>Balance at December 31, 2017 as originally presented</b>	<b>63,976</b>	<b>(550)</b>	<b>11,566</b>	<b>36,254</b>	<b>111,246</b>	<b>5,689</b>	<b>116,935</b>
PAS1(106)(b)	Change in accounting policy	26	-	(54)	442	388	-	388
PAS1(106)(b)	Correction of error (net of tax)	11(b)	-	-	119	119	-	119
	<b>Restated total equity as at December 31, 2017</b>	<b>63,976</b>	<b>(550)</b>	<b>11,512</b>	<b>36,815</b>	<b>111,753</b>	<b>5,689</b>	<b>117,442</b>
PAS1(106)(b)	Change in accounting policy	26	-	(70)	(292)	(362)	-	(362)
PAS1(106)(d)	<b>Restated total equity at January 1, 2018</b>	<b>63,976</b>	<b>(550)</b>	<b>11,442</b>	<b>36,523</b>	<b>111,391</b>	<b>5,689</b>	<b>117,080</b>
PAS1(106)(d)(i)	Profit for the period	-	-	-	33,366	33,366	3,005	36,371
PAS1(106)(d)(ii)	Other comprehensive income	-	-	5,399	307	5,706	(99)	5,607
PAS1(106)(a)	<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>5,399</b>	<b>33,673</b>	<b>39,072</b>	<b>2,906</b>	<b>41,978</b>
<b>New requirement</b>	Hedging gains and losses and costs of hedging transferred to the carrying value of inventory purchased during the year	12(a)	-	-	74	-	74	-
<b>New requirement</b>	Transfer of gain on disposal of equity investments at fair value through other comprehensive income to retained earnings	7(c)	-	-	(452)	452	-	-
PAS1(106)(d)(iii)	<b>Transactions with owners in their capacity as owners:</b>							
PAS32(22),(35)	Contributions of equity, net of transaction costs and tax	9(a)	10,871	-	-	-	10,871	-
	Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	14	9,730	-	-	-	9,730	-
PAS32(33)	Acquisition of treasury shares	9(b)	-	(1,217)	-	-	(1,217)	-
PAS32(35)	Buy-back of preference shares, net of tax	9(a)	(1,523)	-	-	143	(1,380)	-
	Value of conversion rights on convertible notes	9(b)	-	2,450	-	-	2,450	-
	Non-controlling interests on acquisition of subsidiary	14	-	-	-	-	5,051	5,051
PFRS10(23)	Transactions with non-controlling interests	16(c)	-	-	(333)	-	(333)	(1,167)
	Dividends provided for or paid	13(b)	-	-	(22,837)	(22,837)	(3,017)	(25,854)
	Employee share schemes – value of employee services	9(c)	-	-	2,018	-	2,018	-
PFRS2(50)	Issue of treasury shares to employees	9(b)	-	1,091	(1,091)	-	-	-
			<b>19,078</b>	<b>2,324</b>	<b>594</b>	<b>(22,694)</b>	<b>(698)</b>	<b>867</b>
PAS1(106)(d)	<b>Balance at December 31, 2018</b>	<b>83,054</b>	<b>1,774</b>	<b>17,057</b>	<b>47,954</b>	<b>149,839</b>	<b>9,462</b>	<b>159,301</b>

Not mandatory

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

## Statement of changes in equity

### Accounting standard for the statement of changes in equity

PAS1(106)

1. The statement of changes in equity shall include:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with PAS 8

PAS1(106)(d)

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

- (i) profit or loss
- (ii) other comprehensive income, and
- (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in loss of control.

PAS1(108)

2. Components of equity include each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings. We believe that individual reserves can be disclosed as a single column 'other reserves' if they are similar in nature and can be regarded as a component of equity. The reserves grouped together in Value PFRS Plc's statement of changes in equity are all accounting reserves which have arisen as a result of specific requirements in the accounting standards. This distinguishes them from other reserves that are the result of discretionary transfers within equity, for example capital realisation reserves. Disclosing the individual reserves in the notes rather than on the face of the statement of changes in equity reduces clutter and makes the statement more readable.

PAS1(106A)

3. The reconciliation of changes in each component of equity shall also show separately each item of comprehensive income. However, this information may be presented either in the notes or in the statement of changes in equity. Value PFRS Plc has elected to provide the detailed information in [note 9\(c\)](#) and [\(d\)](#).

PAS1(10)(d)  
IAS7(1),(10)  
PAS1(113)

## Consolidated statement of cash flows <sup>1-3</sup>

	Notes	2018 CU'000	2017 CU'000
IAS7(10),(18)(a)			
<b>Cash flows from operating activities</b>			
IAS7(14)(a)	10(a)	65,156	49,670
IAS7(31)-(33)		1,262	905
IAS7(31)-(33)		(6,617)	(4,044)
IAS7(14)(f),(35),(36)		(16,251)	(12,264)
<b>Net cash inflow from operating activities</b>		<b>43,550</b>	<b>34,267</b>
IAS7(10),(21)			
<b>Cash flows from investing activities</b>			
IAS7(39)	14	(2,600)	-
IAS7(16)(a)	8(a)	(25,387)	(17,602)
IAS7(16)(a)	8(b)	(1,900)	-
IAS7(16)(c)		(259)	(2,029)
IAS7(16)(c)	7(b)	-	(1,175)
IAS7(16)(a)	8(c)	(880)	(720)
IAS7(16)(e)		(1,180)	(730)
IAS7(39)	15	3,110	-
IAS7(16)(b)		9,585	639
IAS7(16)(d),(14)		1,375	820
IAS7(16)(f)		469	626
IAS7(38)	16(e)	160	220
IAS7(31),(33)		3,300	4,300
IAS7(31),(33)		258	249
<b>Net cash (outflow) from investing activities</b>		<b>(13,949)</b>	<b>(15,402)</b>
IAS7(10),(21)			
<b>Cash flows from financing activities</b>			
IAS7(17)(a)	9(a)	12,413	-
	9(a)	1,500	-
IAS7(17)(c)	10(c)	45,903	25,796
IAS7(17)(b)	9(a)	(1,350)	-
IAS7(17)(b)		(1,217)	(299)
	9(a)	(245)	-
IAS7(17)(d)	10(c)	(33,334)	(24,835)
IAS7(17)(e)	10(c)	(805)	-
IAS7(42A),(42B)	16(c)	(1,500)	-
IAS7(31),(34)	13(b)	(22,271)	(10,470)
IAS7(31),(34)	16(b)	(3,017)	(1,828)
<b>Net cash (outflow) from financing activities</b>		<b>(3,923)</b>	<b>(11,636)</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,678</b>	<b>7,229</b>
IAS7(28)		29,018	21,573
		(248)	216
	7(e)	54,448	29,018
IAS7(43) PFRS5(33)(c)	10(b) 15		

Not mandatory

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

## Statement of cash flows

### Definition of cash and cash equivalents

IAS7(6),(7)

1. Cash is cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a short maturity of three months or less from the date of acquisition. Financial instruments can only be included if they are in substance cash equivalents, eg debt investments with fixed redemption dates that are acquired within a short period of their maturity.

### Reporting cash flows

#### *Expenditure on unrecognized assets to be classified as operating cash flows*

IAS7(16)

2. Cash flows can only be classified as arising from investing activities if they result in the recognition of an asset in the balance sheet. Examples of expenditure that should be classified as operating cash flows on this basis are:
  - (a) expenditures on exploration or evaluation activities, unless the entity has a policy of capitalising these expenditures as permitted under PFRS 6 *Exploration for and Evaluation of Mineral Resources*
  - (b) expenditures on advertising or promotional activities, staff training and research and development, and
  - (c) transaction costs related to a business combination.

#### *Disclosing cash flows on a gross or net basis*

IAS7(22)-(24)

3. Cash inflows and outflows must generally be reported gross unless they relate to
  - (a) cash receipts and payments on behalf of customers which reflect the activities of the customer rather than the entity, or
  - (b) items in which the turnover is quick, the amounts are large, and the maturities are short. Financial institutions may also report certain cash flows on a net basis.

#### *Interest, dividends and taxes*

IAS7(31)-(34)

4. PAS 7 does not specify how to classify cash flows from interest paid and interest and dividends received. Value PFRS Plc has chosen to present interest paid and interest received on financial assets held for cash management purposes as operating cash flows, but dividends and interest received on other financial assets as investing cash flows because they are returns on the group's investments. Dividends paid are classified in this publication as financing cash flows because they are a cost of obtaining financial resources. However, they could also be classified as operating cash flows to assist users in determining the ability of an entity to pay dividends out of operating cash flows.

IAS7(35)

5. Cash flows arising from income taxes must be separately disclosed and are classified as operating cash flows unless they can be specifically identified with financing or investing activities.

#### *Discontinued operations*

PFRS5(33)(c)

6. Entities must disclose separately the net cash flows attributable to each of operating, investing and financing activities of discontinued operations. There are different ways of presenting this information, but the underlying principle is that the cash flow statement must give the cash flows for the total entity including both continuing and discontinued operations. [Entities might comply with the disclosure requirements in the following ways:](#)
  - (a) [No presentation of cash flows from discontinued operations on the face of the cash flow statement \(that is, gross cash flows are presented\), with a breakdown between the three categories presented in the notes. This is the presentation chosen by Value PFRS Plc, see \[note 15\]\(#\).](#)
  - (b) [Cash flows from discontinued operations are split between the three relevant categories on the face of the cash flow statement, with one line being included within each category including the relevant results from discontinued operation. A total is presented for each category.](#)
  - (c) [Information is presented separately for continuing and discontinued operations on a line-by-line basis, on the face of the cash flow statement. A total is presented for each category.](#)



## *Contents of the notes to the financial statements* <sup>1-8</sup>

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## Contents of the notes to the financial statements

### Structure of the notes

- PAS1(113) 1. Notes shall, as far as practicable, be presented in a systematic manner, keeping in mind the understandability and comparability of the financial statements. Each item in the balance sheet, statement of comprehensive income, statement of changes in equity and statement of cash flows shall be cross referenced to any related information in the notes.
- PAS1(114) 2. Examples of systematic ordering of notes include:
- (a) giving prominence to the areas of the entity's activities that are most relevant to an understanding of the financial performance and financial position, for example by grouping together information about particular operating activities
  - (b) grouping together information about items that are measured similarly, for example assets measured at fair value, or
  - (c) following the order of the line items in the financial statements, by disclosing
    - (i) a statement of compliance with PFRS (refer to paragraph 16 of PAS 1)
    - (ii) a summary of significant accounting policies applied (refer to paragraph 117 of PAS 1)
    - (iii) supporting information for items presented in the balance sheet, statement of comprehensive income, statement of changes in equity and statement of cash flows, in the order in which each statement and each line item is presented, and
    - (iv) other disclosures, including:
      - contingent liabilities (refer to PAS 37) and unrecognized contractual commitments, and
      - non-financial disclosures; for example, the entity's financial risk management objectives and policies (refer to PFRS 7).
- PAS1(114) 3. Traditionally, most financial reports have used the structure suggested in 2(c) above. However, financial report preparers increasingly consider annual reports to be an important tool in the communication with stakeholders and not just a mere compliance exercise. As a consequence, there is a growing interest in alternative formats of the financial statements.
- PAS1(114) 4. This trend is supported by the IASB's Disclosure Initiative. As part of this project, the IASB made amendments to PAS 1 *Presentation of Financial Statements* which have provided preparers with more flexibility in presenting the information in their financial reports.
5. This VALUE PFRS publication demonstrates one possible way of how financial reports could be improved if the existing information was presented in a more user-friendly order. To do so, we have presented information about specific aspects of the entity's financial position and performance together. For example, the entity's exposure and management of financial risks is dealt with in notes 11 to 13 while information about the group structure and interests in other entities is presented in notes 14 to 16. Colour coding helps to find relevant information quickly.
6. In addition, the notes relating to individual line items in the financial statements disclose the relevant accounting policies as well as information about significant estimates or judgements. Accounting policies that merely summarize mandatory requirements are disclosed at the end of the financial report, as they are not relevant for the majority of users. This structure makes the information in the financial report more accessible for users and provides a basis for considering the most useful structure for your entity's report.
7. However, it is important to note that the structure used in this publication is not mandatory and is only one possible example of improved readability. In fact, our experience has shown that there is not one structure that is suitable for all entities. Rather, the appropriate structure depends on the entity's business and each entity should consider what would be most useful and relevant for their stakeholders based on their individual circumstances.

### Materiality matters

- PAS1(30A)  
PFRS PS2 8. When drafting the disclosures in the notes to the financial statements, also remember that too much immaterial information could obscure the information that is actually useful to readers. Some of the disclosures in this publication would likely be immaterial if Value PFRS Plc was a 'real life' company. The purpose of this publication is to provide a broad selection of illustrative disclosures which cover most common scenarios encountered in practice. The underlying story of the company only provides the framework for these disclosures and the amounts disclosed are not always realistic. Disclosures should not be included where they are not relevant or not material in specific circumstances. [Further guidance on assessing materiality is provided in the non-mandatory PFRS Practice Statement 2 Making Materiality Judgements.](#)

## Notes to the financial statements

Not mandatory

### 1 Significant changes in the current reporting period

The financial position and performance of the group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of VALUE PFRS Electronics Group in April 2018 (see [note 14](#)) which resulted in an increase in property, plant and equipment ([note 8\(a\)](#)) and the recognition of goodwill and other intangible assets ([note 8\(c\)](#)).
- The sale of the engineering subsidiary in February 2018 (see [note 15](#)).
- The sale of surplus land by VALUE PFRS Consulting Inc (see [note 4](#)).
- A fire in Springfield in March 2018 which resulted in the impairment of a number of assets (see [note 4](#)).
- A review of the furniture manufacturing operations which led to redundancies and a goodwill impairment charge (see [notes 8\(h\)](#) and [8\(c\)](#)).
- [The designation of foreign currency options as hedging instruments \(see note 26\(b\)\(ii\)\).](#)
- [The adoption of the new accounting standards for financial instruments and revenue from contracts with customers \(see note 26\).](#)

For a detailed discussion about the group's performance and financial position please refer to our operating and financial review on pages [x] to [y].

Some of the amounts reported for the previous period have been restated to correct an error. Detailed information about these adjustments can be found in [note 11\(b\)](#).

#### Significant changes in the current reporting period

1. There is no requirement to disclose a summary of significant events and transactions that have affected the company's financial position and performance during the period under review. We believe that information such as this would help readers understand the entity's performance and any changes to the entity's financial position during the year and make it easier finding the relevant information. However, information such as this could also be provided in the (unaudited) operating and financial review rather than the (audited) notes to the financial statements.

#### Disclosures not illustrated: going concern disclosures

2. When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its 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, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.
3. Where there are material uncertainties about the entity's ability to continue as a going concern, this fact should be disclosed upfront, for example in a note such as this.
4. A disclosure of material uncertainties about the entity's ability to continue as a going concern should:
  - (a) adequately describe the principal events and conditions that give rise to the significant doubt on the entity's ability to continue as a going concern
  - (b) explain management's plans to deal with these events or conditions, and
  - (c) state clearly that:
    - (i) there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and
    - (ii) the entity may therefore be unable to realize its assets and discharge its liabilities in the normal course of business.

PAS1(25)

ISA570(19)(a)

ISA570(19)(a)

ISA570(19)(b)

## *How numbers are calculated*

### Not mandatory

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the entity, including:

- (a) accounting policies that are relevant for an understanding of the items recognized in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction
- (b) analysis and sub-totals, including segment information
- (c) information about estimates and judgements made in relation to particular items.

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## 2 Segment information <sup>6,7</sup>

### 2(a) Description of segments and principal activities <sup>1</sup>

PFRS8(22)  
PAS1(138)(b)

The group's strategic steering committee, consisting of the chief executive officer, the chief financial officer and the manager for corporate planning, examines the group's performance both from a product and geographic perspective and has identified six reportable segments of its business:

**1,2: Furniture manufacturing – Oneland and China:** this part of the business manufactures and sells commercial office furniture, hardwood side boards, chairs and tables in Oneland and China. The committee monitors the performance in those two regions separately.

PFRS8(22)(aa)

**3: Furniture retail** – since January 2016, the manufacturing business has been supplemented by a chain of retail stores in Oneland. While the committee receives separate reports for each region, the stores have been aggregated into one reportable segment as they have similar average gross margins and similar expected growth rates. <sup>1</sup>

**4,5: IT consulting** – business IT management, design, implementation and support services are provided in the US and in a number of European countries. Performance is monitored separately for those two regions.

**6: Electronic equipment** – Although this part of the business is not large enough to be required to be reported under the accounting standards, it has been included here as it is seen as a potential growth segment which is expected to materially contribute to group revenue in the future. This segment was established following the acquisition of VALUE PFRS Electronics Group in April 2018.

PFRS8(16),(22)

**All other segments** – The development of residential land, currently in the Someland Canal Estate in Nicetown and the Mountain Top Estate in [Alpville and the ownership of investment](#) properties are not reportable operating segments, as they are not separately included in the reports provided to the strategic steering committee. The results of these operations are included in the 'all other segments' column. The column also includes head office and group services.

The engineering subsidiary was sold effective from 1 March 2018. Information about this discontinued segment is provided in [note 15](#).

The steering committee primarily uses a measure of adjusted earnings before interest, tax, depreciation and amortization (EBITDA, see below) to assess the performance of the operating segments. However, the steering committee also receives information about the segments' revenue and assets on a monthly basis. Information about segment revenue is disclosed in [note 3](#).

PFRS8(23)

### 2(b) Adjusted EBITDA <sup>2</sup>

PFRS8(27)(b),(28)

Adjusted EBITDA excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings such as restructuring costs, legal expenses, and impairments when the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments and unrealized gains or losses on financial instruments.

Interest income and finance cost are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the group.

PFRS8(23)

	2018 CU'000	2017 Restated CU'000
Furniture manufacture		
Oneland	14,280	16,310
China	12,900	6,990
Furniture retail – Oneland	15,400	5,204
IT Consulting		
US	16,500	14,035
Europe	7,766	9,880
Electronic equipment - Oneland	3,400	-
All other segments	4,705	5,096
<b>Total adjusted EBITDA</b>	<b>74,951</b>	<b>57,515</b>

PFRS8(23)

**2(b) Adjusted EBITDA**

PFRS8(28)(b)

Adjusted EBITDA reconciles to operating profit before income tax as follows:

PFRS8(23)

	Notes	2018 CU'000	2017 Restated * CU'000
<b>Total adjusted EBITDA</b>		<b>74,951</b>	<b>57,515</b>
Intersegment eliminations		(390)	(360)
Finance costs – net	5(d)	(5,597)	(5,367)
Interest income on financial assets held as investments	5(a)	258	249
Depreciation and amortization	5(c)	(11,116)	(8,880)
Litigation settlement	4	-	(370)
Goodwill impairment	4	(2,410)	-
Restructuring costs	4	(1,377)	-
Fair value gains/(losses) on financial assets at FVPL	5(b)	955	(690)
Share options and rights granted to directors and employees	21(e)	(2,156)	(1,353)
Impairment of other assets	4,3(b)	(1,287)	-
Other		250	250
<b>Profit before income tax from continuing operations</b>		<b>52,081</b>	<b>40,994</b>

New illustration

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

**2(c) Other profit and loss disclosures <sup>3</sup>**

PFRS8(23)(e),(f),(g),(h)

2018	Material items CU'000	Depreciation and amortization CU'000	Income tax expense CU'000	Share of profit from associates and joint ventures CU'000
Furniture manufacture				
Oneland	(910)	(4,250)	(3,968)	48
China	(3,787)	(2,161)	(3,650)	-
Furniture retail – Oneland	-	(2,274)	(3,965)	-
IT Consulting				
US	1,270	(831)	(2,164)	250
Europe	-	(430)	(750)	-
Electronic equipment -				
Oneland	-	(275)	(800)	-
All other segments	-	(895)	(556)	42
Unallocated items	-	-	(584)	-
<b>Total</b>	<b>(3,427)</b>	<b>(11,116)</b>	<b>(16,437)</b>	<b>340</b>
2017	Material items CU'000	Depreciation and amortization CU'000	Income tax expense CU'000	Share of profit from associates and joint ventures CU'000
Furniture manufacture				
Oneland	715	(3,190)	(3,805)	60
China	-	(2,068)	(2,506)	-
Furniture retail – Oneland	-	(1,800)	(793)	-
IT Consulting				
US	-	(543)	(2,724)	220
Europe	-	(447)	(727)	-
All other segments	(370)	(832)	(860)	75
Unallocated items	-	-	(572)	-
<b>Total</b>	<b>345</b>	<b>(8,880)</b>	<b>(11,987)</b>	<b>355</b>

There was no impairment charge or other significant non-cash item recognized in 2017. For details about the material items refer to note 4 below.



**2(d) Segment assets**

PFRS8(27)(c)

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

PFRS8(23),(24)

	Year ended December 31, 2018			Year ended December 31, 2017		
	Segment assets	Investments in associates and joint ventures	Additions to non-current assets *	Segment assets Restated **	Investments in associates and joint ventures	Additions to non-current assets *
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Furniture manufacture						
Oneland	61,830	550	8,947	61,900	490	5,970
China	45,500	-	5,685	45,700	-	4,370
Furniture retail – Oneland	51,600	-	3,725	18,000	-	-
IT Consulting						
US	31,640	2,250	2,600	31,043	1,900	3,887
Europe	23,510	-	11,350	23,325	-	1,695
Electronic equipment - Oneland	32,305	-	1,300	-	-	-
All other segments	28,862	975	1,580	25,714	885	1,115
<b>Total segment assets</b>	<b>275,247</b>	<b>3,775</b>	<b>35,187</b>	<b>205,682</b>	<b>3,275</b>	<b>17,037</b>
Intersegment eliminations	(1,300)			(1,270)		
Discontinued operation (Engineering – see note 15)	-			4,955		
Unallocated:						
Deferred tax assets	7,307			4,933		
Financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	6,782			8,228		
Debenture assets and bonds at amortized cost	1,314			-		
Held-to-maturity investments	-			1,175		
Financial assets at fair value through profit or loss	13,690			10,915		
Derivative financial instruments	2,162			2,129		
<b>Total assets as per the balance sheet</b>	<b>305,202</b>			<b>236,747</b>		

\* Other than financial assets and deferred tax

New illustration

\*\* See note 26 for details about restatements for changes in accounting policies.

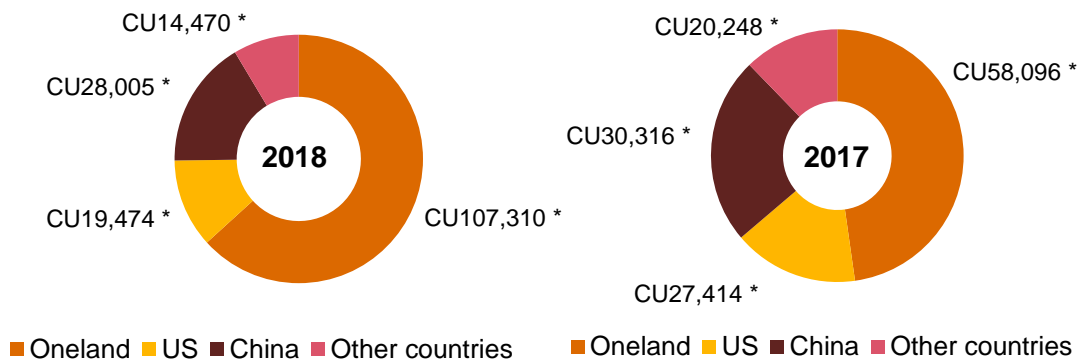
PFRS8(27)(c)  
Revised illustration

Investments in financial assets that are managed by the treasury department are not considered to be segment assets. These are investments in debt and equity instruments that are classified as at fair value through other comprehensive income, fair value through profit or loss and at amortized cost (prior year: available-for-sale financial assets, held-to-maturity investments or financial assets at fair value through profit or loss).

**2(d) Segment assets**

PFRS8(33)(b)

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets, is shown in the following graphs: <sup>4</sup>



\* Amounts are in CU'000

**2(e) Segment liabilities**

PFRS8(27)(d)

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

PFRS8(27)(d)

The group's borrowings and derivative financial instruments are not considered to be segment liabilities, but are managed by the treasury function.

PFRS8(23)

	2018 CU'000	2017 Restated * CU'000
Furniture manufacture		
Oneland	7,005	7,290
China	4,800	2,150
Furniture retail – Oneland	5,950	2,779
IT Consulting		
US	3,900	5,079
Europe	2,600	2,270
Electronic equipment - Oneland	5,259	-
All other segments	1,112	2,773
<b>Total segment liabilities</b>	<b>30,626</b>	<b>22,341</b>
Intersegment eliminations	(1,175)	(1,120)
Discontinued operation (Engineering – see note 15)	-	500
Unallocated:		
Deferred tax liabilities	12,465	6,968
Current tax liabilities	1,700	1,138
Current borrowings	9,155	8,750
Non-current borrowings	91,754	79,330
Derivative financial instruments	1,376	1,398
<b>Total liabilities as per the balance sheet</b>	<b>145,901</b>	<b>119,305</b>

PFRS8(28)(d)

\*\* See note 26 for details about restatements for changes in accounting policies.

Not mandatory  
Revised illustration

## 2(f) Restatements for error and changes in accounting policy <sup>5</sup>

Due to a misinterpretation of the terms and conditions of a major leasing contract, segment assets of the Oneland Furniture manufacture segment for the year ended December 31, 2017 were overstated by CU1,300,000. The error also had the effect of overstating adjusted EBITDA for the year ended December 31, 2017 for that segment by CU275,000.

The error has been corrected by restating each of the affected segment information line items for the prior year, as described above. Further information on the error is set out in [note 11\(b\)](#).

The changes in accounting policy disclosed in [note 26](#) increased EBITDA and segment assets for the US IT Consulting segment by CU520,000 for the year ended December 31, 2017.

PFRS8(27)(e)

## Segment information

### Description of segments

PFRS8(22)

1. Entities shall disclose factors used to identify its reportable segments, including the basis of organisation, and types of products and services from which each reportable segment derives its revenues. They must also disclose the judgements made by management in applying the aggregation criteria of the standard, including a description of the aggregated segments and the economic indicators that have been assessed in determining that the aggregated segments share similar economic characteristics.

### Non-GAAP segment measures

PFRS8(25),(27)

2. The measure of profit or loss that must be disclosed is the measure that is reported to the chief operating decision maker (CODM). The standard is not prescriptive as to how this measure should be calculated and a non-GAAP or non-PFRS measure is acceptable, as long as it is clear from the disclosures how the measure is calculated and there is a detailed reconciliation of the disclosed measure to the respective PFRS amount. Having said that, entities will also need to consider the view of their local regulator on the use of non-GAAP segment measures in the financial report (see [Appendix A](#) for further guidance).

### Other profit and loss disclosures

PFRS8(23)

3. The disclosure of other profit and loss items such as depreciation, amortization and income tax by segment is only required where these amounts are reviewed by, or are otherwise regularly provided to the CODM.

### Using graphs to disclose quantitative information

4. There is nothing in the segment standard or any other PFRS that would appear to prohibit the use of graphics for disclosing quantitative information. However, entities will need to confirm whether this is acceptable under their own local regulatory requirements.

### Errors and changes in accounting policies

5. PFRS 8 does not provide any guidance on how to deal with the correction of errors and changes in accounting policies in the segment disclosures. Management may decide not to restate comparative information and may not adjust segment measures for changes made to the accounting policies. In this case, the impact of the error or changes in accounting policies will be disclosed in the reconciliation to the reported results. Where the entity has restated prior year segment information and the adjustments are material, information about the adjustments is likely to be relevant to the understanding of segment information, and disclosure along the lines of that shown in the illustrative note may be necessary to adequately explain the information presented. Changes made to the measurement methods adopted in preparing the segment information will need to be disclosed under paragraph 27(e) of PFRS 8.

### Discontinued operations

6. PFRS 8 does not provide guidance as to whether segment disclosures apply to discontinued operations. Value PFRS Plc has not disclosed the results of the discontinued operation within the segment disclosures. This decision was based on the fact that the CODM did not separately review the results of this division since the decision to dispose of it. A discontinued operation should be presented within the segment note if it meets the quantitative threshold for disclosure and if the CODM reviews the results of the division.

## Segment information

### Disclosures not illustrated: not applicable to Value PFRS Plc

7. The following disclosures are not illustrated in this publication as they are not applicable to Value PFRS Plc:

PFRS8(23)(c),(d)	(a) information about interest revenue and interest expense for each reportable segment (if provided to the CODM)
PFRS8(27)(f)	(b) the nature and effect of asymmetrical allocations to reportable segments
PFRS8(28)(e)	(c) reconciliations for other material amounts disclosed in the segment note
PFRS8(29),(30)	(d) explanations regarding restatements of previously reported information following an internal reorganisation
PAS36(129)(b)	(e) reversal of impairment losses by reportable segment
IAS7(50)(d)	(f) cash flows by reportable segment (encouraged but not mandatory), and
PFRS8(27)(e)	(g) changes in measurement methods (explain impact on reported segment profit or loss).

## 3 Revenue from contracts with customers <sup>1,7</sup>

### 3(a) Disaggregation of revenue from contracts with customers <sup>2-4</sup>

PFRS15(114)

The group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	2018	Furniture – manufacture		Furniture-retail	IT Consulting		Electronic equipment	All other segments CU'000	Total CU'000
		Oneland CU'000	China CU'000	Oneland CU'000	US CU'000	Europe CU'000	Oneland CU'000		
PFRS15(115) PFRS8(23)(b)	Segment revenue	55,100	35,100	31,609	33,300	16,900	13,850	16,600	202,459
	Inter-segment revenue	(1,200)	(700)	(900)	(800)	(300)	(500)	(400)	(4,800)
PFRS8(23)(a),(28)(a)	Revenue from external customers	53,900	34,400	30,709	32,500	16,600	13,350	16,200	197,659
PFRS15(B87)-(B89) New requirement	Timing of revenue recognition								
	At a point in time	53,900	34,400	30,709	1,000	600	13,350	16,200	150,159
	Over time	-	-	-	31,500	16,000	-	-	47,500
		53,900	34,400	30,709	32,500	16,600	13,350	16,200	197,659
	2017	Furniture – manufacture		Furniture-retail	IT Consulting		Electronic equipment	All other segments CU'000	Total CU'000
		Oneland CU'000	China CU'000	Oneland Restated CU'000	US CU'000	Europe CU'000	Oneland CU'000		
PFRS15(115) PFRS8(23)(b)	Segment revenue	60,350	36,860	20,365	22,600	14,790	-	10,199	165,164
	Inter-segment revenue	(1,150)	(1,100)	-	(600)	(610)	-	(100)	(3,560)
PFRS8(23)(a),(28)(a)	Revenue from external customers	59,200	35,760	20,365	22,000	14,180	-	10,099	161,604
PFRS15(B87)-(B89) New requirement	Timing of revenue recognition								
	At a point in time	59,200	35,760	20,365	800	500	-	10,099	126,724
	Over time	-	-	-	21,200	13,680	-	-	34,880
		59,200	35,760	20,365	22,000	14,180	-	10,099	161,604

PFRS8(32)

Revenues from external customers come from the sale of furniture on a wholesale and retail basis, from the provision of IT consulting services and from the sale of electronic equipment. The revenue from wholesale sales of furniture relates only to the group's own brand, Pina Colada Furniture. The retail sales relate to the group's own brand as well as other major retail brands.

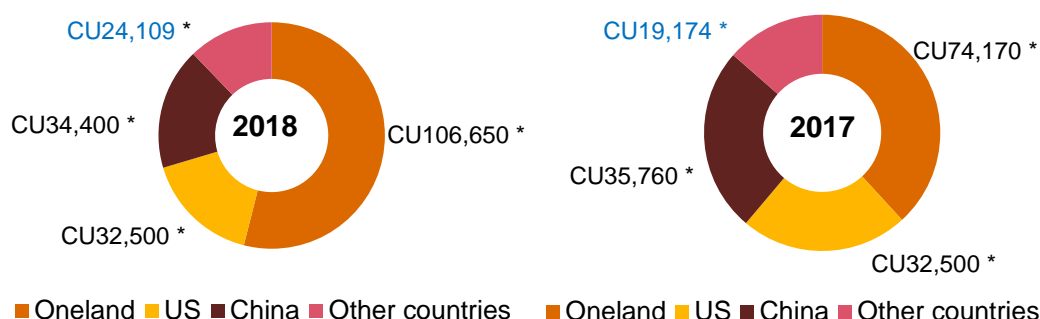
### 3(a) Disaggregation of revenue from contracts with customers

PFRS8(34)

Revenues of approximately CU26,320,000 (2017 – CU24,280,000) are derived from a single external customer. These revenues are attributed to the Oneland furniture manufacturing segment.

PFRS8(33)(a)

The entity is domiciled in Oneland. The amount of its revenue from external customers broken down by location of the customers is shown in the graphs below.



\* Amounts are in CU'000

### 3(b) Assets and liabilities related to contracts with customers

The group has recognized the following assets and liabilities related to contracts with customers:

	Notes	31 Dec 2018 CU'000	31 Dec 2017* CU'000	1 Jan 2017* CU'000
PAS1(77)	Current contract assets relating to IT consulting contracts			
	(b)(i),(c)(iv)	1,547	2,597	1,897
	Loss allowance	(61)	-	-
	12(c)			
PFRS15(116)(a) New requirement	Total contract assets	1,486	2,597	1,897
PAS1(77)	Non-current asset recognized for costs incurred to fulfil a contract			
	(b)(iv)	312	520	-
PAS1(77), PFRS15(120)(a)	Contract liabilities – customer loyalty programme	552	536	450
PAS1(77)	Contract liabilities – IT consulting contracts	1,430	989	205
PFRS15(116)(a) New requirement	Total current contract liabilities	1,982	1,525	655

\* Reclassified and remeasured amounts – see note 26 for explanations

New requirement

#### (i) Significant changes in contract assets and liabilities

PFRS15(118),(113)(b)

Contract assets have decreased as the group has provided fewer services ahead of the agreed payment schedules for fixed-price contracts. The group also recognized a loss allowance for contract assets following the adoption of PFRS 9, see note 12(c) for further information.

Contract liabilities for expected volume discounts and IT consulting contracts have increased by CU473,000 following the acquisition of VALUE PFRS Electronics Group, see note 14. The increase in 2017 was due to the negotiation of larger prepayments and an increase in overall contract activity.

### 3(b) Assets and liabilities related to contracts with customers

		31 Dec 2018 CU'000	31 Dec 2017 Restated CU'000
<b>New requirement</b>	<b>(ii) Revenue recognized in relation to contract liabilities</b>		
	The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.		
PFRS15(116)(b)	<i>Revenue recognized that was included in the contract liability balance at the beginning of the period</i>		
	IT consulting contracts	989	205
	Customer loyalty programme	536	450 *
PFRS15(116)(c)	<i>Revenue recognized from performance obligations satisfied in previous periods</i>		
	Consideration from furniture wholesale contract, not previously recognized due to the constraint, see c(i) below.	150	-
	* See note 26 for details about changes in accounting policies		
<b>New requirement</b>	<b>(iii) Unsatisfied long-term consulting contracts</b>		
	The following table shows unsatisfied performance obligations resulting from fixed-price long-term IT consulting contracts.		
		31 Dec 2018 CU'000	31 Dec 2017 * CU'000
PFRS15(120)(a)	Aggregate amount of the transaction price allocated to long-term IT consulting contracts that are partially or fully unsatisfied as at December 31	8,881	- *
PFRS15(C5)(d),(C6)	* As permitted under the transitional provisions in PFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of December 31, 2017 is not disclosed.		
PFRS15(120)(b),(122)	Management expects that 60% of the transaction price allocated to the unsatisfied contracts as of December 31, 2018 will be recognized as revenue during the next reporting period (CU5,328,000). The remaining 40% (CU3,553,000) will be recognized in the 2019 financial year. The amount disclosed above does not include variable consideration which is constrained.		
PFRS15(121),(122)	All other IT consulting contracts are for periods of one year or less or are billed based on time incurred. As permitted under PFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.		
<b>New requirement</b>	<b>(iv) Assets recognized from costs to fulfil a contract</b>		
	In addition to the contract balances disclosed above, the group has also recognized an asset in relation to costs to fulfil a long-term IT contract. This is presented within other assets in the balance sheet.		
		31 Dec 2018 CU'000	31 Dec 2017 * Restated CU'000
PFRS15(128)(a)	Asset recognized from costs incurred to fulfil a contract at December 31	312	520
PFRS15(128)(b)	Amortization and impairment loss recognized as cost of providing services during the period	208	-
	* See note 26 for details about changes in accounting policies		
PFRS15(118),(127)	In adopting PFRS 15, the group recognized an asset in relation to costs incurred in developing an IT platform that is used to fulfil an IT consulting fixed-price contract. These costs had been expensed as incurred in 2017, see note 26(c)(iii) for further explanations. The asset is amortize		
PAS36(126)(a)	d on a straight-line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue. Due to an increase in expected costs by 30% in the financial year 2018, management does not expect the capitalized costs to be completely recovered. An impairment loss of CU77,000 has therefore been recognized for the excess of the capitalized cost over the expected remaining consideration less any directly related costs not yet recognized as expense.		



PFRS15(119)

**3(c) Accounting policies and significant judgements** <sup>5-6</sup>**New requirements**PFRS15(119)(a),(c),  
(123)(a),(125)**(i) Sale of goods - wholesale**

The group manufactures and sells a range of furniture and electronic equipment in the wholesale market. Sales are recognized when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

PFRS15(119)(b),(d),(e)  
(123)(b),(126)

The furniture is often sold with **retrospective** volume discounts based on aggregate sales over a 12 **months** period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A **refund liability (included in trade and other payables)** is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The group's obligation to **repair or replace** faulty products under the standard warranty terms is recognized as a provision, see **note 8(h)**.

PFRS15(117)

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

PFRS15(123),(126)(a),(b)

**New illustration****Critical judgements in recognising revenue**

The group has recognized revenue amounting to CU2,950,000 for sale of furniture to a wholesale customer in December 2018. The buyer has the right to rescind the sale if there is 5% dissatisfaction with the quality of the first 100 pieces of furniture sold. This specific concession was made because this is a new product line specifically designed for this customer. However, consistent with other contracts, the group does not have a right to payment until the furniture has been delivered to the customer. Based on the quality assurance system implemented, the group is confident that the quality of the product is such that the dissatisfaction rate will be well below 5%. Management have determined that it is highly probable that there will be no rescission of the contract and a significant reversal in the amount of revenue recognized will not occur. It is therefore appropriate to recognize revenue on this transaction during 2018 as control of the product is transferred to the customer. The profit recognized for this sale was CU1,625,000. The group would suffer an estimated pre-tax loss of CU1,760,000 in its **2019** financial statements if the sale is cancelled (CU1,625,000 for the reversal of 2018 profits and CU135,000 of costs connected with returning the stock to the warehouse).

In 2017, the group did not recognize revenue of CU280,000 in relation to a wholesale contract with volume discounts for a new customer and new product line. The group did not have any experience with the customer's purchase pattern and the product line. Management therefore determined that it was not highly probable that a portion of the revenue will not reverse. Of the CU280,000 of revenue not recognized in 2017, CU150,000 was recognized in the current financial year based on the actual volume sold for the contract period, see (b)(ii) above.

**New requirements**PFRS15(119)(a),(c)  
(123),(125)**(ii) Sale of goods - retail**

The group operates a chain of retail stores selling household furniture. Revenue from the sale of goods is recognized when a group entity sells a product to the customer.

PFRS15(117),(119)(b),(d)  
(123)(b),(126)

Payment of the transaction price is due immediately when the customer purchases the furniture **and takes delivery in store**. It is the group's policy to sell its products to the end customer with a right of return within 28 days. Therefore, a **refund liability (included in trade and other payables)** and a right to the returned goods (included in other current assets) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

PFRS15(119)(e)

The group's obligation to **repair or replace** faulty products under the standard warranty terms is recognized as a provision, see **note 8(h)**.

PFRS15(119)

**3(c) Accounting policies and significant judgements****New requirements**PFRS15(119)(a),(c),(120)(b),  
125)*(iii) Sale of goods – customer loyalty programme*

The group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. A contract liability for the award points is recognised at the time of the sale. Revenue is recognized when the points are redeemed or when they expire 12 months after the initial sale.

PFRS15(123)(b),(126)(c)

**New illustration***Critical judgements in allocating the transaction price*

The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. Management estimates the stand-alone selling price per point on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience.

The stand-alone selling price of the product sold is estimated on the basis of the retail price. Discounts are not considered as they are only given in rare circumstances.

PFRS15(117)

A contract liability is recognized until the points are redeemed or expire.

**New requirements**

PFRS15(119)(a),(c),(124)

*(iv) IT Consulting services*

The IT consulting division provides business IT management, design, implementation and support services under fixed-price and variable price contracts. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

PFRS15(119)(c)

Some contracts include multiple deliverables, such as the sale of hardware and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of hardware, revenue for the hardware is recognized at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

PFRS15(22),(73),(79),  
119(a),(125)

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

PFRS15(117)

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Value PFRS Plc exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

PFRS15(117),(B16)

If the contract includes an hourly fee, revenue is recognized in the amount to which Value PFRS Plc has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

PFRS15(123)(b),(126)(c)

**New illustration***Critical judgements in allocating the transaction price*

Some fixed-price IT support contracts include an allowance for one free of charge hardware replacement per contract period up a specified value. Because these contracts include two performance obligations, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis.

Management estimates the stand-alone selling price at contract inception based on observable prices of the type of hardware likely to be provided and the services rendered in similar circumstances to similar customers. If a discount is granted, it is allocated to both performance obligations based on their relative stand-alone selling prices.

PFRS15(119)

**3(c) Accounting policies and significant judgements****New requirements**PFRS15(119)(a),(c)  
(123),(125)**(v) Land development and resale**

The group develops and sells residential properties. Revenue is recognized when control over the property has been transferred to the customer. The properties have generally no alternative use for the group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer.

PFRS15(117),(119)(b)  
(123)(b),(126),(129),(63)

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

**New requirements**

PFRS15(129),(63)

**(vi) Financing components**

The group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

**Revenue****Objectives**

PFRS15(110)

1. Users of the financial statements should be given sufficient information to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve this, entities must provide qualitative and quantitative information about their contracts with customers, significant judgement made in applying PFRS 15 and any assets recognized from the costs to obtain or fulfil a contract with customers.

**Disaggregation of revenue**PFRS15(114),  
(B87)-(B89)

2. Entities must disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will depend on the specific circumstances of each entity as to how much detail is disclosed. Value PFRS Plc has determined that a disaggregation of revenue using existing segments and the timing of the transfer of goods or services (at a point in time vs over time) is adequate for its circumstances. However, this is a judgement and will not necessarily be appropriate for other entities.
3. Other categories that could be used as basis for disaggregation include:
  - (a) type of good or service (eg major product lines)
  - (b) geographical regions
  - (c) market or type of customer
  - (d) type of contract (eg fixed price vs time-and-materials contracts)
  - (e) contract duration (short-term vs long-term contracts), or
  - (f) sales channels (directly to customers vs wholesale).
4. When selecting categories for the disaggregation of revenue entities should also consider how their revenue is presented for other purposes, eg in earnings releases, annual reports or investors presentation and what information is regularly reviewed by the chief operating decision makers. Where revenue is disaggregated on a basis other than reportable segments, the entity must disclose sufficient information so users of their financial statements can understand the relationship between the disaggregated revenue and the revenue information that is disclosed for each reportable segment.

PFRS15(115)

**Accounting policies and significant judgements**

5. As explained on page 27, it is helpful for readers of the financial report if the notes for specific line items in the financial statements also set out:
  - (a) information about accounting policies that are specific to the entity, and that explain how the line items are determined, and
  - (b) information about significant judgements and estimates applied in relation to line items.
 However, this format is not mandatory.

## Revenue

6. A full list of all accounting policies is provided in [note 25](#) together with relevant commentary. Detailed commentary regarding the disclosure of significant judgements and estimates is provided in [note 11](#).

**Disclosures not illustrated: not applicable to Value PFRS Plc**

7. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

Issue not illustrated	Relevant disclosures or reference
Revenue from contracts with customers is disclosed together with other sources of revenue in the statement of profit or loss	Disclose items of revenue from contracts with customers separately from other sources of revenue
Costs incurred to obtain a contract	For assets recognized, provide disclosures as per PFRS 15 paragraphs 127 and 128. Where no asset is recognized because the period of amortization is one year or less, disclose that fact.

PFRS15(113)

PFRS15(127)-(129),(94)

## 4 Material profit or loss items <sup>1.2</sup>

PAS1(119),(97)

The group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the group.

	Notes	2018 CU'000	2017 CU'000
PAS1(97),(98)(c)	(a)	1,270	-
PAS1(97),(98)(b)	8(h)	(1,377)	-
PAS1(97)	8(c)	(2,410)	-
PAS36(126)(a)	(b)		
PAS36(130)(b)		(465)	-
		(210)	-
		(535)	-
PAS1(97)		<u>(1,210)</u>	-
	(b)	300	-
PAS1(97),(98)(c)	(c)	-	(230)
PAS1(97),(98)(f)	(d)	-	(370)
	(e)	-	945
PAS1(97)		<u>(3,427)</u>	<u>345</u>
	15	<u>481</u>	-

### 4(a) Sale of freehold land

Following the rezoning of land held by VALUE PFRS Consulting Inc, the entity sold a large parcel of freehold land at a significant profit and realized a gain of CU1,270,000 (included in the IT consulting – US segment).

### 4(b) Impairment of other assets

PAS36(129)(a),  
(130)(a),(c)

A fire in Springfield in March 2018 damaged a major office and warehouse building owned by a subsidiary that is part of the Oneland furniture manufacturing segment. The fire also destroyed equipment and inventories stored in the warehouse.

PAS36(130)(e),(f)

The office and warehouse was written down to its recoverable amount of CU1,220,000, which was determined by reference to the building's fair value less costs of disposal. The main valuation inputs used were a market value of CU105 per square meter (determined by an independent valuer) and costs of repair, estimated by management to be approximately CU430,000. Since the estimated costs of repair are a significant unobservable input, the fair value of the office and warehouse is classified as a level 3 fair value.

As the inventory and equipment were destroyed beyond repair, their fair value less cost of disposal was nil.

PAS36(126)(a)

The impairment loss is included in [administrative](#) expenses in the statement of profit or loss.

PAS16(74)(d)

An insurance recovery of CU300,000 has been received and recognized as other income.

### 4(c) Disposal of plant and equipment

VALUE PFRS Manufacturing upgraded its plant and equipment by installing a large new production line in its Springfield factory in the previous financial year. There were several items of old equipment that had to be removed to make place for the new plant. Since the items were using superseded technology, the entity was not able to sell them at their carrying amounts but incurred a loss of CU230,000 on disposal (included in the Furniture manufacture – Oneland segment).

### 4(d) Litigation settlement

In January 2017, VALUE PFRS Development Limited paid CU370,000 as settlement for a claim lodged against the company following the termination of the Pinetree development in Alpville (included in 'other segments' in the segment note).

#### 4(e) Recognition of tax losses

Following a significant improvement in trading conditions in the Oneland furniture manufacturing segment in 2017, the group reviewed previously unrecognized tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilized. As a consequence, a deferred tax asset of CU945,000 was recognized for these losses in 2017.

#### Material profit or loss items

PAS1(97),(98)

1. When items of income and expense are material, their nature and amount shall be disclosed separately either in the statement of comprehensive income, the statement of profit or loss where applicable, or in the notes. Circumstances that would give rise to the separate disclosure of items of income and expense include:
  - (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs
  - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring
  - (c) disposals of items of property, plant and equipment
  - (d) disposals of investments
  - (e) discontinued operations (refer to [note 15](#))
  - (f) litigation settlements
  - (g) other reversals of provisions, and
  - (h) gains or losses recognized in relation to a business combination.
2. Material items do not need to be presented in a separate note. However, in our view it will be easier for users to assess the impact of such items on the entity's performance, if this information is presented together.

## 5 Other income and expense items <sup>1,8</sup>

This note provides a breakdown of the items included in 'other income', 'other gains/(losses)', 'finance income and costs' and an analysis of expenses by nature. Information about specific profit and loss items (such as gains and losses in relation to financial instruments) is disclosed in the related balance sheet notes.

PAS1(112)(c)

### 5(a) Other income

	Notes	2018 CU'000	2017 CU'000
Rental income and sub-lease rental income	8(b)	7,240	7,240
Dividends	(i)	3,300	4,300
Interest income on financial assets held as investments	(ii)	258	249
Other items	(iii)	550	244
		<b>11,348</b>	<b>12,033</b>

PAS1(82)(a)

Not mandatory

#### (i) Dividends

PAS1(117)  
PFRS9(5.7.1A)(B5.7.1)  
Revised requirements

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017 – from financial assets at FVPL and available-for-sale financial assets). Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in OCI if it relates to an investment measured at FVOCI.

#### (ii) Interest income <sup>6</sup>

PAS1(117)  
Revised requirements

Interest income from financial assets at FVPL is included in the net fair value gains/(losses) on these assets, see [note 5\(b\)](#) below. Interest income on financial assets at amortized cost and financial assets at FVOCI (2017 – available-for-sale securities, held-to-maturity investments and loans and receivables) calculated using the effective interest method is recognized in the statement of profit or loss as part of other income.



**5(a) Other income**

PFRS9(5.4.1)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 5(d) below. Any other interest income is included in other income.

PFRS7(20)(b)

Total interest income on financial assets that are measured at amortized cost for the year was CU1,670,000 and interest income from debt investments that are measured at FVOCI was CU200,000 (2017 – CU1,154,000 interest income from financial assets not measured at FVPL).

**(iii) Government grants**

PAS20(39)(b),(c)

Export market development grants of CU250,000 (2017 – CU244,000) are included in the 'other items' line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The group did not benefit directly from any other forms of government assistance.

PAS1(117)

**Deferral and presentation of government grants**

PAS20(12),(29)

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

PAS20(24),(26)

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

**5(b) Other gains/(losses)**

	Notes	2018 CU'000	2017 CU'000
Net gain/(loss) on disposal of property, plant and equipment (excluding property, plant and equipment sold as part of the engineering division)	8(a)	1,620	(530)
Fair value adjustment to investment property	8(b)	1,350	1,397
Net fair value gains/(losses) on financial assets at fair value through profit or loss	7(d)	955	(690)
Net foreign exchange gains/(losses)	12(b)	518	(259)
Net fair value gains on derivatives held for trading	12(a)	11	543
Net gain/(loss) on sale of available-for-sale financial assets	7(c)	-	(548)
Other items		139	(38)
		<b>4,593</b>	<b>(125)</b>

**5(c) Breakdown of expenses by nature**

	Notes	2018 CU'000	2017 Restated CU'000
Changes in inventories of finished goods and work in progress	8(e)	(6,681)	(5,255)
Raw materials and consumables used	8(e)	62,221	54,108
Employee benefits expenses <sup>2</sup>		56,594	52,075
Depreciation	8(a)	8,950	8,150
Amortization	8(c),3(b)	2,166	730
Impairment of goodwill	8(c)	2,410	-
Impairment of assets damaged by fire	4(b)	1,210	-
Other expenses		28,543	17,153
Total cost of sales, distribution cost and administrative expenses		<b>155,413</b>	<b>126,961</b>



5(d) Finance income and costs<sup>3-7</sup>

		Notes	2018 CU'000	2017 Restated CU'000
<i>Finance income</i> <sup>6,7</sup>				
	Interest income from financial assets held for cash management purposes	(a)(i)	1,261	905
PFRS7(20)(a)(iv) PFRS9(3.3.3)	Net gain on settlement of debt	7(g)	355	-
	<b>Finance income</b>		<b>1,616</b>	<b>905</b>
<i>Finance costs</i> <sup>3-5</sup>				
PFRS7(20)(b)	Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss		(6,678)	(5,904)
PAS37(60)	Provisions: unwinding of discount	8(h)	(93)	(78)
PFRS7(24C)(b)(iv)	Fair value gain on interest rate swaps designated as cash flow hedges – transfer from OCI	12(b)	155	195
PAS21(52)(a)	Net exchange losses on foreign currency borrowings	12(b)	(1,122)	(810)
			<b>(7,738)</b>	<b>(6,597)</b>
PAS23(26)(a)	Amount capitalized	(i)	525	325
	<b>Finance costs expended</b>		<b>(7,213)</b>	<b>(6,272)</b>
	<b>Net finance costs</b>		<b>(5,597)</b>	<b>(5,367)</b>

## (i) Capitalized borrowing costs

PAS23(26)(b) The capitalisation rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 7.02% (2017 – 7.45%).

**Other income and expense items**

1. This note provides a breakdown of other income, other gains/losses and an analysis of expenses by nature, but it does not show all of the profit and loss amounts that must be disclosed under various accounting standards. Instead, individual profit and loss items are now disclosed together with the relevant information to which they belong. For example, gains or losses related to various financial instruments held by the group are disclosed together with the balance sheet amounts. We believe that this presentation is more useful for users of the financial statements.

**Employee benefits expenses**

2. Although PAS 19 *Employee Benefits* does not require specific disclosures about employee benefits other than post-employment benefits, other standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure under paragraph 97 of PAS 1 *Presentation of Financial Statements*. Similarly, termination benefits may result in an expense needing disclosure in order to comply with paragraph 97 of PAS 1.

**Finance costs**

3. Finance costs will normally include:

(a) costs that are borrowing costs for the purposes of PAS 23 *Borrowing Costs*:

(i) interest expense calculated using the effective interest rate method as described in [PFRS 9 Financial Instruments](#)

(ii) finance charges in respect of finance leases (refer to [note 25\(h\)](#)), and

(iii) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

## Other income and expense items

- PAS37(60) (b) the unwinding of the effect of discounting provisions
- PAS32(35),(40) (c) dividends on preference shares that are classified as debt
- PFRS9(B5.4.4) (d) the amortization of discounts and premiums on debt instruments that are liabilities
- PFRS5(17) (e) interest on tax payable where the interest element can be identified separately
- PAS21(52)(a) (f) the increase in the present value of the costs to sell in relation to assets that are held for sale, where the sale is expected to occur beyond one year.

4. Amounts disclosed under paragraph 3(a)(iii) above shall also be included in the net foreign exchange gain or loss disclosed under PAS 21 *The Effects of Changes in Foreign Exchange Rates* paragraph (52)(a). Value PFRS Plc discloses this amount in [note 12\(b\)](#).
5. Costs which may also be classified as finance cost include other costs associated with the entity's management of cash, cash equivalents and debt; for example, fair value changes on interest rate hedges, the ineffective portion of cash flow interest rate hedges or a loss on the extinguishment of a liability.

### Finance income

PFRS15(Appendix A)  
Framework(4.29)  
PAS1(82)(a)

6. The classification of finance income depends on the entity's accounting policy for such items. Where earning interest income is part of the entity's **ordinary activities** rather than an incidental benefit, the interest income should be included within the main 'revenue' heading **and separately disclosed in the statement of profit or loss, if material**. In other cases, entities may take the view that finance income is most appropriately included as 'other operating income' or as a separate line item in arriving at operating profit (if disclosed). Value PFRS Plc includes finance income that arises from treasury activity (for example, income on surplus funds invested for the short term) outside operating profit whilst including other types of finance income as operating items. Although entities have some discretion in the way in which finance income is included in the statement of comprehensive income, the presentation policy adopted should be applied consistently and disclosed if material.

PFRS7(20)(b)

7. **In addition, entities must disclose the total interest revenue (calculated using the effective interest rate method) for financial assets that are measured at amortized cost and those that are measured at fair value through other comprehensive income. This applies regardless of the presentation chosen in the primary financial statements. This requirement is illustrated in [note 5\(a\)\(i\)](#).**

### Disclosures not illustrated: not applicable to Value PFRS Plc

PFRS7(20)(c),(d)

8. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:
- (a) Where material, entities must separately disclose any interest income accrued on impaired financial assets and fee income arising from financial assets not at fair value through profit or loss and from trust and other fiduciary activities.

## 6 Income tax expense <sup>7,8</sup>

This note provides an analysis of the group's income tax expense, shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the group's tax position.

	2018 CU'000	2017 Restated CU'000
PAS12(79),(81)(g)(ii)	<b>6(a) Income tax expense</b>	
	<i>Current tax</i>	
PAS12(80)(a)	17,357	12,264
PAS12(80)(b)	(369)	135
	<b>16,988</b>	<b>12,399</b>
PAS12(80)(c)	<i>Deferred income tax</i>	
	38	(1,374)
	(205)	1,133
	<b>(167)</b>	<b>(241)</b>
	<b>16,821</b>	<b>12,158</b>
	Income tax expense is attributable to:	
	16,437	11,987
	384	171
	<b>16,821</b>	<b>12,158</b>

### 6(b) Significant estimates – uncertain tax position

The tax legislation in relation to expenditures incurred in association with the establishment of the retail division is unclear. The group considers it probable that a tax deduction of CU1,933,000 will be available and has calculated the current tax expense on this basis. However, the group has applied for a private ruling to confirm their interpretation. If the ruling is not favourable, this would increase the group's current tax payable and current tax expense by CU580,000 respectively. The group expects to get a response, and therefore certainty about the tax position, before the next interim reporting date.

PAS1(125)  
Revised illustration

PAS1(38)

### 6(c) Numerical reconciliation of income tax expense to prima facie tax payable <sup>1</sup>

	2018 CU'000	2017 Restated CU'000
	52,081	40,994
	1,111	570
	<b>53,192</b>	<b>41,564</b>
PAS12(81)(d),(85)	<b>15,958</b>	<b>12,469</b>
	Tax at the Oneland tax rate of 30% (2017 – 30%)	
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
	723	-
	92	158
	365	303
	82	79
	277	99
	378	378
	(51)	-
	145	13
	<b>17,969</b>	<b>13,499</b>

PAS12(81)(c)(i),  
(84),(85)**6(c) Numerical reconciliation of income tax expense to prima facie tax payable**

	2018 CU'000	2017 CU'000
Subtotal	17,969	13,499
PAS12(85) Difference in overseas tax rates	(248)	(127)
PAS12(80)(b) Adjustments for current tax of prior periods	(369)	135
Research and development tax credit	(486)	(404)
PAS12(80)(f) Previously unrecognized tax losses used to reduce deferred tax expense (refer note 4(e))	-	(945)
PAS12(80)(e) Previously unrecognized tax losses now recouped to reduce current tax expense	(45)	-
Income tax expense	<u>16,821</u>	<u>12,158</u>

Notes	2018 CU'000	2017 CU'000
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**6(d) Amounts recognized directly in equity<sup>4,5</sup>**

PAS12(81)(a),(62A)

Aggregate current and deferred tax arising in the reporting period and not recognized in net profit or loss or other comprehensive income but directly debited or credited to equity:

Current tax: share buy-back transaction costs	9(a) (15)	-
Deferred tax: Convertible note and share issue costs	8(d) 990	-
	<u>975</u>	<u>-</u>

In addition, the group recognized deferred tax amounts directly in retained earnings as a result of the restatement of an error (see note 11(b)) and changes in accounting policies (see note 26).

**6(e) Tax losses**

PAS12(81)(e)

Unused tax losses for which no deferred tax asset has been recognized	1,740	2,796
Potential tax benefit @ 30%	<u>522</u>	<u>839</u>

The unused tax losses were incurred by a dormant subsidiary that is not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely. See note 8(d) for information about recognized tax losses and significant judgements made in relation to them.

**6(f) Unrecognized temporary differences**

PAS12(81)(f)

Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognized:

Foreign currency translation	2,190	1,980
Undistributed earnings	1,350	-
	<u>3,540</u>	<u>1,980</u>

PAS12(87)  
Not mandatory

Unrecognized deferred tax liabilities relating to the above temporary differences	<u>1,062</u>	<u>594</u>
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Temporary differences of CU2,190,000 (2017 – CU1,980,000) have arisen as a result of the translation of the financial statements of the group's subsidiary in China. However, a deferred tax liability has not been recognized as the liability will only crystallise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.<sup>6</sup>

VALUE PFRS Retail Limited has undistributed earnings of CU1,350,000 (2017 – nil) which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, but no deferred tax liability has been recognized as the parent entity is able to control the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.

## Income tax expense

### Relationship between tax expense and accounting profit

PAS12(81)(c),(85)

1. Entities can explain the relationship between tax expense (income) and accounting profit by disclosing reconciliations between:

- (a) tax expense and the product of accounting profit multiplied by the applicable tax rate, or
- (b) the average effective tax rate and the applicable tax rate.

The applicable tax rate can either be the domestic rate of tax in the country in which the entity is domiciled, or it can be determined by aggregating separate reconciliations prepared using the domestic rate in each individual jurisdiction. Entities should choose the method that provides the most meaningful information to users.

### Initial recognition exemption – subsequent amortization

2. The amount shown in the reconciliation of prima facie income tax payable to income tax expense as 'amortization of intangibles' represents the amortization of a temporary difference that arose on the initial recognition of the asset and for which no deferred tax liability has been recognized in accordance with paragraph 15(b) of PAS 12. The initial recognition exemption only applies to transactions that are not a business combination and do not affect either accounting profit or taxable profit.

### Taxation of share-based payments

3. For the purpose of these illustrative financial statements, we have assumed that deductions are available for the payments made by Value PFRS Plc into the employee share trust for the acquisition of the deferred shares (see [note 21](#)). In our example, the payments are made and shares acquired upfront which gives rise to deferred tax liabilities. We have also assumed that no tax deductions can be claimed in relation to the employee option plan. However, this will not apply in all circumstances to all entities. The taxation of share-based payments and the accounting thereof is a complex area and specific advice should be obtained for each individual circumstance. PAS 12 provides further guidance on the extent to which deferred tax is recognized in profit or loss and in equity.

PAS12(68A)-(68C)

### Income tax recognized outside profit or loss

4. Under certain circumstances, current and deferred tax is recognized outside profit or loss either in other comprehensive income or directly in equity, depending on the item the tax relates to. Entities must disclose separately:

- (a) the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments (either in the statement of comprehensive income or in the notes), and
- (b) the aggregate current and deferred tax relating to items that are charged directly to equity (without being recognized in other comprehensive income).

PAS1(90)  
PAS12(81)(a),(ab)  
PAS12(62A)

5. Examples of items that are charged directly to equity are:

- (a) the equity component on compound financial instruments
- (b) share issue costs
- (c) adjustments to retained earnings, eg as a result of a change in accounting policy.

PAS12(62A)

### Unrecognized temporary differences

6. The disclosure of unrecognized temporary differences in relation to the overseas subsidiary has been made for illustrative purposes only. The taxation of overseas subsidiaries will vary from case to case and tax advice should be obtained to assess whether there are any potential tax consequences and temporary differences that should be disclosed.

## Income tax expense

### Disclosures not illustrated: not applicable to Value PFRS Plc

7. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	Issue not illustrated	Relevant disclosure or reference
PAS12(81)(d)	Changes in the applicable tax rate	Explain the changes (see illustrative disclosure below)
PAS12(81)(e)	Deductible temporary differences and unused tax credits for which no deferred tax asset is recognized	Disclose amount and expiry date
PAS12(82A), (87A)-(87C)	The payment of dividends will affect the entity's income tax expense (eg a lower tax rate applies to distributed profits)	Explain the nature of the income tax consequences and disclose the amounts, if they are practicably determinable.
PAS12(81)(i)	Dividends were proposed or declared but not recognized as liability in the financial statements	Disclose the income tax consequences, if any
PAS12(88)	Tax-related contingent liabilities or contingent assets and changes in tax rates or tax laws enacted after the reporting period	Provide disclosures required under PAS 37 and PAS 10.
PAS12(81)(j)	Business combination: changes in the deferred tax assets of the acquirer recognized as a result of the combination	Disclose the amount of the change
PAS12(81)(k)	Deferred tax benefits acquired in a business combination but only recognized in a subsequent period	Describe the event or change in circumstances that caused the deferred tax asset to be recognized

### Changes in tax rate

PAS12(81)(d) 8. Where the applicable tax rate changed during the year, the adjustments to the deferred tax balances appear as another reconciling item in the reconciliation of prima facie income tax payable to income tax expense. The associated explanations could be along the following lines:

The reduction of the Oneland corporation tax rate from 30% to 28% was substantively enacted on 26 June 2018 and will be effective from 1 April 2019. As a result, the relevant deferred tax balances have been remeasured. Deferred tax expected to reverse in the year to December 31 2019 has been measured using the effective rate that will apply in Oneland for the period (28.5%). For years ending after December 31 2019, the group has used the new tax rate of 28%.

Further reductions to the Oneland tax rate have been announced which will reduce the rate by 1% per annum to 24% by 1 April 2023. However, these changes are expected to be enacted separately each year. As a consequence, they had not been substantively enacted at the balance sheet date and, therefore, are not recognized in these financial statements.

The impact of the change in tax rate has been recognized in tax expense in profit or loss, except to the extent that it relates to items previously recognized outside profit or loss. For the group, such items include in particular remeasurements of post-employment benefit liabilities and the expected tax deduction in excess of the recognized expense for equity-settled share-based payments.

## 7 Financial assets and financial liabilities <sup>1,15,16</sup>

Not mandatory

This note provides information about the group's financial instruments, including:

- an overview of all financial instruments held by the group
- specific information about each type of financial instrument
- accounting policies
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

Not mandatory  
Revised presentation

PFRS7(8)

The group holds the following financial instruments:

	Notes	2018 CU'000	2017 CU'000
<b>Financial assets *</b>			
Financial assets at amortized cost			
Trade receivables	7(a)	15,736	8,270
Other financial assets at amortized cost	7(b)	4,615	-
Other loans and receivables	7(b)	-	2,222
Held-to-maturity investments	7(b)(v)	-	1,175
Cash and cash equivalents	7(e)	57,098	31,268
Financial assets at fair value through other comprehensive income (FVOCI)	7(c)	6,782	-
Available-for-sale financial assets	7(c)(x)	-	8,228
Financial assets at fair value through profit or loss (FVPL)	7(d)	13,690	10,915
Derivative financial instruments			
Used for hedging	12(a)	2,162	809
Held for trading at FVPL	12(a)	-	1,320
		<b>100,083</b>	<b>64,207</b>
<b>Financial liabilities</b>			
Liabilities at amortized cost			
Trade and other payables **	7(f)	14,190	10,516
Borrowings	7(g)	100,909	88,080
Derivative financial instruments			
Used for hedging	12(a)	766	777
Held for trading at FVPL	12(a)	610	621
		<b>116,475</b>	<b>99,994</b>

\* See note 26 for details about the impact from changes in accounting policies.

\*\* Excluding non-financial liabilities

PFRS7(36)(a),  
PFRS7(31),(34)(c)

The group's exposure to various risks associated with the financial instruments is discussed in note 12. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.



**7(a) Trade receivables**

		2018 CU'000	2017 CU'000
	<b>Current assets</b>		
PAS1(77)	Trade receivables	16,308	8,570
PAS1(77)	Loss allowance (see note 12 (c))	(572)	(300)
		15,736	8,270

PAS1(117)  
New requirements

PFRS7(21)  
PFRS9(5.1.3),(4.1.2),(5.4.1)

**(i) Classification as trade receivables<sup>2,3</sup>**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Details about the group's impairment policies and the calculation of the loss allowance are provided in note 12(c).

**(ii) Transferred receivables**

PFRS7(42D)(a)-(c),(e)  
PFRS9(B4.1.3)

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, VALUE PFRS Manufacturing Limited has transferred the relevant receivables to the factor in exchange for cash and is prevented from selling or pledging the receivables. However, VALUE PFRS Manufacturing Limited has retained late payment and credit risk. The group therefore continues to recognize the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is presented as secured borrowing. The group considers the held to collect business model to remain appropriate for these receivables and hence continues measuring them at amortized cost.

New requirements

The relevant carrying amounts are as follows:

	2018 CU'000	2017 CU'000
Transferred receivables	3,250	-
Associated secured borrowing (bank loans – see note 7(g) below)	3,100	-

**(v) Fair values of trade receivables<sup>7-8</sup>**

PFRS7(25),(29)(a)  
PFRS13(97),(93)(b),(d)

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

**(iv) Impairment and risk exposure**

PFRS7(31),(34)(c)

Information about the impairment of trade receivables and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 12(b) and (c).

**7(b) Other financial assets at amortized cost (2017: other loans and receivables)**

PAS1(117)  
New requirements

PFRS9(4.1.2)

**(i) Classification of financial assets at amortized cost<sup>2,3</sup>**

The group classifies its financial assets as at amortized cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

**7(b) Other financial assets at amortized cost (2017: other loans and receivables)****New requirements**

Financial assets at amortized cost include the following debt investments:

	2018			2017		
	Current CU'000	Non- current CU'000	Total CU'000	Current CU'000	Non- current CU'000	Total CU'000
Loans to related parties (ii)	-	1,300	1,300	-	700	700
Loans to key management personnel (ii)	166	551	717	126	480	606
Debenture assets (v)	-	750	750	-	-	-
Zero coupon bonds (v)	-	460	460	-	-	-
Listed corporate bonds	-	104	104	-	-	-
Other receivables (ii)	939	375	1,314	716	200	916
	<b>1,105</b>	<b>3,540</b>	<b>4,645</b>	<b>842</b>	<b>1,380</b>	<b>2,222</b>
Less: loss allowance for debt investments at amortized cost (note 12(c))	(5)	(25)	(30)	-	-	-
	<b>1,100</b>	<b>3,515</b>	<b>4,615</b>	<b>842</b>	<b>1,380</b>	<b>2,222</b>

**New illustration**

See note 26(b) for the impact of the change in accounting policy following the adoption of PFRS 9 on the classification of financial assets and note 25(o) for the remaining relevant accounting policies.

**(ii) Other receivables**

PFRS7(7),(38)

These amounts generally arise from transactions outside the usual operating activities of the group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained. The non-current other receivables are due and payable within three years from the end of the reporting period.

PAS24(18)

Further information relating to loans to related parties and key management personnel is set out in note 20.

**(iii) Fair values of other financial assets at amortized cost<sup>7-8</sup>**

PFRS7(25),(6)

Fair value for the following investments was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy – see note 7(h) below for further information).

	2018 CU'000	2017 CU'000
Debenture assets (previously classified as held-to-maturity, see (v) below)	795	767
Zero coupon bonds (previously classified as held-to-maturity, see (v) below)	482	433
Listed corporate bonds (previously included in available-for-sale financial assets, see note 7(c)(x)) <sup>6</sup>	150	-

PFRS7(25),(29)(a)  
PFRS13(97),(93)(b),(d)

Due to the short-term nature of the other current receivables, their carrying amount is considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts. An exception are the loans to key management personnel, which have a fair value of CU481,000 as at December 31, 2018, compared to a carrying amount of CU551,000 (2017: fair value of CU424,000 and carrying amount of CU480,000).

The fair values were calculated based on cash flows discounted using a current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk (see note 7(h) below).

**(iv) Impairment and risk exposure**

Note 12(c) sets out information about the impairment of financial assets and the group's exposure to credit risk.

PFRS7(34)

All of the financial assets at amortized cost are denominated in Oneland currency units. As a result, there is no exposure to foreign currency risk. There is also no exposure to price risk as the investments will be held to maturity.

**7(b) Other financial assets at amortized cost (2017: other loans and receivables)**

Revised illustration

**(v) Financial assets previously classified as held-to-maturity investments (2017)**

	2018 CU'000	2017 CU'000
<b>Non-current assets</b>		
PAS1(77) Debentures	-	750
PAS1(77) Zero coupon bonds	-	425
	<u>-</u>	<u>1,175</u>

The above investments have been reclassified to financial assets at amortized cost on adoption of PFRS 9 *Financial Instruments*.

PAS1(117)  
PFRS7(21)  
PAS1(66),(68)  
PAS39(9)

In previous years, the group classified investments as held-to-maturity if:

- they were non-derivative financial assets
- they were quoted in an active market
- they had fixed or determinable payments and fixed maturities
- the group intended to, and was able to, hold them to maturity.

Held-to-maturity financial assets were included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would have been classified as current assets. See note 25(o) for the group's other accounting policies for financial assets.

PFRS7(36)(c)

None of the held-to-maturity investments were either past due or impaired in the prior year.

**7(c) Financial assets at fair value through other comprehensive income**

PAS1(117)  
New requirements

**(i) Classification of financial assets at fair value through other comprehensive income <sup>2,3</sup>**

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

PFRS7(11A)(b),(21)  
PFRS9(4.1.4),(5.7.5)  
  
PFRS9(4.1.2A)

- Equity securities which are not held for trading, and which the group has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the group considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the group's business model is achieved both by collecting contractual cash flows and selling financial assets.

New Illustration

PFRS7(11A)(a),(c)

**(ii) Equity investments at fair value through other comprehensive income**

Equity investments at FVOCI comprise the following individual investments:

	2018 CU'000	2017 * CU'000
<b>Non-current assets</b>		
<i>Listed securities</i>		
Furniture Suppliers plc	870	-
Furniture Purchasers Inc	1,305	-
Sleep Willow plc	653	-
Pine Oak Property Inc	1,522	-
	<u>4,350</u>	<u>-</u>
<i>Unlisted securities</i>		
Softwood Ltd	690	-
Mahogany Ltd	460	-
	<u>1,150</u>	<u>-</u>
	<u>5,500</u>	<u>-</u>

\* These investments were classified as available-for-sale in 2017, see (x) below. All of these investments were also held in the previous period, but the group increased its investment in the Pine Oak Property Inc during the current year at a cost of CU259,000. <sup>5</sup>

### 7(c) Financial assets at fair value through other comprehensive income

PFRS7(21) PFRS9(B5.7.1)	On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.		
PAS39(9)	In the prior financial year, the group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.  <b>Note 26(b)</b> explains the change of accounting policy and the reclassification of certain equity investments from available-for-sale to at <b>fair value through profit or loss</b> . <b>Note 25(o)</b> sets out the remaining accounting policies.		
New Illustration	<b>(iii) Disposal of equity investments</b>		
PFRS7(11B),(11A)(e)	Since January 1, 2017, the group has sold its shares in Hardwood Ltd as a result of a takeover offer for cash. The shares sold had a fair value of CU2,275,000 and the group realized a gain of CU646,000 which had already been included in OCI. This gain has been transferred to retained earnings, <b>net of tax of CU 194,000</b> .		
PFRS9(7.2.1)	In the previous financial period, the group sold its investment in Super Floors Ltd, as this investment no longer suited the group's investment strategy. The shares sold had a fair value of CU2,143,000 at the time of the sale and the group realized a loss of CU548,000. In accordance with the group's accounting policy for the prior period (see <b>note 9(c)</b> ) this loss and the associated tax impact was transferred from OCI to profit or loss at the date of sale.		
New Illustration	<b>(iv) Debt investments at fair value through other comprehensive income</b>		
PAS1(77)	Debt investments at FVOCI comprise the following investments in listed and unlisted bonds:		
		<b>2018</b>	2017 *
		<b>CU'000</b>	CU'000
	<b>Non-current assets</b>		
	Listed bonds	<b>685</b>	-
	Unlisted debt securities	<b>597</b>	-
		<b>1,282</b>	-
	* These investments were classified as available-for-sale in 2017, see (x) below. <sup>6</sup>		
PFRS9(5.7.10)	On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.  Please see <b>note 26(b)(i)</b> for reclassifications of debt investments from available-for-sale (FVOCI) to amortized cost during the comparative period.		
PAS24(18)	The unlisted debt securities include CU250,000 (2017 – CU nil) of securities issued by entities that are controlled by the ultimate parent entity, Lion AG.  <b>(v) Amounts recognized in profit or loss and other comprehensive income</b> During the year, the following gains/(losses) were recognized in profit or loss and other comprehensive income.		
		<b>2018</b>	2017
		<b>CU'000</b>	CU'000
PFRS7(20)(a)(ii)	Gains/(losses) recognized in other comprehensive income (see <b>note 9(c)</b> ); 2017 relating to available-for-sale financial assets, see (x) below	<b>750</b>	(1,378)
	(Losses) reclassified from other comprehensive income to profit or loss on the sale of available-for-sale financial assets, see (x) below	-	548
PFRS7(11A)(d)	Dividends from equity investments held at FVOCI recognized in profit or loss in other income (see <b>note 5(a)</b> )	<b>1,605</b>	
	Related to investments derecognized during the period	963	-
	Related to investments held at the end of the reporting period	642	-
PFRS7(14)	<b>(vi) Non-current assets pledged as security</b> Refer to <b>note 24</b> for information on non-current assets pledged as security by the group.		

**7(c) Financial assets at fair value through other comprehensive income***(vii) Fair value, impairment and risk exposure*

PFRS13(93) Information about the methods and assumptions used in determining fair value is provided in [note 7\(h\)](#) and information about the loss allowance recognized on debt investments at FVOCI is provided in [note 12\(c\)](#).

PFRS7(34) All of the financial assets at FVOCI are denominated in Oneland currency units. For an analysis of the sensitivity of the assets to price and interest rate risk refer to [note 12\(b\)](#).

*(viii) Significant estimates <sup>2</sup>*

PFRS13(91)(a)  
PAS1(125) The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see [note 7\(h\)](#) below.

*(ix) Significant judgements <sup>2,9</sup>*

PFRS12(7),(9)(a)  
PAS1(122) The directors have determined that they do not control a company called VALUE PFRS Trustee Limited even though Value PFRS Plc owns 100% of the issued capital of this entity. VALUE PFRS Trustee Limited is the trustee of the VALUE PFRS Employees' Superannuation Fund. It is not a controlled entity of Value PFRS Plc because Value PFRS Plc is not exposed, and has no right, to variable returns from this entity and is not able to use its power over the entity to affect those returns. The investment has a fair value of CU2 (2017 – CU2) and is included in unlisted securities.

**Revised illustration**

PFRS7(25),(31),(34)(c)  
PAS1(77)

*(x) Financial assets previously classified as available-for-sale financial assets (2017)*

Available-for-sale financial assets included the following classes of financial assets:

	2018 CU'000	2017 CU'000
<b>Non-current assets</b>		
Listed securities		
Equity securities	-	4,126
Debentures	-	650
Corporate bonds	-	100
	<u>-</u>	<u>4,876</u>
Unlisted securities (iv)		
Equity securities (i),(v)	-	1,622
Debentures	-	750
Preference shares	-	980
	<u>-</u>	<u>3,352</u>
	<u>-</u>	<u>8,228</u>

PAS1(117)

*Classification of financial assets as available-for-sale*

PFRS7(21),(B5)(b)  
PAS1(66),(68)  
PAS39(9),(45)

Investments were designated as available-for-sale financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) were also included in the available-for-sale category.

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months of the end of the reporting period.

*Impairment indicators for available-for-sale financial assets*

A security was considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost. See [note 25\(o\)](#) for further details about the group's previous impairment policies for available-for-sale financial assets.

**7(d) Financial assets at fair value through profit or loss**

PAS1(117)

*(i) Classification of financial assets at fair value through profit or loss <sup>2,3</sup>***New requirements**PFRS9(4.1.2)  
PFRS9(4.1.2A)

The group classifies the following financial assets at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortized cost (see [note 7\(b\)](#) above) or FVOCI ([note 7\(c\)](#))
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

PFRS9(5.7.5)

PAS1(77)  
PFRS7(6)  
PFRS7(31)

Financial assets mandatorily measured at FVPL include the following:

	2018 CU'000	2017 CU'000
<b>Non-current assets</b>		
PAS1(77) Unlisted preference shares <sup>4</sup>	1,100	-
PAS1(77) Contingent consideration ( <a href="#">note 15(c)</a> )	1,290	-
	<u>2,390</u>	<u>-</u>
<b>Current assets</b>		
PAS1(77) US Listed equity securities	5,190	4,035
PAS1(77) Oneland listed equity securities	6,110	6,880
	<u>11,300</u>	<u>10,915</u>
	<u>13,690</u>	<u>10,915</u>

See [note 26\(b\)](#) for explanations regarding the change in accounting policy and the reclassification of certain investments from available-for-sale to financial assets at FVPL following the adoption of PFRS 9, and [note 25\(o\)](#) for the remaining relevant accounting policies.

*(vi) Amounts recognized in profit or loss*

PFRS7(20)(a)(i)

During the year, the following gains/(losses) were recognized in profit or loss:

	2018 CU'000	2017 CU'000
Fair value gains (losses) on equity investments at FVPL recognized in other gains/(losses) ( <a href="#">see note 5(b)</a> )	835	(690)
Fair value gains (losses) on debt instruments at FVPL recognized in other gains/(losses) ( <a href="#">see note 5(b)</a> )	120	-
Fair value gain on contingent consideration recognized in profit from discontinued operations ( <a href="#">see note 15(c)</a> )	90	-

*(iii) Risk exposure and fair value measurements*PFRS7(31)  
PFRS13(93)Information about the group's exposure to price risk is provided in [note 12](#). For information about the methods and assumptions used in determining fair value please refer to [note 7\(h\)](#) below.**Revised illustration**PFRS7(21),(8)(a)  
PAS1(66),(68)  
PAS39(9),(45)*(iv) Previous accounting policy: Classification of financial assets at fair value through profit or loss*

In 2017, the group classified financial assets at fair value through profit or loss if they were acquired principally for the purpose of selling in the short term, ie are held for trading. They were presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they were presented as non-current assets. The group did not elect to designate any financial assets at fair value through profit or loss. See [note 25\(o\)](#) for the group's other accounting policies for financial assets.

**7(e) Cash and cash equivalents**

		2018 CU'000	2017 CU'000
	<b>Current assets</b>		
IAS7(45)	Cash at bank and in hand	750	600
IAS7(45)	Deposits at call	56,348	30,668
		<u>57,098</u>	<u>31,268</u>

**(i) Reconciliation to cash flow statement**

		2018 CU'000	2017 CU'000
IAS7(45)	The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:		
	Balances as above	57,098	31,268
IAS7(8)	Bank overdrafts (see note 7(g) below)	(2,650)	(2,250)
	Balances per statement of cash flows	<u>54,448</u>	<u>29,018</u>

**(ii) Classification as cash equivalents<sup>2,3</sup>**

IAS7(46)	Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours notice with no loss of interest. See note 25(k) for the group's other accounting policies on cash and cash equivalents.
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**(iii) Restricted cash**

IAS7(48)	The cash and cash equivalents disclosed above and in the statement of cash flows include CU7,314,000 which are held by VALUE PFRS Overseas Ltd. These deposits are subject to regulatory restrictions and are therefore not available for general use by the other entities within the group.
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**7(f) Trade and other payables<sup>10,16</sup>**

		2018 CU'000	2017 Restated * CU'000
	<b>Current liabilities</b>		
PAS1(77)	Trade payables	10,000	8,231
	Payroll tax and other statutory liabilities	1,570	1,207
PFRS15(105) New illustration	Refund liabilities (i)	490	235
PAS1(77)	Other payables	3,700	2,050
		<u>15,760</u>	<u>11,723</u>

**New illustration** \* See note 26 for details about restatements for changes in accounting policies.

Trade payables are unsecured and are usually paid within 30 days of recognition.

PFRS7(29)(a)  
PFRS13(97),(93)(b),(d) The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.<sup>7-8</sup>

PAS1(117)  
New illustration

PFRS15(55),(B20)-(B27)

**(i) Refund liabilities**

When a customer has a right to return product within a given period, the group recognizes a refund liability for the amount of consideration received for which the entity does not expect to be entitled (CU221,000; 2017 – CU110,000). The group also recognizes a right to the returned goods measured by reference to the former carrying amount of the goods (CU76,000 as at December 31, 2018 and CU38,000 as at December 31, 2017; see note 8(f)). The costs to recover the products are not material because the customers usually return the product in a saleable condition.

Refund liabilities are further recognized for volume discounts payable to wholesale customers (CU269,000; 2017 – CU125,000). Note 3(c) has further explanations about both types of refund liabilities.



## 7(g) Borrowings

	2018			2017		
	Current CU'000	Non- current CU'000	Total CU'000	Current Restated CU'000	Non- current Restated* CU'000	Total Restated CU'000
PAS1(77)	<i>Secured</i>					
Bank overdrafts	2,650	-	2,650	2,250	-	2,250
Bank loans (i)	4,250	37,535	41,785	2,865	45,035	47,900
Debentures (vi)	-	-	-	2,000	2,000	4,000
Lease liabilities (v)	755	2,639	3,394	755	3,195	3,950
Other loans	450	8,580	9,030	150	14,100	14,250
Total secured borrowings (i)	8,105	48,754	56,859	8,020	64,330	72,350
PAS1(77)	<i>Unsecured</i>					
Bills payable	1,050	-	1,050	730	-	730
Convertible notes (iii)	-	16,815	16,815	-	-	-
Redeemable preference shares (iv)	-	11,000	11,000	-	11,000	11,000
Loans from related parties **	-	15,185	15,185	-	4,000	4,000
Total unsecured borrowings	1,050	43,000	44,050	730	15,000	15,730
<b>Total borrowings</b>	<b>9,155</b>	<b>91,754</b>	<b>100,909</b>	<b>8,750</b>	<b>79,330</b>	<b>88,080</b>

## New illustration

\* See note 11(a) for details regarding the restatement as a result of an error.

\*\* Further information relating to loans from related parties is set out in note 20.

## (i) Secured liabilities and assets pledged as security

PFRS7(7),(14)(b)  
PFRS7(42D)

Of the bank loans, CU3,100,000 relate to transferred receivables (see note 7(a)(ii) above). The remaining bank loans and overdraft are secured by first mortgages over the group's freehold land and buildings, including those classified as investment properties.

The debentures were secured by a floating charge over the assets of the parent entity.

Lease liabilities are effectively secured as the rights to the leased assets recognized in the financial statements revert to the lessor in the event of default.

The other loans are secured by a negative pledge that imposes certain covenants on the subsidiary that has received those loans. The negative pledge states that (subject to certain exceptions) the subsidiary will not provide any other security over its assets, and will ensure that the following financial ratios are met:

- debt will not, at any time, exceed 50% of total tangible assets, and
- borrowing costs will not exceed 50% of earnings before borrowing costs and taxation for each half-year period.

PFRS7(14)(a)

The carrying amounts of financial and non-financial assets pledged as security for current and non-current borrowings are disclosed in note 24.

## (ii) Compliance with loan covenants

PAS1(135)(d)

Value PFRS Plc has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting period, see note 13 for details.

**7(g) Borrowings****(iii) Convertible notes<sup>10</sup>**PFRS7(17)  
PAS1(79)(a)(vii)

The parent entity issued 1,500,000 7% convertible notes for CU20 million on 23 January 2018. The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 23 January 2022. The conversion rate is 2 shares for each note held, which is based on the market price per share at the date of the issue of the notes (CU6.10), but subject to adjustments for reconstructions of equity. The convertible notes are presented in the balance sheet as follows:

	2018 CU'000	2017 CU'000
Face value of notes issued	20,000	-
Other equity securities – value of conversion rights (note 9(b))	(3,500)	-
	<u>16,500</u>	-
Interest expense *	842	-
Interest paid	(527)	-
Non-current liability	<u>16,815</u>	-

\* Interest expense is calculated by applying the effective interest rate of 9.6% to the liability component.

PAS32(17),(18),(28),(29)  
AG31(a)

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognized in shareholders' equity, net of income tax, and not subsequently remeasured.

**(iv) Redeemable preference shares<sup>10</sup>**PFRS7(7)  
PAS1(79)(a)(v)

The redeemable preference shares represent 5,000,000 fully paid 6% cumulative redeemable preference shares. The shares are redeemable at CU2.20 per share on December 31 2025 or by the parent entity at any time before that date. The shares are entitled to dividends at the rate of 6% per annum. If insufficient profits are available in a particular financial year, the dividends accumulate and are payable when sufficient profits are available. The shares participate in a winding up of the company only to the extent of CU2.20 per share.

PAS32(17),(18)

Since the shares are mandatorily redeemable on a specified date, they are recognized as liabilities.

**(v) Finance leases**

PAS17(31)(a),(e)

The group leases various plant and equipment with a carrying amount of CU2,750,000 (2017 – CU3,000,000) under finance leases expiring within three to seven years. Under the terms of the leases, the group has the option to acquire the leased assets for 50% of their agreed fair value on expiry of the leases. This option lapses in the event the group fails to maintain its credit rating at the level prevailing at inception of the lease.

**7(g) Borrowings**

PAS17(31)(c),(e)(f)

Some leases provide for the payment of incremental contingent rentals based on changes in current market rentals for comparable properties. Contingent rentals paid during the year were CU610,000 (2017 – nil).

	2018 CU'000	2017 Restated CU'000
PAS17(31)(b)	Commitments in relation to finance leases are payable as follows:	
PAS17(31)(b)(i)	655	655
PAS17(31)(b)(ii)	2,620	2,620
PAS17(31)(b)(iii)	-	655
	<b>3,275</b>	3,930
	<b>(681)</b>	(930)
	<b>2,594</b>	3,000
	Lease incentives on non-cancellable operating leases included in lease liabilities (see note 18(b)) <sup>11</sup>	
	<b>800</b>	950
	<b>3,394</b>	3,950
PAS17(31)(b)	The present value of finance lease liabilities is as follows:	
PAS17(31)(b)(i)	604	605
PAS17(31)(b)(ii)	1,990	1,990
PAS17(31)(b)(iii)	-	405
	<b>2,594</b>	3,000

**(vi) Repurchase of debentures**PFRS7(7)  
PFRS9(3.3.3)  
PFRS7(20)(a)(v)

During the reporting period, the parent entity repurchased the remaining outstanding debentures for a lump sum payment of CU1,605,000. The carrying amount of the debentures at the time of the payment was CU2,000,000 and costs incurred were CU40,000, resulting in a net gain on settlement of CU355,000 which is included in finance income in the statement of profit or loss.

**(vii) Set-off of assets and liabilities**

See note 23 below for information about the group's offsetting arrangements.

**(viii) Fair value <sup>7,8</sup>**

PFRS7(25),(29)(a)

For the majority of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. Material differences are identified only for the following borrowings:

	2018		2017	
	Carrying amount CU'000	Fair value CU'000	Carrying amount CU'000	Fair value CU'000
Bank loans	41,320	40,456	47,900	48,950
Convertible notes	16,815	17,175	-	-
Redeemable preference shares	11,000	9,475	11,000	10,860

PFRS13(97),(93)(b),(d)

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy (see note 7(h)) due to the use of unobservable inputs, including own credit risk.

**(ix) Risk exposures**

PFRS7(31)

Details of the group's exposure to risks arising from current and non-current borrowings are set out in note 12.

**7(h) Recognized fair value measurements** <sup>12,13</sup>*(i) Fair value hierarchy*

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

PFRS13(93)(b)

<b>Recurring fair value measurements</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>At December 31, 2018</b>		<b>CU'000</b>	<b>CU'000</b>	<b>CU'000</b>	<b>CU'000</b>
	Notes				
<b>Financial assets</b>					
Financial assets at fair value through profit or loss (FVPL)					
US listed equity securities	7(d)	5,190	-	-	5,190
Oneland listed equity securities	7(d)	6,110	-	-	6,110
Preference shares – property sector	7(d)	-	1,100	-	1,100
Other (contingent consideration)	7(d)	-	-	1,290	1,290
Hedging derivatives – interest rate swaps	12(a)	-	453	-	453
Hedging derivatives – foreign currency options	12(a)	-	1,709	-	1,709
Financial assets at fair value through other comprehensive income (FVOCI)					
Equity securities – property sector	7(c)	1,522	-	-	1,522
Equity securities – retail sector	7(c)	2,828	-	-	2,828
Equity securities – forestry sector	7(c)	-	-	1,150	1,150
Debentures – property sector	7(c)	335	-	-	335
Debentures – retail sector	7(c)	350	597	-	947
<b>Total financial assets</b>		<b>16,335</b>	<b>3,859</b>	<b>2,440</b>	<b>22,634</b>
<b>Financial liabilities</b>					
Hedging derivatives – foreign currency forwards	12(a)	-	766	-	766
Trading derivatives	12(a)	-	275	335	610
<b>Total financial liabilities</b>		<b>-</b>	<b>1,041</b>	<b>335</b>	<b>1,376</b>

PAS1(38)

<b>Recurring fair value measurements</b>		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>At December 31, 2017 *</b>		<b>CU'000</b>	<b>CU'000</b>	<b>CU'000</b>	<b>CU'000</b>
	Notes				
<b>Financial assets</b>					
Financial assets at FVPL					
US listed equity securities	12(a)	4,035	-	-	4,035
Oneland listed equity securities	7(d)	6,880	-	-	6,880
Hedging derivatives – interest rate swaps	12(a)	-	809	-	809
Trading derivatives – foreign currency options	12(a)	-	1,320	-	1,320
Available-for-sale financial assets					
Equity securities – property sector	7(c)	1,378	-	-	1,378
Equity securities – retail sector	7(c)	2,748	-	-	2,748
Equity securities – forestry sector	7(c)	-	-	1,622	1,622
Debentures – property sector	7(c)	300	-	-	300
Debentures – retail sector	7(c)	350	750	-	1,100
Preference shares – property sector	7(c)	100	980	-	1,080
<b>Total financial assets</b>		<b>15,791</b>	<b>3,859</b>	<b>1,622</b>	<b>21,272</b>
<b>Financial liabilities</b>					
Hedging derivatives – foreign currency forwards		-	777	-	777
Trading derivatives	12(a)	-	621	-	621
<b>Total financial liabilities</b>		<b>-</b>	<b>1,398</b>	<b>-</b>	<b>1,398</b>

New illustration

\* See note 26(b) for reclassifications following the adoption of PFRS 9 *Financial Instruments*.

### 7(h) Recognized fair value measurements

- PFRS13(93)(c) There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see (iii) below.
- PFRS13(95) The group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.
- PFRS13(76),(91)(a) **Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.
- PFRS13(81),(91)(a) **Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- PFRS13(86) **Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

#### (ii) Valuation techniques used to determine fair values

- PFRS13(91)(a),(93)(d) Specific valuation techniques used to value financial instruments include:
- the use of quoted market prices or dealer quotes for similar instruments
  - for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
  - for foreign currency forwards – present value of future cash flows based on the forward exchange rates at the balance sheet date
  - for foreign currency options – option pricing models (eg Black-Scholes model), and
  - for other financial instruments – discounted cash flow analysis.
- New illustration**
- PFRS13(93)(b) All of the resulting fair value estimates are included in level 2 except for unlisted equity securities, a contingent consideration receivable and certain derivative contracts, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

#### (iii) Fair value measurements using significant unobservable inputs (level 3)

- PFRS13(93)(e) The following table presents the changes in level 3 items for the periods ended December 31, 2018 and December 31, 2017:

	Unlisted equity securities CU'000	Contingent consideration CU'000	Trading derivatives at FVPL CU'000	Total CU'000
<b>Opening balance January 1, 2017</b>	<b>1,322</b>	-	-	<b>1,322</b>
Gains recognized in other comprehensive income	300	-	-	300
<b>Closing balance December 31, 2017</b>	<b>1,622</b>	-	-	<b>1,622</b>
Transfer from level 2	-	-	(365)	(365)
Acquisitions	-	1,200	-	1,200
Disposals	(200)	-	-	(200)
(Losses) recognized in other comprehensive income	(272)	(40)	-	(312)
Gains recognized in discontinued operations *	-	130	-	130
Gains/(losses) recognized in other income *	-	-	30	30
<b>Closing balance December 31, 2018</b>	<b>1,150</b>	<b>1,290</b>	<b>(335)</b>	<b>2,105</b>

- PFRS13(93)(f) \* includes unrealized gains or (losses) recognized in profit or loss attributable to balances held at the end of the reporting period <sup>14</sup>
- |      |   |     |    |     |
|------|---|-----|----|-----|
| 2018 | - | 130 | 15 | 145 |
| 2017 | - | -   | -  | -   |

## 7(h) Recognized fair value measurements

### (iv) Transfers between levels 2 and 3

PFRS13(93)(d)

In 2018 the group transferred a hedging **foreign currency forward** from level 2 into level 3 as the counterparty for the derivative encountered significant financial difficulties. This resulted in a significant increase to the discount rate which is not based on observable inputs, as it reflects credit risk specific to the counterparty.

### (v) Valuation inputs and relationships to fair value

PFRS13(93)(d),(99)

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See (ii) above for the valuation techniques adopted.

PFRS13(91)(a),(93)(d),  
(h)(i),(ii),(99)

Description	Fair value at		Un-observable inputs *	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	31 Dec 2018	31 Dec 2017		2018	2017	
	CU'000	CU'000				
Unlisted equity securities	1,150	1,622	Earnings growth factor	2.5% - 3.5% (3%)	2.0% - 3% (2.7%)	Increased earnings growth factor (+50 basis points (bps)) and lower discount rate (-100 bps) would increase FV by CU70,000; lower growth factor (-50 bps) and higher discount rate (+100 bps) would decrease FV by CU80,000.  2017: increasing/decreasing the growth factor and the discount rate by +/- 50bps and 100 bps respectively would change the FV by +CU55,000/-CU65,000
			Risk-adjusted discount rate	9% - 11% (10%)	9.5% - 11% (10.2%)	
Trading derivatives	(335)	(365)	Credit default rate	25%	30%	A shift of the credit default rate by +/- 5% results in a change in FV of CU30,000 (2017: change in default rate by +/- 6% changed FV by CU33,000)
Contingent consideration	1,290	n/a	Risk-adjusted discount rate	14%	n/a	A change in the discount rate by 100 bps would increase/ decrease the FV by CU40,000
			Expected cash inflows	CU2,150,000 - CU2,570,000 (CU2,360,000)	n/a	If expected cash flows were 10% higher or lower, the FV would increase/ decrease by CU35,000

PFRS13(93)(h)(i)

\* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

PFRS13(93)(g)

### (vi) Valuation processes

The finance department of the group includes a team that performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the group's half-yearly reporting periods.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk gradings determined by Value PFRS Plc's internal credit risk management group.
- Earnings growth factor for unlisted equity securities are estimated based on market information for similar types of companies.
- Contingent consideration – expected cash inflows are estimated based on the terms of the sale contract (see [note 15](#)) and the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

## Financial assets and financial liabilities

### Disclosing financial assets and financial liabilities in one note

- Users of financial reports have indicated that they would like to be able to quickly access all of the information about the entity's financial assets and liabilities in one location in the financial report. We have therefore structured our notes such that financial items and non-financial items are discussed separately. However, this is not a mandatory requirement in the accounting standards.

### Accounting policies, estimates and judgements

- As explained on [page 27](#), in our view it is helpful for readers of the financial report if information about accounting policies that are specific to the entity and about significant estimates and judgements is disclosed with the relevant line items, rather than in separate notes. However, this format is also not mandatory.
- For general commentary regarding the disclosures of accounting policies please refer to [note 25](#). Commentary about the disclosure of significant estimates and judgements is provided in [note 11](#).

### Scope of accounting standard for disclosure of financial instruments

- PFRS 7 does not apply to the following items as they are not financial instruments as defined in paragraph 11 of PAS 32:
  - prepayments made (right to receive future good or service, not cash or a financial asset)
  - tax receivables and payables and similar items (statutory rights or obligations, not contractual), or
  - [contract liabilities](#) (obligation to deliver good or service, not cash or financial liability).

[While contract assets are also not financial assets, they are explicitly included in the scope of PFRS 7 for the purpose of the credit risk disclosures.](#)

### Scope of accounting standard for disclosure of financial instruments

- [Preference shares must be analysed carefully to determine if they contain features that cause the instrument not to meet the definition of an equity. If such shares meet the definition of equity, the entity may elect to carry them at FVOCI without recycling to profit or loss if not held for trading. If they do not, they must be further analysed to determine the underlying business model and whether the contractual cash flows are solely payments of principal and interest. Value PFRS Plc undertook this analysis and concluded that the preference shares should be held at fair value through profit or loss, as the shares do not meet the definition of equity and their cash flows relating to interest payments can be deferred and such deferral does not result in interest accruing on the deferred amount \(such that the contractual cash flows are not solely payment of interest and principal\). Where the classification involves significant judgement and the relevant amounts are material, the entity should consider disclosing the rationale for classifying such shares as debt instruments.](#)

### Comparatives in first year after adoption of PFRS 9 *Financial Instruments*

- [As a general rule, entities must provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. However, where the entity did not adopt the new requirements of PFRS 9 retrospectively, the disclosures for the comparative period should reflect the accounting treatment applied in that period and be provided in accordance with PFRS 7 pre-amendment by PFRS 9. Disclosures that apply to particular measurement categories, eg financial assets at FVOCI, do not need to be provided for the prior period if the entity has reclassified the assets only at the beginning of the current period.](#)

### Fair value disclosures: Financial instruments carried at other than fair value

- An entity shall disclose the fair value for each class of financial assets and financial liabilities in a way that permits it to be compared with its carrying amount. However, fair values do not need to be disclosed for the following:
  - where the carrying amount is a reasonable approximation of fair value (eg for cash, short-term trade receivables [and payables](#))

PAS32(11)

PFRS7(5A)

PFRS9(4.1.2)(b)  
(B4.1.7)-(B4.1.26),  
PAS1(122)

PFRS7(25),(29)



## Financial assets and financial liabilities

(b) a contract containing a discretionary participation feature (as described in PFRS 4 *Insurance Contracts*) where the fair value of that feature cannot be measured reliably.

Guidance on what are appropriate classes of financial assets and liabilities is given in paragraph 6 of PFRS 7, see commentary paragraph 1 to [note 12](#).

*Carrying amounts are a reasonable approximation of fair value*

8. A statement that the carrying amount of financial assets or financial liabilities is a reasonable approximation of their fair value should only be made if it can be substantiated. That is, entities must have made a formal assessment of the carrying amounts of their financial assets and liabilities in comparison to their fair values and documented this assessment. If the fair values are not a reasonable approximation of the carrying amounts, the fair values must be disclosed.

### Holding more than 50% of voting rights without control

PFRS12(7),(9)(a)

9. PFRS 12 *Disclosure of Interests in Other Entities* requires disclosure of the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control. We have used the example of a corporate trustee for one of the group's pension plans to illustrate this requirement. While the shares in these trustee companies are commonly held by the employer sponsor of the plan, the trustee company will not usually be controlled by the employer sponsor under the principles in PFRS 10, as the employer will not have the power to direct the relevant activities of the trustee company and will not be exposed, or have rights, to variable returns. However, in many cases, these types of entities will not be significant to the group's financial position and performance. Where this is the case, disclosure would not be necessary because of materiality.

### Financial liabilities

*Terms and conditions of financial instruments*

PFRS7(7),(31)

10. Entities shall disclose sufficient information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance and the nature and extent of risks arising from these financial instruments. However, the intention of PFRS 7 was to decrease the potentially voluminous disclosures that were required by PAS 32 and replace them with shorter but more meaningful information. Under normal circumstances entities will therefore not need to disclose the significant terms and conditions for each of their major borrowings. Having said that, if an entity has a borrowing (or other financial instrument) with unusual terms and conditions, it should provide sufficient information to enable users to assess the nature and extent of risks associated with these instruments.

*Presentation of liability for lease incentives on operating leases*

11. Value PFRS Plc has chosen to present the liability arising from lease incentives on non-cancellable operating leases together with finance lease liabilities. However, other forms of presentation may be equally acceptable.

### Fair value measurements

*Classes of assets and liabilities*

PFRS13(94)

12. The disclosures in PFRS 13 must be made separately for each class of assets and liabilities. Entities shall determine appropriate classes of assets and liabilities by considering:

- (a) the nature, characteristics and risks of the asset or liability, and
- (b) the level of the fair value hierarchy within which the fair value measurement is categorized.

PFRS13(94)

13. A class of assets and liabilities will often require greater disaggregation than the line items presented in the balance sheet. The number of classes may also need to be greater for fair value measurements categorized within level 3 of the hierarchy, as those measurements have a greater degree of uncertainty and subjectivity. Entities shall disclose sufficient information to allow a reconciliation back to the line items disclosed in the balance sheet.

**Financial assets and financial liabilities**

*Unrealized gains and losses relating to recurring level 3 measures*

PFRS13(93)(f)

14. PFRS 13 does not provide guidance on how to calculate the unrealized gains and losses for recurring level 3 measures. A similar requirement previously existed under US GAAP where three methods were acceptable. In our view, all of these methods would be acceptable under PFRS provided they are consistently applied. The methods are:
- (a) Balance sheet view: determine unrealized gains and losses as the fair value of the security less its amortized cost base. Under this view, gains and losses are realized at maturity or sale date. Therefore the entire gain or loss is considered unrealized until maturity.
  - (b) Statement of profit or loss view: determine unrealized gains and losses as the total gains and losses during the period less the cash received or paid for those items. Under this view each cash receipt or settlement represents a realized gain or loss in its entirety.
  - (c) Cash flow view: first determine any realized gains or losses as the difference between the expected cash flows at the beginning of the period and the actual cash flows at the end of the period. Then, determine unrealized gains or losses for items still held at the reporting date as the remaining expected cash flows for future periods at the end of the period less the remaining expected cash flows for future periods at the beginning of the period.

**Disclosures not illustrated: not applicable to Value PFRS Plc**

15. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

*Financial assets and liabilities at fair value through profit or loss (FVPL)*

PFRS7(8)(a),(20)(a)(i)

Issue not illustrated	Relevant disclosures or references
<p>The entity has financial assets measured at FVPL of which:</p> <ul style="list-style-type: none"> <li>• some were designated as such upon initial recognition</li> <li>• some were designated as such in accordance with PFRS 9 (6.7.1)</li> <li>• some are mandatorily measured at FVPL in accordance with the requirements of PFRS 9.</li> </ul>	<p>Disclose each of these financial assets and the associated gains/losses separately.</p> <p>All of Value PFRS Plc's financial assets are mandatorily measured at FVPL; hence this disclosure does not apply.</p>
<p>The entity has designated financial assets at FVPL which would otherwise be measured at FVOCI or amortized cost.</p>	<p>Provide additional disclosures as per PFRS 7(9).</p>
<p>The entity believes that the disclosures on how credit risk is calculated in relation to financial assets or liabilities designated at FVPL do not faithfully represent the fair value changes due to credit risk.</p>	<p>Disclose the reason for reaching this conclusion and what alternative factors would be relevant.</p>
<p>The entity has financial liabilities designated at FVPL.</p>	<p>A number of additional disclosures apply as set out in PFRS 7 paragraphs 8, 10, 10A, 11 and 20. Some, but not all of these, are illustrated below.</p>

PFRS7(9)

PFRS7(11)(b)

PFRS7(10),(10A),(11)

## Financial assets and financial liabilities

### Financial assets and liabilities at fair value through other comprehensive income (FVOCI)

	Issue not illustrated	Relevant disclosures or references
PFRS7(20)(a)(viii)	A gain or loss recognized on disposal of debt instruments held at FVOCI.	Show separately: <ul style="list-style-type: none"> <li>the amount of gain or loss recognized in other comprehensive income during the period, and</li> <li>the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.</li> </ul>

### Financial assets and liabilities at amortized cost

	Issue not illustrated	Relevant disclosures or references
PFRS7(20A)	Disposal of financial assets at amortized cost.	Disclose an analysis of the gain or loss recognized and the reasons for derecognising the financial assets.
PFRS7(42N)	Disclosure in future periods for financial assets held at fair value reclassified to be held amortized cost, where the new carrying amount is deemed to be the current fair value.	Disclose the effective interest rate determined at the date of reclassification and the interest revenue or expense recognized, each period, until the financial asset is derecognized.

### Other financial instrument disclosures

	Issue not illustrated	Relevant disclosures or references
PFRS7(18),(19)	Defaults and breaches in relation to financial liabilities	Disclose details of defaults (see illustrative example below).
PFRS7(28)	Fair value determined using valuation techniques – gain or loss on initial recognition	Disclose the accounting policy for recognising the difference in profit or loss, the aggregate difference yet to be recognized and why the transaction price was not the best evidence of fair value.
PFRS7(20)(c)	Fee income and expense on financial assets and liabilities that are not at FVPL	Disclose amount, if material.
PFRS7(42D)	Transferred financial assets not derecognized in their entirety	Provide additional disclosures where the entity has recognized the assets only to the extent of its continuing involvement and where the counterparty to the liabilities has recourse only to the transferred assets.
PFRS7(42E)-(42H)	Transferred assets that are derecognized in their entirety but where the entity has continuing involvement	Various disclosures, see PFRS 7(42E)-(42H) for details.
PFRS7(12B)-(12D)	Reclassifications of financial assets from one measurement category to another made in accordance with PFRS 9 (4.4.1)	Various disclosures, see PFRS 7 (12B)-(12D) for details.

### Financial leases

	Issue not illustrated	Relevant disclosures or references
PAS17(31)(d)	Finance leases of lessees – sub-leases	Disclose expected future minimum sub-lease payments expected to be received.
PAS17(47),(48)	Finance leases of lessors	Various disclosures, see PAS 17 for details.

## Financial assets and financial liabilities

### Fair value disclosures

	Issue not illustrated	Relevant disclosures or references
PFRS7(29)(b),(c),(30)	Financial instruments measured at cost where the fair value cannot be determined reliably Fair values are not disclosed for financial liability contracts with discretionary participation features	Disclose information to help users make their own judgements about the extent of possible differences between the carrying amount and the fair value.
PFRS13(96)	Financial assets and financial liabilities with offsetting positions in market risk or counterparty credit risk	Disclose the fact that the exception in PFRS 13(48) is applied.
PFRS13(98)	Financial liabilities with inseparable third-party credit enhancements	Disclose the existence of that enhancement and whether it is reflected in the FV measurement of the liability.

16. The following illustrative disclosures may be useful where relevant to an entity:

#### Put option arrangements

- (a) Entities that have put option arrangements should consider explaining the accounting for these, as the individual terms and conditions (and hence the accounting) may vary. An illustrative policy could read as follows (but will need to be tailored depending on the specific arrangements):

PAS32(11),(23)

The group has written put options over the equity of its XYZ subsidiary which permit the holder to put their shares in the subsidiary back to the group at their fair value on specified dates over a 5 year period. The amount that may become payable under the option on exercise is initially recognized at the present value of the redemption amount within borrowings with a corresponding charge directly to equity. The charge to equity is recognized separately as written put options over non-controlling interests, adjacent to non-controlling interests in the net assets of consolidated subsidiaries.

The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognized with a corresponding adjustment to equity.

#### Financial liabilities designated at FVPL

PFRS7(B5)(a)

- (b) Entities that have designated financial assets or financial liabilities as at fair value through profit or loss must disclose the nature of the relevant assets and liabilities and provide additional information in relation to the designation. This could read along the following lines:

PFRS7(21)  
PFRS9(4.3.5)

The group has convertible debentures which are classified entirely as liabilities because they were issued in a currency other than the functional currency of the company. As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated as fair value through profit or loss are expensed as incurred.

PFRS9(5.7.7)

The component of fair value changes relating to the company's own credit risk is recognized in other comprehensive income. Amounts recorded in OCI related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realized. Fair value changes relating to market risk are recognized in profit or loss.

## Financial assets and financial liabilities

	2018 CU'000	2017 CU'000
Carrying amount	104,715	88,863
<i>Includes:</i>		
PFRS7(10)(a) <i>Cumulative change in fair value of convertible debentures attributable to changes in credit risk, recognized in the FVOCI reserve</i>	225	210
Amount the company is contractually obligated to pay to holders of the convertible debentures at maturity	102,620	87,086
PFRS7(10)(b) <b>Difference between carrying amount and the amount the company is contractually obligated to pay to holders of convertible debentures at maturity</b>	<b>2,095</b>	<b>1,777</b>
PFRS7(11)(a)	<p>The company determines the amount of fair value changes which are attributable to credit risk, by first determining the changes due to market conditions which give rise to market risk, and then deducting those changes from the total change in fair value of the convertible debentures. Market conditions which give rise to market risk include changes in the benchmark interest rate. Fair value movements on the conversion option embedded derivative are included in the assessment of market risk fair value changes.</p>	
PFRS7(11)(b)	<p>The company believes that this approach most faithfully represents the amount of change in fair value due to the company's own credit risk, as the changes in factors contributing to the fair value of the convertible debentures other than changes in the benchmark interest rate are not deemed to be significant.</p>	
PFRS7(18)	<p><i>Defaults and breaches in relation to financial liabilities</i></p> <p>(c) Example disclosures for a default in relation to a borrowing could read as follows:</p> <p>In the third quarter, the group was overdue paying interest on bank borrowings with a carrying amount of CU2,000,000. The group experienced a temporary shortage of cash because cash outflows in the second and third quarter were higher than anticipated due to business expansions. As a result, interest of CU75,000 was not paid on the due date of 31 September 2018.</p> <p>The company has since paid all outstanding amounts (including additional interest and penalties for late payment) during the fourth quarter.</p> <p>Management expects that the company will be able to meet all contractual obligations from borrowings on a timely basis going forward.</p>	

## 8 Non-financial assets and liabilities <sup>1,20-21</sup>

Not mandatory

This note provides information about the group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability
  - property, plant and equipment (note 8(a))
  - investment properties (note 8(b))
  - intangible assets (note 8(c))
  - deferred tax balances (note 8(d))
  - inventories (note 8(e))
  - other assets, including assets classified as held for sale (note 8(f))
  - employee benefit obligations (note 8(g))
  - provisions (note 8(h))
- accounting policies
- information about determining the fair value of the assets and liabilities, including judgements and estimation uncertainty involved.

### 8(a) Property, plant and equipment <sup>4-5</sup>

		Freehold land CU'000	Freehold buildings CU'000	Furniture, fittings and equipment CU'000	Machinery and vehicles CU'000	Assets under construction CU'000	Total CU'000
<b>Non-current</b>							
<b>At January 1, 2017</b> (Restated, see note 11(b))							
PAS16(73)(d)	Cost or fair value	11,350	28,050	27,480	70,860	-	137,740
PAS16(73)(d)	Accumulated depreciation	-	-	(7,570)	(37,025)	-	(44,595)
	Net book amount	11,350	28,050	19,910	33,835	-	93,145
<b>Year ended December 31, 2017</b>							
PAS16(73)(e)	Opening net book amount	11,350	28,050	19,910	33,835	-	93,145
PAS16(73)(e)(viii)	Exchange differences	-	-	(43)	(150)	-	(193)
PAS16(73)(e)(iv)	Revaluation surplus	2,700	3,140	-	-	-	5,840
PAS16(73)(e)(i),(74)(b)	Additions	2,874	1,490	2,940	7,198	3,100	17,602
PAS16(73)(e)(ii) PFRS5(38)	Assets classified as held for sale and other disposals	(424)	-	(525)	(2,215)	-	(3,164)
PAS16(73)(e)(vii)	Depreciation charge	-	(1,540)	(2,030)	(4,580)	-	(8,150)
PAS16(73)(e) PAS16(74)(b)	Closing net book amount	16,500	31,140	20,252	34,088	3,100	105,080
<b>At December 31, 2017</b> (Restated, see note 11(b))							
PAS16(73)(d)	Cost or fair value	16,500	31,140	29,852	75,693	3,100	156,285
PAS16(73)(d)	Accumulated depreciation	-	-	(9,600)	(41,605)	-	(51,205)
PAS1(77)	Net book amount	16,500	31,140	20,252	34,088	3,100	105,080
<b>Year ended December 31, 2018</b>							
PAS16(73)(e)	Opening net book amount	16,500	31,140	20,252	34,088	3,100	105,080
PAS16(73)(e)(viii)	Exchange differences	-	-	(230)	(570)	-	(800)
PAS16(73)(e)(iv)	Revaluation surplus	3,320	3,923	-	-	-	7,243
PAS16(73)(e)(iii)	Acquisition of subsidiary	800	3,400	1,890	5,720	-	11,810
PAS16(73)(e)(i),(74)(b)	Additions	2,500	2,682	5,313	11,972	3,450	25,917
PAS16(73)(e)(ii) PFRS5(38)	Assets classified as held for sale and other disposals	(550)	-	(5,985)	(1,680)	-	(8,215)
PAS16(73)(e)(ix)	Transfers	-	-	950	2,150	(3,100)	-
PAS16(73)(e)(vii)	Depreciation charge	-	(1,750)	(2,340)	(4,860)	-	(8,950)
PAS16(73)(e)(v) PAS36(126)(a),(b)	Impairment loss (iii)	-	(465)	(30)	(180)	-	(675)
PAS16(73)(e)	Closing net book amount	22,570	38,930	19,820	46,640	3,450	131,410
<b>At December 31, 2018</b>							
PAS16(73)(d)	Cost or fair value	22,570	38,930	31,790	93,285	3,450	190,025
PAS16(73)(d)	Accumulated depreciation and impairment	-	-	(11,970)	(46,645)	-	(58,615)
PAS1(77) PAS16(74)(b)	Net book amount	22,570	38,930	19,820	46,640	3,450	131,410

**8(a) Property, plant and equipment***(i) Leased assets*

PAS17(31)(a)

Furniture, fittings and equipment includes the following amounts where the group is a lessee under a finance lease (refer to [note 7\(g\)](#) for further details):

	2018 CU'000	2017 Restated CU'000
<b>Leased equipment</b>		
Cost	3,000	3,000
Accumulated depreciation	(250)	-
Net book amount	<u>2,750</u>	<u>3,000</u>

*(ii) Non-current assets pledged as security*

Refer to [note 24](#) for information on non-current assets pledged as security by the group.

*(iii) Impairment loss and compensation*

PAS36(130)(a)

The impairment loss relates to assets that were damaged by a fire – refer to [note 4\(b\)](#) for details. The whole amount was recognized as [administrative](#) expense in profit or loss, as there was no amount included in the asset revaluation surplus relating to the relevant assets.

PAS16(74)(d)

An amount of CU300,000 (2017 – nil) was received by the group from an insurance company as compensation for damage to a building caused by the fire and recognized as other income.

PAS1(117)

*(iv) Revaluation, depreciation methods and useful lives <sup>2,3</sup>*

PAS16(73)(a)

Land and buildings are recognized at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to other reserves in shareholders' equity ([note 9\(c\)](#)). All other property, plant and equipment is recognized at historical cost less depreciation.

PAS16(50),(73)(b)

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

PAS16(73)(c)

• Buildings	25-40 years
• Machinery	10-15 years
• Vehicles	3-5 years
• Furniture, fittings and equipment	3-8 years
• Leased plant and equipment	10-15 years

See [note 25\(r\)](#) for the other accounting policies relevant to property, plant and equipment.

*(v) Significant estimates – valuations of land and buildings <sup>2,3</sup>*

Information about the valuation of land and buildings is provided in [note 8\(i\)](#) below.

*(vi) Carrying amounts that would have been recognized if land and buildings were stated at cost*

PAS16(77)(e)

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018 CU'000	2017 CU'000
<b>Freehold land</b>		
Cost	16,100	13,350
Accumulated depreciation	-	-
Net book amount	<u>16,100</u>	<u>13,350</u>
<b>Buildings</b>		
Cost	37,322	27,790
Accumulated depreciation	(3,715)	(1,850)
Net book amount	<u>33,607</u>	<u>25,940</u>



**8(b) Investment properties** <sup>20</sup>

		2018 CU'000	2017 CU'000
	<b>Non-current assets - at fair value</b>		
PAS40(76)	Opening balance at January 1	10,050	8,205
PAS40(76)(a)	Acquisitions	1,900	-
PAS40(76)(a)	Capitalized subsequent expenditure	-	810
PAS40(76)(c)	Classified as held for sale or disposals	-	(112)
PAS40(76)(d)	Net gain/(loss) from fair value adjustment	1,350	1,397
PAS40(76)(f)	Transfer (to)/from inventories and owner-occupied property	-	(250)
PAS40(76)	Closing balance at December 31	<u>13,300</u>	<u>10,050</u>

	<i>(i) Amounts recognized in profit or loss for investment properties</i>	2018 CU'000	2017 CU'000
PAS40(75)(f)(i)	Rental income	6,180	5,165
PAS40(75)(f)(ii)	Direct operating expenses from property that generated rental income	(807)	(606)
PAS40(75)(f)(iii)	Direct operating expenses from property that did not generate rental income	(903)	(503)
PAS40(75)(f)(iv)	Fair value gain recognized in other income	1,350	1,397

PAS1(117) *(ii) Measuring investment property at fair value*  
 PAS40(75)(a) Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the group. They are carried at fair value. Changes in fair values are presented in profit or loss as part of other income.

*(iii) Significant estimate – fair value of investment property*

Information about the valuation of investment properties is provided note 8(i) below.

PAS40(75)(g) *(iv) Non-current assets pledged as security*  
 Refer to note 24 for information on non-current assets pledged as security by the group.

PAS40(75)(h) *(v) Contractual obligations*  
 Refer to note 18 for disclosure of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

PAS17(56)(c) *(vi) Leasing arrangements*  
 Some of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

		2018 CU'000	2017 CU'000
PAS17(56)(a)	Minimum lease payments under non-cancellable operating leases of investment properties not recognized in the financial statements are receivable as follows:		
	Within one year	4,265	4,245
	Later than one year but not later than 5 years	9,120	9,050
	Later than 5 years	2,370	2,550
		<u>15,755</u>	<u>15,845</u>

8(c) Intangible assets <sup>20,21</sup>

	Goodwill CU'000	Patents, trademarks and other rights CU'000	Internally generated software * CU'000	Customer contracts CU'000	Total CU'000	
<b>Non-current assets</b>						
<b>At January 1, 2017</b>						
PFRS3(B67)(d)(i) PAS38(118)(c)	Cost	9,700	9,410	2,255	-	21,365
	Accumulated amortization and impairment	-	(250)	(205)	-	(455)
	Net book amount	9,700	9,160	2,050	-	20,910
<b>Year ended December 31, 2017</b>						
PAS38(118)(e)	Opening net book amount	9,700	9,160	2,050	-	20,910
PAS38(118)(e)(i)	Additions – internal development	-	-	720	-	720
PFRS3(B67)(d)(vi) PAS38(118)(e)(vii)	Exchange differences	45	-	-	-	45
PAS38(118)(e)(vi)	Amortization charge **	-	(525)	(205)	-	(730)
	Closing net book amount	9,745	8,635	2,565	-	20,945
<b>At December 31, 2017</b>						
PFRS3(B67)(d)(viii) PAS38(118)(c)	Cost	9,745	9,410	2,975	-	22,130
	Accumulated amortization and impairment	-	(775)	(410)	-	(1,185)
PAS1(77)	Net book amount	9,745	8,635	2,565	-	20,945
<b>Year ended December 31, 2018</b>						
PFRS3(B67)(d)(i) PAS38(118)(e)	Opening net book amount	9,745	8,635	2,565	-	20,945
PAS38(118)(e)(i)	Additions – internal development	-	-	880	-	880
PFRS3(B67)(d)(ii) PAS38(118)(e)(i)	Acquisition of business (note 14)	1,115	3,020	-	3,180	7,315
PFRS3(B67)(d)(vi) PAS38(118)(e)(vii)	Exchange differences	(145)	-	-	-	(145)
PFRS3(B67)(d)(v) PAS36(130)(b) PAS38(118)(e)(iv)	Impairment charge ***	(2,410)	-	-	-	(2,410)
PAS38(118)(e)(vi)	Amortization charge **	-	(525)	(300)	(1,210)	(2,035)
	Closing net book amount	8,305	11,130	3,145	1,970	24,550
<b>At December 31, 2018</b>						
PFRS3(B67)(d)(viii) PAS38(118)(c)	Cost	10,715	12,430	3,855	3,180	30,180
	Accumulated amortization and impairment	(2,410)	(1,300)	(710)	(1,210)	(5,630)
PAS1(77)	Net book amount	8,305	11,130	3,145	1,970	24,550
PAS38(118)(e)(i) PAS38(118)(d)						
PAS36(126)(a), (130)(c)(i),(d)(f)						
PAS38(126)						

\* Software consists of capitalized development costs being an internally generated intangible asset.

\*\* Amortization expenses are included in cost of sales of goods (CU1,050,000; 2017 – CU450,000), cost of providing services (CU475,000; 2017 - CU125,000), marketing expense (CU310,000; 2017 - CU45,000) and administration expenses (CU200,000; 2017 – CU110,000).

\*\*\* The carrying amount of the furniture manufacturing CGU in Europe has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss is included in cost of sale of goods in the statement of profit or loss.

VALUE PFRS Electronics Group is researching new devices that could replace the current suite of smartphones and tablets. It has incurred research and development expenses of CU1,215,000 (2017 – CU1,010,000) which are included in administration cost in the statement of profit or loss.

**8(c) Intangible assets**

PAS1(117)

*(i) Amortization methods and useful lives <sup>2,3</sup>*

PAS38(118)(a),(b)

The group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

- Patents, trademark and licences 3-5 years
- IT development and software 3-5 years
- Customer contracts 1-3 years

See [note 25\(t\)](#) for the other accounting policies relevant to intangible assets, and [note 25\(j\)](#) for the group’s policy regarding impairments.

*(ii) Customer contracts*

PAS1(119)

The customer contracts were acquired as part of a business combination (see [note 14](#) for details). They are recognized at their fair value at the date of acquisition and are subsequently amortized on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

PAS1(125)

*(iii) Significant estimate: useful life of IT division’s intangible assets <sup>2,3</sup>*

The group has recently completed the development of software that is used to analyse business processes by the IT consulting division. As at December 31, 2018, the carrying amount of this software was CU722,000 (2017 – nil). The group estimates the useful life of the software to be at least 5 years based on the expected technical obsolescence of such assets. However, the actual useful life may be shorter or longer than 5 years, depending on technical innovations and competitor actions. If it were only 3 years, the carrying amount would be CU702,000 as at December 31, 2018. If the useful life were estimated to be 8 years, the carrying amount would be CU732,000.

*(iv) Impairment tests for goodwill*

PAS36(134)

Goodwill is monitored by management at the level of the six operating segments identified in [note 2](#).

PAS36(134)(a)

A segment-level summary of the goodwill allocation is presented below.

2018	Oneland CU'000	US CU'000	China CU'000	Europe CU'000	Total CU'000
IT consulting	-	4,200	-	2,870	7,070
Furniture – manufacturing	120	-	-	-	120
Electronic equipment	1,115	-	-	-	1,115
	1,235	4,200	-	2,870	8,305
2017	Oneland CU'000	US CU'000	China CU'000	Europe CU'000	Total CU'000
IT consulting	-	4,200	-	3,015	7,215
Furniture – manufacturing	120	-	2,410	-	2,530
	120	4,200	2,410	3,015	9,745

*(v) Significant estimate: key assumptions used for value-in-use calculations <sup>20</sup>*

PAS36(134)(c),  
(d)(i),(iii),(iv)

The group tests whether goodwill has suffered any impairment on an annual basis. For the 2018 and 2017 reporting period, the recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

## 8(c) Intangible assets

PAS36(134)(d)(i)

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them: <sup>6,7</sup>

PAS36(130)(g),  
(134)(d)(i),(iv),(v)

2018	Furniture – manufacturing China	IT consulting		Electronic equipment Oneland
		US	Europe	
Sales volume (% annual growth rate)	2.7	3.2	4.1	2.9
Sales price (% annual growth rate)	1.4	1.7	1.8	1.8
Budgeted gross margin (%)	47.0	60.0	55.5	40.0
Other operating costs (CU'000)	9,500	8,400	5,600	1,650
Annual capital expenditure (CU'000)	1,900	500	230	150
Long term growth rate (%)	3.5	2.2	2.0	3.1
Pre-tax discount rate (%)	14.7	14.0	14.8	16.0
<b>2017</b>				
Sales volume (% annual growth rate)	2.5	3.0	3.9	-
Sales price (% annual growth rate)	1.3	1.6	1.8	-
Budgeted gross margin (%)	44.0	60.0	54.0	-
Other operating costs (CU'000)	9,300	8,300	4,350	-
Annual capital expenditure (CU'000)	1,850	580	225	-
Long term growth rate (%)	3.2	2.2	1.8	-
Pre-tax discount rate (%)	14.3	14.4	15.1	-

PAS36(134)(d)(ii),  
(iv)

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Sales volume	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Sales price	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts for each territory.
Budgeted gross margin	Based on past performance and management's expectations for the future.
Other operating costs	Fixed costs of the CGUs, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year forecast period.
Annual capital expenditure	Expected cash costs in the CGUs. This is based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Pre-tax discount rates	Reflect specific risks relating to the relevant segments and the countries in which they operate.

PAS36(55)

8(c) Intangible assets

PAS36(134)(d)(ii)

*Customer concentration/dependency – IT Consulting CGU – Europe*

The IT Consulting CGU in Europe generates 20% of its total revenues for each financial year from a key customer in France. The customer contract is for a five-year term, and the customer has been trading with the CGU since 2001. Management has included the renewal of this key customer contract in the value-in-use calculations to determine the recoverable amount of the CGU.

PAS36(134)(f)

*(vi) Significant estimate – impairment charge <sup>2,3</sup>*

PAS36(129)(a),  
(130)(a),(b),(d),(e)

The impairment charge of CU2,410,000 arose in the furniture manufacturing CGU in China following a decision to reduce the manufacturing output allocated to these operations. This was a result of a redefinition of the group's allocation of manufacturing volumes across all CGUs in order to benefit from advantageous market conditions. Following this decision, the group reassessed the depreciation policies of its property, plant and equipment in this country and estimated that their useful lives will not be affected following this decision. No class of asset other than goodwill was impaired.

PAS36(130)(e)

As at December 31, 2018, the recoverable amount of the entire CGU was CU45,789,000.

*(vii) Significant estimate: Impact of possible changes in key assumptions*

PAS36(134)(f)

*Furniture manufacturing CGU – China*

PAS1(129)(b)  
PAS36(134)(f)

If the budgeted gross margin used in the value-in-use calculation for the furniture manufacturing CGU in China had been 5% lower than management's estimates at December 31, 2018 (42% instead of 47%), the group would have had to recognize an impairment against the carrying amount of property, plant and equipment of CU1,300,000. The reasonably possible change of 5% reduction in budgeted gross margin represents a reasonably possible reduction in sales price of 0.2% (i.e. annual growth rate of 1.2% instead of 1.4%).

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimates (15.7% instead of 14.7%), the group would have had to recognize an impairment against property, plant and equipment of CU600,000. In the prior year there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write-down in the Chinese furniture manufacturing CGU.

*IT Consulting CGU – Europe*

PAS36(134)(f)(i)  
PAS1(38)

The recoverable amount of the IT Consulting CGU in Europe is estimated to exceed the carrying amount of the CGU at December 31, 2018 by CU388,000 (2017 – CU463,000).

PAS36(134)(f)(ii),  
(iii)  
PAS1(38)

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	2018		2017	
	From	To	From	To
Sales volume (% annual growth rate)	4.1	3.5	3.9	2.5
Budgeted gross margin (%)	55.5	49	54.0	46
Long-term growth rate (%)	2.0	1.5	1.8	1.3
Pre-tax discount rate (%)	14.8	15.5	15.1	15.9

The Directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the European IT Consulting CGU to exceed its recoverable amount.

**8(d) Deferred tax balances***(i) Deferred tax assets*

	Notes	2018 CU'000	2017 Restated * CU'000
PAS12(81)(g)(i)			
<b>The balance comprises temporary differences attributable to:</b>			
		<b>3,170</b>	2,245
	8(g)	<b>1,317</b>	783
		<b>914</b>	822
	8(h)	<b>1,137</b>	786
		<b>6,538</b>	<b>4,636</b>
	12(a)	<b>230</b>	233
Revised illustration	12(c)	<b>200</b>	90
	12(a)	<b>183</b>	186
Revised illustration	3(b)	<b>166</b>	161
	8(h)	<b>143</b>	-
	4	<b>140</b>	-
Revised illustration	7(f)	<b>148</b>	71
		<b>102</b>	34
		<b>1,312</b>	<b>775</b>
		<b>7,850</b>	<b>5,411</b>
PAS12(74)	(ii)	<b>(543)</b>	(478)
		<b>7,307</b>	<b>4,933</b>

*Significant estimates*<sup>2,3</sup>PAS1(125)  
PAS12(82)

The deferred tax assets include an amount of CU1,378,000 which relates to carried forward tax losses of VALUE PFRS Manufacturing Limited. The subsidiary has incurred the losses over the last two financial years following the acquisition of the manufacturing operations in Springfield. They relate to the one-off costs of integrating the operations and will not recur in future. The group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary. The subsidiary is expected to generate taxable income from 2020 onwards. The losses can be carried forward indefinitely and have no expiry date.

	Tax losses CU'000	Pension obligation CU'000	Employee benefits CU'000	Provisions CU'000	Other CU'000	Total CU'000
<b>Movements</b> <sup>10,11</sup>						
<b>At January 1, 2017</b> (Restated*)	1,300	551	791	610	402	3,654
(Charged)/credited						
PAS12(81)(g)(ii) - to profit or loss	945	(41)	31	176	263	1,374
- to other comprehensive income	-	273	-	-	110	383
<b>At December 31, 2017</b> (Restated)	2,245	783	822	786	775	5,411
New illustration Adjustment on adoption of PFRS 9 (see note 26(b))	-	-	-	-	15	15
<b>At January 1, 2018</b>	<b>2,245</b>	<b>783</b>	<b>822</b>	<b>786</b>	<b>790</b>	<b>5,426</b>

\* See note 11(b) for details regarding the restatement as a result of an error and note 26 for details about restatements for changes in accounting policies.

## 8(d) Deferred tax balances

	Tax losses CU'000	Pension obligation CU'000	Employee benefits CU'000	Provisions CU'000	Other CU'000	Total CU'000
<b>Movements</b> <sup>10,11</sup>						
<b>At January 1, 2018</b> (Restated)	2,245	783	822	786	790	5,426
(Charged)/credited						
PAS12(81)(g)(ii) - to profit or loss	(600)	(4)	(33)	351	248	(38)
- to other comprehensive income	-	(36)	-	-	79	43
- directly to equity	-	-	-	-	60	60
Acquisition of subsidiary	1,525	574	125	-	135	2,359
<b>At December 31, 2018</b>	<b>3,170</b>	<b>1,317</b>	<b>914</b>	<b>1,137</b>	<b>1,312</b>	<b>7,850</b>

## (ii) Deferred tax liabilities

	Notes	2018 CU'000	2017 Restated* CU'000
PAS12(81)(g)(i) <b>The balance comprises temporary differences attributable to:</b>			
Property, plant and equipment	8(a)	6,258	4,140
Intangible assets	8(c)	2,375	770
Convertible note	7(g)	955	-
Investment property	8(b)	1,124	719
		<b>10,712</b>	<b>5,629</b>
<i>Other</i>			
Financial assets at fair value through profit or loss	7(d)	804	420
Derivatives held for trading	12(a)	-	396
Cash flow hedges	12(a)	649	243
Revised illustration Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)	7(c)	182	172
Investments in associates	16(e)	131	113
Prepayments	7(a)	150	143
Inventories	8(e)	120	-
New illustration Non-current asset recognized for costs to fulfil a contract	3(b)	94	156
New illustration Debt refinancing	26(b)	2	141
Share-based payments (deferred shares)	21(b)	51	22
Other		113	11
Sub-total other		<b>2,296</b>	<b>1,817</b>
Total deferred tax liabilities		<b>13,008</b>	<b>7,446</b>
PAS12(74) Set-off of deferred tax liabilities pursuant to set-off provisions <sup>8,9</sup>	(i)	(543)	(478)
Net deferred tax liabilities		<b>12,465</b>	<b>6,968</b>

New illustration \* See note 26 for details about restatements for changes in accounting policies.

*Offsetting within tax consolidated group* <sup>8,9</sup>

Value PFRS Plc and its wholly-owned Oneland subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.



**8(d) Deferred tax balances**

	Property, plant and equipment CU'000	Intangible assets CU'000	Investment property CU'000	Conver- tible note CU'000	Other CU'000	Total CU'000
<b>Movements</b> <sup>10,11</sup>						
<b>At January 1, 2017</b>	2,150	615	300	-	1,467	4,532
Charged/(credited)						
PAS12(81)(g)(ii) - to profit or loss	238	155	419	-	321	1,133
- to other comprehensive income	1,752	-	-	-	29	1,781
<b>At December 31, 2017</b>	4,140	770	719	-	1,817	7,446
<b>New illustration</b> Adjustment on adoption of PFRS 9 (see note 26(b))	-	-	-	-	(139)	(139)
<b>At January 1, 2018</b>	4,140	770	719	-	1,678	7,307
Charged/(credited)						
PAS12(81)(g)(ii) - to profit or loss	(379)	(255)	405	(95)	119	(205)
- to other comprehensive income	2,173	-	-	-	379	2,552
- directly to equity	-	-	-	1,050	-	1,050
Acquisition of subsidiary	324	1,860	-	-	120	2,304
<b>At December 31, 2018</b>	6,258	2,375	1,124	955	2,296	13,008

**8(e) Inventories** <sup>20</sup>

	2018 CU'000	2017 CU'000
<b>Current assets</b>		
PAS1(77) PAS2(36)(b) Raw materials and stores	6,200	4,800
PAS2(36)(b) Work in progress	5,600	5,400
PAS2(36)(b) Finished goods – at cost	6,663	8,452
PAS2(36)(c) Finished goods – at fair value less cost to sell	1,290	1,020
PAS2(36)(b) Land held for development and resale	2,400	-
	<b>22,153</b>	<b>19,672</b>

**PAS1(117) (i) Assigning costs to inventories** <sup>2,3</sup>

PAS2(23),(25), (36)(a) The costs of individual items of inventory are determined using weighted average costs. The exception is land held for development and resale where costs are assigned by specific identification and include the cost of acquisition, development and borrowing costs incurred during the development. See note 25(m) for the group's other accounting policies for inventories.

**PAS2(36)(d) (ii) Amounts recognized in profit or loss**

PAS2(36)(e)  
PAS36(126)(a) Inventories recognized as an expense during the year ended December 31, 2018 amounted to CU55,540,000,000 (2017 – CU34,244,000). These were included in cost of sales and cost of providing services (except for CU535,000 of inventories damaged by a fire which are recognized in other expense – refer to note 4).

PAS2(36)(f),(g) Write-downs of inventories to net realisable value amounted to CU950,000 (2017 – CU750,000). These were recognized as an expense during the year ended December 31, 2018 and included in 'cost of sales' in profit or loss.

PAS2(36)(f),(g) The group reversed CU160,000 of a previous inventory write-down in July 2018, as the group sold the relevant goods that had been written down to an independent retailer in Argentina at original cost. The amount reversed has been included in 'cost of sales' in the statement of profit or loss.

**8(f) Other assets and assets classified as held for sale**<sup>12</sup>

		2018 CU'000	2017 CU'000
<b>New illustration</b>	<b>Other current assets</b>		
PAS1(77)	Prepayments	500	475
PAS1(77)	Right to returned goods (see note 3(b))	76	38
		<u>576</u>	<u>513</u>
	<b>Non-current assets held for sale</b>		
	Land	250	-
		<u>250</u>	<u>-</u>

**(i) Land held for sale**

PFRS5(41)(a),(b),(d)

In November 2018, the directors of VALUE PFRS Manufacturing Limited decided to sell a parcel of vacant land which was originally acquired for an expansion of the Nicetown factory. There are several interested parties and the sale is expected to be completed before the end of June 2019. The asset is presented within total assets of the Oneland Furniture – manufacturing segment in note 2.

Refer to note 15(d) for information about assets and liabilities of a disposal group that were classified as held for sale at December 31, 2017.

**(ii) Non-recurring fair value measurements**PFRS13(91)(a),(93)(b),(d)  
PFRS5(41)(c)

Land classified as held for sale during the reporting period was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification, resulting in the recognition of a writedown of CU22,000 as administrative expenses in the statement of profit or loss. The fair value of the land was determined using the sales comparison approach as described in note 8(i) below. This is a level 2 measurement as per the fair value hierarchy set out in note 7(h) above.

**8(g) Employee benefit obligations**<sup>13,20</sup>

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
PAS1(77)						
	690	2,220	2,910	470	2,270	2,740
	-	138	138	-	-	-
	-	3,684	3,684	-	1,900	1,900
	-	707	707	-	711	711
	<u>690</u>	<u>6,749</u>	<u>7,439</u>	<u>470</u>	<u>4,881</u>	<u>5,351</u>

**(i) Leave obligations**<sup>14</sup>

The leave obligations cover the group's liabilities for long service leave and annual leave which are classified as either other long-term benefits or short-term benefits, as explained in note 25(y).

PAS1(61)

The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also for those employees that are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of CU690,000 (2017 - CU470,000) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.<sup>14</sup>

	2018 CU'000	2017 CU'000
Current leave obligations expected to be settled after 12 months	<u>344</u>	<u>272</u>

**8(g) Employee benefit obligations***(ii) Defined benefit pension plans* <sup>16,17</sup>PAS19(139)(a)  
PAS1(112)(c)

The group operates defined benefit pension plans in Oneland and the US under broadly similar regulatory frameworks. All of the plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In the Oneland plans, pensions in payment are generally updated in line with the retail price index, whereas in the US plans, pensions generally do not receive inflationary increases once in payment. With the exception of this inflationary risk in Oneland, the plans face broadly similar risks, as described below.

The majority of benefit payments are from trustee-administered funds; however, there are also a number of unfunded plans where the group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practice in each country, as is the nature of the relationship between the group and the trustees (or equivalent) and their composition. Responsibility for governance of the plans – including investment decisions and contributions schedules – lies jointly with the group and the board of trustees. The board of trustees must be composed of representatives of the group and plan participants in accordance with the plan's regulations.

PAS19(53)

The group also operates a couple of defined contribution plans which receive fixed contributions from group companies. The group's legal or constructive obligation for these plans is limited to the contributions. The expense recognized in the current period in relation to these contributions was CU2,425,000 (2017 – CU2,075,000).

*Balance sheet amounts*PAS19(140)(a)(i),  
(ii),(141)

The amounts recognized in the balance sheet and the movements in the net defined benefit obligation over the year are as follows:

	Present value of obligation CU'000	Fair value of plan assets CU'000	Total CU'000	Impact of minimum funding requirement/ asset ceiling CU'000	Net amount CU'000
<b>January 1, 2017</b>	<b>3,479</b>	<b>(2,264)</b>	<b>1,215</b>	<b>120</b>	<b>1,335</b>
PAS19(141)(a) Current service cost	319	-	319		319
PAS19(141)(d) Past service cost	179	-	179		179
PAS19(141)(b) Interest expense/(income)	214	(156)	58	5	63
<b>Total amount recognized in profit or loss</b>	<b>712</b>	<b>(156)</b>	<b>556</b>	<b>5</b>	<b>561</b>
PAS19(141)(c) Remeasurements					
Return on plan assets, excluding amounts included in interest (income)	-	(85)	(85)	-	(85)
Loss from change in demographic assumptions	20	-	20	-	20
Loss from change in financial assumptions	61	-	61	-	61
Experience losses	641	-	641	-	641
Change in asset ceiling, excluding amounts included in interest expense	-	-	-	80	80
<b>Total amount recognized in other comprehensive income</b>	<b>722</b>	<b>(85)</b>	<b>637</b>	<b>80</b>	<b>717</b>
PAS19(141)(e) Exchange differences	(324)	22	(302)	-	(302)
PAS19(141)(f) Contributions:					
Employers	-	(411)	(411)	-	(411)
Plan participants	30	(30)	-	-	-
PAS19(141)(g) Benefit payments	(127)	127	-	-	-
<b>December 31, 2017</b>	<b>4,492</b>	<b>(2,797)</b>	<b>1,695</b>	<b>205</b>	<b>1,900</b>

## 8(g) Employee benefit obligations

	Present value of obligation CU'000	Fair value of plan assets CU'000	Total CU'000	Impact of minimum funding requirement/ asset ceiling CU'000	Net amount CU'000
<b>January 1, 2018</b>	<b>4,492</b>	<b>(2,797)</b>	<b>1,695</b>	<b>205</b>	<b>1,900</b>
PAS19(141)(a) Current service cost	751	-	751	-	751
PAS19(141)(d) Losses on curtailment and settlement	65	-	65	-	65
PAS19(141)(b) Interest expense/(income)	431	(308)	123	9	132
<b>Total amount recognized in profit or loss</b>	<b>1,247</b>	<b>(308)</b>	<b>939</b>	<b>9</b>	<b>948</b>
PAS19(141)(c) Remeasurements					
Return on plan assets, excluding amounts included in interest (income)	-	(187)	(187)	-	(187)
Loss from change in demographic assumptions	32	-	32	-	32
Loss from change in financial assumptions	121	-	121	-	121
Experience (gains)	(150)	-	(150)	-	(150)
Change in asset ceiling, excluding amounts included in interest expense	-	-	-	100	100
<b>Total amount recognized in other comprehensive income</b>	<b>3</b>	<b>(187)</b>	<b>(184)</b>	<b>100</b>	<b>(84)</b>
PAS19(141)(e) Exchange differences	(61)	(25)	(86)	-	(86)
PAS19(141)(f) Contributions:					
Employers	-	(908)	(908)	-	(908)
Plan participants	55	(55)	-	-	-
Payments from plan:					
PAS19(141)(g)    Benefit payments	(566)	566	-	-	-
PAS19(141)(g)    Settlements	(280)	280	-	-	-
PAS19(141)(h) Acquired in business combination (see note 14)	3,691	(1,777)	1,914	-	1,914
<b>December 31, 2018</b>	<b>8,581</b>	<b>(5,211)</b>	<b>3,370</b>	<b>314</b>	<b>3,684</b>

PAS19(141)	One of our Oneland plans has a surplus that is not recognized on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund.																		
PAS19(139)(c)	In connection with the closure of a factory, a curtailment loss was incurred and a settlement arrangement agreed with the plan trustees, effective December 31, 2018, which settled all retirement benefit plan obligations relating to the employees of that factory. In the prior year, the group made minor amendments to the terms of the plan, resulting in past service cost of CU179,000.																		
PAS19(138)(e)	The net liability disclosed above relates to funded and unfunded plans as follows:																		
	<table border="1"> <thead> <tr> <th></th> <th>2018 CU'000</th> <th>2017 CU'000</th> </tr> </thead> <tbody> <tr> <td>Present value of funded obligations</td> <td>6,155</td> <td>2,943</td> </tr> <tr> <td>Fair value of plan assets</td> <td>(5,211)</td> <td>(2,797)</td> </tr> <tr> <td>Deficit of funded plans</td> <td>944</td> <td>146</td> </tr> <tr> <td>Present value of unfunded obligations</td> <td>2,426</td> <td>1,549</td> </tr> <tr> <td>Total deficit of defined benefit pension plans (before asset ceiling)</td> <td>3,370</td> <td>1,695</td> </tr> </tbody> </table>		2018 CU'000	2017 CU'000	Present value of funded obligations	6,155	2,943	Fair value of plan assets	(5,211)	(2,797)	Deficit of funded plans	944	146	Present value of unfunded obligations	2,426	1,549	Total deficit of defined benefit pension plans (before asset ceiling)	3,370	1,695
	2018 CU'000	2017 CU'000																	
Present value of funded obligations	6,155	2,943																	
Fair value of plan assets	(5,211)	(2,797)																	
Deficit of funded plans	944	146																	
Present value of unfunded obligations	2,426	1,549																	
Total deficit of defined benefit pension plans (before asset ceiling)	3,370	1,695																	

**8(g) Employee benefit obligations**

PAS1(112)(c) The group has no legal obligation to settle the deficit in the funded plans with an immediate contribution or additional one off contributions. The group intends to continue to contribute to the defined benefit section of the plan at a rate of 14% of salaries in line with the actuary's latest recommendations.

PAS19(138)(a) The following table shows a breakdown of the defined benefit obligation and plan assets by country:

	2018			2017		
	Oneland CU'000	US CU'000	Total CU'000	Oneland CU'000	US CU'000	Total CU'000
Present value of obligation	4,215	4,366	8,581	1,050	3,442	4,492
Fair value of plan assets	(2,102)	(3,109)	(5,211)	(394)	(2,403)	(2,797)
	<u>2,113</u>	<u>1,257</u>	<u>3,370</u>	<u>656</u>	<u>1,039</u>	<u>1,695</u>
Impact of minimum funding requirement/asset ceiling	314	-	314	205	-	205
Total liability	<u>2,427</u>	<u>1,257</u>	<u>3,684</u>	<u>861</u>	<u>1,039</u>	<u>1,900</u>

PAS19(137)(a) As at the last valuation date, the present value of the defined benefit obligation included approximately CU3,120,000 (2017 – CU1,371,000) relating to active employees, CU3,900,000 (2017 – CU2,115,000) relating to deferred members and CU1,561,000 (2017 – CU1,006,000) relating to members in retirement.

**(iii) Post-employment medical plans**

PAS19(138),(139)(a)  
PAS1(112)(c)  
PAS19(144) The group operates a number of post-employment medical benefit schemes, principally in the US. The majority of these plans are unfunded. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for the defined benefit pension schemes set out above with the addition of actuarial assumptions relating to the long-term increase in healthcare costs of 8.0% (2017 – 7.6%) and claim rates of 6% (2017 – 5.2%).

**Balance sheet amounts**

PAS19(140)(a)(i),  
(ii),(141) The amounts recognized in the balance sheet and the movements in the net defined benefit obligation over the year are as follows:

	Present value of obligation CU'000	Fair value of plan assets CU'000	Net amount CU'000
<b>January 1, 2017</b>	<b>708</b>	<b>(207)</b>	<b>501</b>
PAS19(141)(a) Current service cost	107	-	107
PAS19(141)(b) Interest expense/(income)	25	(13)	12
<b>Total amount recognized in profit or loss</b>	<b>132</b>	<b>(13)</b>	<b>119</b>
PAS19(141)(c) Remeasurements			
Return on plan assets, excluding amounts included in interest (income)	-	(11)	(11)
Loss from change in demographic assumptions	3	-	3
Loss from change in financial assumptions	7	-	7
Experience losses	194	-	194
<b>Total amount recognized in OCI</b>	<b>204</b>	<b>(11)</b>	<b>193</b>
PAS19(141)(e) Exchange differences	(31)	2	(29)
PAS19(141)(f) Employer contributions/premiums paid	-	(73)	(73)
PAS19(141)(g) Benefit payments from plan	(8)	8	-
<b>December 31, 2017</b>	<b>1,005</b>	<b>(294)</b>	<b>711</b>

**8(g) Employee benefit obligations**

	Present value of obligation CU'000	Fair value of plan assets CU'000	Net amount CU'000
<b>January 1, 2018</b>	<b>1,005</b>	<b>(294)</b>	<b>711</b>
PAS19(141)(a) Current service cost	153	-	153
PAS19(141)(b) Interest expense/(income)	49	(18)	31
<b>Total amount recognized in profit or loss</b>	<b>202</b>	<b>(18)</b>	<b>184</b>
PAS19(141)(c) Remeasurements			
Return on plan assets, excluding amounts included in interest (income)	-	(33)	(33)
Loss from change in demographic assumptions	4	-	4
Loss from change in financial assumptions	10	-	10
Experience (gains)	(16)	-	(16)
<b>Total amount recognized in OCI</b>	<b>(2)</b>	<b>(33)</b>	<b>(35)</b>
PAS19(141)(e) Exchange differences	37	(5)	32
PAS19(141)(f) Employer contributions/premiums paid:	-	(185)	(185)
PAS19(141)(g) Benefit payments from plan	(7)	7	-
<b>December 31, 2018</b>	<b>1,235</b>	<b>(528)</b>	<b>707</b>

PAS19(138)(e) The net liability disclosed above relates to funded and unfunded plans as follows:

	2018 CU'000	2017 CU'000
Present value of funded obligations	650	350
Fair value of plan assets	(528)	(294)
Deficit of funded plans	122	56
Present value of unfunded obligations	585	655
Total deficit of post-employment medical plans	707	711

**(iv) Post-employment benefits (pension and medical)**

PAS19(144)	<i>Significant estimates: actuarial assumptions and sensitivity</i>			
	The significant actuarial assumptions were as follows:			
	2018		2017	
	Oneland	US	Oneland	US
Discount rate	5.1%	5.2%	5.5%	5.6%
Salary growth rate	4.0%	4.5%	4.5%	4.0%
Pension growth rate	3.0%	0%	3.1%	0%
Long-term increase in health care cost	-	8.0%	-	7.6%
Claim rates	-	6%	-	5.2%
	Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:			
	2018		2017	
	Oneland	US	Oneland	US
Retiring at the end of the reporting period:				
Male	22	20	22	20
Female	25	24	25	24
Retiring 20 years after the end of the reporting period:				
Male	24	23	24	23
Female	27	26	27	26

**8(g) Employee benefit obligations**

PAS19(145)(a)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption		Impact on defined benefit obligation					
			Increase in assumption			Decrease in assumption		
	2018	2017	2018	2017	2018	2017		
Discount rate	<b>0.50%</b>	0.3%	<b>Decrease by</b>	<b>8.2%</b>	6.6%	<b>Increase by</b>	<b>9.0%</b>	7.2%
Salary growth rate	<b>0.50%</b>	0.7%	<b>Increase by</b>	<b>1.8%</b>	2.3%	<b>Decrease by</b>	<b>1.7%</b>	2.1%
Pension growth rate	<b>0.25%</b>	0.3%	<b>Increase by</b>	<b>4.7%</b>	5.2%	<b>Decrease by</b>	<b>4.4%</b>	5.1%
Life expectancy	<b>+/- 1 year</b>		<b>Increase by:</b>	<b>2.8%</b>	2.5%	<b>Decrease by</b>	<b>2.9%</b>	2.7%
Long-term increase in health care cost	<b>0.5%</b>	0.4%	<b>Increase by</b>	<b>5.5%</b>	5.2%	<b>Decrease by</b>	<b>4.8%</b>	4.3%
Claim rates	<b>0.5%</b>	0.4%	<b>Increase by</b>	<b>6.3%</b>	5.9%	<b>Decrease by</b>	<b>6.8%</b>	6.4%

PAS19(145)(b)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognized in the balance sheet.

PAS19(145)(c)

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

*Balance sheet amounts*

PAS19(142)

The major categories of plan assets are as follows:

	December 31, 2018				December 31, 2017			
	Quoted	Un-quoted	Total	in %	Quoted	Un-quoted	Total	in %
	CU'000	CU'000	CU'000		CU'000	CU'000	CU'000	
Equity instruments			<b>1,824</b>	<b>32%</b>			1,216	39%
Information technology	<b>502</b>	-	<b>502</b>		994	-	994	
Energy	<b>557</b>	-	<b>557</b>		-	-	-	
Manufacturing	<b>746</b>	-	<b>746</b>		194	-	194	
Other	-	<b>19</b>	<b>19</b>		-	28	28	
Debt instruments			<b>2,161</b>	<b>38%</b>			571	19%
Government	<b>916</b>	-	<b>916</b>		321	-	321	
Corporate bonds (investment grade)	<b>900</b>	-	<b>900</b>		99	-	99	
Corporate bonds (non-investment grade)	<b>68</b>	<b>277</b>	<b>345</b>		41	110	151	
Property			<b>1,047</b>	<b>18%</b>			943	31%
In US	-	<b>800</b>	<b>800</b>		-	697	697	
In Oneland	-	<b>247</b>	<b>247</b>		-	246	246	
Qualifying Insurance policies	-	<b>419</b>	<b>419</b>	<b>7%</b>	-	190	190	6%
Cash and cash equivalents	<b>177</b>	-	<b>177</b>	<b>3%</b>	94	-	94	3%
Investment funds	<b>111</b>	-	<b>111</b>	<b>2%</b>	77	-	77	2%
<b>Total</b>	<b>3,977</b>	<b>1,762</b>	<b>5,739</b>	<b>100%</b>	<b>1,820</b>	<b>1,271</b>	<b>3,091</b>	<b>100%</b>

PAS19(143)

The assets set out in the above table include ordinary shares issued by Value PFRS Plc with a fair value of CU530,000 (2017 – CU410,000) and land and buildings occupied by the group with a fair value of CU550,000 (2017 – CU580,000).



### 8(g) Employee benefit obligations

#### *Risk exposure*

PAS19(139)(b)

Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below:

- Asset volatility** The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Oneland and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.
- As the plans mature, the group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The first stage of this process was completed in FY2018 with the sale of a number of equity holdings and purchase of a mixture of government and corporate bonds. The government bonds represent investments in Oneland and US government securities only. The corporate bonds are global securities with an emphasis on Oneland and the US.
- However, the group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently. See below for more details on the group's asset-liability matching strategy.
- Changes in bond yields** A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- Inflation risks** Some of the group's pension obligations are linked to salary inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.
- In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk.
- Life expectancy** The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the Oneland plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

PAS19(146)

In the case of funded plans, the group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

The group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The group has not changed the processes used to manage its risks from previous periods. The group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of assets in 2018 consists of equities and bonds, although the group also invests in property, bonds, cash and investment (hedge) funds. The group believes that equities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a globally diversified portfolio of international blue chip entities, with a target of 60% of equities held in Oneland and Europe, 30% in the US and the remainder in emerging markets.

**8(g) Employee benefit obligations***(v) Defined benefit liability and employer contributions*

PAS19(147)(a) The group has agreed that it will aim to eliminate the pension plan deficit over the next nine years. Funding levels are monitored on an annual basis and the current agreed contribution rate is 14% of pensionable salaries in Oneland and 12% in the US. The [next valuation](#) is due to be completed as at December 31 2019. The group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

PAS19(147)(b) Expected contributions to post-employment benefit plans for the year ending December 31 2019 are CU1,150,000.

PAS19(147)(c) The weighted average duration of the defined benefit obligation is 25.2 years (2017 – 25.8 years). The expected maturity analysis of undiscounted pension and post-employment medical benefits is as follows:

PAS19(147)(c)		Less than a year CU'000	Between 1 - 2 years CU'000	Between 2 - 5 years CU'000	Over 5 years CU'000	Total CU'000
	<b>December 31, 2018</b>					
	Defined benefit obligation	628	927	2,004	21,947	25,506
	Post-employment medical benefits	127	174	614	4,775	5,690
	<b>Total</b>	<b>755</b>	<b>1,101</b>	<b>2,618</b>	<b>26,722</b>	<b>31,196</b>
PAS1(38)	December 31, 2017					
	Defined benefit obligation	314	450	1,103	12,923	14,790
	Post-employment medical benefits	69	88	388	2,591	3,136
	<b>Total</b>	<b>383</b>	<b>538</b>	<b>1,491</b>	<b>15,514</b>	<b>17,926</b>

## 8(h) Provisions <sup>20</sup>

PAS1(77)	2018			2017 Restated *		
	Current CU'000	Non-current CU'000	Total CU'000	Current CU'000	Non-current CU'000	Total CU'000
Make good provision (i)	225	1,573	1,798	-	1,382	1,382
Restructuring costs (i)	900	-	900	-	-	-
Service warranties (i)	635	-	635	920	-	920
Legal claim (i)	460	-	460	320	-	320
Contingent liability (note 14)	477	-	477	-	-	-
	<b>2,697</b>	<b>1,573</b>	<b>4,270</b>	<b>1,240</b>	<b>1,382</b>	<b>2,622</b>

New illustration

\* See note 26 for details about restatements for changes in accounting policies.

### (i) Information about individual provisions and significant estimates

#### Make good provision

PAS37(85)(a),(b) VALUE PFRS Retail Limited is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognized for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalized as part of the cost of leasehold improvements and are amortized over the shorter of the term of the lease or the useful life of the assets.

#### Restructuring

PAS37(85)(a),(b) The reduction in output in the furniture manufacturing division (see note 8(c) above) resulted in the loss of 155 jobs at two factories. An agreement was reached with the local union representatives in October 2018, which specifies the number of staff involved and the voluntary redundancy compensation package offered by the group, as well as amounts payable to those made redundant. The total estimated staff restructuring costs to be incurred are CU1,050,000. Other direct costs attributable to the restructuring, including lease termination, are CU327,000. These costs were fully provided for in the current reporting period. The remaining provision of CU900,000 is expected to be fully utilized over the next 12 months.

#### Service warranties

PAS37(85)(a),(b) Provision is made for estimated warranty claims in respect of products sold which are still under warranty at the end of the reporting period. These claims are expected to be settled in the next financial year.

PAS1(125)  
PFRS15(119)(e)

The group generally offers 12 months warranties for its personal computer products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated claim information include the success of the group's productivity and quality initiatives, as well as parts and labour costs. As at December 31, 2018, this particular provision had a carrying amount of CU330,000 (2017 - CU450,000). Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated CU33,000 higher or lower (2017 - CU45,000 higher/lower).

#### Legal claim

PAS37(85)(a),(b) In October 2018, an unfavourable judgement was handed down against the group in respect of a legal claim made by a customer of the IT consulting segment. However, after taking appropriate legal advice, the directors have decided to appeal against the decision. No payment has been made to the claimant pending outcome of the appeal. If upheld, payment of CU860,000 will be required. The recognized provision reflects the directors' best estimate of the most likely outcome. The court of appeal is expected to consider this matter in August 2019.

See note 25(x) for the group's other accounting policies relevant to provisions.

## 8(h) Provisions

### (ii) Movements in provisions

PAS37(84) Movements in each class of provision during the financial year are set out below:

	Make good provision CU'000	Restructuring obligations CU'000	Service warranties CU'000	Contingent liability CU'000	Legal claim CU'000	Total CU'000
<b>2018</b>						
PAS37(84)(a) Carrying amount at start of year	1,382	-	920	-	320	2,622
Acquired through business combination	-	-	-	450	-	450
PAS37(84)(b) Additional provision charged to plant and equipment	350	-	-	-	-	350
Charged/(credited) to profit or loss						
PAS37(84)(b) - additional provisions recognized	-	1,377	268	-	140	1,785
PAS37(84)(d) - unused amounts reversed	-	-	(330)	-	-	(330)
PAS37(84)(e) - unwinding of discount	66	-	-	27	-	93
PAS37(84)(c) Amounts used during the year	-	(477)	(223)	-	-	(700)
PAS37(84)(a) Carrying amount at end of year	1,798	900	635	477	460	4,270

### 8(i) Recognized fair value measurements <sup>18-20</sup>

#### (i) Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 7(h).

	Notes	Level 1 CU'000	Level 2 CU'000	Level 3 CU'000	Total CU'000
PFRS13(93)(a),(b) <b>At December 31, 2018</b>					
Investment properties					
Office buildings – West Harbourcity <sup>17</sup>	8(b)	-	-	13,300	13,300
Land and buildings <sup>17</sup>					
Manufacturing sites – Oneland	8(a)	-	-	43,750	43,750
Manufacturing sites – China				17,750	17,750
Land held for sale	8(f)	-	250	-	250
<b>Total non-financial assets</b>		-	250	74,800	75,050
PAS1(38) <b>At December 31, 2017</b>					
Investment properties					
Office buildings – West Harbourcity	8(b)	-	5,135	4,915	10,050
Land and buildings					
Manufacturing sites – Oneland	8(a)	-	-	32,487	32,487
Manufacturing sites – China				15,153	15,153
<b>Total non-financial assets</b>		-	5,135	52,555	57,690

PFRS13(95) The group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

### 8(i) Recognized fair value measurements

PFRS13(93)(c)

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements see (iv) below.

#### (ii) Valuation techniques used to determine level 2 and level 3 fair values

PFRS13(91)(a),(93)(d)  
PAS16(77)(a)  
PAS40(75)(e)

The group obtains independent valuations for its investment properties at least annually and for its freehold land and buildings related to manufacturing sites (classified as property, plant and equipment) at least every three years.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections based on reliable estimates of future cash flows
- capitalized income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3 except for land held for resale. The level 2 fair value of land held for resale has been derived using the sales comparison approach. The key inputs under this approach are the price per square metre from current year sales of comparable lots of land in the area (location and size).

#### (iii) Fair value measurements using significant unobservable inputs (level 3)

PFRS13(93)(e)

The following table presents the changes in level 3 items for the periods ended December 31, 2017 and December 31, 2018 for recurring fair value measurements:

	Manufacturing sites			
	Office buildings CU'000	Oneland CU'000	China CU'000	Total CU'000
<b>Opening balance January 1, 2017</b>	3,470	27,043	12,357	42,870
Acquisitions	810	2,584	1,780	5,174
Disposals	(112)	(424)		(536)
Reclassification to inventory	(250)	-	-	(250)
Amounts recognized in profit or loss				
Depreciation and impairment	-	(1,100)	(440)	(1,540)
Gains recognized in other income *	997	-	-	997
Gains recognized in other comprehensive income	-	4,384	1,456	5,840
<b>Closing balance December 31, 2017</b>	<b>4,915</b>	<b>32,487</b>	<b>15,153</b>	<b>52,555</b>
Transfer from level 2	5,135	-		5,135
Acquisitions	1,900	7,135	2,247	11,282
Disposals	-	(550)	-	(550)
Amounts recognized in profit or loss				
Depreciation and impairment	-	(1,360)	(855)	(2,215)
Gains recognized in other income *	1,350	-	-	1,350
Gains recognized in other comprehensive income	-	6,038	1,205	7,243
<b>Closing balance December 31, 2018</b>	<b>13,300</b>	<b>43,750</b>	<b>17,750</b>	<b>74,800</b>

PFRS13(93)(f)

\* includes unrealized gains or (losses) recognized in profit or loss attributable to balances held at the end of the reporting period <sup>12</sup>

2018	1,350	-	-	1,350
2017	907	-	-	907

## 8(i) Recognized fair value measurements

### (iv) Transfers between levels 2 and 3 and changes in valuation techniques

PFRS13(93)(d)

The group commenced redevelopment of an office building in Oneland during the year. The redevelopment will greatly expand the net lettable area of the building and is expected to be completed in early 2019. Prior to redevelopment, the building was valued using the sales comparison approach based on recent sales of comparable properties in the area. This resulted in a level 2 fair value. Upon redevelopment, the group had to revise its valuation technique for the property under construction. The revised valuation technique uses significant unobservable inputs. Accordingly, the fair value measurement was reclassified to level 3.

PFRS13(93)(d)

The revised valuation technique for the building under construction estimates the fair value of the completed office building and deducts:

- estimated construction and other costs to completion that would be incurred by a market participant, and
- estimated profit margin that a market participant would require to hold and develop the property to completion, based on the state of the property as at December 31, 2018.

Other than described above, there were no changes in valuation techniques during the year.

### (v) Valuation inputs and relationships to fair value

PFRS13(93)(d),(99)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See (ii) above for the valuation techniques adopted.

PFRS13(91)(a),(93)(d),  
(h)(i)

Description	Fair value at		Unobservable inputs *	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	December 31, 2018 CU'000	December 31, 2017 CU'000		2018	2017	
Leased office buildings	7,765	4,915	Discount rate	4% - 5% (4.8%)	3% - 4% (3.6%)	The higher the discount rate and terminal yield, the lower the fair value
			Terminal yield	6% - 7% (6.6%)	5.5% - 6% (5.8%)	
			Capitalisation rate	4% - 4.5% (4.4%)	4% - 4.5% (4.2%)	The higher the capitalisation rate and expected vacancy rate, the lower the fair value
			Expected vacancy rate	9% - 10% (9.2%)	8% - 10% (8.7%)	
			Rental growth rate	3% - 3.6% (3.2%)	2% - 2.5% (2.2%)	
Office building under re-development	5,535	n/a - Level 2 fair value	Estimated cost to completion	CU3,230,000 - CU3,510,000 (CU3,395,000)	n/a	The higher the estimated costs the lower the fair value
			Estimated profit margin required to hold and develop property to completion	12.5% of property value	n/a	The higher the profit margin required, the lower the fair value
Manufacturing sites - Oneland	43,750	32,487	Discount rate	6% - 7% (6.7%)	8% - 9% (7.7%)	The higher the discount rate and terminal yield, the lower the fair value
			Terminal yield	8% - 9% (8.2%)	9.5% - 10% (9.7%)	

### 8(i) Recognized fair value measurements

PFRS13(91)(a),(93)(d),  
(h)(i),(ii)

Description	Fair value at		Unobservable inputs *	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	December 31, 2018 CU'000	December 31, 2017 CU'000		2018	2017	
Manufacturing sites - China	17,750	15,153	Discount rate	10% - 12% (11%)	9% - 10% (9.4%)	The higher the discount rate and terminal yield, the lower the fair value
			Terminal yield	14% - 15% (14.3%)	13% - 14% (13.2%)	

PFRS13(93)(h)(i)

\* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

PFRS13(93)(g)

### (vi) Valuation processes

The group engages external, independent and qualified valuers to determine the fair value of the group's investment properties at the end of every financial year and for other land and buildings at least every three years. As at December 31, 2018, the fair values of the investment properties have been determined by ABC Property Surveyors Limited. A directors' valuation has been performed for the land and buildings classified as property, plant and equipment as at December 31, 2018. The last independent valuation of these land and buildings was performed as at December 31, 2017.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Leased office buildings – discount rates, terminal yields, expected vacancy rates and rental growth rates are estimated by ABC Property Surveyors Limited or management based on comparable transactions and industry data.
- Office building under redevelopment – costs to completion and profit margin are estimated by ABC Property Surveyors Limited based on market conditions as at December 31, 2018. The estimates are consistent with the budgets developed internally by the group based on management's experience and knowledge of market conditions.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

PAS40(75)(e)  
PAS16(77)(a),(b)

## Non-financial assets and liabilities

### Disclosing non-financial assets and non-financial liabilities in one note

1. Users of financial reports have indicated that they would like to be able to quickly access all of the information about the entity's financial assets and liabilities without having to trawl through various notes in the financial report. We have therefore structured our notes such that financial items and non-financial items are discussed separately. But you should be aware that this is not a mandatory requirement in any of the accounting standards.

### Accounting policies, estimates and judgements

2. As explained on [page 27](#), in our view it is helpful for readers of the financial report if information about accounting policies that are specific to the entity and about significant estimates and judgements is disclosed with the relevant line items, rather than in separate notes. However, this format is also not mandatory.
3. For general commentary regarding the disclosures of accounting policies please refer to [note 25](#). Commentary about the disclosure of significant estimates and judgements is provided in [note 11](#).



## Non-financial assets and liabilities

### Classes of property, plant and equipment

PAS16(37)

4. A class of property, plant and equipment is a grouping of assets of a similar nature and use in the entity's operation. Paragraph 37 of PAS 16 provides the following examples:
  - (a) land
  - (b) land and buildings
  - (c) machinery
  - (d) ships
  - (e) aircraft
  - (f) motor vehicles
  - (g) furniture and fixtures
  - (h) office equipment
5. Each entity will have different classes, depending on their individual operations. The number of classes that are separately disclosed also depends on materiality. However, the 'plant and equipment' of an entity will normally include assets of quite different nature and use. It will therefore not be sufficient to provide the information required in PAS 16 only for two classes, being 'land and buildings' and 'plant and equipment'. Rather, entities should provide a further breakdown or, alternatively, use a more specific narrative to illustrate that the entity has only one major class of plant and equipment.

### Impairment

#### *Impairment testing – disclosure of assumptions*

PAS36(132)  
PAS36(134)  
PAS1(122),(125)

6. An entity is encouraged to disclose the assumptions used to determine the recoverable amount of all significant assets and cash-generating units during the period. However, as a minimum, paragraph 134 of PAS 36 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit. In many cases, the impairment calculations also involve significant estimates and judgements which should be highlighted under PAS 1 paragraphs 122 and 125.

#### *Prior year recoverable amount calculation*

PAS36(136)

7. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraphs 24 or 99 of PAS 36, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 of PAS 36 relate to the carried forward calculation of recoverable amount.

### Deferred tax assets and liabilities

#### *Offsetting*

PAS12(74)

8. Deferred tax assets and liabilities shall be set off if, and only if:
  - (a) there is a legally enforceable right to set off current tax assets and liabilities, and
  - (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:
    - (i) the same taxable entity, or
    - (ii) different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realize 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.

PAS12(76)

9. The circumstances giving rise to a set off between entities in a consolidated entity are likely to be rare unless the entities are part of a tax consolidated group. As disclosed in note 8(d) we have assumed this to be the case for Value PFRS Plc.

## Non-financial assets and liabilities

### *Disclosure of reconciliation by type of temporary difference*

PAS12(81)(g)

10. PAS 12 requires the following disclosures for each type of temporary difference and in respect of each type of unused tax loss and tax credit:
  - (a) the deferred tax balances recognized for each period presented
  - (b) the amounts of deferred tax income or expense recognized in profit or loss, if this is not apparent from the changes in the amounts recognized in the balance sheet
11. This information can be presented in various ways. Value PFRS Plc has chosen to provide the information in the form of a reconciliation by type of temporary difference. However, other formats are equally acceptable as long as all of the required disclosures are made.

### **Assets held for sale**

12. There is no requirement in either PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or PAS 1 *Presentation of Financial Statements* to present assets of a disposal group separately from individual assets held for sale. Value PFRS Plc has therefore combined the assets of a disposal group with individual assets held for sale as a single line item in the balance sheet, but provided the associated disclosures in separate notes.

### **Employee benefit obligations**

PAS37(1)(c),(5)(d)

13. PAS 37 does not generally apply to employee benefits as these are dealt with by PAS 19 *Employee Benefits*. However, employee benefits may be classified as provisions in the balance sheet where either the amounts or the timing of the future payments in respect of these obligations is uncertain. Alternatively, they could either be classified as other payables (where the amount and timing is certain) or, as we have done in this publication, presented as a separate line item in the balance sheet. If the amounts recognized in relation to employee benefit obligations are material, entities should consider providing the information required by PAS 37 regardless of how the amounts are presented.

### *Classification of employee benefits obligations as non-current*

PAS1(69)

14. **Other long-term employee benefit obligations, which are those that are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the service that gives rise to the benefit,** can only be classified in the balance sheet as a non-current liability if there is no possibility the entity could **be required to settle** the obligation within the next 12 months. This means, for example, that where employees are entitled to take their long service leave or accrued annual leave within the next 12 months, the obligation relating to them must be recorded as a current liability even though the employees may not be expected to take the leave for **a longer** period.

PAS19(133)

15. **A net post-employment asset or liability will typically have a current and a non-current portion. However, the distinction between the two might be arbitrary and difficult to determine, in particular for funded post-employment plans. The net plan asset or liability is therefore generally presented as a single non-current item for funded post-employment plans. However, if a reliable distinction is possible, separate presentation of the two balances would be appropriate.**

### *Disclosures for defined benefit obligations*

PAS19(135)

16. There is an overriding objective in PAS 19 *Employee Benefits* that the disclosures for defined benefit plans must:
  - (a) explain the characteristics of the plans and the associated risks
  - (b) identify and explain the amounts in the financial statements arising from the plans
  - (c) describe how the plans may affect the amount, timing and uncertainty of the entity's future cash flows.

PAS19(136)-(138)

17. Entities will need to consider on a case-by-case basis how detailed the disclosures will have to be to satisfy these objectives. Additional information or further disaggregation may be necessary in some circumstances. However, preparers should also keep in mind that materiality applies to all of the disclosures required under PAS 19.

## Non-financial assets and liabilities

### Fair value measurements

18. Property assets are often unique and not traded on a regular basis. As a consequence, there is a lack of observable input data for identical assets. Fair value measurements of property assets will therefore often be categorized as 'level 2' or 'level 3' valuations. Whether it is appropriate to classify the fair value as a 'level 2' measurement will depend on the individual facts and circumstances. Examples of 'level 2' inputs include sales price per square metre for similar properties in a similar location in an active market, or property yields derived from the latest transactions in active markets for similar properties. Where significant adjustments to market based data are made, or where other significant inputs are unobservable, the valuation would be categorized as 'level 3'. If the assets are located in a less developed market, this would also be an indication for a 'level 3' classification. Assets classified as level 2 measurements based on recent sales may need to be reclassified in subsequent periods if there have been no more sales of comparable properties in the area.

PFRS13(B35)(g)

19. As a typical diversified manufacturing company, Value PFRS Plc only has a limited number of assets and liabilities that are measured at fair value. For alternative disclosures covering biological assets, please refer to [Appendix C](#).

For more detailed commentary about the requirements of PFRS 13 please refer to chapter 5 *Fair value: applying PFRS 13 to Property, plant and equipment, Investment property and Intangible assets* of the PwC Manual of Accounting (links will only work for registered users).

### Disclosures not illustrated: not applicable to Value PFRS Plc

20. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

#### *Investment property*

PAS40(75)(c)

Issue not illustrated	Relevant disclosures or references
Classification as investment property is difficult	Disclose criteria used to distinguish investment property from owner-occupied property and property held for sale in the ordinary course of business.

PAS40(77)

Adjustments made to valuations	Disclose reconciliation between valuation obtained and the adjusted valuation.
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PAS40(75)(f)

Sale of investment property between pools of assets measured using different methods (PAS 40 paragraph 32C)	Disclose cumulative change in fair value recognized in profit or loss.
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PAS17(56)(b)

Contingent rents recognized as income in the period	Disclose amounts where applicable.
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PAS40(75)(b)

Operating leases classified as investment property	Explain circumstances of classification as investment property and whether the fair value model is applied.
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PAS40(78)

Investment property cannot be reliably measured at fair value on a continuing basis	Disclose amounts separately and provide additional information about the property.
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PAS40(79)

Entity has elected to use the cost model for measuring its investment property	Disclose additional information such as depreciation methods, useful lives etc.
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#### *Intangible assets*

PAS38(122)(a)

Issue not illustrated	Relevant disclosures or references
Intangible assets with indefinite useful lives	Disclose the carrying amount and factors that have played a significant role in assessing that the assets have an indefinite useful life.

PAS38(122)(b)

Individually material intangible assets	Describe the assets and disclose the carrying amount and remaining amortization period.
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## Non-financial assets and liabilities

	Issue not illustrated	Relevant disclosures or references
PAS38(122)(c)	Intangible assets acquired by way of government grant	Disclose the fair value initially recognized, the current carrying amount and whether the assets are measured at cost or at revaluation.
PAS38(122)(d)	Intangible assets with restricted title and/or pledged as security for liabilities	Disclose existence and carrying amounts.
PAS38(122)(e)	Contractual commitments for the acquisition of intangible assets	Disclose amount.
PAS38(124)	Intangible assets measured under the revaluation model	Provide additional disclosures as set out in PAS 38(124).

### Impairment and goodwill

	Issue not illustrated	Relevant disclosures or references
PAS36(126)(b)-(d),(129)	Impairment losses recognized in OCI and reversals of impairment losses	Disclose impairment losses recognized in OCI (by segment where applicable). Disclose reversal of impairment losses (P&L and OCI; by segment where applicable).
PAS36(131)	Individual impairment losses or reversals are not material	Provide information about aggregate impairment losses and reversals.
PAS36(133)	Unallocated goodwill	Disclose the amount and the reasons why the goodwill remained unallocated (see below for example).
PAS36(134)	Intangible assets with indefinite useful lives – impairment disclosures	Provide similar disclosures to those illustrated for goodwill in this publication.
PAS36(134)(e)	Goodwill and intangible assets with indefinite useful lives: recoverable amount is based on fair value less costs of disposal (FVLCOB)	Provide additional information as set out in PAS 36(134). See below for illustration.
PAS36(135)	Goodwill and indefinite life intangible assets allocated to multiple CGUs, where the amount allocated to each CGU is not significant	Provide information about impairment testing based on the aggregate carrying amounts.

### Other non-financial assets and liabilities

	Issue not illustrated	Relevant disclosures or references
PAS2(36)(h)	Inventories	Disclose amount of inventories pledged as security for liabilities.
PAS19(140)(b)	Defined benefit plans: reimbursement rights	These will need to be separately disclosed in the reconciliation of the amounts recognized in the balance sheet.
PAS19(148),(149)	Multi-employer and group plans	Provide additional information as specified in PAS 19(148) and (149).
PAS37(92)	Provisions: information omitted because disclosure would be prejudicial	Disclose that fact, the general nature of the dispute and reasons why further information is not disclosed.
FRS13(93)(i)	Fair value of non-financial assets: highest and best use differs from current use	Disclose that fact and why the asset is used in a manner that differs from its highest and best use.

## Non-financial assets and liabilities

21. The following additional illustrative disclosures may be useful where relevant to an entity:

### *Intangible assets with indefinite useful lives*

PAS38(122)(a)

The trademark used to identify and distinguish (product name; carrying amount CU 2,345,000) has a remaining legal life of five years but is renewable every ten years at little cost and is well established. The group intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of product life cycle studies and market and competitive trends provides evidence that the product will generate net cash inflows for the group for an indefinite period. Therefore, the trademark is carried at cost without amortization, but is tested for impairment in accordance with note 25(j).

### *Unallocated goodwill*

PAS36(133)

Shortly before the end of the reporting period, the company acquired XYZ Limited. There was CUXX of goodwill recognized on acquisition which is yet to be allocated to one or more CGUs. XYZ's business will be integrated into the South America and North America CGUs, but management has not yet finalized the allocation of the goodwill between the relevant CGUs.

### *Recoverable amount is determined using fair value less cost of disposal*

PAS36(134)(c)

Management has determined the recoverable amount of the XYZ CGU by assessing the fair value less cost of disposal (FVLCO) of the underlying assets. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation. No impairment was identified.

Management's approach and the key assumptions used to determine the CGU's FVLCO were as follows:

PAS36(134)(e)(i),(ii)

CGU	Unobservable inputs	Value assigned to key assumption		Approach to determining key assumption
		2018	2017	
XYZ	Cost of disposal (CU'000)	<b>CU250</b>	CU320	Estimated based on the company's experience with disposal of assets and on industry benchmarks.
	Sales volume (%)	<b>2.7</b>	3.3	Average annual growth rate over the five-year forecast period, based on past performance and management's expectations of market development.
	Sales price (%)	<b>1.4</b>	1.9	Average annual growth rate over the five-year forecast period, based on current industry trends and includes long term inflation forecasts for each territory.
	Cost reductions from restructuring initiatives (CU'000)	<b>CU2,900</b>	CU2,500	Estimated cost reductions are based on management's judgement and past experience with similar restructuring initiatives.
	Cash flow forecast period	<b>5 years</b>	5 years	Board approved/ reviewed 5 year forecasts which are prepared by management
	Post-tax discount rate (%)	<b>11.7</b>	11.4	Reflects specific risks relating to the segments and the countries in which it operates.
	Long term growth rate (%)	<b>2.7</b>	2.6	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rate is consistent with forecasts included in industry reports.

## 9 Equity 9

PAS1(106)(d)

### 9(a) Share capital and share premium <sup>1</sup>

	Notes	2018 Shares	2017 Shares	2018 CU'000	2017 CU'000
	(iii)				
PAS1(79)(a)(ii)	Ordinary shares Fully paid	63,016,156	58,461,075	83,054	58,953
PAS1(79)(a)(ii)	Partly paid to CU2.88	-	1,250,000	-	3,600
	Calls in arrears	-	-	-	(100)
	(i)	63,016,156	59,711,075	83,054	62,453
PAS1(79)(a)(ii)	7% non-redeemable participating preference shares fully paid	(ii) -	500,000	-	1,523
	<b>Total share capital and share premium</b>	<b>63,016,156</b>	<b>60,211,075</b>	<b>83,054</b>	<b>63,976</b>

PAS1(106)(d)

### (i) Movements in ordinary shares:

	Notes	Number of shares (thousands)	Par value CU'000	Share premium CU'000	Total CU'000
	<b>Details</b>				
PAS1(79)(a)(iv)	Opening balance January 1, 2017		59,468	1,628	61,096
	Employee share scheme issues	21	143	655	798
	Dividend reinvestment plan issues	(iv)	100	459	559
PAS1(79)(a)(iv)	Balance December 31, 2017		59,711	2,742	62,453
	Dividend reinvestment plan issues	(iv)	94	471	565
	Final call of CU1.12 per share on 1,250,000 partly paid shares	(iii)	-	1,400	1,400
	Calls in arrears paid	(iii)	-	100	100
	Exercise of options - proceeds received	(v)	228	975	1,203
	Acquisition of subsidiary	14	1,698	8,067	9,765
	Rights issue	(vi)	1,285	6,423	7,708
			63,016	20,178	83,194
PAS32(35),(39)	Less: Transaction costs arising on share issues		-	(200)	(200)
PAS12(81)(a)	Deferred tax credit recognized directly in equity		-	60	60
PAS1(79)(a)(iv)	Balance December 31, 2018		63,016	20,038	83,054

**Not mandatory**

The purpose of the rights issue and the call on partly paid shares was to repay borrowings which had been drawn to finance the establishment of the furniture retail division, expand the Springfield manufacturing facilities, and acquire shares in VALUE PFRS Electronics Group. Funds raised from the other share issues were used for general working capital purposes.

PAS1(106)(d) **9(a) Share capital and share premium**PAS1(106)(d) *(ii) Movements in 7% non-redeemable participating preference share capital:*

	Notes	Number of shares (thousands)	Par value CU'000	Share premium CU'000	Total CU'000
<b>Details</b>					
PAS1(79)(a)(iv)	Opening balance January 1, 2017/ December 31, 2017	500	500	1,023	1,523
	Shares bought back on-market and cancelled	(vii) (500)	(500)	(850)	(1,350)
	Buy-back transaction costs	(vii) -	-	(45)	(45)
PAS12(81)(a)	Current tax credit recognized directly in equity	(vii) -	-	15	15
	Transfer to retained earnings	(vii) -	-	(143)	(143)
PAS1(79)(a)(iv)	Balance December 31, 2018	-	-	-	-

*(iii) Ordinary shares*

PAS1(79)(a)(iii),(v) Ordinary shares have a par value of CU1. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. These rights are subject to the prior entitlements of the 6% redeemable preference shares, which are classified as liabilities (refer to [note 7\(g\)](#)).

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

PAS1(79)(a)(i) The company does not have a limited amount of authorized capital.

PAS1(79)(a)(ii) At December 31, 2017 there were 1,250,000 ordinary shares called to CU2.88, on which a further CU1.12 was outstanding. The outstanding amount, together with calls in arrears of CU100,000, was received on 3 November 2018.

*(iv) Dividend reinvestment plan*

PAS1(79)(a)(vii) The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 2.5% discount to the market price.

*(v) Options*

PAS1(79)(a)(vii) Information relating to the VALUE PFRS Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in [note 21](#).

*(vi) Rights issue*

PAS1(106)(d)(iii), (112)(c) On 10 October 2018 the company invited its shareholders to subscribe to a rights issue of 1,284,916 ordinary shares at an issue price of CU6.00 per share on the basis of 1 share for every 10 fully or partly paid ordinary shares held, with such shares to be issued on, and rank for dividends after, 4 December 2018. The issue was fully subscribed.

*(vii) Share buy-back*

PAS1(106)(d)(iii) During October/November 2018 the company purchased and cancelled all 500,000 7% non-redeemable participating preference shares on-market in order to simplify the company's capital structure. The buy-back and cancellation were approved by shareholders at last year's annual general meeting. The shares were acquired at an average price of CU2.70 per share, with prices ranging from CU2.65 to CU2.73. The total cost of CU1,380,000, including CU30,000 of after tax transaction costs, was deducted from preference shareholder equity. As all the shares of that class were bought back and cancelled, the remaining balance of CU143,000 was transferred to retained earnings. The total reduction in paid up capital was CU1,523,000.

PFRS7(7) PAS1(79)(a)(v) The 7% non-redeemable participating preference shares were entitled to dividends at the rate of 7% per annum when sufficient profits were available, but were non-cumulative. They would have participated equally with ordinary shares on winding up of the company.



PAS1(106)(d)	<b>9(b) Other equity</b>		2018	2017	2018	2017
	Notes	Shares	Shares	CU'000	CU'000	
PAS32(28)	Value of conversion rights – convertible notes	(i)			3,500	-
PAS12(81)(a)	Deferred tax liability component				(1,050)	-
PAS1(79)(a)(vi) PAS32(34)	Treasury shares <sup>2</sup>	(ii)	(120,641)	(99,280)	(676)	(550)
					<b>1,774</b>	<b>(550)</b>

*(i) Conversion right of convertible notes*

PAS1(79)(a)(v) The amount shown for other equity securities is the value of the conversion rights relating to the 7% convertible notes, details of which are shown in [note 7\(g\)](#).

*(ii) Treasury shares <sup>2</sup>*

PAS1(79)(a)(vi) Treasury shares are shares in Value PFRS Plc that are held by the VALUE PFRS Employee Share Trust for the purpose of issuing shares under the VALUE PFRS Employee share scheme and the executive short-term incentive (STI) scheme (see [note 21](#) for further information). Shares issued to employees are recognized on a first-in-first-out basis.

	Details	Number of shares	CU'000
PAS1(79)(a)(iv)	Opening balance January 1, 2017	(46,916)	(251)
	Acquisition of shares by the Trust	(52,364)	(299)
	Balance December 31, 2017	<b>(99,280)</b>	<b>(550)</b>
	Acquisition of shares by the Trust	<b>(207,636)</b>	<b>(1,217)</b>
	Issue of deferred shares under the executive STI scheme	40,373	216
	Employee share scheme issue	145,902	875
PAS1(79)(a)(iv)	Balance December 31, 2018	<b>(120,641)</b>	<b>(676)</b>

PAS1(106)(d)

**9(c) Other reserves 3-5**

PAS1(106A)

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

PAS16(77)(f)  
PAS21(52)(b)

New illustration

PAS16(77)(f)

PFRS7(20)(a)(ii)

PAS12(81)(ab),

PAS1(90)

PAS16(77)(f)

PAS12(81)(ab),

PAS1(90)

PAS16(41)

PAS12(81)(ab),

PAS1(90)

PAS28(10)

PAS12(81)(ab),

PAS1(90)

PAS1(92),(95)

PFRS7(23)(d)

PAS12(81)(ab),

PAS1(90)

PFRS7(23)(e)

PAS12(81)(ab),

PAS1(90)

PAS28(10)

PAS12(81)(ab),

PAS1(90)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

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PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

	Notes	Revaluation surplus CU'000	AfS financial assets CU'000	Financial assets at FVOCI CU'000	Hedging CU'000	Share-based payments CU'000	Foreign currency translation CU'000	Total other reserves CU'000
At January 1, 2017 (restated *)		3,220	1,173	-	(312)	1,289	1,916	7,286
Costs of hedging transferred to inventory	12(a)	-	-	-	36	-	-	36
Deferred tax	8(d)	-	-	-	(11)	-	-	(11)
Net amount transferred		-	-	-	25	-	-	25
Revaluation – gross	8(a),7(c) 12(a)	5,840	(1,378)	-	(7)	-	-	4,455
Deferred tax	8(d)	(1,752)	413	-	2	-	-	(1,337)
NCI share in revaluation – gross		(178)	-	-	-	-	-	(178)
Deferred tax		54	-	-	-	-	-	54
Depreciation transfer – gross	9(d)	(334)	-	-	-	-	-	(334)
Deferred tax		100	-	-	-	-	-	100
Revaluation associate	16(e)	100	-	-	-	-	-	100
Deferred tax	8(d)	(30)	-	-	-	-	-	(30)
Reclassification to profit or loss – gross	12(a) 7(c)	-	548	-	(195)	-	-	353
Deferred tax	8(d)	-	(164)	-	58	-	-	(106)
Transfer to inventory – gross	12(a)	-	-	-	642	-	-	642
Deferred tax	8(d)	-	-	-	(193)	-	-	(193)
Currency translation associate	16(e)	-	-	-	-	-	15	15
Deferred tax		-	-	-	-	-	(5)	(5)
Other currency translation differences		-	-	-	-	-	243	243
NCI share in translation differences		-	-	-	-	-	(133)	(133)
<b>Other comprehensive income</b>		3,800	(581)	-	307	-	120	3,646
Transactions with owners in their capacity as owners								
Share-based payment expenses	21	-	-	-	-	555	-	555
<b>At December 31, 2017</b>		<b>7,020</b>	<b>592</b>	<b>-</b>	<b>20</b>	<b>1,844</b>	<b>2,036</b>	<b>11,512</b>
Reclassification on adoption of PFRS 9	26	-	(592)	522	-	-	-	(70)
<b>At January 1, 2018</b>		<b>7,020</b>	<b>-</b>	<b>522</b>	<b>20</b>	<b>1,844</b>	<b>2,036</b>	<b>11,442</b>

\* The opening balance of the hedging reserve as at January 1, 2017 is after the restatement for the changes in accounting policy disclosed in note 26.

PAS1(106)(d)

## 9(c) Other reserves

PAS16(77)(f)  
PAS21(52)(b)New illustration  
PAS12(81)(ab),  
PAS1(90)PFRS7(11A)(e)  
New illustration  
PAS12(81)(ab),  
PAS1(90)PAS16(77)(f)  
PFRS7(20)(a)(ii),(24C)(b)(i)PAS12(81)(ab),  
PAS1(90)

PAS16(77)(f)

PAS12(81)(ab),  
PAS1(90)

PAS16(41)

PAS12(81)(ab),  
PAS1(90)

PAS28(10)

PAS12(81)(ab),  
PAS1(90)PAS1(92),(95)  
PFRS7(23)(d)PAS12(81)(ab),  
PAS1(90)PFRS9(5.5.2)  
New illustrationPAS12(81)(ab),  
PAS1(90)

PAS28(10)

PAS12(81)(ab),  
PAS1(90)

PAS21(52)(b)

PAS1(92),(95)  
PAS21(52)(b)

PAS21(52)(b)

PAS21(52)(b)

PFRS10(23)

	Notes	Revaluation surplus CU'000	Financial assets at FVOCI CU'000	Hedging CU'000	Share-based payments CU'000	Trans- actions with NCI CU'000	Foreign currency trans- lation CU'000	Total other reserves CU'000
<b>At January 1, 2018</b>		<b>7,020</b>	<b>522</b>	<b>20</b>	<b>1,844</b>	-	<b>2,036</b>	<b>11,442</b>
<b>New illustration</b>								
Transfer to inventory	12(a)	-	-	106	-	-	-	106
Deferred tax	8(d)	-	-	(32)	-	-	-	(32)
<b>Net amount transferred</b>		-	-	<b>74</b>	-	-	-	<b>74</b>
<b>PFRS7(11A)(e) New illustration</b>								
Transfer to retained earnings	7(c)	-	(646)	-	-	-	-	(646)
Deferred tax		-	194	-	-	-	-	194
<b>Net amount transferred</b>		-	<b>(452)</b>	-	-	-	-	<b>(452)</b>
Revaluation – gross	8(a),7(c) 12(a)	7,243	750	88	-	-	-	8,081
Deferred tax	8(d)	(2,173)	(223)	(26)	-	-	-	(2,422)
NCI share in revaluation – gross		(211)	-	-	-	-	-	(211)
Deferred tax		63	-	-	-	-	-	63
Depreciation transfer – gross	9(d)	(320)	-	-	-	-	-	(320)
Deferred tax		96	-	-	-	-	-	96
Revaluation joint venture	16(e)	300	-	-	-	-	-	300
Deferred tax	8(d)	(90)	-	-	-	-	-	(90)
Reclassification to profit or loss – gross	12(a) 7(c)	-	-	(155)	-	-	-	(155)
Deferred tax	8(d)	-	-	47	-	-	-	47
<b>Impairment of debt instruments at FVOCI</b>	12(c)	-	8	-	-	-	-	8
Deferred tax	8(d)	-	(2)	-	-	-	-	(2)
Currency translation associate	16(e)	-	-	-	-	-	20	20
Deferred tax		-	-	-	-	-	(6)	(6)
Other currency translation differences		-	-	-	-	-	(617)	(617)
Reclassification to profit or loss on disposal of discontinued operation	15	-	-	-	-	-	170	170
Net investment hedge	12(b)	-	-	-	-	-	190	190
NCI share in translation differences		-	-	-	-	-	247	247
<b>Other comprehensive income</b>		<b>4,908</b>	<b>533</b>	<b>(46)</b>	-	-	<b>4</b>	<b>5,399</b>
Transactions with owners in their capacity as owners								
Share-based payment expenses	21	-	-	-	2,018	-	-	2,018
Issue of treasury shares to employees	9(b)	-	-	-	(1,091)	-	-	(1,091)
Transactions with NCI	16(c)	-	-	-	-	(333)	-	(333)
<b>At December 31, 2018</b>		<b>11,928</b>	<b>603</b>	<b>48</b>	<b>2,771</b>	<b>(333)</b>	<b>2,040</b>	<b>17,057</b>

PAS1(106)(d)	<b>9(c) Other reserves</b>
PAS1(79)(b)	<i>(i) Nature and purpose of other reserves</i> <sup>6,7</sup>
	<i>Revaluation surplus – property, plant and equipment</i>
PAS16(77)(f)	The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of non-current assets. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings, see accounting policy <a href="#">note 25(r)</a> for details.
<b>New illustration</b>	<i>Financial assets at FVOCI</i>
PFRS9(B5.7.1)	The group has elected to recognize changes in the fair value of certain investments in equity securities in OCI, as explained in <a href="#">note 7(c)</a> . These changes are accumulated within the FVOCI reserve within equity. The group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognized.
PFRS9(B5.7.1A)	The group also has certain debt investments measured at FVOCI, as explained in <a href="#">note 7(c)(iv)</a> . For these investments, changes in fair value are accumulated within the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognized or impaired.
<b>Revised illustration</b>	<i>Available-for-sale financial assets – until December 31, 2017</i>
	Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (eg equities), were recognized in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy <a href="#">note 25(o)</a> for details.
<b>New illustration</b>	<i>Hedging reserves</i>
PFRS9(6.5.11)(d)(i)	The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve, see <a href="#">note 12(c)</a> for details. The cash flow hedge reserve is used to recognize the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges, as described in <a href="#">note 25(p)</a> . Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.
PFRS9(6.5.15)(b)	The group defers the changes in the forward element of forward contracts and the time value of option contracts in the costs of hedging reserve. These deferred costs of hedging are included in the initial cost of the related inventory when it is recognized, see <a href="#">note 25(p)</a> for further details.
	<i>Share-based payments</i> <sup>8</sup>
	The share-based payments reserve is used to recognize:
	<ul style="list-style-type: none"> <li>• the grant date fair value of options issued to employees but not exercised</li> <li>• the grant date fair value of shares issued to employees</li> <li>• the grant date fair value of deferred shares granted to employees but not yet vested</li> <li>• the issue of shares held by the VALUE PFRS Employee Share Trust to employees.</li> </ul>
	<i>Transactions with non-controlling interests</i>
	This reserve is used to record the differences described in <a href="#">note 25(b)(v)</a> which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.
	<i>Foreign currency translation</i>
	Exchange differences arising on translation of the foreign controlled entity are recognized in other comprehensive income as described in <a href="#">note 25(d)</a> and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

**9(d) Retained earnings**

	Notes	2018 * CU'000	2017 Restated * CU'000
PAS1(106)(d)	Movements in retained earnings were as follows:		
	Balance January 1	36,523	21,160
	Net profit for the period	33,366	27,087
PAS1(106)(d)(ii)	Items of other comprehensive income recognized directly in retained earnings		
	Remeasurements of post-employment benefit obligations, net of tax	83	(637)
New illustration	Reclassification of gain on disposal of equity instruments at fair value through other comprehensive income, net of tax	452	-
	Dividends	(22,837)	(11,029)
	Transfer from share capital on buy-back of preference shares	143	-
	Depreciation transfer, net of tax	224	234
	Balance December 31	47,954	36,815

\* The amounts disclosed are after the restatement for the correction of the error disclosed in note 11(b) and after the restatement for the change in accounting policy disclosed in note 26.

**Equity****Share premium**

PAS1(79)(a) 1. PAS 1 requires disclosure of the par value of shares (if any), but does not prescribe a particular form of presentation for the share premium. Value PFRS Plc is disclosing the share premium in notes. However, local company laws may have specific rules. For example, they may require separate presentation in the balance sheet.

**Treasury shares**

PAS32(33) 2. PAS 32 states that treasury shares must be deducted from equity and that no gain or loss shall be recognized on the purchase, sale, issue or cancellation of such shares. However, the standard does not specify where in equity the treasury shares should be presented. Value PFRS Plc has elected to present the shares in 'other equity', but they may also be disclosed as a separate line item in the balance sheet, deducted from retained earnings or presented in a specific reserve. Depending on local company law, the company may have the right to resell the treasury shares.

## Equity

### Other reserves

- PAS1(106)(d) 3. An entity shall present, either in the statement of changes in equity or in the notes, for each accumulated balance of each class of other comprehensive income a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each item of other comprehensive income and transactions with owners. See also commentary paragraphs 2 and 3 to the [statement of changes in equity](#).
- PAS1(92),(94) 4. Reclassification adjustments relating to components of other comprehensive income must also be disclosed, either in the statement of comprehensive income or in the notes. Value PFRS Plc has elected to make both disclosures in the notes.
- PAS1(7),(95) 5. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods. They arise, for example, on disposal of a foreign [operation and](#) when a hedged forecast transaction affects profit or loss.

### *Nature and purpose*

- PAS1(79)(b) 6. A description of the nature and purpose of each reserve within equity must be provided either in the balance sheet or in the notes. This applies to each reserve, including general reserves, capital profits reserves and any others in existence.
7. In providing a description of the nature and purpose of the reserves it would be appropriate to refer to any restrictions on their distribution or any other important characteristics. In the case of:
- PAS16(77)(f) (a) the property, plant and equipment revaluation surplus: there is a specific requirement to disclose any restrictions on the distribution of the balance to shareholders
- PAS38(124)(b) (b) the amount of the revaluation surplus that relates to intangible assets; there is a specific requirement to disclose the balance at the beginning and end of the period, indicating the changes during the period and any restrictions on the distribution of the balance to shareholders.

### *Transfer from share-based payments reserve to share capital on exercise of options*

8. The accounting standards do not distinguish between different components of equity. Although PFRS 2 *Share-based Payment* permits to transfer an amount from one component of equity to another upon the [vesting or](#) exercise of options, there is no requirement to do so. Value PFRS Plc has established a share-based payments reserve but does not transfer any amounts from this reserve upon the exercise or lapse of options. However, the credit could also be recognized directly in retained earnings or share capital. The treatment adopted may depend on the tax and company laws applicable in the relevant jurisdictions. Entities with significant share-based payment transactions should explain their policy.

### **Disclosures not illustrated: not applicable to Value PFRS Plc**

9. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	<b>Issue not illustrated</b>	<b>Relevant disclosures or references</b>
PAS1(80)	Entities without share capital	Disclose information equivalent to that required by paragraph 79(a) of PAS 1
PAS1(136A),(80A)	Puttable financial instruments	Various disclosures, see PAS 1 (136A) and (80A) for details.
PAS1(138)(d)	Limited life entities	Disclose length of the entity's life
IFRIC19(11)	Entity has issued equity instruments to extinguish financial liabilities	Disclose any gain or loss recognized as separate line item in profit or loss or in the notes

## 10 Cash flow information

### 10(a) Cash generated from operations<sup>1</sup>

IAS7(18)(b),(20)

	Note	2018 CU'000	2017 CU'000
Profit before income tax from			
Continuing operations		52,081	40,994
Discontinued operations	15	1,111	570
<b>Profit before income tax including discontinued operations</b>		<b>53,192</b>	<b>41,564</b>
Adjustments for			
Depreciation and amortization	5(c)	11,116	8,880
Impairment of goodwill	4	2,410	-
Write off of assets destroyed by fire	4	1,210	-
Non-cash employee benefits expense – share based payments		2,156	1,353
Net (gain) loss on sale of non-current assets		(1,620)	530
Gain on disposal of engineering division	15	(760)	-
Fair value adjustment to investment property	8(b)	(1,350)	(1,397)
Fair value adjustment to derivatives		(11)	(543)
Net (gain)/loss on sale of available-for-sale financial assets	7(c)	-	548
Fair value (gains)/losses on non-current financial assets at fair value through profit or loss	7(d)	(120)	-
Share of profits of associates and joint ventures	16(e)	(340)	(355)
Gain on derecognition of contingent consideration payable	14	(135)	-
Gain on remeasurement of contingent consideration receivable	15	(130)	-
Dividend income and interest classified as investing cash flows		(3,558)	(4,549)
Finance costs - net	5(d)	5,597	5,367
Net exchange differences		604	479
Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of engineering division:			
(Increase) in trade receivables		(6,494)	(4,682)
Decrease/(increase) in contract assets		1,258	(1,220)
(Increase) in inventories		(1,190)	(1,493)
Decrease/(increase) in financial assets at fair value through profit or loss		465	(1,235)
(Increase)/decrease in other operating assets		(307)	4,863
Increase/(decrease) in trade creditors		1,429	(36)
Increase in contract liabilities		457	870
Increase in other operating liabilities		62	152
Increase in other provisions		1,215	574
<b>Cash generated from operations</b>		<b>65,156</b>	<b>49,670</b>



**10(b) Non-cash investing and financing activities** <sup>2,3</sup>

	2018 CU'000	2017 CU'000
IAS7(43) Acquisition of plant and equipment by means of finance leases (note 7(g))	-	3,000
Acquisition of retail store furniture and fittings from lessor as lease incentive (note 18)	-	950

Non-cash investing and financing activities disclosed in other notes are:

- partial settlement of a business combination through the issue of shares – note 14
- deferred settlement of part proceeds of the sale of the engineering division – note 15
- dividends satisfied by the issue of shares under the dividend reinvestment plan – note 13(b), and
- options and shares issued to employees under the VALUE PFRS Employee Option Plan and employee share scheme for no cash consideration – note 21.

**10(c) Net debt reconciliation** <sup>4-7</sup>

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2018 CU'000	2017 CU'000
Cash and cash equivalents	57,098	31,268
Liquid investments (i)	11,300	10,915
Borrowings – repayable within one year (including overdraft)	(9,155)	(8,750)
Borrowings – repayable after one year	(91,754)	(79,330)
Net debt	(32,511)	(45,897)
Cash and liquid investments	68,398	42,183
Gross debt – fixed interest rates	(57,220)	(47,930)
Gross debt – variable interest rates	(43,689)	(40,150)
Net debt	(32,511)	(45,897)

IAS7R(44A)-44E)

	Other assets <sup>5</sup>		Liabilities from financing activities				Total CU'000
	Cash/ bank overdraft CU'000	Liquid invest- ments (i) CU'000	Finance leases due within 1 year CU'000	Finance leases due after 1 year CU'000	Borrow. due within 1 year CU'000	Borrow. due after 1 year CU'000	
Net debt as at January 1, 2017	21,573	10,370	-	-	(4,249)	(76,250)	(48,556)
Cash flows	7,229	1,235	-	-	(1,496)	535	7,503
Acquisitions – finance leases and lease incentives	-	-	(755)	(3,195)	-	-	(3,950)
Foreign exchange adjustments	216	-	-	-	-	(420)	(204)
Other changes (ii)	-	(690)	-	-	-	-	(690)
Net debt as at December 31, 2017	29,018	10,915	(755)	(3,195)	(5,745)	(76,135)	(45,897)
New illustration Restatement on adoption of PFRS 9 (see note 26(b))	-	-	-	-	-	(465)	(465)
Net debt as at January 1, 2018	29,018	10,915	(755)	(3,195)	(5,745)	(76,600)	(46,362)
Cash flows	25,678	(465)	805	-	(5)	(12,564)	13,449
Foreign exchange adjustments	(248)	15	-	-	-	(31)	(264)
Other changes (ii)	-	835	(805)	556	-	80	666
Net debt as at December 31, 2018	54,448	11,300	(755)	(2,639)	(5,750)	(89,115)	(32,511)

**10(c) Net debt reconciliation** 4-7

- (i) Liquid investments comprise current investments that are traded in an active market, being the group's financial assets held at fair value through profit or loss.
- (ii) Other changes include non-cash movements and interest payments which are presented as operating cash flows in the statement of cash flows.

**Cash flow information****Reconciliation to cash generated from operations**

1. Entities that use the direct method for their statement of cash flows will not need to disclose a reconciliation from profit or loss to their operating cash flows. Appendix B shows the cash flow statement for Value PFRS Plc prepared using the direct method.

**Non-cash investing and financing activities – information to be disclosed**

IAS7(43)

2. Investing and financing transactions that do not require the use of cash or cash equivalents shall be disclosed in a way that provides all the relevant information about the investing and financing activities.

IAS7(44)

3. Other examples of transactions or events that would require disclosure under paragraph 43 of PAS 7 include the following:
  - (a) acquisitions of assets by assuming directly related liabilities, such as purchase of a building by incurring a mortgage to the seller
  - (b) conversion of debt to equity.

**Net debt reconciliation**

IAS7(44A)

4. Entities must explain changes in their liabilities for which cash flows have been, or will be classified as financing activities in the statement of cash flows. However, the illustrative disclosure in note 10(c) goes beyond what is required under PAS 7, by also including those assets that the group considers to be part of its net debt.

IAS7(44E)

5. While the IASB acknowledged that the inclusion of cash and cash equivalent balances may be useful where an entity manages debt on a net basis, the board did not want to delay the project by discussing how net debt should be defined and what should, or should not be included. As a consequence, the mandatory requirement only covers balance sheet items for which cash flows are classified as financing activities. Where entities do include other items within the reconciliation, they shall identify separately the changes in liabilities arising from financing activities.

IAS7(44D),(BC19)

6. PAS 7 is also flexible in terms of how the information required by new paragraph 44A is presented. Specifically, entities do not need to provide a reconciliation from opening to closing balances but could provide the information in other ways.

IAS7(44C)

7. However, changes in financial assets must be included in the disclosure if the cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities. This could apply, for example, to assets that hedge liabilities arising from financing activities.

# Risk

Not mandatory

This section of the notes discusses the group's exposure to various risks and shows how these could affect the group's financial position and performance.

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## 11 Critical estimates, judgements and errors

PAS1(122),(125)

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in [other notes](#) together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

### (a) Significant estimates and judgements <sup>1-4</sup>

The areas involving significant estimates or judgements are:

- Estimation of current tax payable and current tax expense – [note 6\(b\)](#)
- Estimated fair value of [certain financial assets](#) – [notes 7\(c\) and 7\(h\)](#)
- Estimation of fair values of land and buildings and investment property – [notes 8\(a\) and 8\(b\)](#)
- Estimated goodwill impairment – [note 8\(c\)](#)
- Estimated useful life of intangible asset – [note 8\(c\)](#)
- Estimation of defined benefit pension obligation – [note 8\(g\)](#)
- Estimation of provision for warranty claims – [note 8\(h\)](#)
- Estimation of fair values of contingent liabilities and contingent purchase consideration in a business combination – [note 14](#)
- Recognition of revenue [and allocation of transaction price](#) – [note 3](#)
- Recognition of deferred tax asset for carried forward tax losses – [note 8\(d\)](#)
- Impairment [of financial assets](#) – [note 12\(c\)](#)
- Consolidation decisions and classification of joint arrangements – [notes 7\(c\) and 16](#).

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### 11(b) Correction of error in accounting for leasing contract

IAS8(49)(a)

In September 2018, a subsidiary undertook a detailed review of its leasing contracts and discovered that the terms and conditions of a contract for the lease of equipment had been misinterpreted. As a consequence, the equipment had been incorrectly accounted for as a finance lease rather than as an operating lease.

IAS8(49)(b)(i),(c)

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

	December 31, 2017 CU'000	Increase/ (Decrease) CU'000	December 31, 2017 (Restated) CU'000	December 31, 2016 CU'000	Increase/ (Decrease) CU'000	January 1, 2017 (Restated) CU'000
<b>Balance sheet (extract)</b>						
Property, plant and equipment	106,380	(1,300)	105,080	94,695	(1,550)	93,145
Deferred tax asset	5,040	(108)	4,932	3,735	(93)	3,642
Non-current borrowings	(80,619)	1,289	(79,330)	(77,741)	1,491	(76,250)
Current borrowings	(8,988)	238	(8,750)	(8,104)	235	(7,869)
Net assets	<b>116,935</b>	<b>119</b>	<b>117,054</b>	<b>95,643</b>	<b>83</b>	<b>95,726</b>
Retained earnings	(36,254)	(119)	(36,373)	(21,024)	(83)	(21,107)
<b>Total equity</b>	<b>(116,935)</b>	<b>(119)</b>	<b>(117,054)</b>	<b>(95,643)</b>	<b>(83)</b>	<b>(95,726)</b>

PAS12(81)(a)

**11(b) Correction of error in accounting for leasing contract**

	2017 CU'000	Profit Increase/ (Decrease) CU'000	2017 (Restated) CU'000
<b>Statement of profit or loss (extract)</b>			
Cost of sales of goods	(65,216)	(25)	(65,241)
Finance costs	(6,348)	76	(6,272)
<b>Profit before income tax</b>	<b>40,388</b>	<b>51</b>	<b>40,439</b>
Income tax expense	(11,806)	(15)	(11,821)
Profit from discontinued operation	399	-	399
<b>Profit for the period</b>	<b>28,981</b>	<b>36</b>	<b>29,017</b>
Profit is attributable to:			
Owners of Value PFRS Plc	26,662	36	26,698
Non-controlling interests	2,319	-	2,319
	<b>28,981</b>	<b>36</b>	<b>29,017</b>
<b>Statement of comprehensive income (extract)</b>			
Profit for the period	28,981	36	29,017
Other comprehensive income for the period	3,554	-	3,554
<b>Total comprehensive income for the period</b>	<b>32,535</b>	<b>36</b>	<b>32,571</b>
Total comprehensive income is attributable to:			
Owners of Value PFRS Plc	29,959	36	29,995
Non-controlling interests	2,576	-	2,576
	<b>32,535</b>	<b>36</b>	<b>32,571</b>

IAS8(49)(b)(ii)

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was an increase of CU0.1 cents per share.

The correction further affected some of the amounts disclosed in [note 5\(b\)](#) and [note 18](#). Depreciation expense for the prior year was reduced by CU250,000 and rental expense relating to operating leases increased by CU275,000.

New illustration

The amounts disclosed above for the 2017 reporting period, and for the balance sheets as at January 1 and December 31, 2017 are before restatements for the change in accounting policy disclosed in [note 26](#).

**11(c) Revision of useful lives of plant and equipment**IAS8(39)  
PAS16(76)

During the year the estimated total useful lives to a subsidiary of certain items of plant and equipment used in the manufacture of furniture were revised. The net effect of the changes in the current financial year was an increase in depreciation expense of CU980,000.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be increased/(decreased) by the following amounts:

Year ending December 31	CU'000
2019	740
2020	(610)
2021	(460)
2022	(650)

## Critical estimates, judgements and errors

### Disclosure not illustrated: not applicable to Value PFRS Plc

#### *Sources of estimation uncertainty*

IFRIC14(10)

1. **The recognition** of a net defined benefit asset may also warrant additional disclosures. For example, the entity should explain any restrictions on the current realisability of the surplus and the basis used to determine the amount of the economic benefits available.

#### *Significant judgements*

PAS1(123)

2. Examples of significant judgements that may require disclosures are judgements made in determining:
  - (a) **when** substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities
  - (b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue
  - (c) **whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding**
  - (d) whether an asset should be classified as held-for-sale or an operation meets the definition of a discontinued operation
  - (e) whether multiple assets should be grouped to form a single cash-generating unit (where this would affect whether an impairment is recognized)
  - (f) whether there are material uncertainties about the entity's ability to continue as a going concern.

#### *Change of accounting estimate in final interim period*

PAS34(26)

3. If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the annual reporting period but separate financial statements are not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that annual reporting period.

## 12 Financial risk management <sup>1,2,17,18</sup>

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

PFRS7(21A)(a),(21C),  
(31),(32),(33)

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognized financial assets and liabilities not denominated in Oneland currency units (CU)	Cash flow forecasting Sensitivity analysis	Foreign currency forwards and foreign currency options
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Interest rate swaps
Market risk – security prices	Investments in equity securities	Sensitivity analysis	Portfolio diversion
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments, debt investments and contract assets	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and letters of credit Investment guidelines for debt investments
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

PFRS7(21A)(a)

The group's risk management is **predominantly controlled** by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

PFRS7(21A)(c)  
New illustration

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans and inventory at the fixed foreign currency rate for the hedged purchases.

### 12(a) Derivatives <sup>3,4,17</sup>

The group has the following derivative financial instruments:

	2018 CU'000	2017 CU'000	
<b>Current assets</b>			
PAS1(77)	Foreign currency options – held for trading ((b)(i))	-	1,320
PAS1(77),PFRS7(24A)(a)	Foreign currency options – cash flow hedges ((b)(i))	1,709	-
PAS1(77),PFRS7(24A)(a)	Interest rate swaps – cash flow hedges ((b)(ii))	145	97
PFRS7(24A)(b)	Total current derivative financial instrument assets	<u>1,854</u>	<u>1,417</u>
<b>Non-current assets</b>			
PAS1(77),PFRS7(24A)(a)	Interest rate swaps – cash flow hedges ((b)(ii))	308	712
PFRS7(24A)(b)	Total non-current derivative financial instrument assets	<u>308</u>	<u>712</u>
<b>Current liabilities</b>			
PAS1(77)	Foreign currency forwards – held for trading ((b)(i))	610	621
PAS1(77),PFRS7(24A)(a)	Foreign currency forwards – cash flow hedges ((b)(i))	766	777
PFRS7(24A)(b)	Total current derivative financial instrument liabilities	<u>1,376</u>	<u>1,398</u>





**12(a) Derivatives****New requirements***Hedge ineffectiveness*

PFRS7(22B)(b)

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group uses the hypothetical derivative method to assess effectiveness.

PFRS7(23D)

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of Oneland or the derivative counterparty.

PFRS7(22B)(b)

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

PFRS7(22B)(c),(23D)

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

PFRS7(24C)(b)(ii)

There was no ineffectiveness during 2018 or 2017 in relation to the interest rate swaps.

PFRS7(33)

**12(b) Market risk**

PFRS7(21C)

*(i) Foreign exchange risk 5.6**Exposure*

PFRS7(31),(34)(c)

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Oneland currency units, was as follows:

	December 31, 2018			December 31, 2017		
	USD CU'000	EUR CU'000	RMB CU'000	USD CU'000	EUR CU'000	RMB CU'000
Trade receivables	5,150	2,025	-	4,130	945	-
Bank loans	(18,765)	-	(1,509)	(8,250)	-	-
Trade payables	(4,250)	-	-	(5,130)	-	-
<b>Foreign currency forwards</b>						
buy foreign currency (cash flow hedges)	11,519	-	-	10,613	-	-
buy foreign currency (held for trading)	12,073	-	-	11,422	-	-
Foreign currency options	10,000	-	-	8,000	-	-

*Instruments used by the group*

PFRS7(33)(b),(22A)(a)

The group operates internationally and is exposed to foreign exchange risk, primarily the US\$. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The risk is measured through a forecast of highly probable US\$ expenditures. The risk is hedged with the objective of minimising the volatility of the Oneland currency cost of highly probable forecast inventory purchases.

PFRS7(22A)(b),(c)

The group treasury's risk management policy is to hedge between 65% and 80% of forecast US\$ cash flows for inventory purchases up to one quarter in advance, subject to a review of the cost of implementing each hedge. For the year ended December 31, 2018, approximately 80% of inventory purchases were hedged in respect of foreign currency risk. At December 31, 2018, 90% of forecasted US\$ inventory purchases during the first quarter of 2019 qualified as 'highly probable' forecast transactions for hedge accounting purposes.

PFRS7(33)

**12(b) Market risk**

The US dollar denominated bank loans are expected to be repaid with receipts from US dollar denominated sales. The foreign currency exposure of these loans has therefore not been hedged.

PFRS7(22B)(a)  
Revised illustration

The group uses a combination of foreign currency options and foreign currency forwards to hedge its exposure to foreign currency risk. Under the group's policy the critical terms of the forwards and options must align with the hedged items.

PFRS9(6.5.16)

The group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. It is discounted, where material.

PFRS9(6.5.15)

The intrinsic value of foreign currency options is determined with reference to the relevant spot market exchange rate. The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted, where material.

PAS1(117)  
PFRS7(21)

The changes in the forward element of the foreign currency forwards and the time value of the options that relate to hedged items are deferred in the costs of hedging reserve.

PFRS7(7),(21)

The group also entered into foreign currency forwards in relation to projected purchases for the next 12 months that do not qualify as 'highly probable' forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as held for trading with gains (losses) recognized in profit or loss.

*Hedge of net investment in foreign entity*

PFRS7(22A)

In 2018, the parent entity has entered into a bank loan amounting to CU1,699,000 which is denominated in Chinese renminbi (RMB) and which was taken out to fund an additional equity investment in the Chinese subsidiary. The forward rate of the loan has been designated as a hedge of the net investment in this subsidiary. There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

*Effects of hedge accounting on the financial position and performance*

New requirements

The effects of the foreign currency related hedging instruments on the group's financial position and performance are as follows:

		2018 CU'000	2017 <sup>16</sup> CU'000
	<i>Foreign currency options</i>		
PFRS7(24A)(b)	Carrying amount (asset)	1,709	-
PFRS7(24A)(a)	Notional amount	10,000	-
PFRS7(24A)(d)	Maturity date	January 2018 – March 2018	-
PFRS7(23B)(a)	Hedge ratio*	1:1	-
PFRS7(22B)(c)	Change in intrinsic value of outstanding hedging instruments since January 1	596	-
PFRS7(24A)(c)	Change in value of hedged item used to determine hedge effectiveness	(596)	-
PFRS7(24B)(b)(i)	Weighted average strike rate for the year	US\$0.9612:CU1	-
	<i>Foreign currency forwards</i>		
PFRS7(24A)(b)	Carrying amount (liability)	(766)	(777)
PFRS7(24A)(a)	Notional amount	11,519	10,612
PFRS7(24A)(d)	Maturity date	January 2018 – March 2018	January 2017 – March 2017
PFRS7(23B)(a)	Hedge ratio*	1:1	1:1
PFRS7(22B)(c)	Change in discounted spot value of outstanding hedging instruments since January 1	(218)	(935)
PFRS7(24A)(c)	Change in value of hedged item used to determine hedge effectiveness	222	937
PFRS7(24B)(b)(i)	Weighted average hedged rate for the year (including forward points)	US\$0.9612:CU1	US\$0.9428:C U1

PFRS7(22B)(c)

\* The foreign currency forwards and options are denominated in the same currency as the highly probable future inventory purchases (US\$), therefore the hedge ratio is 1:1.

PFRS7(33)

**12(b) Market risk**

	2018 CU'000	2017 <sup>16</sup> CU'000
	<i>Net investment in foreign operation</i>	
PFRS7(24A)(b)		
PFRS7(24A)(a)	(1,509)	-
PFRS7(24A)(d)	RMB 6,946,000	-
PFRS7(22B)(c)	1:1	-
PFRS7(24A)(c)	190	-
PFRS7(24B)(b)(i)	(190)	-
PFRS7(23B)(b)	RMB5.93214:CU 1	

*Sensitivity*

PFRS7(40)(a),(b),(c)

As shown in the table on page 116 above, the group is primarily exposed to changes in US/CU exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US-dollar denominated financial instruments and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges.

	Impact on post tax profit		Impact on other components of equity	
	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000
US/CU exchange rate – increase 9% (10%) *	(1,494)	(1,004)	(806)	(743)
US/CU exchange rate – decrease 9% (10%) *	1,223	822	660	608

\* Holding all other variables constant

Profit is more sensitive to movements in the Oneland currency units/US dollar exchange rates in 2018 than 2017 because of the increased amount of US dollar denominated borrowings. Equity is more sensitive to movements in the Oneland currency units/US dollar exchange rates in 2018 than 2017 because of the increased amount of [foreign currency forwards](#). The group's exposure to other foreign exchange movements is not material.

PFRS7(21C)

*(ii) Cash flow and fair value interest rate risk <sup>7</sup>*PFRS7(22A)(a),(b),  
(33)(a),(b)

The group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk. Group policy is to maintain at least 50% of its borrowings at fixed rate using [floating-to-fixed](#) interest rate swaps to achieve this when necessary. [Generally, the group enters into long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the group borrowed at fixed rates directly.](#) During 2018 and 2017, the group's borrowings at variable rate were mainly denominated in Oneland currency units and US Dollars.

The group's borrowings and receivables are carried at amortized cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

PFRS7(22A)c,(34)(a)

The exposure of the group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	2018 CU'000	% of total loans	2017 CU'000	% of total loans
Variable rate borrowings	43,689	44%	40,150	46%
Other borrowings – repricing dates:				
6 months or less	4,500	4%	3,050	3%
6 – 12 months	12,640	13%	14,100	16%
1 – 5 years	28,615	28%	19,780	23%
Over 5 years	11,465	11%	11,000	12%
	<u>100,909</u>	<u>100%</u>	<u>88,080</u>	<u>100%</u>

An analysis by maturities is provided in [note 12\(d\)](#) below. The percentage of total loans shows the proportion of loans that are currently at variable rates in relation to the total amount of borrowings.

**12(b) Market risk***Instruments used by the group*

PFRS7(22B)(a),(23B)

Swaps currently in place cover approximately 11% (2017 – 8%) of the variable loan principal outstanding. The fixed interest rates of the [swaps range](#) between 7.8% and 8.3% (2017 – 9.0% and 9.6%) and the variable rates of the loans are between 0.5% and 1.0% above the 90 day bank bill rate which at the end of the reporting period was 8.2% (2017 – 9.4%).

PFRS7(22B)(a)

The swap contracts require settlement of net interest receivable or payable every 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

*Effects of hedge accounting on the financial position and performance*

New requirements

The effects of the interest rate swaps on the group's financial position and performance are as follows:

		2018 CU'000	2017 <sup>16</sup> CU'000
	<i>Interest rate swaps</i>		
PFRS7(24A)(b)	Carrying amount (asset)	453	809
PFRS7(24A)(a)	Notional amount	5,010	3,440
PFRS7(24A)(d)	Maturity date	2018	2017
PFRS7(23B)(a)	Hedge ratio*	1:1	1:1
PFRS7(22B)(c)	Change in fair value of outstanding hedging instruments since January 1	(202)	1,005
PFRS7(24A)(c)	Change in value of hedged item used to determine hedge effectiveness	202	1,005
PFRS7(24B)(b)(i)	Weighted average hedged rate for the year	8.1%	9.3%

*Sensitivity*

PFRS7(40)(a)

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Other components of equity change as a result of an increase/decrease in the fair value of the cash flow hedges of borrowings and the fair value of [debt investments at fair value through other comprehensive income](#).

	Impact on post tax profit		Impact on other components of equity	
	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000
Interest rates – increase by 70 basis points (60 bps) *	138	(18)	(90)	(16)
Interest rates – decrease by 100 basis points (80 bps) *	(127)	96	129	22

\* Holding all other variables constant

PFRS7(21C)

*(iii) Price risk**Exposure*

PFRS7(33)(a)

The group's exposure to equity securities price risk arises from investments held by the group and classified in the balance sheet either as [at fair value through other comprehensive income \(FVOCI\)](#) ([note 7\(c\)](#)) or at fair value through profit or loss ([FVPL](#)) ([note 7\(d\)](#)).

PFRS7(33)(b)

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The majority of the group's equity investments are publicly traded and are included either in the Oneland Stock Exchange 200 Index or the NYSE International 100 Index.

**12(b) Market risk***Sensitivity*

PFRS7(40)(a),(b)

The table below summarizes the impact of increases/decreases of these two indexes on the group's equity and post-tax profit for the period. The analysis is based on the assumption that the equity indexes had increased by 9% and 7% respectively or decreased by 6% and 5% with all other variables held constant, and that all the group's equity instruments moved in line with the indexes.

	Impact on post tax profit		Impact on other components of equity	
	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000
Oneland Stock Exchange 200 – increase 9% (2017 – 7.5%)	385	361	284	266
NYSE International 100 – increase 7% (2017 – 6.5%)	254	184	-	-
Oneland Stock Exchange 200 – decrease 6% (2017 – 4%)	(257)	(193)	(189)	(177)
NYSE International 100 – decrease 5% (2017 – 3.5%)	(182)	(99)	-	-

Post-tax profit for the period would increase/decrease as a result of gains/losses on equity securities classified as at [FVPL](#). Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as at [FVOCI](#).

*Amounts recognized in profit or loss and other comprehensive income*

The amounts recognized in profit or loss and other comprehensive income in relation to the various investments held by the group are disclosed in [note 7](#).

**12(c) Credit risk**PFRS7(33)(a),(b)  
Revised illustration

Credit risk arises from cash and cash equivalents, [contractual cash flows of debt investments carried at amortized cost, at fair value through other comprehensive income \(FVOCI\) and at fair value through profit or loss \(FVPL\)](#), favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

PFRS7(35B)

*(i) Risk management*

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management.

PFRS7(34)(c)

Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For derivative financial instruments, management has established limits so that, at any time, less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty.

[The group's investments in debt instruments are considered](#) to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

PFRS7(15)(b),  
(36)(a),(b)*(ii) Security*

For some trade receivables the group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.



**12(c) Credit risk***(iii) Impairment of financial assets<sup>17</sup>***New requirements**

The group has four types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory and from the provision of consulting services
- contract assets relating to IT consulting contracts
- debt investments carried at amortized cost, and
- debt investments carried at FVOCI.

While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

*Trade receivables and contract assets<sup>9</sup>*

PAS1(117), PFRS7(21)  
PFRS9(5.5.15)

The group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

PFRS7(35F)(c)

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

PFRS7(35G)

The expected loss rates are based on the payment profiles of sales over a period of 36 month before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 (on adoption of PFRS 9) was determined as follows for both trade receivables and contract assets:

PFRS7(35N)

December 31, 2018	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	1.6%	5%	15%	51%	
Gross carrying amount – trade receivables	14,098	1,168	691	360	16,308
Gross carrying amount – contract assets	1,085	260	202	-	1,547
<b>Loss allowance</b>	<b>243</b>	<b>72</b>	<b>134</b>	<b>184</b>	<b>633</b>

PFRS7(35N)

January 1, 2018	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	1.4%	4.9%	14%	45%	
Gross carrying amount – trade receivables	6,912	878	480	300	8,570
Gross carrying amount – contract assets	2,500	97	-	-	2,597
<b>Loss allowance</b>	<b>133</b>	<b>49</b>	<b>63</b>	<b>100</b>	<b>345</b>

PFRS7(35H)(b)(iii)

The closing loss allowances for trade receivables and contract assets as at December 31, 2018 reconcile to the opening loss allowances as follows:

	Contract assets		Trade receivables	
	2018	2017 <sup>16</sup>	2018	2017 <sup>16</sup>
	CU'000	CU'000	CU'000	CU'000
<b>December 31 – calculated under PAS 39<sup>8</sup></b>	-	-	<b>300</b>	<b>100</b>
PFRS7(42P) Amounts restated through opening retained earnings	<b>30</b>	-	<b>15</b>	-
Opening loss allowance as at January 1, 2018 – calculated under PFRS 9	<b>30</b>	-	<b>315</b>	<b>100</b>
Increase in loan loss allowance recognized in profit or loss during the year	<b>83</b>	-	<b>760</b>	<b>540</b>
PFRS7(35I)(c) Receivables written off during the year as uncollectible	<b>(47)</b>	-	<b>(483)</b>	<b>(285)</b>
PFRS7(35I)(c) Unused amount reversed	<b>(5)</b>	-	<b>(20)</b>	<b>(55)</b>
<b>At December 31</b>	<b>61</b>	-	<b>572</b>	<b>300</b>



**12(c) Credit risk**

PFRS7(35F)(e)

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Revised illustration

*Previous accounting policy for impairment of trade receivables*

PFRS7(21)  
PFRS7(B5)(d)  
PAS39(59),(63),(64)

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

New requirements

*Debt investments*

PFRS7(35F)(a)(i)

All of the entity's debt investments at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

*Other financial assets at amortized cost*

PAS1(117)

Other financial assets at amortized cost include debenture assets, zero coupon bonds and listed corporate bonds (previously held-to-maturity), loans to related parties and key management personnel and other receivables.

The loss allowance for other financial assets at amortized cost as at December 31, 2017 reconciles to the opening loss allowance on January 1, 2018 and to the closing loss allowance as at 3 January 1, 2018 as follows:

PFRS7(35H)(a)

	Related parties CU'000	Key management personnel CU'000	Debentures and bonds CU'000	Other receivables CU'000	Total CU'000
Closing loss allowance as at December 31, 2017 (calculated under PAS 39) <sup>8</sup>	-	-	-	-	-
Amounts restated through opening retained earnings	-	1	4	2	7
Opening loss allowance as at January 1, 2018 (calculated under PFRS 9)	-	1	4	2	7
Increase in the allowance recognized in profit or loss during the period	2	1	17	3	23
<b>Closing loss allowance as at December 31, 2018</b>	<b>2</b>	<b>2</b>	<b>21</b>	<b>5</b>	<b>30</b>

PFRS7(42P)

PFRS7(20)(a)(vi)

**12(c) Credit risk**

PAS1(117) PFRS9(5.5.2)	<i>Debt investments at fair value through other comprehensive income</i>		
	Debt investments at fair value through other comprehensive income (FVOCI) include listed and unlisted debt securities. The loss allowance for debt investments at FVOCI is recognized in profit or loss and reduces the fair value loss otherwise recognized in OCI.		
PFRS7(35H)(a) PFRS7(16A)	The loss allowance for debt investments at FVOCI as at December 31, 2017 reconciles to the opening loss allowance on January 1, 2018 and to the closing loss allowance as at 3 January 1, 2018 as follows:		
			<b>2018</b>
			<b>CU'000</b>
	<b>Closing loss allowance as at December 31, 2017 (calculated under PAS 39)</b>		-
PFRS7(42P)	Amounts restated through opening retained earnings *		-
	Opening loss allowance as at January 1, 2018 – calculated under PFRS 9		-
PFRS7(20)(a)(viii)	Increase in loan loss allowance recognized in profit or loss during the year		8
	<b>Closing loss allowance as at December 31, 2018</b>		<b>8</b>
	* The restatement on transition to PFRS 9 as a result of applying the expected credit risk model was immaterial. See note 25(o) for the previous accounting policy on impairment of other financial assets, including available-for-sale financial assets.		
Revised illustration	<i>(iv) Significant estimates and judgements</i>		
	<i>Impairment of financial assets</i>		
PFRS9(5.5.17) PAS1(125)	The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables above.		

*(v) Net impairment losses on financial and contract assets recognized in profit or loss*

Not mandatory

During the year, the following gains/(losses) were recognized in profit or loss in relation to impaired financial assets:

	2018 CU'000	2017 CU'000
Impairment losses		
- individually impaired receivables (previous accounting policy)	-	(130)
- movement in loss allowance for trade receivables and contract assets	(843)	(540)
Impairment losses on other financial assets	(23)	
Impairment losses on financial assets at FVOCI	(8)	
Reversal of previous impairment losses	25	125
Net impairment losses on financial and contract assets	<u>(849)</u>	<u>545</u>

PAS1(82)(ba)

PFRS15(113)(b)  
New requirements

Of the above impairment losses, CU739,000 (2017 – CU647,000) relate to receivables arising from contracts with customers (see note 3).

*(vi) Financial assets at fair value through profit or loss*

PFRS7(36)

The entity is also exposed to credit risk in relation to debt investments that are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments (CU2,390,000; 2017 – nil).

**12(d) Liquidity risk**PFRS7(33)(a),(b),  
(39)(c),(B11E)

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. At the end of the reporting period the group held deposits at call of CU44,657,000 (2017 – CU24,093,000) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

**12(d) Liquidity risk**

PFRS7(34)(a)

Management monitors rolling forecasts of the group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (note 7(e)) on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the group in accordance with practice and limits set by the group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

**(i) Financing arrangements** <sup>14</sup>PFRS7(7),(34)(a)  
IAS7(50)(a)

The group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2018 CU'000	2017 CU'000
<b>Floating rate</b>		
- Expiring within one year (bank overdraft and bill facility)	12,400	10,620
- Expiring beyond one year (bank loans)	9,470	8,100
	<u>21,870</u>	<u>18,720</u>

PFRS7(7),(39)(c)  
IAS7(50)(a)

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. The unsecured bill acceptance facility may be drawn at any time and is subject to annual review. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time in either Oneland currency or United States dollars and have an average maturity of 6.5 years (2017 – 6.9 years). <sup>15</sup>

**(ii) Maturities of financial liabilities** <sup>10-13</sup>PFRS7(39)(a),(b),  
(B11B)

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for:

- (a) all non-derivative financial liabilities, and  
(b) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows.

PFRS7(B11D)

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

PFRS7(39)(a),(B11B)

The group's trading portfolio of derivative instruments with a negative fair value has been included at their fair value of CU610,000 (2017 – CU621,000) within the less than 6 month time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

PFRS7(39)(a),(b)  
(B11)

Contractual maturities of financial liabilities <sup>9-12</sup> At December 31, 2018	Less than 6 months CU'000	6 – 12 months CU'000	Between 1 and 2 years CU'000	Between 2 and 5 years CU'000	Over 5 years CU'000	Total contractual cash flows CU'000	Carrying amount (assets)/ liabilities CU'000
<b>Non-derivatives</b>							
Trade payables	14,190	-	-	-	-	14,190	14,140
Borrowings (excluding finance leases)	4,439	4,639	9,310	46,195	40,121	104,704	97,515
Finance lease liabilities	427	428	855	2,365	-	4,075	3,394
<b>Total non-derivatives</b>	<u>19,056</u>	<u>5,067</u>	<u>10,165</u>	<u>48,560</u>	<u>40,121</u>	<u>122,969</u>	<u>115,049</u>
<b>Derivatives</b>							
Trading derivatives	610	-	-	-	-	610	610
Gross settled (foreign currency forwards – cash flow hedges)							
(inflow)	(17,182)	(13,994)	-	-	-	(31,176)	-
outflow	17,521	14,498	-	-	-	32,019	766
	<u>949</u>	<u>504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,453</u>	<u>1,376</u>

## 12(d) Liquidity risk

PFRS7(39)(a),(b)  
(B11)

Contractual maturities of financial liabilities <sup>9-12</sup>	Less than 6 months CU'000	6 – 12 months CU'000	Between 1 and 2 years CU'000	Between 2 and 5 years CU'000	Over 5 years CU'000	Total contractual cash flows CU'000	Carrying amount (assets)/ liabilities CU'000
At December 31, 2017							
<b>Non-derivatives</b>							
Trade payables	10,516	-	-	-	-	10,516	10,516
Borrowings (excluding finance leases)	4,513	4,118	9,820	44,476	30,235	93,162	84,130
Finance lease liabilities	427	428	855	2,515	655	4,880	3,950
<b>Total non-derivatives</b>	<b>15,456</b>	<b>4,546</b>	<b>10,675</b>	<b>46,991</b>	<b>30,890</b>	<b>108,558</b>	<b>98,596</b>
<b>Derivatives</b>							
Trading derivatives	621	-	-	-	-	621	621
Gross settled (foreign currency forwards – cash flow hedges)							
(inflow)	(11,724)	(6,560)	-	-	-	(18,284)	-
outflow	11,885	7,228	-	-	-	19,113	777
	782	668	-	-	-	1,450	1,398

PFRS7(B10A)(a)

Of the CU46.195m disclosed in the 2018 borrowings time band 'between 2 and 5 years', the group is considering early repayment of CU5,000,000 in the first quarter of the 2019 financial year (2017 – nil).

## Financial risk management

## Classes of financial instruments

PFRS7(6),(B1)-(B3)

- Where PFRS 7 requires disclosures by class of financial instrument, the entity shall group its financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes are determined by the entity and therefore distinct from the categories of financial instruments specified in PFRS 9. As a minimum, the entity should distinguish between financial instruments measured at amortized cost and those measured at fair value, and treat as separate class any financial instruments outside the scope of PFRS 9. The entity shall provide sufficient information to permit reconciliation to the line items presented in the balance sheet. Guidance on classes of financial instruments and the level of required disclosures is provided in Appendix B of PFRS 7.

## Level of detail and selection of assumptions – information through the eyes of management

PFRS7(34)(a)

- The disclosures in relation to the financial risk management of an entity should reflect the information provided internally to key management personnel. As such, the disclosures that will be provided by an entity, their level of detail and the underlying assumptions used will vary greatly from entity to entity. The disclosures in these illustrative financial statements are only one example of the kind of information that may be disclosed and you should consider carefully what may be appropriate in your individual circumstances.

## Derivative financial instruments

## Classification as current or non-current

PAS1(BC38B),(BC38C),  
(66),(69)  
PFRS9,Appendix A

- The classification of financial instruments as held for trading under PFRS 9 does not mean that they must necessarily be presented as current in the balance sheet. If a financial liability is primarily held for trading purposes it should be presented as current. If it is not held for trading purposes, it should be presented as current or non-current on the basis of its settlement date. Financial assets should only be presented as current assets if the entity expects to realize them within 12 months.

## Financial risk management

4. The treatment of hedging derivatives will be similar. Where a portion of a financial asset is expected to be realized within 12 months of the end of the reporting period, that portion should be presented as a current asset; the remainder of the financial asset should be shown as a non-current asset. This suggests that hedging derivatives should be split into current and non-current portions. However, as an alternative, the full fair value of hedging derivatives could be classified as current if the hedge relationships are for less than 12 months and as non-current if those relationships are for more than 12 months.

### Market risk

#### *Foreign currency risk*

PFRS7(B23)

5. Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured. Translation related risks are therefore not included in the assessment of the entity's exposure to currency risks. Translation exposures arise from financial and non-financial items held by an entity (for example, a subsidiary) with a functional currency different from the group's presentation currency. However, foreign currency denominated inter-company receivables and payables which do not form part of a net investment in a foreign operation would be included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation under PAS 21 is not fully eliminated.

PFRS7(B23)

6. For the purpose of PFRS 7, currency risk does also not arise from financial instruments that are non-monetary items. Value PFRS Plc has therefore excluded its US dollar denominated equity securities from the analysis of foreign exchange risk. The foreign currency exposure arising from investing in non-monetary financial instruments is reflected in the other price risk disclosures as part of the fair value gains and losses.

#### *Interest rate risk – fixed rate borrowings*

7. Sensitivity to changes in interest rates is normally only relevant to financial assets or financial liabilities bearing floating interest rates. However, sensitivity will also be relevant to fixed rate financial assets and financial liabilities which are remeasured to fair value.

### Credit risk

PFRS7(42P)  
PFRS7(35H)-(35L)

8. [The PAS 39 loan loss allowance must be reconciled to the PFRS loan loss allowance in the year of the initial application of PFRS 9, as illustrated in \[note 12\\(c\\)\]\(#\). In future periods, the entity will only need to provide the details of movements in the PFRS 9 loan loss allowance required by PFRS 7, paragraphs 35H to 35L.](#)

PFRS15(107),(108)

9. [The impairment rules in PFRS 9 also apply to contract assets. A contract asset is the entity's right to consideration in exchange for goods or services that the entity has transferred to the customer. A contract asset becomes a receivable when the entity's right to consideration is unconditional, which is the case when only the passage of time is required before payment of the consideration is due. The impairment of contract assets is measured, presented and disclosed on the same basis as financial assets that are within the scope of PFRS 9.](#)

### Liquidity risk

#### *Maturity analysis*

PFRS7(B11B)

10. All financial liabilities must be included in the maturity analysis. The analysis should generally be based on contractual maturities. However, for derivative financial liabilities the standard provides entities with a choice to base the maturity grouping on expected rather than contractual maturities, provided the contractual maturities are not essential for an understanding of the timing of the cash flows. This could be the case for derivative contracts that are held for trading. For contracts such as interest rate swaps in a cash flow hedge of a variable rate financial asset or liability and for all loan commitments, the remaining contractual maturities will be essential for an understanding of the timing of the cash flows. These contracts must therefore be grouped based on their contractual maturities.

PFRS7(39),(B11D)

11. The amounts disclosed should be the amounts expected to be paid in future periods, determined by reference to the conditions existing at the end of the reporting period. However, PFRS 7 does not specify whether current or forward rates should be used. PwC recommends the use of forward rates as they are a better approximation of future cash flows.

**Financial risk management**

PFRS7(B11C)(c)

- 12. The specific time buckets presented are not mandated by the standard but are based on what is reported internally to the key management personnel. For financial guarantee contracts, the maximum amount of the guarantee must be allocated to the earliest period in which the guarantee could be called.
- 13. As the amounts included in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments, these amounts will not reconcile to the amounts disclosed in the balance sheet. This is in particular as far as borrowings or derivative financial instruments are concerned. Entities can choose to add a column with the carrying amounts which ties into the balance sheet and a reconciling column if they so wish, but this is not mandatory.

*Financing arrangements*

IAS7(50)(a)  
PFRS7(39)(c)

- 14. Committed borrowing facilities are a major element of liquidity management. Entities should therefore consider providing information about their undrawn facilities. PAS 7 *Statement of Cash Flows* also recommends disclosure of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

*Terms and conditions of financial instruments*

PFRS7(7),(31)  
PFRS PS 2

- 15. Entities shall disclose sufficient information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance and the nature and extent of risks arising from these financial instruments. However, the intention of PFRS 7 was to decrease the potentially voluminous disclosures that were required by PAS 32 and replace them with shorter but more meaningful information. Under normal circumstances entities will therefore no longer need to disclose the significant terms and conditions for each of their major borrowings. Nevertheless, if an entity has a borrowing or other financial instrument with unusual terms and conditions, then some information should be provided to enable users to assess the nature and extent of risks associated with these instruments. [The non-mandatory Practice Statement \*Making Materiality Judgements\* discusses under which circumstances covenants may need to be disclosed, see paragraphs 81-83.](#)

**Comparative information in the first year of adoption of PFRS 9**

PAS1(38)  
PFRS9(7.2.15)

- 16. [As a general rule, entities must provide comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. However, where the entity did not adopt the new requirements retrospectively, the disclosures for the comparative period should reflect the accounting treatment applied in that period and be provided in accordance with PFRS 7 pre-amendment by PFRS 9. This applies also to the hedging and impairment disclosures illustrated in this note.](#)

**Disclosures not illustrated: not applicable to Value PFRS Plc**

- 17. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

*General financial risk management disclosures*

PFRS7(15)

Issue not illustrated	Relevant disclosures or references
Collateral held by the entity which can be sold or repledged	Disclose the fair value of the collateral held, the fair value of collateral sold or repledged and whether it must be returned, and the terms and conditions associated with the collateral.
Quantitative data is unrepresentative of the entity's risk exposure	Provide further information as necessary.
Financial guarantee contract ( <a href="#">maturity table</a> )	This must be included in the maturity table in the earliest time bucket in which it can be called. The existence of such contracts will also need to be discussed in the context of the credit risk disclosures.

PFRS7(35),(42)

PFRS7(39)(a),(B10)(c),  
(B11C)(c)  
PFRS9(Appendix A)



Financial risk management		
<i>Hedge accounting disclosures</i>		
	<b>Issue not illustrated</b>	<b>Relevant disclosures or reference</b>
PFRS7(22C)	The entity has designated a specific risk component of an asset in a hedge relationship (e.g. the movement in crude oil price of a barrel of crude oil).	Provide information about how the entity has determined the risk component that is designated as the hedged item and how this component relates to the item in its entirety. See <a href="#">paragraph 18</a> below for a disclosure example.
PFRS7(23C)	The entity frequently resets hedging relationships (dynamic hedging).	Provide the additional disclosures required by PFRS 7 paragraph 23C.
PFRS7(24B),(24C)	The entity has designated fair value hedges	Provide the disclosures required by PFRS 7 (24B(a)) and (24C(a)).
PFRS7(23F)	The entity designated forecast future transactions in hedge relationships which are no longer expected to occur.	Provide the information required by PFRS 7 (23F). The entity would also need to disclose:
PFRS7(24C)(b)(iv)		<ul style="list-style-type: none"> <li>any amount reclassified from the cash flow hedge reserve and/or costs of hedging reserve into profit or loss as a reclassification adjustment, differentiating between amounts reclassified due to future transactions no longer being expected to occur and hedge ineffectiveness, and</li> <li>the line item in the statement of comprehensive income containing the reclassification adjustment.</li> </ul>
PFRS7(24C)(b)(v)		
PFRS7(24C)(b)(vi)	Designate net positions in hedge relationships.	Disclose the hedging gains or losses recognized in each separate line item in the statement of comprehensive income.
PFRS7(24G)-(30)	The entity has a credit derivative to manage the credit risk of a financial instrument and has designated the financial instrument, or a proportion of it, as measured at FVPL.	Provide the information required by PFRS 7 (24G) to (30).
PFRS7(24B)(b)(iii)	Cessation of hedging relationships during the year.	Disclose the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve for any hedge relationships which have been terminated.
PFRS7(23E)	There are new sources of hedge ineffectiveness emerging in the hedge relationship that are not already disclosed in note 12(a).	Disclose the new sources of hedge ineffectiveness by risk category and explain the nature of the ineffectiveness.
PFRS7(24D)	The entity believes that the volume of hedge relationships at the end of the reporting period is unrepresentative of normal volumes during the period.	Disclose that fact and the reason why the entity believes the volumes are unrepresentative.



## Financial risk management

### Impairment disclosures

	Issue not illustrated	Relevant disclosures or reference
PFRS7(35F)-(35M)	The entity has adopted the general expected credit loss model for material financial assets, eg in relation to customer loans.	Provide the disclosures required by PFRS 7 (35F)-(35M), see illustration in <a href="#">paragraph 18</a> below.
PFRS7(35F)(f),(35I)(b),(35J)	The entity has financial assets which are subject to the impairment requirements of PFRS 9 and which have had modifications to their contractual cash flows.	Provide the disclosures required by PFRS 7 (35F(f)), (35I)(b) and (35J).
PFRS7(35H)(c) PFRS7(35I)(a)	The entity has purchased or originated financial assets which are credit impaired.	Disclose the information required by PFRS 7 (35H(c)) and (35I).
PFRS7(35K)	The entity has received collateral or other credit enhancements in relation to its financial assets.	Explain the effect of the collateral and other credit enhancements on the amounts arising from expected credit losses by disclosing the information set out in PFRS 7 (35K).
<a href="#">PFRS7(35L)</a>	<a href="#">Financial assets written off during the period but still subject to enforcement activity</a>	<a href="#">Disclose contractual amount outstanding</a>
PFRS7(36)	The entity has financial assets that are within the scope of PFRS 7 but which are not subject to the impairment requirements of PFRS 9.	Disclose the amount that best represent the maximum exposure to credit risk and describe any collateral held as security and other credit enhancements and their financial effect.
PFRS7(35E)	The entity believes that the credit risk disclosures are not sufficient to meet the objective of PFRS 7(35B).	Provide additional disclosures relevant to the users of the financial statements.

18. The following disclosure examples may be useful where relevant to an entity:

[PAS117](#)

#### [Accounting policy for fair value hedges](#)

[PFRS9\(6.5.8\)](#)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognized in profit or loss within other [gains/\(losses\)](#).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

#### *Designation of a specific risk component of an asset in a hedge relationship*

PFRS7(22C)

The company purchases fuel for use in its manufacturing process. The fuel supplier charges the company for fuel delivered based on a formula which includes the spot price of Brent Crude oil at the delivery date. The future purchases of fuel are subject to market price risk, which the company hedges using Brent Crude Oil futures with critical terms matching the terms of the forecast purchase.

Brent Crude oil is a separately identifiable component of the forecast purchase as it is explicitly specified in the supply contract price. As there is a market for Brent Crude oil futures, the exposure is considered to be reliably measurable.

Accordingly, the Brent Crude oil futures are designated as cash flow hedges of the forecast purchases of fuel.

Historically, the Brent Crude oil component has accounted for 80% of the cost of fuel supplied.

## Financial risk management

### *Credit risk disclosures – customer loans, general expected credit loss model applied*

PFRS7(35F)(a)

The company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

PFRS9(B.5.5.17)

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

PFRS7(35F)(b)

A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

PFRS7(35F)(e)

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorizes a loan or receivable for write off when a debtor fails to make contractual payments greater than 120 days past due. Where loans or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### *(i) Loans to customers*

PFRS7(35F)(a)

The company uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit rating companies, such as Standard and Poor, Moody's and Fitch.

**Financial risk management**

A summary of the assumptions underpinning the company's expected credit loss model is as follows

PFRS7(35F)(b),(d)-(e)  
PFRS7(35G)(a)

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail)	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery.	Asset is written off

Interest bearing loans are provided to small-business customers to assist them with new business start-up costs as part of the company's ongoing support for local entrepreneurs. The company does not require the small-business customers to pledge collateral as security against the loan.

PFRS7(35G)(b)

Over the term of the loans, the company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the company considers historical loss rates for each category of customers, and adjusts for forward looking macroeconomic data. The company provides for credit losses against loans to customers as follows:

PFRS7(35F)(b),(d)-(e),  
(35G)(a),(35M)

Company internal credit rating	External credit rating*	Expected credit loss rate	Basis for recognition of expected credit loss provision	Estimated gross carrying amount at default	Carrying amount (net of impairment provision)	Basis for calculation of interest revenue
Performing	AAA	0.9%	12 month expected losses	45,775	45,374	Gross carrying amount
	AA	1.3%		31,668	31,272	
	A	2.2%		14,117	13,806	
Underperforming	BBB	7.3%	Lifetime expected losses	1,137	1,054	Gross carrying amount
	BB	10.0%		219	197	
	B	12.2%		65	57	
Not performing	CCC	14.0%	Lifetime expected losses	380	327	Amortized cost carrying amount (net of credit allowance)
	CC	18.0%		89	73	
	C	30.0%		30	21	
Write off	D	50.0%	Asset is written off through profit or loss to the extent of expected losses	20	10	None
<b>Total loans</b>					<b>92,191</b>	

PFRS7(35M)

\*or equivalent internal rating.

## Financial risk management

PFRS7(35G)(c)

No significant changes to estimation techniques or assumptions were made during the reporting period.

PFRS7(35H)

The **loss allowance** for loans to customers as at December 31, 2018 reconciles to the opening loss allowance for that provision as follows:

	Performing CU'000	Under- performing CU'000	Non- performing CU'000	Total CU'000
Closing loss allowance as at December 31, 2017 (calculated under PAS 39)	666	12	162	840
PFRS7(42P) Amounts restated through opening retained earnings	55	70	30	155
<b>Opening loss allowance as at January 1, 2018 (calculated under PFRS 9)</b>	<b>721</b>	<b>82</b>	<b>192</b>	<b>995</b>
PFRS7(35H)(b)(i) Individual financial assets transferred to under- performing (lifetime expected credit losses)*	(25)	33		8
PFRS7(35H)(b)(ii) Individual financial assets transferred to non - performing (credit-impaired financial assets)	-	(2)	2	-
PFRS7(35I)(a) New financial assets originated or purchased	367	-	-	367
PFRS7(35I)(c) Write-offs	-	-	(109)	(109)
PFRS7(35I)(c) Recoveries	(14)	(5)	(12)	(31)
Change in risk parameters**	53	-	-	53
Other changes	6	5	5	16
<b>Closing loss allowance as at December 31, 2018 (calculated under PFRS 9)</b>	<b>1,108</b>	<b>113</b>	<b>78</b>	<b>1,299</b>

PFRS7(35I)(d)

\* The increase in the loss allowance of 8 is due to moving assets being measured at 12-month expected credit losses to lifetime expected credit losses.

\*\* The increase in the loss allowance is due to an increase in the probability of default (PD) used to calculate the 12-month expected credit loss for the performing loans.

PFRS7(35L)

Loans with a contractual amount of CU 60,000 written off during the period are still subject to enforcement activity.

PFRS7(35K)(a)

The gross carrying amount of loan receivables, and thus the maximum exposure to loss, is as follows:

	December 31, 2018 CU'000
Performing	91,560
Underperforming	1,421
Non-performing	499
Loans written off	20
<b>Total gross loan receivables</b>	<b>93,500</b>
Less: Loan loss allowance	(1,299)
Less: Write off	(10)
<b>Loan receivables net of expected credit losses</b>	<b>92,191</b>

## 13 Capital management

### 13(a) Risk management <sup>1</sup>

PAS1(134),(135),(136)

The group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the following gearing ratio:

Net debt as per [note 10\(c\)](#)

divided by

Total 'equity' (as shown in the balance sheet, including non-controlling interests).

PAS1(134),  
(135),(136)

During 2018, the group's strategy, which was unchanged from 2017, was to maintain a gearing ratio within 20% to 40% and a B credit rating. The credit rating was unchanged and the gearing ratios at December 31, 2018 and December 31, 2017 were as follows:

	<b>2018</b> <b>CU'000</b>	2017 Restated CU'000
Net debt	<b>32,511</b>	45,897
Total equity	<b>159,301</b>	117,442
<b>Net debt to equity ratio</b>	<b>20%</b>	39%

#### (i) *Loan covenants* <sup>1</sup>

PAS1(135)(d)

Under the terms of the major borrowing facilities, the group is required to comply with the following financial covenants:

- the gearing ratio must be not more than 50%, and
- the ratio of net finance cost to EBITDA must be not more than 10%.

The group has complied with these covenants throughout the reporting period. As at December 31, 2018, the ratio of net finance cost to EBITDA was 8% (10% as at December 31, 2017).

**13(b) Dividends** <sup>2-4</sup>

	2018 CU'000	2017 CU'000
	<i>(i) Ordinary shares</i>	
PAS1(107)		
PAS1(107)	11,586	5,455
PAS1(107)		
	11,144	5,467
	<i>(ii) 7% non-redeemable participating preference shares</i>	
PAS1(107)		
	107	107
PAS1(107)	22,837	11,029
	Total dividends provided for or paid	
	Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended December 31, 2018 and 2017 were as follows:	
	22,271	10,470
IAS7(43)	566	559
	22,837	11,029
	<i>(iii) Dividends not recognized at the end of the reporting period</i>	
PAS1(137)(a) PAS10(12)		
Dates not mandatory		
	11,989	11,586

**Capital management****Capital risk management**

PAS1(134),(135)

1. Capital is not defined in any of the PFRS. Entities must describe what they manage as capital based on the type of information that is provided internally to the key management personnel. It therefore depends on the individual entity as to whether capital includes interest-bearing debt or not. If such debt is included, however, and the loan agreements include capital requirements such as financial covenants that must be satisfied, then these need to be disclosed under paragraph 135(d) of PAS 1 *Presentation of Financial Statements*.

**Dividends***Parent vs consolidated information*

2. The dividends disclosed in this note are only those paid by the parent entity and do not include dividends paid by subsidiaries to non-controlling interests. PAS 1 requires disclosure of the dividends recognized as distribution to owners during the period (paragraph 107). The term 'owners' is generally used in PAS 1 in the context of owners of the parent entity (eg paragraphs 81B and 106). The focus of the financial statements is still on the parent entity shareholders and on that basis a disclosure of dividends per share is only relevant for the owners of the parent entity. This disclosure also correlates to the disclosure of the number of shares issued as required under paragraph 79 of PAS 1. Holders of non-controlling interests will receive their dividend information from the separate financial statements of the relevant subsidiaries.

## Capital management

### Disclosure not illustrated: not applicable to Value PFRS Plc

3. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

Issue not illustrated	Relevant disclosures or references
Cumulative preference dividends not recognized	Disclose amount.
Dividends in the form of non-cash assets	Various disclosures, see Interpretation 17 and the illustrative example below for details.

PAS1(137)(b)

IFRIC17(15)-(17)

4. The following illustrative disclosure may be useful where relevant to an entity:

#### *Non-cash dividends*

IFRIC17(11),(14),(15),(16)

- (a) Where an entity distributes non-cash assets to its owners, an explanation could read as follows:

In November 2018, XYZ Plc transferred all of the shares held in its subsidiary, ABC Limited, to its parent entity as a non-cash dividend. The dividend was measured at the fair value of the subsidiary (CU2,500,000). The difference between the fair value of the shares and their carrying amount (CU 1,800,000) is presented in profit or loss as other income (CU700,000).



## Group structure

Not mandatory

This section provides information which will help users understand how the group structure affects the financial position and performance of the group as a whole. In particular, there is information about:

- changes to the structure that occurred during the year as a result of business combinations and the disposal of a discontinued operation
- transactions with non-controlling interests, and
- interests in joint operations.

A list of significant subsidiaries is provided in note 16. This note also discloses details about the group's equity accounted investments.

14	Business combination	137
15	Discontinued operation	140
16	Interests in other entities	143

## 14 Business combination <sup>2</sup>

### 14(a) Summary of acquisition

PFRS3(B64)(a)-(d) On 1 April 2018 the parent entity acquired 70% of the issued share capital of VALUE PFRS Electronics Group, a manufacturer of electronic equipment. The acquisition has significantly increased the group's market share in this industry and complements the group's existing IT consultancy division. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	CU'000
PFRS3(B64)(f) Purchase consideration (refer to (b) below):	
Cash paid	3,000
Ordinary shares issued	9,765
Contingent consideration	135
IAS7(40)(a) Total purchase consideration	12,900

PFRS3(B64)(f)(iv),(m) The fair value of the 1,698,000 shares issued as part of the consideration paid for VALUE PFRS Electronics Group (CU9.765m) was based on the published share price on 1 April 2018 of CU5.78 per share. Issue costs of CU50,000 which were directly attributable to the issue of the shares have been netted against the deemed proceeds.

	Fair value CU'000
PFRS3(B64)(i) IAS7(40)(d) The assets and liabilities recognized as a result of the acquisition are as follows:	
Cash	1,550
Trade receivables	780
Inventories	840
Land and buildings	4,200
Plant and equipment	7,610
Deferred tax asset	2,359
Intangible assets: trademarks	3,020
Intangible assets: customer contracts	3,180
Trade payables	(470)
Bank overdraft	(1,150)
Contingent liability	(450)
Deferred tax liability	(2,304)
Post-employment benefit obligations	(1,914)
Other employee benefit obligations	(415)
Net identifiable assets acquired	16,836
PFRS3(B64)(o)(f) Less: non-controlling interests	(5,051)
Add: goodwill	1,115
Net assets acquired	12,900

PFRS3(B64)(e),(k) The goodwill is attributable to the workforce and the high profitability of the acquired business. It will not be deductible for tax purposes.

PAS1(38) There were no acquisitions in the year ending December 31, 2017. <sup>1</sup>

#### (i) Significant estimate: contingent consideration

PFRS3(B64)(g)(i) In the event that certain pre-determined sales volumes are achieved by the subsidiary for the year ended December 31, 2018, additional consideration of up to CU1,000,000 may be payable in cash on 1 September 2019.

PFRS3(B64)(g)(ii),(iii) The potential undiscounted amount payable under the agreement is between CU0 for sales below CU10,000,000 and CU1,000,000 for sales above CU18,000,000. The fair value of the contingent consideration of CU135,000 was estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 6% and assumed probability-adjusted sales of VALUE PFRS Electronics Group of between CU12,000,000 and CU12,500,000.

PFRS3(B67)(b) As at December 31, 2018, the contingent consideration has been derecognized, as the actual sales revenue achieved by VALUE PFRS Electronics Group was below CU10,000,000. A gain of CU135,000 was included in other income.

#### 14(a) Summary of acquisition

PFRS3(B64)(i)  
PAS37(85)

##### (ii) Significant judgement: contingent liability

A contingent liability of CU450,000 was recognized on the acquisition of VALUE PFRS Electronics Group for a pending lawsuit in which the entity is a defendant. The claim has arisen from a customer alleging defects on products supplied to them. It is expected that the courts will have reached a decision on this case by June 2019. The potential undiscounted amount of all future payments that the group could be required to make if there was an adverse decision related to the lawsuit is estimated to be between CU250,000 and CU700,000. As at December 31, 2018, there has been no change in the amount recognized for the liability in April 2018 (except for the unwinding of the discount of CU27,000), as there has been no change in the probability of the outcome of the lawsuit.

PFRS3(B67)(c)

PFRS3(B64)(h)

##### (iii) Acquired receivables

The fair value of acquired trade receivables is CU780,000. The gross contractual amount for trade receivables due is CU807,000, of which CU27,000 is expected to be uncollectible.

PFRS3(B64)(o)(i)

##### (iv) Accounting policy choice for non-controlling interests

The group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in VALUE PFRS Electronics Group, the group elected to recognize the non-controlling interests in at its proportionate share of the acquired net identifiable assets. See note 25(i) for the group's accounting policies for business combinations.

PFRS3(B64)(q)

##### (v) Revenue and profit contribution

The acquired business contributed revenues of CU3,850,000 and net profit of CU1,405,000 to the group for the period from 1 April to December 31, 2018.

If the acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and profit for the year ended December 31, 2018 would have been CU212,030,000 and CU38,070,000 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the group and the subsidiary, and
- the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2018, together with the consequential tax effects.

#### 14(b) Purchase consideration – cash outflow

	2018 CU'000	2017 CU'000
Outflow of cash to acquire subsidiary, net of cash acquired		
IAS7(40)(b) Cash consideration	3,000	-
IAS7(40)(c) Less: Balances acquired		
Cash	1,550	-
Bank overdraft	(1,150)	-
	400	-
Net outflow of cash – investing activities	2,600	-

##### Acquisition-related costs

PFRS3(B64)(m)

Acquisition-related costs of CU750,000 that were not directly attributable to the issue of shares are included in administrative expenses in profit or loss and in operating cash flows in the statement of cash flows.

## Business combination

### Comparatives

PAS1(38)

- Under PAS 1, comparative information must be given for all numerical information reported in the financial statements, including narratives. However, PFRS 3 does not separately require comparative information in respect of business combinations. In our view, the PFRS 3 disclosures are required only for business combinations occurring during the period. This means that in the period following the combination, the disclosures required in paragraph B64 of PFRS 3 do not need to be repeated. However, the disclosures that are required in relation to a prior business combination in paragraph B67 of PFRS 3 must be made.

### Disclosures not illustrated: not applicable to Value PFRS Plc

#### Additional disclosures

- The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

PFRS3(B64)(l),(52)

Issue not illustrated	Relevant disclosures or references
Transactions that are recognized separately from the business combination	Disclose a description of the transaction and how it was accounted for, the amounts recognized and other information as specified in PFRS 3.
The entity has made a bargain purchases	Disclose the gain recognized and explain why the transaction resulted in a gain.
The business combination was achieved in stages	Disclose the acquisition-date FV of the equity interest held immediately before the acquisition and the gain or loss recognized as a result of remeasuring the equity interest to fair value.
The initial accounting for the business combination is incomplete	Explain why the initial accounting is incomplete, which items are affected and any adjustments recognized during the reporting period.
The entity has recognized a gain or loss in the current reporting period relating to identifiable assets acquired or liabilities assumed in a business combination from the current or a prior period	Disclose the amount and provide an explanation of the gain or loss.
The objectives of PFRS 3 are not satisfied with the required disclosures	Provide additional explanations as necessary.

PFRS3(B64)(n)

PFRS3(B64)(p)

PFRS3(B67)(a)

PFRS3(B67)(e)

PFRS3(63)

## 15 Discontinued operation <sup>3</sup>

### 15(a) Description

PFRS5(41)(a),(b),(d)

On 30 October 2017 the group announced its intention to exit the engineering business and initiated an active program to locate a buyer for its German subsidiary, VALUE PFRS Engineering GmbH. The associated assets and liabilities were consequently presented as held for sale in the 2017 financial statements.

PFRS5(30)

The subsidiary was sold on 28 February 2018 with effect from 1 March 2018 and is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

### 15(b) Financial performance and cash flow information <sup>1,2</sup>

The financial performance and cash flow information presented are for the two months ended 28 February 2018 (2018 column) and the year ended December 31, 2017.

		2018 CU'000	2017 CU'000
PFRS5(33)(b)(i)	Revenue (note 3)	4,200	26,460
PFRS5(33)(b)(i)	Other gains/(losses) (revaluation of contingent consideration receivable, see (c) below)	90	-
PFRS5(33)(b)(i)	Expenses	<u>(3,939)</u>	(25,890)
PFRS5(33)(b)(i)	Profit before income tax	351	570
PFRS5(33)(b)(ii) PAS12(81)(h)(ii)	Income tax expense	<u>(105)</u>	(171)
	Profit after income tax of discontinued operation	246	399
	Gain on sale of the subsidiary after income tax (see (c) below)	481	-
	<b>Profit from discontinued operation</b>	<u>727</u>	399
PFRS5(38)	Exchange differences on translation of discontinued operations	170	58
	<b>Other comprehensive income from discontinued operations</b>	<u>170</u>	58
PFRS5(33)(c)	Net cash inflow from operating activities	1,166	710
PFRS5(33)(c)	Net cash inflow/(outflow) from investing activities (2018 includes an inflow of CU3,110,000 from the sale of the division)	3,110	(190)
PFRS5(33)(c)	Net cash (outflow) from financing activities	<u>-</u>	(280)
	<b>Net increase in cash generated by the subsidiary</b>	<u>4,276</u>	240

### 15(c) Details of the sale of the subsidiary

		2018 CU'000	2017 CU'000
	Consideration received or receivable:		
IAS7(40)(b)	Cash	3,110	-
	Fair value of contingent consideration	1,200	-
IAS7(40)(a)	Total disposal consideration	4,310	-
	Carrying amount of net assets sold	<u>(3,380)</u>	-
	<b>Gain on sale before income tax and reclassification of foreign currency translation reserve</b>	930	-
PFRS5(38)	Reclassification of foreign currency translation reserve	(170)	-
PAS12(81)(h)(i)	Income tax expense on gain	<u>(279)</u>	-
	<b>Gain on sale after income tax</b>	<u>481</u>	-

**15(c) Details of the sale of the subsidiary**PAS32(11)  
Revised illustration

In the event the operations of the subsidiary achieve certain performance criteria during the period 1 March 2018 to 28 February 2020 as specified in an 'earn out' clause in the sale agreement, additional cash consideration of up to CU2,400,000 will be receivable. At the time of the sale the fair value of the consideration was determined to be CU1,200,000. It has been recognized as a financial asset at fair value through profit or loss (see note 7(d)).

PFRS5(35)

At year end, the fair value was re-estimated to be CU1,290,000. The gain of CU90,000 is presented in discontinued operations net of related income tax, see analysis in (a) above.

IAS7(40)(d)

The carrying amounts of assets and liabilities as at the date of sale (28 February 2018) were:

	<b>28 February 2018</b>
	<b>CU'000</b>
Property, plant and equipment	1,660
Trade receivables	1,200
Inventories	950
<b>Total assets</b>	<b>3,810</b>
Trade creditors	(390)
Employee benefit obligations	(40)
<b>Total liabilities</b>	<b>(430)</b>
<b>Net assets</b>	<b>3,380</b>

**15(d) Assets and liabilities of disposal group classified as held for sale**

PFRS5(38)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at December 31, 2017:

	<b>2018</b>	2017
	<b>CU'000</b>	CU'000
Assets classified as held for sale		
Property, plant and equipment	-	1,995
Trade receivables	-	1,570
Inventories	-	1,390
<b>Total assets of disposal group held for sale</b>	<b>-</b>	<b>4,955</b>
Liabilities directly associated with assets classified as held for sale		
Trade creditors	-	(450)
Employee benefit obligations	-	(50)
<b>Total liabilities of disposal group held for sale</b>	<b>-</b>	<b>(500)</b>

## Discontinued operation

### Restating prior periods

PFRS5(34)

1. An entity must re-present the disclosures for discontinued operations for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented. The discontinued operations presented in the statement of comprehensive income and statement of cash flows in the comparative period should therefore include all operations that have been discontinued by the end of the most recent reporting period. This means that the statements of comprehensive income and cash flows for the comparative period should show as discontinued operations both those reported as discontinued in the previous period together with those classified as discontinued in the current period. As a consequence, the restated prior year statements of comprehensive income and cash flows figures will not be entirely comparable to the current year's figures.

PFRS5(40)

2. In contrast, the balance sheet information for the prior year is neither restated nor remeasured.

### Disclosures not illustrated: not applicable to Value PFRS Plc

3. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

PFRS5(35)

Issues not illustrated	Relevant disclosures or references
Resolution of uncertainties relating to adjustments recognized as a result of the disposal of a discontinued operation	Disclose separately the nature and amount of the adjustments
Asset or disposal group is no longer classified as held for sale	Reclassify the results previously presented as discontinued operations and provide appropriate explanations.
Gains or losses recognized as a result of a remeasurement to fair value less costs to sell	Disclose the gain or loss recognized following the remeasurement and where the gain or loss is presented in the statement of profit or loss.
Subsidiary (or business) had cash or cash equivalents at the time of the disposal	Disclose amount of cash and cash equivalents over which control was lost.
Information about dividends in the form of non-cash assets	Provide details as required by Interpretation 17.

PFRS5(36),(42)

PFRS5(41)(c)

IAS7(40)(c)

IFRIC17



## 16 Interests in other entities <sup>4,5</sup>

### 16(a) Material subsidiaries <sup>1</sup>

PFRS12(10)(a)

The group's principal subsidiaries at December 31, 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

PFRS12(10)(a)(i),(ii)  
PAS24(13)  
PFRS12(12)(a)-(d)

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling interests		Principal activities
		2018 %	2017 %	2018 %	2017 %	
VALUE PFRS Retail Limited	Oneland	100	100	-	-	Furniture retail stores
VALUE PFRS Manufacturing Limited (note 16(c))	Oneland	90	85	10	15	Furniture manufacture
VALUE PFRS Electronics Group	Oneland	70	-	30	-	Electronic equipment manufacture
VALUE PFRS Overseas Ltd. (i),(ii)	China	45	45	55	55	Furniture manufacture
VALUE PFRS Consulting Inc	US	100	100	-	-	IT consulting
VALUE PFRS Development Limited	Oneland	100	100	-	-	Development of residential land
VALUE PFRS Engineering GmbH	Germany	-	100	-	-	Engineering business; see note 15

PAS1(122)

PFRS12(7)(a),(9)(b)

#### (i) Significant judgement: consolidation of entities with less than 50% ownership

The directors have concluded that the group controls VALUE PFRS Overseas Ltd, even though it holds less than half of the voting rights of this subsidiary. This is because the group is the largest shareholder with a 45% equity interest while the remaining shares are held by eight investors. An agreement signed between the shareholders and VALUE PFRS Overseas Ltd grants Value PFRS Plc the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. A 67% majority vote is required to change this agreement, which cannot be achieved without the group's consent as the group holds 45% of the voting rights.

PFRS12(10)(b)(i),(13)

#### (ii) Significant restrictions

Cash and short-term deposits held in Asian countries (including China) are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

PFRS12(13)(c)

The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is CU650,000 (2017 – CU410,000).

**16(b) Non-controlling interests (NCI)**PFRS12(12)(g)  
PFRS12(B11)

Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	VALUE PFRS Manufacturing Limited		VALUE PFRS Overseas Ltd		VALUE PFRS Electronics Group	
	31 Dec 2018 CU'000	31 Dec 2017 CU'000	31 Dec 2018 CU'000	31 Dec 2017 CU'000	31 Dec 2018 CU'000	31 Dec 2017 CU'000
PFRS12(B10)(b)						
Current assets	13,870	13,250	11,500	9,800	7,875	-
Current liabilities	12,570	7,595	10,570	8,300	1,200	-
<b>Current net assets</b>	<b>1,300</b>	<b>5,655</b>	<b>930</b>	<b>1,500</b>	<b>6,675</b>	
Non-current assets	28,010	22,910	15,570	12,730	18,900	-
Non-current liabilities	5,800	3,400	12,735	10,748	10,100	-
<b>Non-current net assets</b>	<b>22,210</b>	<b>19,510</b>	<b>2,835</b>	<b>1,982</b>	<b>8,800</b>	
<b>Net assets</b>	<b>23,510</b>	<b>25,165</b>	<b>3,765</b>	<b>3,482</b>	<b>15,475</b>	
PFRS12(12)(f)						
Accumulated NCI	2,751	3,775	2,071	1,914	4,641	-
	VALUE PFRS Manufacturing Limited		VALUE PFRS Overseas Ltd		VALUE PFRS Electronics Group	
	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000
PFRS12(B10)(b)						
Revenue	30,200	27,800	14,100	14,450	3,850	-
<b>Profit for the period</b>	<b>10,745</b>	<b>7,900</b>	<b>2,412</b>	<b>2,062</b>	<b>1,405</b>	
Other comprehensive income	1,265	830	(447)	243	-	-
<b>Total comprehensive income</b>	<b>12,010</b>	<b>8,730</b>	<b>1,965</b>	<b>2,305</b>	<b>1,405</b>	
PFRS12(12)(e)						
Profit allocated to NCI	1,257	1,185	1,327	1,134	422	-
PFRS12(B10)(a)						
Dividends paid to NCI	1,262	935	925	893	830	-
	VALUE PFRS Manufacturing Limited		VALUE PFRS Overseas Ltd		VALUE PFRS Electronics Group	
	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000	2018 CU'000	2017 CU'000
PFRS12(B10)(b)						
Cash flows from operating activities	2,989	2,780	1,203	1,160	980	-
Cash flows from investing activities	(1,760)	(1,563)	(584)	(859)	(870)	-
Cash flows from financing activities	390	(950)	256	330	(235)	-
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>1,619</b>	<b>267</b>	<b>875</b>	<b>631</b>	<b>(125)</b>	

**16(c) Transactions with non-controlling interests**

PFRS12(10)(b)(iii),(18)

On 21 October 2018, the group acquired an additional 5% of the issued shares of VALUE PFRS Manufacturing Limited for CU1,500,000. Immediately prior to the purchase, the carrying amount of the existing 15% non-controlling interest in VALUE PFRS Manufacturing Limited was CU3,501,000. The group recognized a decrease in non-controlling interests of CU1,167,000 and a decrease in equity attributable to owners of the parent of CU333,000. The effect on the equity attributable to the owners of Value PFRS Plc during the year is summarized as follows:

	2018 CU'000	2017 CU'000
Carrying amount of non-controlling interests acquired	1,167	-
Consideration paid to non-controlling interests	<u>(1,500)</u>	-
Excess of consideration paid recognized in the transactions with non-controlling interests reserve within equity	<u>(333)</u>	-

There were no transactions with non-controlling interests in 2017.

**16(d) Joint operations <sup>2</sup>**

PFRS12(7)(b),(21)(a)

A subsidiary has a 50% interest in a joint arrangement called the Fernwood Partnership which was set up as a partnership together with House of Cards Constructions Limited to develop properties for residential housing in regional areas in the south of Oneland.

PFRS12(21)(a)(iii)

The principal place of business of the joint operation is in Oneland.

**(i) Significant judgement: classification of joint arrangements**

PFRS12(7)(c)

The joint venture agreements in relation to the Fernwood Partnership require unanimous consent from all parties for all relevant activities. The two partners have direct rights to the assets of the partnership and are jointly and severally liable for the liabilities incurred by the partnership. This entity is therefore classified as a joint operation and the group recognizes its direct right to the jointly held assets, liabilities, revenues and expenses as described in [note 25\(b\)\(iii\)](#).

**16(e) Interests in associates and joint ventures <sup>6</sup>**

Set out below are the associates and joint ventures of the group as at December 31, 2018 which, in the opinion of the directors, are material to the group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

PFRS12(21)(a),  
(b)(i),(iii)

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Quoted fair value		Carrying amount	
		2018	2017			2018	2017	2018	2017
		%	%			CU'000	CU'000	CU'000	CU'000
Big Hide Pet SA	France	15	15	Associate (1)	Equity method	585	560	568	540
Cuddly Bear Plc	Oneland	35	35	Associate (2)	Equity method	495	505	492	490
Squirrel Ltd	Oneland	40	40	Joint Venture (3)	Equity method	- *	- *	2,340	1,900
Immaterial associates (iii) below								375	345
<b>Total equity accounted investments</b>								<b>3,775</b>	<b>3,275</b>

PFRS12(21)(a)(ii)

- (1) Big Hide Pet SA is a manufacturer of specialized furniture for the hospitality industry, including cafés and restaurants. Its product range complements the group's commercial furniture range and provides access to markets not previously serviced by the group.
  - (2) Cuddly Bear Plc develops residential land. It is a strategic investment which utilizes the group's knowledge and expertise in the development of residential land but at the same time limits the group's risk exposure through a reduced equity holding.
  - (3) Squirrel Ltd distributes computer software to wholesale customers in the Oneland market. It is a strategic investment for the group which complements the services provided by the IT consulting segment.
- \* Private entity – no quoted price available.

**(i) Significant judgement: existence of significant influence**

PFRS12(9)(e)

Through the shareholder agreement, Value PFRS Plc is guaranteed two seats on the board of Big Hide Pet SA and participates in all significant financial and operating decisions. The group has therefore determined that it has significant influence over this entity, even though it only holds 15% of the voting rights.

**16(e) Interests in associates and joint ventures***(ii) Commitments and contingent liabilities in respect of associates and joint ventures*

	<b>2018</b>	2017
	<b>CU'000</b>	CU'000
PFRS12(23)(a),(B18)	<i>Commitments – joint ventures</i>	
PFRS12(B19)(a)		
	Commitment to provide funding for joint venture's capital commitments, if called	
	<b>250</b>	200
PFRS12(23)(b)	<i>Contingent liabilities – associates</i>	
	Share of contingent liabilities incurred jointly with other investors of the associate	
	<b>150</b>	120
	Contingent liabilities relating to liabilities of the associate for which the company is severally liable	
	-	80
	<i>Contingent liabilities – joint ventures</i>	
	Share of joint venture's contingent liabilities in respect of a legal claim lodged against the entity	
	<b>200</b>	180
	<b>350</b>	380

*(iii) Summarized financial information for associates and joint ventures 3,6*

PFRS12(21)(b)(ii),(B14) The tables below provide summarized financial information for those joint ventures and associates that are material to the group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint ventures and not Value PFRS Plc's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

PFRS12(B12),(B13)	<b>Big Hide Pet SA</b>		<b>Cuddly Bear Plc</b>		<b>Squirrel Ltd</b>	
	<b>31 Dec 2018</b>	31 Dec 2017	<b>31 Dec 2018</b>	31 Dec 2017	<b>31 Dec 2018</b>	31 Dec 2017
	<b>CU'000</b>	CU'000	<b>CU'000</b>	CU'000	<b>CU'000</b>	CU'000
	<b>Summarized balance sheet</b>					
PFRS12(B12)(b)(i)	Current assets					
PFRS12(B13)(a)	Cash and cash equivalents	*	*	*	<b>300</b>	275
	Other current assets	*	*	*	<b>1,700</b>	1,475
	Total current assets	<b>1,333</b>	1,083	<b>243</b>	371	1,750
PFRS12(B12)(b)(ii)	Non-current assets	<b>5,754</b>	5,083	<b>1,834</b>	1,800	6,500
PFRS12(B12)(b)(iii)	Current liabilities					
PFRS12(B13)(b)	Financial liabilities (excluding trade payables)	*	*	*	<b>150</b>	250
	Other current liabilities	*	*	*	<b>1,100</b>	625
	Total current liabilities	<b>583</b>	400	<b>271</b>	171	875
PFRS12(B12)(b)(iv)	Non-current liabilities					
PFRS12(B13)(c)	Financial liabilities (excluding trade payables)	*	*	*	<b>1,900</b>	2,250
	Other non-current liabilities	*	*	*	<b>350</b>	375
	Total non-current liabilities	<b>2,717</b>	2,166	<b>400</b>	600	2,625
	<b>Net assets</b>	<b>3,787</b>	3,600	<b>1,406</b>	1,400	4,750
PFRS12(B14)(b)	<b>Reconciliation to carrying amounts:</b>					
	Opening net assets January 1	<b>3,600</b>	2,967	<b>1,400</b>	1,286	4,500
	Profit for the period	<b>322</b>	400	<b>34</b>	171	550
	Other comprehensive income	<b>132</b>	767	-	-	-
	Dividends paid	<b>(267)</b>	(534)	<b>(28)</b>	(57)	(300)
	<b>Closing net assets</b>	<b>3,787</b>	3,600	<b>1,406</b>	1,400	4,750
	Group's share in %	<b>15%</b>	15%	<b>35%</b>	35%	40%
	Group's share in CU	<b>568</b>	540	<b>492</b>	490	1,900
	Goodwill	-	-	-	-	-
	Carrying amount	<b>568</b>	540	<b>492</b>	490	1,900

**16(e) Interests in associates and joint ventures**

PFRS12(B12),(B13)	Summarized statement of comprehensive income	Big Hide Pet SA		Cuddly Bear Plc		Squirrel Ltd	
		2018	2017	2018	2017	2018	2017
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
PFRS12(B12)(b)(v)	Revenue	8,733	8,400	2,657	2,457	10,038	9,800
PFRS12(B13)(e)	Interest income	*	*	*	*	-	-
PFRS12(B13)(d)	Depreciation and amortization	*	*	*	*	(2,800)	(1,890)
PFRS12(B13)(f)	Interest expense	*	*	*	*	(340)	(280)
PFRS12(B13)(g)	Income tax expense	*	*	*	*	-	-
PFRS12(B12)(b)(vi)	<b>Profit from continuing operations</b>	<b>322</b>	<b>400</b>	<b>34</b>	<b>171</b>	<b>625</b>	<b>550</b>
PFRS12(B12)(b)(vii)	Profit from discontinued operations	-	-	-	-	-	-
	<b>Profit for the period</b>	<b>322</b>	<b>400</b>	<b>34</b>	<b>171</b>	<b>625</b>	<b>550</b>
PFRS12(B12)(b)(viii)	Other comprehensive income	132	767	-	-	750	-
PFRS12(B12)(b)(ix)	Total comprehensive income	<u>454</u>	<u>1,167</u>	<u>34</u>	<u>171</u>	<u>1,375</u>	<u>550</u>
PFRS12(B12)(a)	Dividends received from associates and joint venture entities	40	80	10	20	110	120

\* Shading indicates disclosures that are not required for investments in associates<sup>3</sup>

**(iv) Individually immaterial associates**

PFRS12(21)(c),(B16) In addition to the interests in associates disclosed above, the group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	2018 CU'000	2017 CU'000
Aggregate carrying amount of individually immaterial associates	375	345
Aggregate amounts of the group's share of:		
Profit from continuing operations	30	15
Post-tax profit or loss from discontinued operations	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>30</u>	<u>15</u>

**Interests in other entities****Listing of significant subsidiaries**

PFRS12(10)(a)  
PFRS12(4)

1. PFRS 12 requires entities to disclose information about the composition of the group. This information can be provided in different ways; eg by identifying major subsidiaries as we have done in this note. However, preparers of financial statements should consider what level of detail is necessary to satisfy the overall disclosure objective of the standard. Useful information should not be obscured by including a large amount of insignificant detail (eg a complete listing of all subsidiaries within the group). It may also not always be necessary to disclose the principal activity of each subsidiary.

**Joint operations – summary of assets employed/liabilities incurred**

PAS1(112)(c)

2. If an entity has significant interests in joint operations, it should consider disclosing the group's interests in the assets employed and liabilities incurred in relation to these joint operations. This information will assist users in assessing the extent and financial impact of the joint operations and may – in certain circumstances – be required on the basis that it is relevant to an understanding of the financial statements (PAS 1 paragraph 112(c)).

**Summarized financial information of associates and joint ventures**

3. The disclosure requirements in relation to summarized financial information of joint ventures are more onerous than those for interests in associates. Where certain information is not required for interests in associates, the relevant parts of the table have been shaded. We have chosen this form of presentation primarily to illustrate the similarities and differences in the disclosures for associates and joint ventures. This form of presentation may not be suitable for all entities.

## Interests in other entities

### Entities classified as held for sale

PFRS12(5A),(B17)

4. Amendments made to PFRS 12 in the 2014-2016 Annual Improvements cycle clarified that the disclosure requirements of PFRS 12 also apply to interests in entities that are classified as held for sale, except for the summarized information in paragraphs B10 to B16 of PFRS 12.

### Disclosures not illustrated: not applicable to Value PFRS Plc

5. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	Issue not illustrated	Relevant disclosures or references
PFRS12(14)-(17)	Consolidated structured entities	Provide information as specified in PFRS 12 paragraphs 14 – 17. Entities such as employee share trusts will often qualify as structured entities. To the extent they are significant, the disclosures in PFRS 12 should therefore be considered in this context. <b>Note 21</b> illustrates the disclosures that would apply to the VALUE PFRS Employee Share Trust.
PFRS12(10)(b)(iv),(19) PAS1(106)(d),(97)	Disposal or loss of control over a subsidiary	Provide information about the gain or loss recognized on the loss of control.  Consider also the requirement to reclassify any components of other comprehensive income that are attributable to the subsidiary from equity to profit or loss or directly to retained earnings. Any amounts transferred from equity reserves on the loss of control of a subsidiary will need to be reflected in the reconciliation of reserves as reclassification adjustments (refer <b>note 9(c)</b> ). Where the amounts reclassified amounts are material, consider providing additional explanations.
PFRS12(11),(22)(b)	Subsidiaries, associates or joint ventures with different reporting dates	Disclose the reporting date and the reasons for using a different date or period.
PFRS12(21)(c),(B16)	Individually immaterial joint ventures	Disclose the same information as illustrated in <b>note 16(e)</b> for immaterial associates.
PFRS12(22)(a)	Significant restrictions – associates or joint ventures	Disclose the nature and extent of the restrictions on the ability of a joint venture or associate to transfer funds in the form of cash dividends, or to repay loans or advances made by the entity.
PFRS12(22)(c)	Unrecognized share of losses of joint ventures and associates	Disclose the unrecognized amounts both for the reporting period and cumulatively.
PFRS12(B15)	Interests in associates and joint ventures measured at fair value	The summarized financial information that must be provided for each material associate or joint venture may be presented based on non-PFRS compliant financial statements if preparation of PFRS compliant financial statements would be impracticable or cause undue cost.
PFRS12(B17)	Interest in subsidiary, associate or joint venture classified as held for sale	Summarized financial information does not need to be provided for associates or joint ventures that are held for sale.

## Interests in other entities

	Issue not illustrated	Relevant disclosures or references
PFRS12(B19)(b)	Commitment to acquire another party's ownership interest in a joint venture	Disclose as part of the disclosures of unrecognized commitments.
PFRS12(24)-(31)	Information about unconsolidated structured entities	Various disclosures, see PFRS 12 paragraphs 24 – 31 for details.
PFRS12(9A),(9B),(19A)-(19G),(25A)	Investment entities – information about unconsolidated subsidiaries	Various disclosures, see PFRS 12 paragraphs (9A), (9B), (19A)-(19G) and (25A) for details.

6. While not required under PFRS 12, readers of the financial statements may find it useful if the note for equity-accounted investments also provides a reconciliation of the aggregate carrying amounts from opening to closing balances. This could look as follows:

	2018 CU'000	2017 CU'000
<b>Opening balance January 1</b>	<b>3,275</b>	3,025
Share of operating profits	340	355
Share of other comprehensive income	320	115
Dividends received	(160)	(220)
<b>Closing balance December 31</b>	<b>3,775</b>	3,275



## Unrecognized items

Not mandatory

This section of the notes provides information about items that are not recognized in the financial statements as they do not (yet) satisfy the recognition criteria.

In addition to the items and transactions disclosed below, there are also:

- (a) Unrecognized tax amounts – see note 6
- (b) Non-cash investing and financing transactions – see note 10(b).

17	Contingent liabilities and contingent assets	151
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### Unrecognized items

1. There is no requirement to highlight separately any unrecognized items. However, we believe that this information is useful for users in assessing the financial performance and position of the group.

## 17 Contingent liabilities and contingent assets <sup>2</sup>

### 17(a) Contingent liabilities <sup>1</sup>

The group had contingent liabilities at December 31, 2018 in respect of:

#### (i) Claims

PAS37(86),(91)

A claim for unspecified damages was lodged against VALUE PFRS Retail Limited in December 2017 in relation to alleged non-performance under a sales contract. The company has disclaimed liability and is defending the action. It is not practical to estimate the potential effect of this claim but legal advice indicates that it is not probable that a significant liability will arise.

PAS37(86)

In September 2018, a claim was lodged against VALUE PFRS Manufacturing Limited asserting that the entity had breached certain registered patents of a competitor. The matter is currently being considered by the courts and the group expects judgement before the end of June 2019. The group considers it to be probable that the judgement will be in its favour and has therefore not recognized a provision in relation to this claim. The potential undiscounted amount of the total payments that the group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately CU250,000.

#### (ii) Associates and joint ventures

PFRS12(23)(b)

For contingent liabilities relating to associates and joint ventures refer to [note 16\(e\)](#).

### 17(b) Contingent assets

PAS37(89)

A subsidiary has lodged a claim against a supplier for damages caused by the supply of faulty products. The matter has been referred to arbitration and, having received legal advice, the directors believe that a favourable outcome is probable. However, the contingent asset has not been recognized as a receivable at December 31, 2018 as receipt of the amount is dependent on the outcome of the arbitration process.

## Contingent liabilities and contingent assets

### Definitions

PAS37(10)

#### Application of definitions

1. Careful consideration will need to be given to each potential contingent liability or asset. For example, in the case of an entity that has:
  - (a) incurred liabilities in acting as trustee for a trust: if the liabilities of the trust are insignificant compared to the assets in the trust and the chances of the trustee being called to meet those liabilities is remote, no contingent liability and asset disclosures will need to be made. It is likely that it will be possible to demonstrate remoteness where the entity is acting as trustee for an equity trust that has no borrowings and holds investments that can be readily sold to meet any liabilities that do arise. Remoteness is unlikely to be demonstrated where an entity acts as trustee for a trust that is carrying on a business and the trustee is incurring liabilities and undertaking the risks relating to the business
  - (b) provided a guarantee or indemnity to another party: it will be more difficult to demonstrate the probability of having to meet the potential liabilities as being remote because there are likely to be commercial risks which gave rise to the need for the guarantee or indemnity.

#### Disclosures not illustrated: not applicable to Value PFRS Plc

2. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

PAS37(88)

PAS37(91)

PAS37(92)

PAS19(152)

Issue not illustrated	Relevant disclosures or references
Provisions and contingent liabilities arising from the same set of circumstances	Make the required disclosures in a way such that the link between the provision and the contingent liability is clear.
Information cannot be disclosed because it is not practicable to do so	Disclose the fact.
Disclosure of information can be expected to seriously prejudice the position of the entity	Disclose the general nature of the dispute together with the fact that, and the reasons why, the information has not been disclosed.
Contingent liabilities arising from post-employment benefit plans	Provide information about these contingent liabilities.

## 18 Commitments <sup>1</sup>

### 18(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

		2018 CU'000	2017 CU'000
PAS16(74)(c)	Property, plant and equipment	4,200	800
PAS40(75)(h)	Investment property	520	1,250
PAS38(122)(e)	Intangible assets	450	-

#### *Fernwood Partnership*

PFRS12(23)(a) The above commitments include capital expenditure commitments of CU500,000 (2017 – nil) relating to the Fernwood Partnership (refer to [note 16\(d\)](#)).

### 18(b) Non-cancellable operating leases

PAS17(35)(d) The group leases various offices, warehouses and retail stores under non-cancellable operating leases expiring within two to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess warehouse space is sub-let to third parties also under non-cancellable operating leases.

		2018 CU'000	2017 CU'000
PAS17(35)(a)	Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
PAS17(35)(a)(i)	Within one year	850	750
PAS17(35)(a)(ii)	Later than one year but not later than five years	2,300	2,300
PAS17(35)(a)(iii)	Later than five years	3,940	3,770
		<u>7,090</u>	<u>6,820</u>

#### *Sub-lease payments*

PAS17(35)(b) Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases

	2018 CU'000	2017 CU'000
	<u>850</u>	<u>920</u>

PAS17(35)(d)(i) Not included in the above commitments are contingent rental payments which may arise in the event that units produced by certain leased assets exceed a pre-determined production capacity. The contingent rental payable is 1% of sales revenue from the excess production.

SIC15(5) A number of lease agreements for the retail stores include free fit-outs provided by the lessor as a lease incentive. The assets obtained by the group have been recognized as furniture and equipment at fair value and are depreciated over the shorter of their useful life or the lease term. The lease incentive is presented as part of the lease liabilities (see [note 7\(g\)](#)) and is reversed on a straight line basis over the lease term.

		2018 CU'000	2017 CU'000
PAS17(35)(c)	<i>Rental expense relating to operating leases</i>		
	Minimum lease payments	1,230	1,530
	Contingent rentals	430	-
	Sub-leases	290	270
	Total rental expense relating to operating leases	<u>1,950</u>	<u>1,800</u>

### 18(c) Repairs and maintenance: investment property

		2018 CU'000	2017 CU'000
PAS40(75)(h)	Contractual obligation for future repairs and maintenance – not recognized as a liability	540	389

**Commitments**

**Disclosures not illustrated: not applicable to Value PFRS Plc**

*Arrangements containing a lease - payments cannot be separated*

IFRIC4(15)(b)

1. Where an arrangement contains an operating lease but the lessee cannot reliably separate the payments, all payments under the arrangement must be treated as lease payments for the purpose of complying with the disclosure requirements in PAS 17. In addition, the lessee must:
  - (a) disclose those payments separately from other lease payments that do not include non-lease elements
  - (b) state that the payments include payments for non-lease elements.

**19 Events occurring after the reporting period <sup>1</sup>**

**19(a) Acquisition of Better Office Furnishings Limited**

PAS10(21)(a),(b)  
PFRS3(59)(b)  
PFRS3(B64),(B66)

On 15 February 2019 Value PFRS Plc acquired 87.5% of the issued shares in Better Office Furnishings Limited, a manufacturer of office furniture and equipment, for consideration of CU12,030,000. The acquisition is expected to increase the group's market share and reduce cost through economies of scale.

The financial effects of this transaction have not been recognized at December 31, 2018. The operating results and assets and liabilities of the acquired company will be consolidated from 15 February 2019.

*(i) Purchase consideration and fair value of net assets acquired*

PFRS3(B64)(f)

Details of the consideration transferred are:

	<b>CU'000</b>
Purchase consideration	
Cash paid	11,750
Contingent consideration	280
Total purchase consideration	12,030

PFRS3(B64)(i)

The provisionally determined fair values of the assets and liabilities of Better Office Furnishings Limited as at the date of acquisition are as follows:

	<b>Fair value CU'000</b>
Cash and cash equivalents	575
Property, plant and equipment	12,095
Intangible assets: customer list	2,285
Intangible assets: customer contracts	1,180
Inventories	1,010
Receivables	685
Payables	(2,380)
Employee benefit obligations	(230)
Borrowings	(3,250)
Net deferred tax assets	420
Net identifiable assets acquired	12,390
Less: non-controlling interests	(1,720)
Add: goodwill	1,360
Net assets acquired	12,030

**19(a) Acquisition of Better Office Furnishings Limited**

PFRS3(B64)(e),(k)

The goodwill is attributable to Better Office Furnishings Limited's strong position and profitability in trading in the office furniture and equipment market and synergies expected to arise after the company's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

**(ii) Contingent consideration**

PFRS3(B64)(g)

The contingent consideration arrangement requires the group to pay the former owners of Better Office Furnishings Limited 5% of the profit of Better Office Furnishings Limited, in excess of CU4,000,000 for the year ending December 31 2019, up to a maximum undiscounted amount of CU800,000.

The potential undiscounted amount of all future payments that the group could be required to make under this arrangement is between CU0 and CU800,000. The fair value of the contingent consideration arrangement of CU280,000 has been estimated by calculating the present value of the future expected cash flows. The estimates are based on a discount rate of 8% and assumed probability-adjusted profit in Better Office Furnishings Limited of CU4,400,000 to CU4,800,000.

**(iii) Acquisition-related costs**

PFRS3(B64)(m)

Acquisition-related costs of CU750,000 will be included in **administrative** expenses in profit or loss in the reporting period ending December 31 2019.

**(iv) Non-controlling interest**

PFRS3(B64)(o)

The group has chosen to recognize the non-controlling interest at its fair value for this acquisition. The fair value of the non-controlling interest in Better Office Furnishings Limited, an unlisted company, was estimated by applying a market approach and an income approach. The fair value estimates are based on:

- (a) an assumed discount rate of 8%
- (b) an assumed terminal value based on a range of terminal EBITDA multiples between three and five times
- (c) long-term sustainable growth rate of 2%
- (d) assumed financial multiples of companies deemed to be similar to Better Office Furnishings Limited, and
- (e) assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of non-controlling interest in Better Office Furnishing Limited.

**(v) Information not disclosed as not yet available**

PFRS3(B66)

At the time the financial statements were authorized for issue, the group had not yet completed the accounting for the acquisition of Better Office Furnishings Limited. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuations have not been finalized. It is also not yet possible to provide detailed information about each class of acquired receivables and any contingent liabilities of the acquired entity.

**19(b) Refinancing of borrowing**

PAS10(21)

At the beginning of February, the group renegotiated its existing loan facility to finance the construction of the new production plant for the electronic equipment division. The total available amount under the facility was increased by CU20,000,000, which is expected to be drawn down over the next 12 months. The facility is now repayable in three annual instalments, commencing 1 June 2024. As the terms and conditions of the facility remained largely unchanged, the refinancing will not result in the recognition of a settlement gain or loss.

PAS139(40),(AG62)

**19(c) Other events**

PAS10(21)

Please refer to **note 13(b)** for the final dividend recommended by the directors, to be paid on 10 April 2019.

**Events occurring after the reporting period**

**Disclosures not illustrated: not applicable to Value PFRS Plc**

1. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	<b>Issue not illustrated</b>	<b>Relevant disclosures or references</b>
PAS10(21),(22)(c) PFRS3(B64)	Business combination disclosures	Information about acquired receivables, recognized or unrecognized contingent liabilities, equity instruments issued or issuable, transactions that are recognized separately from the business combination, a bargain purchase and business combinations achieved in stages.
PAS10(21),(22)(c) PFRS5(12),(41)(a),(b),(d)	Discontinued operations or assets held for sale where the criteria as held for sale were met after the end of the reporting period	Provide a description of the non-current asset or disposal group, the facts and circumstances and expected timing of the sale or disposal and the reportable segment in which the asset(s) are presented (where applicable).
PAS1(76)	Events that occurred after the reporting date and which would have affected the classification of a loan as current had they occurred before the end of the reporting period	The following events may require disclosures: <ul style="list-style-type: none"> <li>- refinancing on a long-term basis</li> <li>- rectification of a breach of a long-term agreement, and</li> <li>- the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting period.</li> </ul>

## *Other information*

### Not mandatory

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

20	Related party transactions	157
21	Share-based payments	161
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23	Offsetting financial assets and financial liabilities	169
24	Assets pledged as security	171
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## 20 Related party transactions <sup>1-2,4,9</sup>

### 20(a) Parent entities

PAS1(138)(c)

The group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2018	2017 <sup>7,8</sup>
Lion (Oneland) plc	Immediate parent entity	Oneland	60%	63.7%
Lion AG	Ultimate parent entity and controlling party	Germany	60% *	63.7% *

PAS24(13),  
PAS1(138)(c)

PAS24(13)  
PAS1(138)(c)

\* Lion AG holds 100% of the issued ordinary shares of Lion (Oneland) Limited.

### 20(b) Subsidiaries

Interests in subsidiaries are set out in [note 16\(a\)](#).

PAS24(17)

### 20(c) Key management personnel compensation <sup>3</sup>

	2018 CU'000	2017 CU'000 <sup>7,8</sup>
PAS24(17)(a) Short-term employee benefits	2,333	2,103
PAS24(17)(b) Post-employment benefits	180	161
PAS24(17)(c) Long-term benefits	39	33
PAS24(17)(d) Termination benefits	115	-
PAS24(17)(e) Share-based payments	705	548
	<b>3,372</b>	<b>2,845</b>

Detailed remuneration disclosures are provided in the remuneration report on pages [x] to [y].<sup>3</sup>

PAS24(18)(b)

In addition to the above, the group is committed to pay the CEO and the CFO up to CU250,000 in the event of a change in control of the group. <sup>7,8</sup>

PAS24(18)

### 20(d) Transactions with other related parties <sup>6</sup>

PAS24(18)(a)

The following transactions occurred with related parties:

	2018 CU'000	2017 CU'000 <sup>7,8</sup>
<i>Sales and purchases of goods and services</i>		
PAS24(19)(d) Sale of goods to associates	125	-
PAS24(19)(a) Purchase of management services from parent	450	370
PAS24(19)(g) Purchases of electronic equipment from other related parties	182	78
PAS24(19)(f) Purchases of various goods and services from entities controlled by key management personnel (i)	764	576
<i>Dividend revenue</i>		
PAS24(19)(g) Other related parties	150	300
<i>Superannuation contributions <sup>5</sup></i>		
PAS24(19)(g) Contributions to superannuation funds on behalf of employees *	3,719	3,287

\* see [note 8\(g\)](#) for information about Value PFRS Plc shares held by the group's defined benefit plan and property owned by the plan that is occupied by the group.

PAS24(18)

**20(d) Transactions with other related parties**

	2018 CU'000	2017 CU'000 <sup>7,8</sup>
<i>Other transactions</i>		
PAS24(19)(a) Dividends paid to Oneland parent entity	13,313	6,553
PAS24(19)(a) Final call on partly paid ordinary shares paid by Oneland parent entity (note 9(a))	840	-
PAS24(19)(a) Subscriptions for new ordinary shares by Oneland parent entity (note 9(a))	4,626	-
PAS24(19)(f) Subscription for new ordinary shares by key management personnel as a result of the rights issue (note 9(a))	118	-

**(i) Purchases from entities controlled by key management personnel**

PAS24(18)

The group acquired the following goods and services from entities that are controlled by members of the group's key management personnel:

- construction of a warehouse building
- rental of an office building, and
- legal services.

**20(e) Outstanding balances arising from sales/purchases of goods and services**

PAS24(18)(b)

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2018 CU'000	2017 CU'000 <sup>7,8</sup>
Current payables (purchases of goods and services)		
PAS24(19)(a) Lion (Oneland) Plc (parent entity)	58	73
PAS24(19)(f) Entities controlled by key management personnel	196	91
PAS24(19)(g) Other related parties	265	94

**20(f) Loans to/from related parties**

PAS24(19)(f)

*Loans to key management personnel*

PAS24(18)(b) Beginning of the year	606	502
PAS24(18)(a) Loans advanced	220	150
PAS24(18)(a) Loan repayments received	(109)	(46)
PAS24(18)(a) Interest charged	57	41
PAS24(18)(a) Interest received	(57)	(41)
PAS24(18)(b) End of year	717	606

PAS24(19)(g)

*Loans to other related parties*

PAS24(18)(b) Beginning of the year	700	600
PAS24(18)(a) Loans advanced	1,000	600
PAS24(18)(a) Loan repayments received	(400)	(500)
PAS24(18)(a) Interest charged	81	62
PAS24(18)(a) Interest received	(81)	(62)
PAS24(18)(b) End of year	1,300	700

PAS24(19)(a)

*Loans from Lion (Oneland) Plc (parent entity)*

PAS24(18)(b) Beginning of the year	4,000	-
PAS24(18)(a) Loans advanced	7,150	4,100
PAS24(18)(a) Loan repayments made	(2,050)	(100)
PAS24(18)(a) Interest charged	185	104
PAS24(18)(a) Interest paid	(185)	(104)
PAS24(18)(b) End of year	9,100	4,000

**20(f) Loans to/from related parties**

		2018 CU'000	2017 CU'000 <sup>7,8</sup>
PAS24(19)(d)	<i>Loans from associates</i>		
PAS24(18)(b)	Beginning of the year	-	-
PAS24(18)(a)	Loans advanced	6,285	800
PAS24(18)(a)	Loan repayments made	(200)	(800)
PAS24(18)(a)	Interest charged	245	84
PAS24(18)(a)	Interest paid	(245)	(84)
PAS24(18)(b)	End of year	<u>6,085</u>	<u>-</u>

PAS24(18)(c),(d)  
New illustration

A small loss allowance of CU2,000 was recognized in relation to loans to related parties during the year, and the loss allowance on loans to key management personnel was increased by CU1,000, see note 12(c) for further information. No loss allowance was recognized in expense in 2017.

**20(g) Terms and conditions**

PAS24(18)(b)(i)

Transactions relating to dividends, calls on partly paid ordinary shares and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

The loans to key management personnel are generally for periods of 10 years repayable in quarterly instalments at interest rates of 5% per annum. They are secured by first mortgages over the individuals' residences. One unsecured loan of CU60,000 was made to a director of Value PFRS Plc for a period of two years with an interest rate of 8% per annum. This loan is repayable in full on 30 March 2019.

Goods were sold to associates during the year based on the price lists in force and terms that would be available to third parties. Management services were bought from the immediate parent entity on a cost-plus basis, allowing a margin ranging from 15% to 30% (2017 – 10% to 24%). All other transactions were made on normal commercial terms and conditions and at market rates. The loans to other related parties are repayable between 2 to 4 years from the reporting date, the loans from the associates mature in 3 years and the loans from the parent entity are repayable in instalments from 2023. The average interest rate on the other loans during the year was 9.5% (2017 – 9.75%).

PAS24(18)(b)(i)

Outstanding balances other than loans to key management personnel are unsecured and are repayable in cash.

**Related party transactions**

**Presentation**

1. All of the related party information required by PAS 24 that is relevant to Value PFRS Plc has been presented, or referred to, in one note. This is considered to be a convenient and desirable method of presentation, but there is no requirement to present the information in this manner. Compliance with the standard could also be achieved by disclosing the information in relevant notes throughout the financial statements.

**Materiality**

PAS1(7)

2. The disclosures required by PAS 24 apply to the financial statements when the information is material. According to PAS 1 *Presentation of Financial Statements*, materiality depends on the size and nature of an item. It may be necessary to treat an item or a group of items as material because of their nature, even if they would not be judged material on the basis of the amounts involved. This may apply when transactions occur between an entity and parties who have a fiduciary responsibility in relation to that entity, such as those transactions between the entity and its key management personnel.

**Key management personnel compensation**

3. While the disclosures under PAS 24 paragraph 17 are subject to materiality, this must be determined based on both quantitative and qualitative factors. In our view, it will not be appropriate to omit the aggregate compensation disclosures based on materiality. Whether it will be possible to satisfy the disclosure by reference to another document such as a remuneration report will depend on local regulation. PAS 24 itself does not specifically permit such cross-referencing.

## Related party transactions

### Related party definition

4. The definition of a related party includes the following persons and entities:

- (a) A person (or a close member of that person's family) is related to the reporting entity if the person:
  - (i) has control or joint control over the reporting entity
  - (ii) has significant influence over the reporting entity, or
  - (iii) is a member of the key management personnel of the reporting entity, or of a parent of the reporting entity.
- (b) The reporting entity (A) is related to another entity (B) if:
  - (i) A and B are members of the same group (that is all entities within a group are related to each other)
  - (ii) A is an associate or joint venture of B. In this case A is related to all members of the group that B belongs to
  - (iii) A and B are joint ventures of the same third party, C
  - (iv) A is a joint venture of C and B is an associate of C (or vice versa)
  - (v) B is a post-employment benefit plan for the benefit of employees of A or an entity related to A. If A is itself a post-employment benefit plan, any sponsoring employers are also related to A
  - (vi) B is controlled or jointly controlled by a person identified in (a) above
  - (vii) a person who has control or joint control over A has significant influence over B or is a member of the key management personnel of B, or
  - (viii) B (or any member of the group of which B is a part) provides key management personnel services to A or A's parent.

In this definition, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

#### *Post-employment benefit plans*

5. Post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of the entity, are related parties as per the definition in PAS 24 paragraph 9. This means that contributions made to such plans by the entity or any other entity in the consolidated group must be disclosed as a related party transaction, regardless of whether the plans are defined contribution or defined benefit plans.

### Transactions with related parties

6. Related party transactions are transfers of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged. They include commitments to do something if a particular event occurs (or does not occur) in the future and executory contracts (recognized or unrecognized). As per PAS 37, executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.

### Comparatives

- 7. PAS 24 is silent on comparatives. Under PAS 1 comparative information must be provided for all amounts reported in the financial statements, except when a standard provides otherwise, which is not the case with PAS 24. As the notes are part of the financial statements (see PAS 1(10)), comparative information should be included for all amounts that provide further analysis of the line items in the financial statements.
- 8. PAS 1 further states that comparative information should also be provided for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. In the case of related party disclosures, comparative information is likely to be relevant for all narrative and descriptive information. The comparative information should disclose transactions with parties that were related at the time the transaction took place, but need not include information about transactions with parties that were unrelated at that time.

PAS24(9)  
PAS24(IE4)-(IE26)

PAS24(12)

PAS24(9)(b)(v)  
PAS19(151)

PAS24(9),(21)  
PAS37(3)

PAS1(38)

**Related party transactions**

**Disclosures not illustrated: not applicable to Value PFRS Plc**

9. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	<b>Issue not illustrated</b>	<b>Relevant disclosures or references</b>
PAS24(18)(b)	Commitments to related parties, including committed future purchases or sales	Disclose amount of commitments as at the end of the reporting period, including terms and conditions.
PAS24(18),(18A)	KMP services are provided by a separate management entity	Disclose fee paid to the management entity for the KMP services and any other transactions with that entity.
PAS24(25)-(27)	The entity applies the exemption for government related entities.	Provide the information required by PAS 24 (25) – (27).
	An investment entity is exempt from consolidating certain subsidiaries and measures them at fair value through profit or loss instead.	Disclose any transactions and outstanding balances with those subsidiaries, as they are not eliminated on consolidation.

**21 Share-based payments <sup>2,3</sup>**

**21(a) Employee Option Plan**

PFRS2(44),(45)(a)

The establishment of the VALUE PFRS Employee Option Plan was approved by shareholders at the 2013 annual general meeting. The Employee Option Plan is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board’s discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on Value PFRS Plc’s total return to shareholders (TSR), including share price growth, dividends and capital returns, ranking within a peer group of 20 selected companies that are listed on the Oneland Stock Exchange over a three year period. Once vested, the options remain exercisable for a period of two years.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share fourteen days after the release of the half-yearly and annual financial results of the group to the market.

The exercise price of options is based on the weighted average price at which the company’s shares are traded on the Oneland Stock Exchange during the week up to and including the date of the grant.

**21(a) Employee Option Plan**

Set out below are summaries of options granted under the plan:

PFRS2(45)(b)(i),(ii),(iii),(iv),(vii)	2018		2017	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at January 1	CU5.55	2,056,000	CU5.33	1,688,000
Granted during the year	CU6.18	818,000	CU5.78	814,000
Exercised during the year *	CU5.28	(228,000)	-	-
Forfeited during the year	CU5.71	(445,000)	CU5.12	(446,000)
As at December 31	CU5.78	2,201,000	CU5.55	2,056,000
Vested and exercisable at December 31	CU5.28	263,000	-	-

PFRS2(45)(c) \* The weighted average share price at the date of exercise of options exercised during the year ended December 31, 2018 was CU6.35 (2017 – not applicable).

PFRS2(45)(b)(v) No options expired during the periods covered by the above tables.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

PFRS2(45)(b)(vi),(d)	Grant Date	Expiry date	Exercise price	Share options	Share options
				December 31, 2018	December 31, 2017
	1 November 2015	30 October 2020	CU5.28	263,000	546,000
	1 November 2016	30 October 2021	CU5.51	569,000	709,000
	1 November 2017	30 October 2022	CU5.78	641,000	801,000
	1 November 2018	30 October 2023	CU6.18	728,000	-
	Total			2,201,000	2,056,000
	Weighted average remaining contractual life of options outstanding at end of period			3.67 years	3.96 years

**(i) Fair value of options granted**

PFRS2(46),(47)(a)(i) The assessed fair value at grant date of options granted during the year ended December 31, 2018 was CU1.80 per option (2017 – CU1.75). The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

PFRS2(47)(a)(i) The model inputs for options granted during the year ended December 31, 2018 included:

- (a) options are granted for no consideration and vest based on Value PFRS Plc's TSR ranking within a peer group of 20 selected companies over a three year period. Vested options are exercisable for a period of two years after vesting
- (b) exercise price: CU6.18 (2017 – CU5.78)
- (c) grant date: 1 November 2018 (2017 – 1 November 2017)
- (d) expiry date: 30 October 2023 (2017 – 30 October 2022)
- (e) share price at grant date: CU6.12 (2017 – CU5.83)
- (f) expected price volatility of the company's shares: 35% (2017 – 30%)
- (g) expected dividend yield: 3.8% (2017 – 3.2%)
- (h) risk-free interest rate: 6% (2017 – 5.5%)

PFRS2(47)(a)(ii) The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

**21(b) Deferred shares – executive short-term incentive scheme**

PFRS2(45)(a)

Under the group's short-term incentive (STI) scheme, executives receive 50% of the annual STI achieved in cash and 50% in the form of rights to deferred shares of Value PFRS Plc. The rights are granted on the 28 February of the following year and vest after two years from the grant date. They automatically convert into one ordinary share each on vesting at an exercise price of nil. The executives do not receive any dividends and are not entitled to vote in relation to the deferred shares during the vesting period. If an executive ceases to be employed by the group within this period, the rights will be forfeited, except in limited circumstances that are approved by the board on a case-by-case basis.

The deferred shares are administered by the VALUE PFRS Employee Share Trust. This trust is consolidated in accordance with [note 25\(b\)\(i\)](#). The shares are acquired on market at the grant date and are held as treasury shares until such time as they are vested. Forfeited shares are reallocated in subsequent grants. Under the terms of the trust deed, Value PFRS Plc is required to provide the trust with the necessary funding for the acquisition of the shares at the time of the grant.

PFRS12(14),(17)

PFRS2(47)(b)

The number of rights to be granted is determined based on the currency value of the achieved STI divided by the weighted average price at which the company's shares are traded on the Oneland Stock Exchange during the week up to and include the date of the grant (CU5.94 for the rights granted in February 2018 and CU6.08 for the rights granted in 2017).

PFRS2(47)(b)

The fair value of the rights at grant date ([CU5.50; 2017 – CU5.71](#)) was estimated by taking the market price of the company's shares on that date less the present value of expected dividends that will not be received by the executives on their rights during the two year vesting period.

The following table shows the deferred shares granted and outstanding at the beginning and end of the reporting period: <sup>1</sup>

New illustration	2018	2017
PFRS2(45)(b)(i),(ii),(iii),(iv),(vii)	Number of shares	Number of shares
As at January 1	88,360	46,916
Granted during the year	57,636	52,364
Vested during the year	(40,374)	-
Forfeited during the year	(21,699)	(10,920)
As at December 31	<u>83,923</u>	<u>88,360</u>
Weighted average remaining contractual life of the deferred shares outstanding at end of period	0.68 years	0.70 years

**(i) Net settlement feature for withholding tax obligations**

PFRS2(44),(45)(a)

Under Oneland tax law, Value PFRS Plc must withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount in cash to the tax authority on the employee's behalf. The deferred shares granted under the group's STI scheme include a net settlement feature under which the trust withholds shares in order to settle the employee's tax obligations.

In previous years, the full number of shares were initially issued to the employees with the trust subsequently selling the required number of shares on-market on behalf of the employees to settle the tax obligations. This allowed the entire award to be accounted for as equity-settled award.

In 2018, the group has taken advantage of the exception introduced by the amendments to PFRS 2 (see [note 25\(a\)\(iii\)](#) below) and is now settling the deferred share grant on a net basis by withholding the number of shares with a fair value equal to the monetary value of the employee's tax obligation and only issuing the remaining shares on completion of the vesting period. This reduces the dilutive impact of the deferred share scheme. [An amount of CU46,000 was withheld and paid to the taxation authority in relation to the deferred shares granted in February 2018 \(2017 – nil\).](#)

PFRS2(52)  
New requirement



**21(c) Employee share scheme**

PFRS2(44),(45)(a)	<p>A scheme under which shares may be issued by the company to employees for no cash consideration was approved by shareholders at the 2014 annual general meeting. All Oneland resident permanent employees (excluding executive directors, other key management personnel of the group and the group company secretary) who have been continuously employed by the group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.</p> <p>Since the current reporting period, the employee share scheme is also administered by the VALUE PFRS Employee Share Trust. This Trust is consolidated in accordance with <a href="#">note 25(b)(i)</a>.</p> <p>Shares issued by the trust to the employees are acquired on-market prior to the issue. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements (see <a href="#">note 9(b)</a>).</p> <p>Under the scheme, eligible employees may be granted up to CU1,000 worth of fully paid ordinary shares in Value PFRS Plc annually for no cash consideration. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the Oneland Stock Exchange during the week up to and including the date of grant. The shares are recognized at the closing share price on the grant date (grant date fair value) as an issue of treasury shares by the trust (in 2017 as share capital, see <a href="#">note 9(a)</a>) and as part of employee benefit costs in the period the shares are granted.</p> <p>Offers under the scheme are at the discretion of the company, and no offer may be made unless annual profit growth in the financial year prior to the date of the offer was at least 3% greater than the increase in the consumer price index.</p> <p>Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue (refer to <a href="#">note 9(a)</a>).</p>
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PFRS2(45)(a)	<p style="text-align: right;"><b>2018</b>      2017</p> <p>Number of shares issued under the plan to participating employees on 1 June 2018 (2 June 2017) <span style="float: right;"><u>145,902</u>      <u>142,857</u></span></p>
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PFRS2(47)(b)	Each participant was issued with shares worth CU1,000 based on the weighted average market price of CU6.42 (2017 – CU5.50). The shares had a grant date fair value of CU6.18 (2017 – CU5.59).
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**21(d) Share appreciation rights**

PFRS2(44),(45)(a)	In September 2018, the remuneration committee decided to reward divisional managers for their contribution to the performance of the group by granting them 200,000 share appreciation rights (SARs). The rights entitle the employees to a cash payment after three years of service. The amount payable will be determined based on the increase of Value PFRS Plc's share price between the grant date (25 September 2018: CU5.43) and the vesting date (25 September 2021). The rights must be exercised on vesting date and will expire if not exercised on that date.
PFRS2(46)	The fair value of the SARs was determined using the Black-Scholes model using the following inputs as at December 31, 2018:

	<b>December 31, 2018</b>
Share price at measurement date	<b>CU6.19</b>
Expected volatility	<b>32%</b>
Dividend yield	<b>3.8%</b>
Risk-free interest rate	<b>6%</b>
PFRS2(51)(b)(i)	<b>CU138,000</b>
	Carrying amount of liability – included in employee benefit obligations ( <a href="#">note 8(g)</a> )

PFRS2(51)(b)(ii)	There were no SARs granted in prior years and none of the SARs had vested as at December 31, 2018.
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**21(e) Expenses arising from share-based payment transactions**

PFRS2(50),(51)(a)

Total expenses arising from share-based payment transactions recognized during the period as part of employee benefit expense were as follows:

	2018 CU'000	2017 CU'000
Options issued under employee option plan	896	330
Deferred shares issued under the short-term incentive scheme	220	225
Shares issued under employee share scheme	902	798
Share appreciation rights	138	-
	2,156	1,353

**Share-based payments****Share award disclosures**

PFRS2(45)

1. The detailed disclosures in paragraph 45 of PFRS 2 are only required for share options. However, share awards such as the deferred shares in our example, are equivalent to share options with a zero exercise price. It may therefore be appropriate to provide similar disclosures to the extent they are applicable to the share awards.

**Disclosures not illustrated: not applicable to Value PFRS Plc**

*Fair value of goods or services received, or of equity instruments granted*

2. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

Issue not illustrated	Relevant disclosures or references
Modification of share-based payment arrangements	Explain the modifications, disclose the incremental fair value granted and how this was measured (see below).
Rebuttal of the presumption that the fair value of goods of services received from parties other than employees can be measured reliably	Disclose that fact and explain why the presumption was rebutted.
The information disclosed does not satisfy the principles in PFRS 2 paragraphs 44, 46 and 50	Provide additional information as necessary.

PFRS2(47)(c)

PFRS2(49)

PFRS2(52)

3. The following illustrative disclosure may be useful where relevant to an entity:

*Modification of share-based payment arrangements*

PFRS2(47)(c)

In May 2018, Value PFRS Plc increased the vesting period for the employee share options granted in October 2017 from three to five years and reduced the exercise price to CU4.00 to reflect the recent fall in the company's share price. The fair value of the options at the date of the modification was determined to be CU2.05. The incremental fair value of CU0.25 will be recognized as an expense over the period from the modification date to the end of the extended vesting period. The expense for the original option grant will continue to be recognized as if the terms had not been modified.

The fair value of the modified options was determined using the same models and principles as described above, with the following model inputs: [provide details].

## 22 Earnings per share <sup>1</sup>

	2018 Cents	2017 Cents
<b>22(a) Basic earnings per share</b>		
	53.7	46.8
PAS33(68)	1.2	0.7
	<b>54.9</b>	<b>47.5</b>
<b>22(b) Diluted earnings per share</b>		
	52.8	46.6
PAS33(68)	1.2	0.7
	<b>54.0</b>	<b>47.3</b>
<b>22(c) Reconciliations of earnings used in calculating earnings per share</b>		
	2018 CU'000	2017 CU'000
PAS33(70)(a)	<i>Basic earnings per share</i>	
	32,639	27,688
	727	399
	<b>33,366</b>	<b>27,087</b>
PAS33(70)(a)	Diluted earnings per share	
	32,639	27,688
PAS33(70)(a)	435	-
	<b>33,074</b>	<b>27,688</b>
	727	399
	<b>33,801</b>	<b>27,087</b>
<b>22(d) Weighted average number of shares used as the denominator</b>		
	2018 Number	2017 Number
PAS33(70)(b)	60,807,309	59,100,304
PAS33(70)(b)	Adjustments for calculation of diluted earnings per share:	
	101,082	90,512
	166,100	87,361
	101,040	82,358
	<b>1,455,996</b>	-
PAS33(70)(b)	<b>62,631,527</b>	<b>59,360,535</b>

**22(e) Information concerning the classification of securities***(i) Partly paid ordinary shares*

PAS33(72) Partly paid ordinary shares carry the right to participate in dividends in proportion to the amount paid relative to the total issue price. To that extent they have been recognized as ordinary share equivalents in the determination of basic earnings per share. Amounts uncalled on partly paid shares and calls in arrears are treated as the equivalent of options to acquire ordinary shares and are included as potential ordinary shares in the determination of diluted earnings per share.

*(ii) Options*

PAS33(72) Options granted to employees under the VALUE PFRS Employee Option Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required TSR hurdles would have been met based on the company's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in [note 21](#).

PAS33(70)(c) The 818,000 options granted on 1 November 2018 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended December 31, 2018. These options could potentially dilute basic earnings per share in the future.

*(iii) Deferred shares*

PAS33(46),(72) Rights to deferred shares granted to executives under the group's short-term incentive scheme are included in the calculation of diluted earnings per share assuming all outstanding rights will vest. The rights are not included in the determination of basic earnings per share. Further information about the rights is provided in [note 21](#).

*(iv) Convertible notes*

PAS33(72) Convertible notes issued during the year are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in [note 7\(g\)](#).

*(v) 7% non-redeemable participating preference shares*

PAS33(72) The 7% non-redeemable participating preference shares were classified as equity and were a separate category of ordinary shares for the purposes of determining earnings per share, rather than potential ordinary shares. The shares were bought back and cancelled during the year (see [note 9\(a\)](#)). They have not been included in the determination of basic or diluted earnings per share as no shares were on issue at year end in this category of ordinary shares.

*(vi) 6% cumulative redeemable preference shares*

PAS33(72) The 6% cumulative redeemable preference shares are not ordinary or potential ordinary shares and have not been included in the determination of basic and diluted earnings per share. These shares are classified as liabilities (see [note 7\(g\)](#)).

## Earnings per share

### Disclosures not illustrated: not applicable to Value PFRS Plc

1. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	Issue not illustrated	Relevant disclosures or references
PAS33(70)(d)	Share transactions after the end of the reporting period	Provide a description of material share transactions that occurred after the end of the reporting period and that were not retrospectively adjusted in the calculation of EPS.
PAS33(73)	EPS based on alternative earnings	Indicate the basis on which the alternative earnings are determined, including whether the amounts are before or after tax. Provide a reconciliation between the earnings used and a line item that is reported in the statement of comprehensive income, where necessary.
PAS1(112)(c)	Major capital restructuring	Consider providing appropriate explanations in the notes where the restructuring had a significant impact on the EPS information that was calculated in accordance with the requirements of PAS 33.
PAS33(64)	The number of ordinary or potential ordinary shares changes as a result of a capitalisation, bonus issue, share split or reverse share split	Retrospectively adjust the calculation of basic and diluted EPS for all periods presented and explain the changes made.  This applies regardless of whether the change occurred during the reporting period or after the end of the period before the financial statements are authorized for issue.

## 23 Offsetting financial assets and financial liabilities <sup>1-4,7</sup>

PAS32(42)  
PFRS7(13A),(13B)

Financial assets and liabilities are offset and the net amount reported in the balance sheet where Value PFRS Plc currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Value PFRS Plc has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at December 31, 2018 and December 31, 2017. The column 'net amount' shows the impact on the group's balance sheet if all set-off rights were exercised.

PFRS7(13C)

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts CU'000	Gross amounts set off in the balance sheet CU'000	Net amounts presented in the balance sheet CU'000	Amounts subject to master netting arrangements CU'000	Financial instrument collateral CU'000	Net amount CU'000
<b>2018</b>						
<b>Financial assets</b>						
Cash and cash equivalents (c)	57,098	-	57,098	-	(24,678)	32,420
Trade receivables (a)(i),(c)	16,782	(999)	15,783	-	(10,410)	5,373
Financial assets at FVPL (c)	11,300	-	11,300	-	(11,300)	-
Other financial assets (a)(ii)	1,000	(1,000)	-	-	-	-
Derivative financial instruments (b),(c)	2,162	-	2,162	(308)	(1,088)	766
<b>Total</b>	<b>88,342</b>	<b>(1,999)</b>	<b>86,343</b>	<b>(308)</b>	<b>(47,476)</b>	<b>38,559</b>
<b>Financial liabilities</b>						
Trade payables (a)(i)	10,999	(999)	10,000	-	-	10,000
Borrowings (a)(ii),(c)	101,909	(1,000)	100,909	-	(47,476)	53,433
Derivative financial instruments (b)	1,376	-	1,376	(308)	-	1,068
<b>Total</b>	<b>114,284</b>	<b>(1,999)</b>	<b>112,285</b>	<b>(308)</b>	<b>(47,476)</b>	<b>64,501</b>
<b>2017</b>						
<b>Financial assets</b>						
Cash and cash equivalents (c)	31,268	-	31,268	-	(11,154)	20,114
Trade receivables (a)(i),(c)	8,720	(450)	8,270	-	(6,542)	1,728
Financial assets at FVPL (c)	10,915	-	10,915	-	(10,915)	-
Other financial assets (a)(ii)	1,000	(1,000)	-	-	-	-
Derivative financial instruments (b),(c)	2,129	-	2,129	(621)	(640)	868
<b>Total</b>	<b>54,032</b>	<b>(1,450)</b>	<b>52,582</b>	<b>(621)</b>	<b>(29,251)</b>	<b>22,710</b>
<b>Financial liabilities</b>						
Trade payables (a)(i)	8,681	(450)	8,231	-	-	8,231
Borrowings (a)(ii),(c)	89,080	(1,000)	88,080	-	(29,251)	58,829
Derivative financial instruments (b)	1,398	-	1,398	(621)	-	777
<b>Total</b>	<b>99,159</b>	<b>(1,450)</b>	<b>97,709</b>	<b>(621)</b>	<b>(29,251)</b>	<b>67,837</b>

### 23(a) Offsetting arrangements

#### (i) Trade receivables and payables

PFRS7(13B)

VALUE PFRS Manufacturing Limited gives volume-based rebates to selected wholesalers. Under the terms of the supply agreements, the amounts payable by VALUE PFRS Manufacturing Limited are offset against receivables from the wholesalers and only the net amounts are settled. The relevant amounts have therefore been presented net in the balance sheet.

#### (ii) Borrowings

PFRS7(13B)

Value PFRS Plc is required to maintain cash on deposit of CU1,000,000 in respect of certain borrowings. The cash cannot be withdrawn or used by the company for liquidity purposes whilst the borrowing is outstanding. Upon maturity of the borrowing, the company and the lender intend to net settle. As a result, Value PFRS Plc's borrowings have been presented net of the cash on deposit, as the requirements under PFRS to offset have been met.

**23(b) Master netting arrangements – not currently enforceable <sup>5</sup>**

PFRS7(13E),(B50)

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As Value PFRS Plc does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

**23(c) Collateral against borrowings <sup>6</sup>**

PFRS7(13C)

Value PFRS Plc has pledged financial instruments as collateral against a number of its borrowings. Refer to [note 24](#) for further information on financial and non-financial collateral pledged as security against borrowings.

**Offsetting financial assets and financial liabilities**

**Scope**

PFRS7(13A),(B40)

1. Because of the broad scope of the offsetting requirements, the disclosures are relevant not only to financial institutions but also corporate entities.

PAS32(50)

2. The offsetting disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with paragraph 42 of PAS 32. While there is no definition of “master netting arrangement”, a master netting arrangement will commonly:

- (a) provide for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract
- (b) be used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations, and
- (c) create a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business.

PFRS7(B41)

3. The offsetting disclosures do not apply to arrangements, such as:

- (a) financial instruments with only non-financial collateral agreements
- (b) financial instruments with financial collateral agreements but no other rights of set-off, and
- (c) loans and customer deposits with the same financial institution, unless they are set off in the balance sheet.

**Location of disclosures**

PFRS7(13F)

4. Where the disclosures are provided in more than one note to the financial statements, cross references between the notes shall be included. Entities with significant offsetting arrangements should consider including this information more prominently, for example together with the information about financial risk management or as part of their financial assets/financial liabilities disclosures.

**Master netting without offsetting**

PFRS7(36)(b)

5. An entity may have entered into one or more master netting arrangements that serve to mitigate its exposure to credit loss but do not meet the criteria for offsetting. When a master netting arrangement significantly reduces the credit risk associated with financial assets not offset against financial liabilities with the same counterparty, the entity must provide additional information concerning the effect of the arrangement.

**Collateral arrangements**

PFRS7(13C)(d),(B41)

6. Where an entity has pledged financial instruments (including cash) as collateral, this is only required to be disclosed as part of the offsetting disclosures where there are other set off arrangements currently in place in relation to the same instrument(s). That is, disclosure is not required where the only potential effect of the set off relates to a collateral agreement. Value PFRS Plc illustrates an example where cash has been set off against borrowings held by the entity. As a result, it is required to disclose other financial instrument collateral provided in relation to this borrowing.



## Offsetting financial assets and financial liabilities

### Cash pooling arrangements

PAS32(42)

7. Some groups have cash pooling arrangements in place whereby cash surpluses and overdrafts residing in an entity's or group's various bank accounts are pooled together to create a net surplus or overdraft. The PFRS Interpretations Committee considered these arrangements in April 2017 and concluded that positive cash balances and overdrafts cannot be offset to the extent that the entity does not intend to settle the period end balances on a net basis. Some arrangements are unlikely to satisfy the offsetting requirements in PAS 32 unless the balances are settled or transferred into a netting account as at the reporting date.

## 24 Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Notes	2018 CU'000	2017 CU'000
<b>Current</b>			
Transferred receivables		3,250	-
<i>Floating charge</i>			
PFRS7(14)(a) Cash and cash equivalents	7(e)	24,678	11,154
PFRS7(14)(a) Receivables	7(a)	10,410	6,542
PFRS7(14)(a) Financial assets at fair value through profit or loss	7(d)	11,300	10,915
PFRS7(14)(a) Derivative financial instruments	12(a)	1,088	640
Total current assets pledged as security		50,726	29,251
<b>Non-current</b>			
<i>First mortgage</i>			
PAS16(74)(a) Freehold land and buildings	8(a)	24,950	23,640
PAS40(75)(g) Investment properties	8(b)	13,300	10,050
		38,250	33,690
<i>Finance lease</i>			
PAS16(74)(a) Plant and equipment	8(a)	2,750	2,950
<i>Floating charge</i>			
PFRS7(14)(a) Financial assets at amortized cost (2017: Receivables)	7(a)	2,700	700
PFRS7(14)(a) Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)	7(c)	6,782	8,228
PFRS7(14)(a) Financial assets at fair value through profit or loss	7(d)	1,200	-
PFRS7(14)(a) Derivative financial instruments	12(a)	308	712
PAS16(74)(a) Plant and equipment	8(a)	6,150	4,100
		17,140	13,740
Total non-current assets pledged as security		58,140	50,380
Total assets pledged as security		108,866	79,631

## 25 Summary of significant accounting policies <sup>1-5,15,16</sup>

PAS1(117)

PAS1(112)(a),(b)  
(51)(b)

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Value PFRS Plc and its subsidiaries.

PAS1(112)(a),(117)

### 25(a) Basis of preparation

#### (i) Compliance with PFRS

PAS1(16)

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

#### (ii) Historical cost convention

PAS1(117)(a)

The financial statements have been prepared on a historical cost basis, except for the following:

- **certain financial** assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less **costs to sell**, and
- defined benefit pension plans – plan assets measured at fair value.

#### (iii) New and amended standards adopted by the group <sup>4-6</sup>

Revised requirements

IAS8(28)

The group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

- PFRS 9 *Financial Instruments*
- PFRS 15 *Revenue from Contracts with Customers*

The group had to change its accounting policies and make certain retrospective adjustments following the adoption of PFRS 9 and PFRS 15. This is disclosed in [note 26](#).

**[OTHER AMENDMENTS/INTERPRETATIONS THAT COULD HAVE AN IMPACT ON THE COMPANY'S ACCOUNTING POLICIES - NOTE: DISCLOSURE MUST BE TAILORED AS APPLICABLE]**

Title	Key requirements	Effective Date	Impact
<i>Classification and Measurement of Share-based Payment Transactions – Amendments to PFRS 2 Share-based payment</i>	<i>The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in PFRS 2.</i>	January 1, 2018	<i>[INCLUDE DISCUSSION OF IMPACT]</i>
<i>Transfers of Investment Property – Amendments to PAS 40</i>	<i>The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.</i>	January 1, 2018	<i>[INCLUDE DISCUSSION OF IMPACT]</i>
<i>Philippine Interpretation IFRIC 22 -Foreign Currency Transactions and Advance Consideration</i>	<i>The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.</i>	January 1, 2018	<i>[INCLUDE DISCUSSION OF IMPACT]</i>
<i>Measurement at fair value through profit or loss – Amendments to PAS 28</i>	<i>The amendment clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.</i>	January 1, 2018	<i>[INCLUDE DISCUSSION OF IMPACT]</i>

IAS8(30)

*(iv) New standards and interpretations not yet adopted 7-9*

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

**NOTE: DISCLOSURE MUST BE TAILORED AS APPLICABLE]**

Title	Key requirements	Effective Date	Impact
PFRS 6, Leases	PFRS 16 will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases was removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.	1 Jan 2019	<p><b>[INCLUDE DISCUSSION OF IMPACT]</b></p> <p><u>Example:</u> The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in PFRS 16. The standard will affect primarily the accounting for the group's operating leases.</p> <p>As at the reporting date, the group has non-cancellable operating lease commitments of CU7,090,000, see note 18. Of these commitments, approximately CU430,000 relate to short-term leases and \$1,300,000 to low value leases which will both be recognized on a straight-line basis as expense in profit or loss.</p> <p>For the remaining lease commitments the group expects to recognize right-of-use assets of approximately CU3,500,000 on January 1, 2019, lease liabilities of CU4,250,000 (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and deferred tax assets of CU225,000. Overall net assets will be approximately CU525,000 lower, and net current assets will be CU1,500,000 lower due to the presentation of a portion of the liability as a current liability.</p> <p>The group expects that net profit after tax will decrease by approximately CU150,000 for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately CU300,000, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure.</p> <p>Operating cash flows will increase and financing cash flows decrease by approximately CU700,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.</p> <p>The group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.</p> <p>The group will apply the standard from its mandatory adoption date of January 1, 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).</p>

<p><i>PFRS 17 Insurance Contracts</i></p>	<p><i>PFRS 17 was issued in May 2017 as replacement for PFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:</i></p> <ul style="list-style-type: none"> <li><i>• discounted probability-weighted cash flows</i></li> <li><i>• an explicit risk adjustment, and</i></li> <li><i>• a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period.</i></li> </ul> <p><i>The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9.</i></p> <p><i>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.</i></p> <p><i>There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.</i></p> <p><i>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</i></p>	<p>January 1, 2021</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>
<p><i>Philippine Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments</i></p>	<p><i>The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:</i></p> <ul style="list-style-type: none"> <li><i>• how to determine the appropriate unit of account,</i></li> <li><i>• that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored,</i></li> <li><i>• that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment,</i></li> <li><i>• that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and</i></li> <li><i>• that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.</i></li> </ul>	<p>January 1, 2019</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>

<p><i>Prepayment Features with Negative Compensation – Amendments to PFRS 9 Financial Instruments</i></p>	<p><i>The narrow-scope amendments made to PFRS 9 Financial Instruments enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.</i></p> <p><i>To qualify for amortized cost measurement, the negative compensation must be ‘reasonable compensation for early termination of the contract’ and the asset must be held within a ‘held to collect’ business model.</i></p>	<p>January 1, 2019</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>
<p><i>Long-term Interests in Associates and Joint Ventures – Amendments to PAS 28 Investments in Associates and Joint Ventures</i></p>	<p><i>The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under PFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in PAS 28.</i></p>	<p>January 1, 2019</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>
<p><i>Annual Improvements to PFRS Standards 2015-2017 Cycle</i></p>	<p><i>This covers the following:</i></p> <ul style="list-style-type: none"> <li><i>• PFRS 3 Business Combinations - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.</i></li> <li><i>• PFRS 11 Joint arrangements - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.</i></li> <li><i>• PAS 23 Borrowing costs - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.</i></li> <li><i>• PAS 12 Income taxes- clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits were recognized.</i></li> </ul>	<p>January 1, 2019</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>
<p><i>Plan Amendment, Curtailment or Settlement – Amendments to PAS 19 Employee benefits</i></p>	<p><i>The amendments to PAS 19 clarified that if a plan amendment, curtailment or settlement occurs, the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement must be calculated using the updated assumptions from the date of the change. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.</i></p>	<p>January 1, 2019</p>	<p><i>[INCLUDE DISCUSSION OF IMPACT]</i></p>

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

PAS1(119)

## **25(b) Principles of consolidation and equity accounting**

### **(i) Subsidiaries**

PFRS10(5)-(7),(20),(25)

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

PFRS3(4)

The acquisition method of accounting is used to account for business combinations by the group (refer to [note 25\(i\)](#)).

PFRS10(19),(B86)(c)

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

PFRS10(22)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.



PAS1(119)	<b>25(b) Principles of consolidation and equity accounting</b>
PAS1(119)	<i>(ii) Associates</i>
PAS28(5),(16)	Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognized at cost.
	<i>(iii) Joint arrangements</i>
PFRS11(14)	Under PFRS 11 <i>Joint Arrangements</i> investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Value PFRS Plc has both joint operations and joint ventures.
	Joint operations
PFRS11(20)	Value PFRS Plc recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in <a href="#">note 16(d)</a> .
	Joint ventures
PFRS11(24) PAS28(10)	Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognized at cost in the consolidated balance sheet.
	<i>(iv) Equity method</i>
PAS28(10)	Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.
PAS28(38),(39)	When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.
PAS28(28),(30)	Unrealized gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.
PAS28(42)	The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in <a href="#">note 25(j)</a> .
	<i>(v) Changes in ownership interests</i>
PFRS10(23)(B96)	The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of Value PFRS Plc.
PFRS10(25),(B97)-(B99) PAS28(22)	When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.
PAS28(25)	If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.



PAS1(119)	<b>25(c) Segment reporting</b>
PFRS8(5),(7)	Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.  The board of Value PFRS Plc has appointed a strategic steering committee which assesses the financial performance and position of the group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.
PAS1(119),(120)	<b>25(d) Foreign currency translation</b>
PAS1(119)	<i>(i) Functional and presentation currency</i>
PAS21(9),(17),(18) PAS1(51)(d)	Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Oneland currency units (CU), which is Value PFRS Plc's functional and presentation currency.
PAS1(119)	<i>(ii) Transactions and balances</i>
PAS21(21),(28), (32) PFRS9(6.5.11)(b),(6.5.13)(a)	Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.  Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within <a href="#">other gains/(losses)</a> .
PAS21(23)(c) PAS21(30)	Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as <a href="#">at fair value through other comprehensive income</a> are recognized in other comprehensive income.
PAS1(119)	<i>(iii) Group companies</i>
PAS21(39)	The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
PAS21(39)	<ul style="list-style-type: none"> <li>• assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet</li> <li>• income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and</li> <li>• all resulting exchange differences are recognized in other comprehensive income.</li> </ul>
PFRS9(6.5.13)	On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.
PAS21(47)	Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.
PAS1(119)	<b>25(e) Revenue recognition</b>
Revised illustration	The accounting policies for the <a href="#">group's revenue from contracts with customers</a> are explained in <a href="#">note 3</a> .
PAS1(119)	<b>25(f) Government grants</b>
PAS20(7),(39)(a)	Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. <a href="#">Note 5</a> provides further information on how the group accounts for government grants.

PAS1(119),(120)	<b>25(g) Income tax</b>
PAS12(46)	The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.
PAS12(12),(46)	The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the <a href="#">company and its</a> subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.
PAS12(15),(24),(47)	Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
PAS12(51C)	The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.
PAS12(24),(34)	Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.
PAS12(39),(44)	Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.
PAS12(71),(74)	Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
PAS12(61A)	Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.
	<i>(i) Investment allowances and similar tax incentives</i>
	Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Oneland or other investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognized for unclaimed tax credits that are carried forward as deferred tax assets.
PAS1(119)	<b>25(h) Leases</b>
PAS17(20),(25),(27)	Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases ( <a href="#">note 8(a)</a> ). Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.
PAS17(33) SIC15(5)	Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases ( <a href="#">note 18</a> ). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.
PAS17(49),(50)	Lease income from operating leases where the group is a lessor is recognized in income on a straight-line basis over the lease term ( <a href="#">note 8(b)</a> ). The respective leased assets are included in the balance sheet based on their nature.

PAS1(119),(120)

**25(i) Business combinations**PFRS3(5),(37),(39),  
(53),(18),(19)

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

PFRS3(32),(34)

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

PFRS3(42)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

PAS1(119)

**25(j) Impairment of assets**

PAS36(9),(10)

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

PAS1(119)

**25(k) Cash and cash equivalents**

IAS7(6),(8),(46)

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

PAS1(119)

**25(l) Trade receivables**

PFRS7(21)

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, [less loss allowance](#). See [note 7\(a\)](#) for further information about the group's accounting for trade receivables and [note 12\(c\)](#) for a description of the group's impairment policies.

PAS1(119)	<b>25(m) Inventories</b>
PAS1(119)	<i>(i) Raw materials and stores, work in progress and finished goods</i>
PAS2(9),(10),(25), (36)(a)	Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
PFRS9(6.5.11)(d)(i)	
PAS1(119)	<i>(ii) Land held for resale</i>
PAS2(9),(10),(23), (36)(a) PAS23(8),(22)	Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.
PAS1(119)	<b>25(n) Non-current assets (or disposal groups) held for sale and discontinued operations</b>
PFRS5(6),(15)	Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.
PFRS5(20)-(22)	An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.
PFRS5(25)	Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.
PFRS5(38)	Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.
PFRS5(31),(32), (33)(a)	A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

### 25(o) Investments and other financial assets

<b>New requirements</b>	<i>(i) Classification</i>
PFRS9(4.1.1)	From January 1, 2018, the group classifies its financial assets in the following measurement categories: <ul style="list-style-type: none"> <li>those to be measured subsequently at fair value (either through OCI or through profit or loss), and</li> <li>those to be measured at amortized cost.</li> </ul> <p>The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.</p>
PFRS9(4.1.4),(5.7.1)	For assets measured at fair value, gains and losses will either be recorded in profit or loss or <b>OCI</b> . For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at <b>fair value through other comprehensive income (FVOCI)</b> .
PFRS9(4.4.1)	The group reclassifies debt investments when and only when its business model for managing those assets changes.

## 25(o) Investments and other financial assets

PFRS7(21),(B5)(c)  
PFRS9(3.1.1),(3.2.2),  
(B3.1.3)-(B3.1.6)

### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

#### New requirements

### (iii) Measurement

PFRS9(5.1.1)

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

PFRS9(4.3.2),(4.3.3)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### Debt instruments

PFRS9(5.1.1)

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

PFRS9(4.1.2)

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

PFRS9(4.1.1),(4.1.2A),  
(5.7.10)

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

PFRS9(4.1.1),(4.1.4)

- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

#### Equity instruments

PFRS9(5.7.5),(5.7.6)

The group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the group's right to receive payments is established.

PFRS9(5.7.1)

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### (iv) Impairment

From January 1, 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 12(c) for further details.



**25(o) Investments and other financial assets**

## Revised illustration

*(v) Accounting policies applied until December 31, 2017*

The group has applied PFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

*Classification*

PAS39(45)

Until December 31, 2017, the group classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

*Reclassification*

PAS39(50)-(50E)

The group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

PAS39(50F)

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

*Subsequent measurement*<sup>10</sup>

PFRS7(21)

PAS39(43)

The measurement at initial recognition did not change on adoption of PFRS 9, see description above.

PAS39(46)(a),(b)

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortized cost using the effective interest method.

PAS39(46),

(55)(a),(b)

PFRS7(21),(B5)(e)

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognized as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses)
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security were recognized in profit or loss and other changes in the carrying amount were recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.<sup>11</sup>

PFRS13(91)

Details on how the fair value of financial instruments is determined are disclosed in note 7(h).

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognized in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

*Impairment*

PAS39(58),(59)

The group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

**25(o) Investments and other financial assets***Assets carried at amortized cost*

PAS39(63) For loans and receivables, the amount of the loss **was** measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that **had** not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset **was** reduced and the amount of the loss **was** recognized in profit or loss. If a loan or held-to-maturity investment **had** a variable interest rate, the discount rate for measuring any impairment loss **was** the current effective interest rate determined under the contract. As a practical expedient, the group **could** measure impairment on the basis of an instrument's fair value using an observable market price.

PAS39(65) If, in a subsequent period, the amount of the impairment loss **decreased** and the decrease **could** be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss **was** recognized in profit or loss.

Impairment testing of trade receivables is described in **note 12(c)**.

*Assets classified as available-for-sale*

PAS39(67)-(70) If there **was** objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – **was** removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss **were** not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale **increased** in a subsequent period and the increase **could** be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss **was** reversed through profit or loss.

PAS1(119)  
PFRS7(21)

PFRS9(5.1.1),(5.2.1)(c),  
(5.2.3)

PFRS9(6.5.2)

**25(p) Derivatives and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

PFRS9(6.4.1)(b)  
Revised illustration

**At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The group documents its risk management objective and strategy for undertaking its hedge transactions.**

The fair values of derivative financial instruments **designated in hedge relationships** are disclosed in **note 7(h)**. Movements in the hedging reserve in shareholders' equity are shown in **note 9(c)**. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

New requirements

PFRS9(6.5.11)

*Cash flow hedges that qualify for hedge accounting*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within **equity**. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within **other gains/(losses)**.

PFRS9(6.5.15)

When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the **options** as the hedging instrument. **Until December 31, 2017, the group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL.**



PAS1(119) PFRS7(21)	<b>25(p) Derivatives and hedging activities</b>
PFRS9(6.5.15)(c)	Gains or losses relating to the effective portion of the change in intrinsic value of the <b>options</b> are recognized in the cash flow hedge reserve within equity. The changes in the time value of the <b>options</b> that relate to the hedged item ('aligned time value') are recognized within OCI in the costs of hedging reserve within equity.
PFRS9(6.5.16)	When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity.  Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:
PFRS9(6.5.15) PFRS9(6.5.16)	<ul style="list-style-type: none"> <li>• Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).</li> </ul>
PFRS9(6.5.11)(d)(i)	<ul style="list-style-type: none"> <li>• The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within finance cost <b>at the same time as the interest expense on the hedged borrowings</b>.</li> </ul>
PFRS9(6.5.12)	When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.
PAS1(119)	<b>(ii) Net investment hedges</b>
PFRS9(6.5.13)	Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.  Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss within other <b>gains/(losses)</b> . <sup>11</sup>  Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.
PAS1(119)	<b>(iii) Derivatives that do not qualify for hedge accounting</b>
PFRS9(5.7.1)	Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in other <b>gains/(losses)</b> . <sup>11</sup>
PAS1(119) PFRS7(21)	<b>25(q) Financial guarantee contracts</b>
PFRS9(4.2.1)(c) Revised requirements	Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of <ul style="list-style-type: none"> <li>• the amount determined in accordance with the expected credit loss model under PFRS 9 <i>Financial Instruments</i> and</li> <li>• the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15 <i>Revenue from Contracts with Customers</i>.</li> </ul> <p>The fair value of financial guarantees is determined based on the present value of the difference in <b>cash flows</b> between the contractual payments <b>required</b> under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.</p> <p>Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.</p>

PAS1(119)	<b>25(r) Property, plant and equipment</b>
PAS16(73)(a),(35)(b),(17)	The group's accounting policy for land and buildings is explained in <a href="#">note 8(a)</a> . All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.
PFRS9(6.5.11)(d)(i)	
PAS16(12)	Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.
PAS16(39)	Increases in the carrying amounts arising on revaluation of land and buildings are recognized, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognized in profit or loss, the increase is first recognized in profit or loss. Decreases that reverse previous increases of the same asset are first recognized in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.
PAS16(50),(73)(b)	The depreciation methods and periods used by the group are disclosed in <a href="#">note 8(a)</a> .
PAS16(51)	The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
PAS36(59)	An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount ( <a href="#">note 25(j)</a> ).
PAS16(68),(71),(41)	Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.
PAS1(119)	<b>25(s) Investment properties</b>
PAS40(75)(a)	The group's accounting policy for investment properties is disclosed in <a href="#">note 8(b)</a> .
PAS1(119)	<b>25(t) Intangible assets</b>
PAS1(119)	<i>(i) Goodwill</i>
PFRS3(32) PAS36(10)	Goodwill is measured as described in <a href="#">note 25(i)</a> . Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
PAS36(80)	Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments ( <a href="#">note 2</a> ).
PAS1(119)	<b>25(t) Intangible assets</b>
PAS1(119)	<i>(ii) Trademarks, licences and customer contracts</i>
PAS38(74),(97), (118)(a),(b)	Separately acquired trademarks and licences are shown at historical cost. Trademarks, licenses and customer contracts acquired in a business combination are recognized at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses.

PAS1(119)	<b>25(t) Intangible assets</b>
PAS1(119)	<i>(iii) Software</i>
PAS38(57),(66),(74), (97),(118)(a),(b)	<p>Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:</p> <ul style="list-style-type: none"> <li>• it is technically feasible to complete the software so that it will be available for use</li> <li>• management intends to complete the software and use or sell it</li> <li>• there is an ability to use or sell the software</li> <li>• it can be demonstrated how the software will generate probable future economic benefits</li> <li>• adequate technical, financial and other resources to complete the development and to use or sell the software are available, and</li> <li>• the expenditure attributable to the software during its development can be reliably measured.</li> </ul> <p>Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.</p> <p>Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.</p>
PAS1(119)	<i>(iv) Research and development</i>
PAS38(54),(71)	<p>Research expenditure and development expenditure that do not meet the criteria in (iii) above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.</p>
PAS1(119)	<i>(v) Amortization methods and periods</i>
	<p>Refer to <b>note 8(c)</b> for details about amortization methods and periods used by the group for intangible assets.</p>
PAS1(119)	<b>25(u) Trade and other payables</b>
PFRS7(21) PFRS9(5.1.1)	<p>These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.</p>
PAS1(119)	<b>25(v) Borrowings</b>
PFRS7(21) PFRS9(5.1.1),(4.2.1)	<p>Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.</p>
PAS32(18)	<p>Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in profit or loss as finance costs.</p>
PAS32(18),(28), (AG31)(a)	<p>The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.</p>
PFRS9(3.3.1),(3.3.3)	<p>Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.</p>

PAS1(119)	<b>25(v) Borrowings</b>
IFRIC19(9)	Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.
PAS1(69)	Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.
PAS1(119) PAS23(8)	<b>25(w) Borrowing costs</b>
	General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.
	Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.
	Other borrowing costs are expensed in the period in which they are incurred.
PAS1(119)	<b>25(x) Provisions</b>
PAS37(14),(24), (63)	Provisions for legal claims, service warranties and make good obligations are recognized when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.
	Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
PAS37(36),(45), (47),(60)	Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.
PAS1(119)	<b>25(y) Employee benefits</b>
	<i>(i) Short-term obligations <sup>12</sup></i>
PAS19(11),(13)	Liabilities for wages and salaries, including non-monetary benefits, <a href="#">annual leave</a> and accumulating sick leave 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 recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.
PAS19(8),(155),(156)	<i>(ii) Other long-term employee benefit obligations <sup>12</sup></i>
	<a href="#">In some countries, the group also has</a> liabilities for long service leave and annual leave <a href="#">that</a> are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. <a href="#">These obligations</a> are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognized in profit or loss.
PAS1(69)	The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

PAS1(119)	<p><b>25(y) Employee benefits</b></p> <p><i>(iii) Post-employment obligations</i></p> <p>The group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.</p> <p><i>Pension obligations</i></p>
PAS19(57),(67)	The liability or asset recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.
PAS19(83),(86)	The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.
PAS19(123)	The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.
PAS19(57)(d)	Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.
PAS19(103)	Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.
PAS19(51)	For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.
	<i>Other post-employment obligations</i>
PAS19(155)	Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.
PAS1(119)	<p><i>(iv) Share-based payments<sup>1 13</sup></i></p> <p>Share-based compensation benefits are provided to employees via the VALUE PFRS Employee Option Plan, an employee share scheme, the executive short-term incentive scheme and share appreciation rights. Information relating to these schemes is set out in <a href="#">note 21</a>.</p> <p><i>Employee options</i></p>
PFRS2(15)(b),(19)	The fair value of options granted under the VALUE PFRS Employee Option Plan is recognized as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:
PFRS2(21)	- including any market performance conditions (eg the entity's share price)
PFRS2(20)	- excluding the impact of any service and non-market performance vesting conditions (eg profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
PFRS2(21A)	- including the impact of any non-vesting conditions (eg the requirement for employees to save or holdings shares for a specific period of time).
PFRS2(19)	The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to <a href="#">equity</a> .



PAS1(119)	<p><b>25(y) Employee benefits</b></p> <p>The Employee Option Plan is administered by the VALUE PFRS Employee Share Trust, which is consolidated in accordance with the principles in <a href="#">note 25(b)(i)</a>. When the options are exercised, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.</p> <p><i>Employee share scheme</i></p> <p>Under the employee share scheme, shares issued by the VALUE PFRS Employee Share Trust to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognized as an employee benefits expense with a corresponding increase in equity.</p>
PFRS2(15),(16),(19)	<p><i>Deferred shares</i></p> <p>The fair value of deferred shares granted to employees for nil consideration under the short-term incentive scheme is recognized as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognized in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognized in profit or loss and the share-based payment reserve.</p>
PFRS2(19)	<p>Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such shares are reversed effective the date of the forfeiture.</p> <p>The deferred shares are acquired by the VALUE PFRS Employee Share Trust on market at the grant date and are held as treasury shares until such time as they are vested (see <a href="#">note 25(z)</a> below).</p>
PFRS2(30)	<p><i>Share appreciation rights</i></p> <p>Liabilities for the group's share appreciation rights are recognized as employee benefit expense over the relevant service period. The liabilities are remeasured to fair value at each reporting date and are presented as employee benefit obligations in the balance sheet.</p>
PAS1(119)	<p><b>(v) Profit-sharing and bonus plans</b></p>
PAS19(19)	<p>The group recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.</p>
PAS1(119)	<p><b>(vi) Termination benefits</b></p>
PAS19(165),(166)	<p>Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.</p>
PAS1(41)	<p><b>(vii) Reclassification of employee benefit obligations <sup>14</sup></b></p> <p>The group's liabilities for accumulating sick leave and other long-term employee benefit obligations were previously presented as provisions in the balance sheet. However, management considers it to be more relevant if all employee benefit obligations are presented in one separate line item in the balance sheet. Prior year comparatives as at December 31, 2017 have been restated by reclassifying CU470,000 from current provisions to current employee benefit obligations and CU2,270,000 from non-current provisions to non-current employee benefit obligations (CU440,000 and CU2,196,000 respectively as at January 1, 2017).</p>

PAS1(119)	<b>25(z) Contributed equity</b>
PAS32(18)(a)	Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (note 7(g)).
PAS32(35),(37)	Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.
PAS32(33)	Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Value PFRS Plc as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Value PFRS Plc.
PAS32(33)	Shares held by the VALUE PFRS Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.
PAS1(119)	<b>25(aa) Dividends</b>
PAS10(12),(13)	Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.
PAS1(119)	<b>25(ab) Earnings per share</b>
	<i>(i) Basic earnings per share</i>
PAS33(10)	Basic earnings per share is calculated by dividing: <ul style="list-style-type: none"> <li>• the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares</li> <li>• by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 9(b)).</li> </ul>
	<i>(ii) Diluted earnings per share</i>
PAS33(30)	Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account: <ul style="list-style-type: none"> <li>• the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and</li> <li>• the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.</li> </ul>
PAS1(119)	<b>25(ac) Rounding of amounts</b>
PAS1(51)(e)	All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.



## Summary of significant accounting policies

### Whether to disclose an accounting policy

PAS1(119)

1. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in PFRS.
2. Some PFRS specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, PAS 16 *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment and PFRS 3 *Business Combinations* requires disclosure of the measurement basis used for non-controlling interest acquired during the period.
3. In this publication, we have disclosed policies that are specific to the entity and relevant for an understanding of individual line items in the financial statements together with the notes for those line items. Other, more general policies are disclosed in [note 25](#). Where permitted by local requirements, entities could consider moving these non-entity specific policies into an Appendix.

### Change in accounting policy – new and revised accounting standards

IAS8(28)

4. Where an entity has changed any of its accounting policies either as a result of a new or revised accounting standard or voluntarily it must explain the change in its notes. Additional disclosures are required where a policy is changed retrospectively, see [note 26](#) for further information.

IAS8(28)

5. New or revised accounting standards and interpretations only need to be disclosed if they resulted in a change in accounting policy which had an impact in the current year or could impact on future periods. There is no need to disclose pronouncements that did not have any impact on the entity's accounting policies and amounts recognized in the [financial statements](#).

### Early adoption of accounting standards

6. Value PFRS Plc does not generally adopt any standards or amendments to standards early, unless the amendments are only clarifying existing practice and do not introduce any major changes ([eg the amendments made as a result of the Annual Improvements to PFRS Standards 2015-2017 Cycle](#)). The impact of standards and interpretations that have not been early adopted is disclosed in [note 25\(a\)\(iv\)](#).

### Standards and interpretations issued but not yet effective

IAS8(30)

7. Entities must explain if there are any accounting standards and interpretations which are not yet applied but are expected to have a material effect on the entity in the current period and on foreseeable future [transactions \(eg PFRS 16 Leases\)](#). Where a pronouncement introduces a new accounting option that was not previously available, the entity should explain whether and/or how it expects to use the option in the future.
8. In our view, where the expected impact is material, entities should make these disclosures even if the new accounting pronouncement is issued after the balance sheet date but before the date of authorisation of the financial statements.
9. The illustrative accounting policy note on [page 172](#) only discusses [the standard that is most relevant for Value PFRS Plc and that has not been early adopted](#). It makes certain assumptions regarding materiality that may not apply to all entities alike and will need to be adapted to the individual circumstances of an entity. For a complete listing of standards and interpretations, please refer to our [inform.pwc.com](http://inform.pwc.com).

## Summary of significant accounting policies

### Financial instruments

PFRS7(21),(B5)

10. Disclosure of the measurement bases of financial instruments may include:

- (a) the nature of financial assets and financial liabilities that have been designated at fair value through profit or loss (FVPL), the criteria for designating them at FVPL and how the entity has satisfied the conditions in PFRS 9 for such designation
- (b) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date, and
- (c) how net gains or net losses on each category of financial instruments are determined (eg whether the net gains or losses on items at fair value through profit or loss include interest or dividend income).

*Presentation of fair value gains and losses on financial assets and derivatives*

11. Value PFRS Plc's accounting policies for financial assets and derivatives (notes 25(o) and (p)) specify where in the statement of comprehensive income (or statement of profit or loss, as applicable) the relevant fair value gains or losses are presented. However, PFRS 9 does not prescribe the presentation in the statement of comprehensive income. Other ways of presenting the fair value gains and losses may be equally appropriate. For example, fair value changes on interest rate hedges or the ineffective portion of an interest rate hedge may be presented within other expenses or other gains/(losses) rather than in finance cost.

### Employee benefits

*Presentation and measurement of annual leave obligations*

12. Value PFRS Plc has presented its obligation for accrued annual leave within current employee benefit obligations. However, it may be equally appropriate to present these amounts either as provisions (if the timing and/or amount of the future payments is uncertain such that they satisfy the definition of 'provision' in PAS 37), or as other payables.

PAS19(8),(BC16)-(BC21)

For measurement purposes, we have assumed that Value PFRS Plc has both, annual leave obligations that are classified as short-term benefits and those that are classified as other long-term benefits under the principles in PAS 19. The appropriate treatment will depend on the individual facts and circumstances and the employment regulations in the respective countries. To be classified and measured as short-term benefit, the obligations must be expected to be settled wholly within 12 months after the end of the annual reporting period in which the employee has rendered the related services. The IASB has clarified that this must be assessed for the annual leave obligation as a whole and not on an employee-by-employee basis.

*Share-based payments – expense recognition and grant date*

PFRS2(IG4)

13. Share-based payment expenses should be recognized over the period during which the employees provide the relevant services. This period may commence prior to the grant date. In this situation, the entity estimates the grant date fair value of the equity instruments for the purposes of recognising the services received during the period between service commencement date and grant date. Once the grant date has been established, the entity revises the earlier estimate so that the amounts recognized for services received is ultimately based on the grant date fair value of the equity instruments. The deferred shares awarded by Value PFRS Plc are an example where this is the case. They are expensed over three years and two months, being the period to which the bonus relates and the two subsequent years until the deferred shares vest.

### Reclassification

PAS1(41)

14. Where an entity has reclassified comparative amounts because of a change in presentation, it must disclose the nature and reason for the reclassification in the notes. To illustrate this disclosure, we have assumed in this publication that Value PFRS Plc has reclassified its employee obligations in the current year from provisions to a separate line item in the balance sheet.

## Summary of significant accounting policies

### Disclosures not illustrated: not applicable to Value PFRS Plc

15. The following requirements are not illustrated in this publication as they are not applicable to Value PFRS Plc:

	Issue not illustrated	Relevant disclosures or references
PFRS7(28) PFRS9(B5.1.2A)	Fair value determined using valuation technique - difference on initial recognition	Disclose (by class of financial instrument) the accounting policy for recognising that difference in profit or loss
PAS1(117) PFRS7(B5)(a),(aa)	Financial assets and liabilities designated at fair value through profit or loss (FVPL)	Disclose the nature of the financial assets or liabilities designated as at FVPL, the criteria for the designation and how the entity has satisfied the conditions for designation. See note 7 commentary paragraph 16 for illustrative disclosures.
PAS29(39)	Financial reporting in hyperinflationary economies	Disclose the fact that the financial statements and comparatives have been restated, which method was used (historical cost or current cost approach) and information about the identity and the level of the price index.

### Industry-specific disclosures

16. Appendix C provides an illustration and explanation of the disclosure requirements of PFRS 6 *Exploration for and Evaluation of Mineral Resources* and PAS 41 *Agriculture*. Further examples of industry-specific accounting policies and other relevant disclosures can be found in the following PwC publications:

- (a) *PFRS Illustrative Consolidated Financial Statements – Investment property*
- (b) *PFRS Illustrative Consolidated Financial Statements – Investment funds*
- (c) *PFRS Illustrative Consolidated Financial Statements – Private equity funds*
- (d) *PFRS 9 for banks – Illustrative disclosures*

## 26 Changes in accounting policies <sup>1-3,24,25</sup>

IAS8(28)

This note explains the impact of the adoption of PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers* on the group's financial statements.

New illustration  
New requirements

### 26(a) Impact on the financial statements <sup>20-23</sup>

IAS8(28)(b),(f),(g)

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in [note 26\(b\)](#) below, PFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at December 31, 2017, but are recognized in the opening balance sheet on January 1, 2018.

The following tables show the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

PAS12(81)(a)

	31 Dec 2017 As originally presented *	PFRS 9 CU'000	PFRS 15 CU'000	31 Dec 2017 Restated CU'000	PFRS 9 CU'000	January 1, 2018 Restated CU'000
<b>Balance sheet (extract)</b>						
<b>Non-current assets</b>						
Deferred tax assets	4,932	-	1	4,933	16	4,949
Other assets	-	-	520	520	-	520
Financial assets at fair value through other comprehensive income (FVOCI)	-	-	-	-	7,148	7,148
Financial assets at fair value through profit or loss (FVPL)	-	-	-	-	980	980
Other loans and receivables/ Financial assets at amortized cost	1,380	-	-	1,380	1,268	2,648
Derivative financial instruments	712	-	-	712	-	712
Held-to-maturity investments	1,175	-	-	1,175	(1,175)	-
Available-for-sale financial assets	8,228	-	-	8,228	(8,228)	-
<b>Current assets</b>						
Other current assets	-	-	513	513	-	513
Trade (and other) receivables	12,184	-	(3,914)	8,270	(15)	8,255
Contract assets	-	-	2,597	2,597	(30)	2,567
Other receivables/ Other financial assets at amortized cost	-	-	842	842	-	842
Financial assets at FVPL	10,915	-	-	10,915	-	10,915
Derivative financial instruments	1,417	-	-	1,417	-	1,417
Cash and cash equivalents	31,268	-	-	31,268	-	31,268
<b>Total assets</b>	<b>236,188</b>	<b>-</b>	<b>559</b>	<b>236,747</b>	<b>(36)</b>	<b>236,711</b>
<b>Non-current liabilities</b>						
Borrowings	79,330	-	-	79,330	465	79,795
Deferred tax liabilities	6,801	-	167	6,968	(139)	6,829
<b>Current liabilities</b>						
Trade and other payables	12,477	-	(754)	11,723	-	11,723
Contract liabilities	-	-	1,525	1,525	-	1,525
Derivative financial instruments	1,398	-	-	1,398	-	1,398
Provisions	1,437	-	(197)	1,240	-	1,240
Deferred revenue	570	-	(570)	-	-	-
<b>Total liabilities</b>	<b>119,134</b>	<b>-</b>	<b>171</b>	<b>119,305</b>	<b>326</b>	<b>119,631</b>
<b>Net assets</b>	<b>117,054</b>	<b>-</b>	<b>388</b>	<b>117,442</b>	<b>(362)</b>	<b>117,080</b>
Reserves	11,566	(54)	-	11,512	(70)	11,442
Retained earnings	36,373	54	388	36,815	(292)	36,523
<b>Total equity</b>	<b>117,054</b>	<b>-</b>	<b>388</b>	<b>117,442</b>	<b>(362)</b>	<b>117,080</b>

PAS12(81)(a)

\* amounts are after the error restatement disclosed in [note 11\(b\)](#)

New illustration  
New requirements

## 26(a) Impact on the financial statements

	31 Dec 2016 as originally presented CU'000 *	PFRS 9 CU'000	PFRS 15 CU'000	January 1, 2017 Restated CU'000
<b>Balance sheet (extract)</b>				
<b>Non-current assets</b>				
PAS12(81)(a) Deferred tax assets	3,642	-	12	3,654
Other loans and receivables	6,011	-	-	6,011
Available-for-sale financial assets	8,397	-	-	8,397
<b>Current assets</b>				
Other current assets	-	-	504	504
Trade (and other) receivables	8,243	-	(3,105)	5,138
Contract assets	-	-	1,897	1,897
Other receivables	-	-	783	783
Financial assets at FVPL	10,370	-	-	10,370
Derivative financial instruments	156	-	-	156
Cash and cash equivalents	25,193	-	-	25,193
<b>Total assets</b>	<b>205,913</b>	<b>-</b>	<b>91</b>	<b>206,004</b>
<b>Non-current liabilities</b>				
PAS12(81)(a) Deferred tax liabilities	4,508	-	24	4,532
<b>Current liabilities</b>				
Trade and other payables	12,930	-	74	13,004
Contract liabilities	-	-	655	655
Derivative financial instruments	445	-	-	445
Provisions	930	-	(200)	730
Deferred revenue	490	-	(490)	-
<b>Total liabilities</b>	<b>110,187</b>	<b>-</b>	<b>63</b>	<b>110,250</b>
<b>Net assets</b>	<b>95,726</b>	<b>-</b>	<b>28</b>	<b>95,754</b>
Reserves	7,311	(25)	-	7,286
Retained earnings	21,107	25	28	21,160
<b>Total equity</b>	<b>95,726</b>	<b>-</b>	<b>28</b>	<b>95,754</b>

\* amounts are after the error restatement disclosed in note 11(b)

## 26(a) Impact on the financial statements

Statement of profit or loss and other comprehensive income (extract) 2017	As originally presented * CU'000	PFRS 9 CU'000	PFRS 15 CU'000	Restated CU'000
Revenue	161,610	-	(6)	161,604
Cost of sales	(65,200)	41	-	(65,159)
Cost of providing services	(18,808)	-	520	(18,288)
<b>Gross profit</b>	<b>77,602</b>	<b>41</b>	<b>514</b>	<b>78,157</b>
Administrative expenses	(15,050)	545	-	(14,505)
Net impairment losses on financial and contract assets	-	(545)	-	(545)
<b>Operating profit</b>	<b>45,451</b>	<b>41</b>	<b>514</b>	<b>46,006</b>
<b>Profit before income tax</b>	<b>40,439</b>	<b>41</b>	<b>514</b>	<b>40,994</b>
Income tax expense	(11,821)	(12)	(154)	(11,987)
<b>Profit from continuing operations</b>	<b>28,618</b>	<b>29</b>	<b>360</b>	<b>29,007</b>
Profit from discontinuing operations	399	-	-	399
<b>Profit for the period</b>	<b>29,017</b>	<b>29</b>	<b>360</b>	<b>29,406</b>
Profit is attributable to:				
Owners of Value PFRS Plc	26,698	29	360	27,087
Non-controlling interests	2,319	-	-	2,319
	<b>29,017</b>	<b>29</b>	<b>360</b>	<b>29,406</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>				
Basic earnings per share	47.4	-	0.1	47.5
Diluted earnings per share	47.2	-	0.1	47.3
<b>Other comprehensive income (OCI)</b>				
<i>Items that may be reclassified to profit or loss</i>				
Changes in the fair value of available-for-sale financial assets	(830)	-	-	(830)
Gains on cash flow hedges	70	-	-	70
Costs of hedging	-	(77)	-	(77)
Hedging losses reclassified to profit or loss	(195)	-	-	(195)
Income tax relating to those items	281	23	-	304
<b>Other comprehensive income for the period, net of tax</b>	<b>3,554</b>	<b>(54)</b>	<b>-</b>	<b>3,500</b>
<b>Total comprehensive income for the period</b>	<b>32,571</b>	<b>(25)</b>	<b>360</b>	<b>32,906</b>
Total comprehensive income for the period is attributable to:				
Owners of Value PFRS Plc	29,995	(25)	360	30,330
Non-controlling interests	2,576	-	-	2,576
	<b>32,571</b>	<b>(25)</b>	<b>360</b>	<b>32,906</b>

\* amounts are after the error restatement disclosed in note 11(b)

New illustration  
New requirements

## 26(b) PFRS 9 *Financial Instruments* 4-13

PFRS 9 replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

IAS8(28)(a),(b),(d)

The adoption of PFRS 9 *Financial Instruments* from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. The new accounting policies are set out in [note 25\(o\) and \(p\)](#) above. In accordance with the transitional provisions in PFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting.

IAS8(28)(f)(i)

The total impact on the group's retained earnings as at January 1, 2018 and January 1, 2017 is as follows:

	Notes	2018 CU'000	2017 CU'000
<b>Closing retained earnings December 31 - PAS 39/PAS 18</b>		<b>36,373</b>	21,107
Hedge accounting	(ii)	<u>54</u>	<u>25</u>
<b>Restated retained earnings December 31</b>		<b>36,427</b>	21,132
Reclassify investments from available-for-sale to FVPL	(i)	70	-
Increase in provision for trade receivables and contract assets	(iii)	(45)	-
Increase in provision for debt investments at amortized cost	(iii)	(7)	-
Increase in provision for debt investments at FVOCI	(iii)	-	-
Increase in deferred tax assets relating to impairment provisions	(iii)	16	-
Increase in borrowings to recognize refinancing loss	(iv)	(465)	-
Reduction of deferred tax liabilities	(iv)	<u>139</u>	-
Adjustment to retained earnings from adoption of PFRS 9 on January 1, 2018		<u>(292)</u>	-
<b>Opening retained earnings January 1 - PFRS 9 (before restatement for PFRS 15)</b>		<b><u>36,135</u></b>	<b><u>21,132</u></b>

PAS28(28)(f)

Adjustments made to line items in the statement of profit or loss and the statement of other comprehensive income for the 2017 reporting period relate to:

	Notes	2017 CU'000
Decrease of cost of sales of goods	(ii)	41
Decrease of administrative expenses	*	545
Increase of net impairment losses on financial and contract assets	*	<u>(545)</u>
<b>Increase of operating profit</b>		<b>41</b>
Increase of income tax expense		<u>(12)</u>
<b>Increase of profit from continuing operations and profit for the period</b>		<b>29</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Costs of hedging	(ii)	(77)
Income tax relating to these items		<u>23</u>
<b>Net decrease in other comprehensive income for the period, net of tax</b>		<b><u>(54)</u></b>
<b>Net decrease in total comprehensive income for the period</b>		<b><u>(25)</u></b>

\* Reclassification of impairment losses on financial and contract assets required as a result of consequential changes made to PAS 1 *Presentation of Financial Statements*



New illustration  
New requirements

## 26(b) PFRS 9 Financial Instruments 4-13

### (i) Classification and measurement 4-6

On January 1, 2018 (the date of initial application of PFRS 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate PFRS 9 categories. The main effects resulting from this reclassification are as follows:

IAS8(28)(f)(i)  
PFRS9(42L)

Financial assets – January 1, 2018	Notes	FVPL CU'000	FVOCI (Available-for- sale 2017) CU'000	Held-to- maturity CU'000	Amortized cost (Receivables 2017) CU'000
<b>Closing balance December 31, 2017 – PAS 39</b>		<b>10,915</b>	<b>8,228</b>	<b>1,175</b>	<b>10,492</b>
* Reclassify investments from available-for-sale to FVPL	(a)	980	(980)	-	-
Reclassify listed corporate bonds from available-for-sale to amortized cost	(b)	-	(100)	-	100
Reclassify non-trading equities from available-for-sale to FVOCI*	(c)	-	-	-	-
Reclassify debentures and zero-coupon bonds from held-to-maturity to amortized cost*	(d)	-	-	(1,175)	1,175
Reclassify listed and unlisted debt securities from available-for-sale to FVOCI*	(e)	-	-	-	-
<b>Opening balance January 1, 2018 - PFRS 9</b>		<b>11,895</b>	<b>7,148</b>	<b>-</b>	<b>11,767</b>

\* The closing balances as at December 31, 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories. The financial assets at amortized cost are after reclassifications and adjustments arising from the adoption of PFRS 15 (see note 26(c) below) and include trade receivables and other financial assets at amortized cost, but exclude cash and cash equivalents. The opening balance as at January 1, 2018 differs from the amounts disclosed in note 26(a) because of the impairment adjustments (CU22,000).

The impact of these changes on the group's equity is as follows:

IAS8(28)(f)(i)  
PFRS9(42L)

	Notes	Effect on Afs reserves CU'000	Effect on FVOCI reserve CU'000	Effect on retained earnings* CU'000
<b>Opening balance – PAS 39</b>		<b>592</b>	<b>-</b>	<b>36,373</b>
Reclassify investments from available-for-sale to FVPL	(a)	(70)	-	70
Reclassify non-trading equities from available-for-sale to FVOCI	(c)	(302)	302	-
Reclassify listed and unlisted bonds from available-for-sale to FVOCI	(e)	(220)	220	-
<b>Total impact</b>		<b>(592)</b>	<b>522</b>	<b>70</b>
<b>Opening balance - PFRS 9</b>		<b>-</b>	<b>522</b>	<b>36,443</b>

\* Before adjustment for impairment. See note (iii) below.

#### (a) Reclassification from available-for-sale to FVPL

IAS8(28)(f)  
PFRS7(42J)

Certain investments in preference shares were reclassified from available-for-sale to financial assets at FVPL (CU980,000 as at January 1, 2018). They do not meet the PFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of CU70,000 were transferred from the available-for-sale financial assets reserve to retained earnings on January 1, 2018.

#### (b) Reclassification from available-for-sale to amortized cost

IAS8(28)(f)  
PFRS7(42J)

Certain investments in listed corporate bonds were reclassified from available-for-sale to amortized cost (CU100,000 as at January 1, 2018). At the date of initial application the group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount. The fair value of CU100,000 as at January 1, 2018 was equivalent to the amortized cost for these assets. There was no impact on retained earnings at January 1, 2018.

PFRS9(7.2.11)(b)

The fair value of the listed corporate bonds at December 31, 2018 is CU150,000 and a fair value gain of CU50,000 would have otherwise been recognized in OCI in the current reporting period, had the listed corporate bonds not been reclassified to amortized cost.

PFRS7(42M),(12D)

The effective interest rate determined on January 1, 2018 for these listed bonds is 2.6% and interest income of CU4,000 was recognized during the period to December 31, 2018.

**New illustration  
New requirements**

**26(b) PFRS 9 Financial Instruments**

(c) Equity investments previously classified as available-for-sale

IAS8(28)(f)  
PFRS7(42J)

The group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of CU5,748,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of CU302,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on January 1, 2018.

(d) Reclassification from held-to-maturity to amortized cost

IAS8(28)(f)  
PFRS9(4.1.2)  
PFRS7(42J)

Debenture assets and zero-coupon bonds that would have previously been classified as held-to-maturity are now classified at amortized cost. The group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of the other financial assets at January 1, 2018 to be recognized in opening retained earnings. An increase of CU7,000 in the loss allowance for these assets was recognized in opening retaining earnings for the period (tax impact CU2,000).

(e) Available-for-sale debt instruments classified as FVOCI

IAS8(28)(f)  
PFRS7(42J)

Listed and unlisted bonds were reclassified from available for sale to FVOCI, as the group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed and unlisted bonds with a fair value of CU1,400,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of CU220,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on January 1, 2018.

(f) Other financial assets

IAS8(28)(f)  
PFRS9(4.1.4)

Equity securities – held for trading are required to be held as FVPL under PFRS 9. There was no impact on the amounts recognized in relation to these assets from the adoption of PFRS 9.

(g) Reclassifications of financial instruments on adoption of PFRS 9

On the date of initial application, January 1, 2018, the financial instruments of the group were as follows, with any reclassifications noted:

PFRS7(42I)(a),(b)

	Measurement category		Carrying amount		
	Original (PAS 39)	New (PFRS 9)	Original CU'000	New CU'000	Difference * CU'000
<b>Non-current financial assets</b>					
Equity securities	Available for sale	FVOCI	5,748	5,748	-
Listed and unlisted debt securities	Available for sale	FVOCI	1,400	1,400	-
Debentures and zero coupon bonds held to maturity	Held to maturity	Amortized cost	1,175	1,175	-
Listed corporate bonds	Available for sale	Amortized cost	100	100	-
Other receivables	Amortized cost	Amortized cost	1,380	1,373	(7)
Preference shares	Available for sale	FVPL	980	980	-
Derivatives	FVPL	FVPL	712	712	-
<b>Current financial assets</b>					
Trade receivables	Amortized cost	Amortized cost	8,270	8,255	(15)
Equity securities – held for trading	FVPL	FVPL	10,915	10,915	-
Cash and cash equivalents	Amortized cost	Amortized cost	31,268	31,268	-
Other receivables	Amortized cost	Amortized cost	842	842	-
Derivatives	FVPL	FVPL	1,417	1,417	-
<b>Current financial liabilities</b>					
Derivatives	FVPL	FVPL	1,398	1,398	-

\* The differences noted in this column are the result of applying the new expected credit loss model. The reclassifications of the financial instruments on adoption of PFRS 9 did not result in any changes to measurements.

New illustration  
New requirements

## 26(b) PFRS 9 *Financial Instruments*

### (ii) *Derivatives and hedging activities* <sup>8-12</sup>

#### *Impact from the adoption of PFRS 9 on prior periods*

PFRS9(7.2.24)

The foreign currency forwards and interest rate swaps in place as at December 31, 2017 qualified as cash flow hedges under PFRS 9. The group's risk management strategies and hedge documentation are aligned with the requirements of PFRS 9 and these relationships are therefore treated as continuing hedges.

PFRS9(6.5.16)

For foreign currency forwards, the group only designates the spot component of the change in fair value in cash flow hedge relationships. The spot component is determined with reference to the relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as forward points. It is discounted, where material. Changes in the fair value related to forward points were recognized in the statement of profit or loss prior to January 1, 2017.

IAS8(28)(c)  
PFRS9(7.2.26)(b)

Since adoption of PFRS 9, the group recognizes changes in the fair value of foreign currency forwards attributable to forward points in the costs of hedging reserve within equity. The deferred costs of hedging are included within the initial cost of the related hedged item (inventory) when it is recognized. This change has been applied retrospectively for foreign currency forwards in cash flow hedge relationships resulting in

IAS8(28)(f)

- a retrospective reclassification of a loss of CU25,000 from retained earnings to the costs of hedging reserve as of January 1, 2017
- an decrease in cost of sales by CU41,000 and increase of income tax expense by CU12,000 for 2017, resulting a decrease of net profit for 2017 by CU29,000
- a decrease in OCI for 2017 of CU54,000 net of tax, and
- a reclassification of a loss of CU54,000 from retained earnings to the costs of hedging reserve as of January 1, 2018.

Where the hedge relationship has ended before the date of initial application, but the inventory is still held at that date, the group has decided not to restate this inventory.

IAS8(28)(f)

In the current reporting period, the group has recognized a loss of CU40,000 in other comprehensive income and the costs of hedging reserve, net of tax of CU12,000. Under the previous accounting policy the loss would have been recognized in other gains/(losses) in the statement of profit or loss. Losses of CU77,000 were included in the initial cost of inventory which increased cost of sales by the same amount and decreased income tax expense by CU23,000.

#### *New hedge designations from January 1, 2018*

PFRS9(6.5.15)

Prior to January 1, 2018, the group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL. Following the adoption of PFRS 9, the group is now designating the intrinsic value of foreign currency options as hedging instruments. The intrinsic value is determined with reference to the relevant spot market exchange rate. The differential between the contracted strike rate and the discounted spot market exchange rate is defined as the time value. It is discounted, where material. Changes in the time value of the options that relate to the hedged item are deferred in the costs of hedging reserve and recognized against the related hedge transaction when it occurs.

## 26(b) PFRS 9 *Financial Instruments*

### (iii) *Impairment of financial assets*<sup>7</sup>

IAS8(28)(c)

The group has four types of financial assets that are subject to PFRS 9's new expected credit loss model:

- trade receivables for sales of inventory and from the provisions of consulting services
- contract assets relating to IT consulting contracts
- debt investments carried at amortized cost, and
- debt investments carried at FVOCI.

The group was required to revise its impairment methodology under PFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings and equity is disclosed in the table in note 18(b) above.

While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

#### *Trade receivables and contract assets*

PAS1(117)  
PFRS9(5.5.15)

The group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This resulted in an increase of the loss allowance on January 1, 2018 by CU15,000 for trade receivables and CU30,000 for contract assets. Note 12(c) provides for details about the calculation of the allowance.

The loss allowance increased by a further CU257,000 to CU 572,000 for trade receivables and by CU31,000 to CU61,000 for contract assets during the current reporting period.

#### *Debt investments*

Debt investments at amortized cost and those at FVOCI are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of CU7,000 on January 1, 2018 (previous loss allowance was nil) for debt investments at amortized cost and a further increase in the allowance by CU23,000 in the current reporting period.

The restatement of the loss allowance for debt investments at FVOCI on transition to PFRS 9 as a result of applying the expected credit risk model was immaterial, but the group recognized a loss allowance of CU8,000 as at December 31, 2018.

### (iv) *Refinancing*

IAS8(28)(f)  
PFRS9(B5.4.6)

In 2016, the group had refinanced one of its borrowings to extend the maturity date for another 2 years. In exchange, a fee of CU100,000 was paid and the fixed interest payable on the loan increased from 10% to 11%. In accordance with PAS 39 paragraph AG62, the modification of the loan terms was not considered to result in an extinguishment of the initial borrowings. At the date of the modification no loss was recognized in profit or loss. Instead, the group discounted the cash flows of the modified borrowings at a revised effective interest rate which meant that the impact of the changes in cash flows was recognized over the remaining modified term of the borrowings.

Under PFRS 9, the cash flows of the modified borrowings must be discounted at the original effective interest rate. This would have resulted in the recognition of an immediate loss in profit or loss at the date of the modification of CU529,000. As the group has chosen not to restate comparatives in adopting PFRS 9, it has recognized an adjustment of CU465,000 to increase non-current borrowings for the loss on January 1, 2018 and reduced the deferred tax liabilities by CU139,000. The net impact on retained earnings from this adjustment was CU326,000.

New illustration  
New requirements

IAS8(28)(a)-(d),(f),(g)

## 26(c) PFRS 15 Revenue from Contracts with Customers <sup>14-19</sup>

The group has adopted PFRS 15 *Revenue from Contracts with Customers* from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in PFRS 15, the group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognized in the balance sheet at the **date of initial application** (January 1, 2018) and the beginning of the earliest period presented (January 1, 2017):

		PAS 18 carrying amount * 31 Dec 2017 CU'000	Reclassi- fication CU'000	Remeasure- ments CU'000	PFRS 15 carrying amount January 1, 2018 CU'000
Trade receivables	(iv)	12,184	(3,914)	-	8,270
Current contract assets	(iv)	-	2,597	-	2,597
Other current financial assets at amortized cost	(iv)	-	842	-	842
Other current assets	(i),(iv)	-	475	38	513
Other non-current assets	(iii)	-	-	520	520
Contract liabilities	(ii),(iv)	-	1,525	-	1,525
Deferred revenue	(ii),(iv)	570	(536)	(34)	-
Trade and other payables	(i),(iv)	12,477	(792)	38	11,723
Provisions	(i),(iv)	1,437	(197)	-	1,240
Deferred tax assets	(i),(ii)	4,932	-	1	4,933
Deferred tax liabilities	(i),(iii)	6,801	-	167	6,968

		PAS 18 carrying amount * 31 Dec 2016 CU'000	Reclassi- fication CU'000	Remeasure- ments CU'000	PFRS 15 carrying amount January 1, 2017 CU'000
Trade receivables	(iv)	8,243	(3,105)	-	5,138
Current contract assets	(iv)	-	1,897	-	1,897
Other current financial assets at amortized cost	(iv)	-	783	-	783
Other current assets	(i),(iv)	-	425	79	504
Contract liabilities	(ii),(iv)	-	655	-	655
Deferred revenue	(ii),(iv)	490	(450)	(40)	-
Trade and other payables	(i),(iv)	12,930	(5)	79	13,004
Provisions	(i),(iv)	930	(200)	-	730
Deferred tax assets	(i),(ii)	3,642	-	12	3,654
Deferred tax liabilities	(i)	4,508	-	24	4,532

\* The amounts in this column are before the adjustments from the adoption of PFRS 9, including increases in the impairment loss allowance for trade receivables and contract assets, see **note 26(b)** above.

IAS8(28)(f)(i)

The impact on the group's retained earnings as at January 1, 2018 and January 1, 2017 is as follows:

	Notes	2018 CU'000	2017 CU'000
<b>Retained earnings – after PFRS 9 restatement (see note 26(b))</b>		<b>36,135</b>	<b>21,132</b>
Recognition of asset for costs to fulfil a contract	(iii)	520	-
Restatement of contract liability for customer loyalty programme	(ii)	34	40
Increase in deferred tax assets	(i),(ii)	1	12
Increase in deferred tax liabilities	(i),(iii)	(167)	(24)
Adjustment to retained earnings from adoption of PFRS 15		388	28
<b>Opening retained earnings January 1 – PFRS 9 and PFRS 15</b>		<b>36,523</b>	<b>21,160</b>

## 26(c) PFRS 15 Revenue from Contracts with Customers

### (i) Accounting for refunds

When the customer has a right to return the product within a given period, the entity is obliged to refund the purchase price. The group previously recognized a provision for returns which was measured on a net basis at the margin on the sale (CU72,000 at December 31, 2017 and CU100,000 at December 31, 2016). Revenue was adjusted for the expected value of the returns and cost of sales were adjusted for the value of the corresponding goods expected to be returned.

Under PFRS 15, a refund liability for the expected refunds to customers is recognized as adjustment to revenue in trade and other payables (CU110,000 at December 31, 2017 and CU179,000 as at January 1, 2017). At the same time, Value PFRS Plc has a right to recover the product from the customer where the customer exercises his right of return and recognizes an asset and a corresponding adjustment to cost of sales (CU38,000 at December 31, 2017 and CU79,000 at January 1, 2017). The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

To reflect this change in policy, the group has reclassified CU72,000 from provisions and recognized other payables of CU110,000 and other current assets of CU38,000 on December 31, 2017 (CU100,000 reclassified from provisions, with CU179,000 recognized in other payables and CU79,000 in other current assets on January 1, 2017). Deferred tax liabilities and deferred tax assets increased each by CU11,000 on December 31, 2017 and CU24,000 on January 1, 2017.

### (ii) Accounting for customer loyalty programme

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold.

Under PFRS 15, the total consideration must be allocated to the points and goods based on the relative stand-alone selling prices. Using this new method, the amounts allocated to the goods sold are, on average, higher than the amounts allocated under the residual value method. As a consequence, the contract liability recognized in relation to the customer loyalty programme on January 1, 2018 (CU536,000) was CU34,000 lower than the amount recognized as deferred revenue under the previous policy, with a corresponding reduction of deferred tax assets by CU10,000 and a net adjustment to retained earnings of CU24,000 (contract liability CU40,000 lower, deferred tax assets CU12,000 lower and retained earnings increased by CU28,000 as at January 1, 2017). Revenue for 2017 financial year decreased by CU6,000, tax expense decreased by CU2,000 and net profit decreased by CU4,000.

### (iii) Accounting for costs to fulfil a contract

In 2017, costs amounting to CU520,000 related to data transfer for the set-up of an IT platform relating to a long term IT contract were expensed as they did not qualify for recognition as an asset under any of the other accounting standards. However, the costs relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered. They were therefore capitalized as costs to fulfil a contract following the adoption of PFRS 15 and included in other assets in the balance sheet on December 31, 2017. A deferred tax liability of CU156,000 was recognized, resulting in net adjustment to retained earnings of CU364,000. The asset is amortized on a straight line basis over the term of the specific contract it relates to, consistent with the pattern of recognition of the associated revenue.



## 26(c) PFRS 15 Revenue from Contracts with Customers

### (iv) Presentation of assets and liabilities related to contracts with customers <sup>19</sup>

Value PFRS Plc has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of PFRS 15 and PFRS 9:

- Contract assets recognized in relation to IT consulting contracts were previously presented as part of trade and other receivables (CU2,597,000 as at December 31, 2017; CU1,897,000 as at January 1, 2017).
- Contract liabilities in relation to IT consulting contracts were previously included in trade and other payables (CU989,000 as at December 31, 2017; CU205,000 as at January 1, 2017).
- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred revenue, see (ii) above.
- Other payables relating to expected volume discounts and refund liabilities were previously presented as current provisions (CU125,000 and CU 72,000 respectively as at December 31, 2017; CU100,000 and CU100,000 respectively as at January 1, 2017).
- Other current receivables and prepayments were previously presented together with trade receivables but are now presented as other financial assets at amortized cost (receivables) and other current assets (prepayments) in the balance sheet, to reflect their different nature.

## Changes in accounting policies

1. The disclosures in this publication show how a corporate group may be affected by the adoption of PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*. The amendments to other standards and their impact are summarized in Note 25. We have assumed that these standards did not have any significant impact on the group's accounting policies. However, this assumption will not necessarily apply to all entities. Where there has been a change in policy which has a material impact on the amounts reported in the entity's financial statements, this will need to be explained.
2. In compiling the illustrative disclosures in this publication, we have made a number of assumptions in relation to the adoption of PFRS 9 and PFRS 15 which are explained below.

### Materiality

3. The disclosures are compiled for an entity that derives its revenue primarily from the sale of products and provision of services rather than the holding of, or trading in, financial instruments. We have therefore assumed that certain disclosures are not material to the entity. For example, interest revenue is not separately disclosed on the face of the statement of profit or loss, and the impairment disclosures focus primarily on trade receivables and contract assets rather than other financial instruments.

### Assumptions made in adoption PFRS 9

#### Classification and measurement

4. The group has elected to apply the limited exemption in PFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application, other than in relation to hedge accounting (see paragraph 8 below). As a consequence:
  - (a) any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings
  - (b) financial assets are not reclassified in the balance sheet for the comparative period
  - (c) provisions for impairment have not been restated in the comparative period
  - (d) the retrospective application of the accounting for the forward element of forward contracts did only affect retained earnings and reserves as at December 31, 2016 or 2017, which are disclosed in the statement of changes in equity. The group has decided not to restate inventory that is subject to hedge accounting to the extent that the hedge relationship came to an end before the date of initial application if the inventory is still held at that time.
5. Investments in financial assets are classified as either debt or equity investments by reference to the requirements for the issuer in PAS 32 *Financial Instruments: Presentation*.

PAS1(82)(a),(ba)



## Changes in accounting policies

6. While the group has factored some receivables, it has retained late payment and credit risk and therefore continues to recognize the transferred assets in their entirety in its balance sheet. As a consequence, the group considers the 'held to collect' business model to apply for these receivables and is therefore continuing to measure them at amortized cost. Where an entity concludes that the receivables are instead held under a 'held to collect and sell' or 'held to sell' business model as a result of the factoring arrangements, the receivables would have to be measured either at FVOCI (held to collect and sell) or at FVPL (held to sell) under PFRS 9 and appropriate adjustments would have to be recognized on transition.

### *Impairment*

7. The group has adopted the simplified expected credit loss model for its trade receivables and contract assets, as required by PFRS 9, paragraph 5.5.15, and the general expected credit loss model for debt investments carried at amortized cost and debt investments carried at fair value through other comprehensive income. All of the group's debt investments have low credit risk at both the beginning and end of the reporting period.

### *Hedging*

8. The group has hedged the foreign exchange risk on forecast purchases of inventory using forward contracts. Under PAS 39 *Financial Instruments: Recognition and Measurement* the group applied hedge accounting in prior periods and designated as the hedging instrument only the change in the spot rate. As permitted by PFRS 9, paragraph 7.2.26, the group has elected to restate prior periods for the change in fair value relating to forward points by:
- (a) reclassifying the change in fair value relating to forward points from the statement of profit or loss to the statement of other comprehensive income; and
  - (b) ultimately including the forward points in the initial cost of inventory when it is recognized.
9. As required by PFRS 9 paragraph 7.2.26, the restatement has been applied to those forward contracts which were outstanding at the beginning of the prior period or were designated thereafter. The comparative periods presented for the statement of profit or loss, statement of other comprehensive income and statement of changes in equity for the year ended December 31, 2017 have been restated for the impact of this change in policy. The retrospective impact on the year ended December 31, 2016 has been reflected as a reclassification from retained earnings to reserves.
10. The retrospective restatement applied only to the fair value of the forward points. The deferred hedging gains and losses were reclassified from the cash flow hedge reserve to inventory through other comprehensive income in the year ending December 31, 2017.
11. From January 1, 2018 (the date of initial application of PFRS 9) onwards the group designated the intrinsic value of all of its foreign currency options as hedges of the foreign exchange risk on forecast purchases of inventory. Prior to January 1, 2018 options were classified as held-for-trading and measured at fair value through profit or loss. On designation all options were out-of-the-money and hence the intrinsic value (i.e. the part of the option used as hedging instrument) was zero. The critical terms of the options matched the hedged item and there was no hedge ineffectiveness.
12. If the group had already used the foreign currency options as hedging instruments under PAS 39 and changed the accounting for the time value of options, it would have to apply these changes retrospectively and restate prior periods.

### *Liabilities measured at fair value*

13. Value PFRS Plc does not have any non-derivative liabilities that are measured at fair value. Adoption of PFRS 9 did not affect the measurement or classification of the group's existing borrowings.

PFRS9(5.5.15)  
PFRS15(107),(108)

PFRS9(7.2.26)(a)

## Changes in accounting policies

### Assumptions made in adoption PFRS 15

#### *Transition options for PFRS 15*

PFRS15(C3),(C5)

14. Value PFRS Plc has chosen a full retrospective application of PFRS 15 in accordance with paragraph C3(a) without using the practical expedients for completed contracts in paragraphs C5(a) and (b) and contract modifications in paragraph C5(c).

PFRS15(C5)

15. An entity that elects to apply the standard using the full retrospective method can apply certain practical expedients:

- (a) An entity need not restate contracts that begin and end within the same annual reporting period and/or were completed at the beginning of the earliest period presented.
- (b) For completed contracts that have variable consideration, an entity can use hindsight and use the transaction price at the date the contract was completed.
- (c) The effect of contract modifications that occurred before the beginning of the earliest period presented may be reflected in aggregate rather than being determined individually for each modification.
- (d) For all reporting periods presented before the date of initial application (January 1, 2018 for Value PFRS Plc), an entity is not required to disclose the amount of transaction price allocated to the remaining performance obligations and an explanation of when the entity expect to recognize that amount as revenue.

PFRS15(C7),(C7A)

16. Where the entity has chosen the simplified transition method, it may elect to apply PFRS 15 retrospectively only to contracts that are not completed at the date of initial application (January 1, 2018 for Value PFRS Plc). It may apply the practical expedient for contract modifications either to all modifications that occurred before the beginning of the earliest period presented (January 1, 2017) or before the date of initial application (January 1, 2018).

#### *Other assumptions*

17. The group does not incur material costs to obtain contracts with customers such as sales commissions.

18. The group does not provide any ancillary services to the tenants of the investment properties. The lease payments therefore relate entirely to rental and are recognized as lease income. It was not necessary to separate the considerations between lease and non-lease components on the adoption of PFRS 15.

#### *Presentation and description of contract assets and contract liabilities*

PFRS15(109),  
(BC320),(BC321)

19. Value PFRS Plc has decided to reclassify contract assets and contract liabilities and present them as a separate line item in the balance sheet. However, contract assets, contract liabilities and receivables do not have to be referred to as such and do not need to be presented separately in the balance sheet, as long as the entity provides sufficient information so users of financial statements can distinguish them from other items.

### Impact of change on the current period

IAS8(28)(f)

20. PAS 8 specifically requires disclosure of the effect of a change in accounting policy not only on prior periods but also on the current period, unless it is impracticable to determine the amount of the adjustment. To make this disclosure, entities will need to apply both the old accounting policy and the new policies parallel in the year of adoption. The standard includes a definition of impracticable and a set of criteria that must be satisfied for the exemption to be applied, setting quite a high hurdle for using this exemption.

PFRS15(C4)

21. The IASB did consider requiring this disclosure only for voluntary changes of accounting policies and not where the change is a result of changes in the accounting standards. However, the Board did not proceed with the amendment but decided instead to give relief on a case-by-case basis. Entities that have adopted PFRS 15 using the full retrospective method have been given this relief. See paragraph 24 below for disclosures required where entities have adopted PFRS 15 using the simplified transition method.

PFRS7(42Q)

In relation to the adoption of PFRS 9, paragraph 42Q in PFRS 7 states that an entity is not required to disclose the line item amounts that would have been reported in accordance with the classification and measurement requirements of PAS 39 for the current period. Entities will therefore not need to perform parallel calculations under PFRS 9 and PAS 39 in the year of initial application. However, paragraph 42Q does not apply to hedge accounting. Where an entity has changed its hedge accounting policies, for example to apply the cost of hedging approach retrospectively, it should also disclose the impact on the current period. We have illustrated this on page 198.

## Changes in accounting policies

### Additional comparative information – third balance sheet

PAS1(40A),(40C)

22. If an entity has applied an accounting policy retrospectively, restated items retrospectively or reclassified items in its financial statements and this had a material effect on the information in the balance sheet (statement of financial position) at the beginning of the preceding period, the entity must present a third balance sheet as at that date (January 1, 2017 for entities with a December 31, 2018 year-end). However, it is not necessary to include the additional comparative information in the affected notes, provided the entity has disclosed all of the quantitative information that is required by PAS 8.

PAS1(40D)

23. The third balance sheet must be presented as at the beginning of the preceding period even if the entity presents comparative information for earlier periods.

### Disclosures not illustrated: not applicable to Value PFRS Plc

24. The following requirements of PFRS 9 and PFRS 15 are not illustrated in the Appendix:

#### Initial application of PFRS 9

PFRS7(42I)(c),(42J)  
(42M-N)

Issue not illustrated	Relevant disclosures or reference
The entity has financial assets or financial liabilities which were previously measured at FVPL but are no longer so designated.	Distinguish between those which had to be reclassified on adoption of PFRS 9 and those where reclassification was optional on the date of initial application.  Disclose the reasons for the de-designation and provide the additional disclosures required by PFRS 7 (41M) and (41N).
The entity has applied either of the two practical expedients provided on transition in relation to the solely payments of principal and interest assessment (PFRS 9 paragraph 7.2.4 and 7.2.5).	Provide the additional disclosures required by PFRS 7 (42R) and (42S).

PFRS7(42R),(42S)

#### Initial application of PFRS 15

PFRS15(C6)

Full retrospective method: practical expedients used (see paragraph 15 above)	Disclose which expedients have been used and, to the extent reasonably possible, provide a qualitative assessment of the estimated effect of applying each expedient.  Value PFRS Plc has only used the practical expedient of PFRS 15(C5)(d), see illustrative disclosure in note 3(b) on page 37.
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PFRS15(C8),(C6),(C7A)

Simplified transition method	Disclose the amount by which each financial statement line item is affected by the adoption of the new rules in the current period and explain the reasons for any significant changes.  Also disclose if the entity has applied the practical expedient for contract modifications described in paragraph 16 above and provide a qualitative assessment of the estimated effect of applying the expedient.
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#### Impact of change on prior interim financial reports

PAS1(112)(c)

25. There is no explicit requirement to disclose the financial effect of a change in accounting policy that was made during the final interim period on prior interim financial reports of the current annual reporting period. However, where the impact on prior interim reporting periods is significant, an entity should consider explaining this fact and the financial effect as part of the disclosures made under paragraphs 28 and 29 of PAS 8.

# Value PFRS Plc

## Illustrative PFRS consolidated financial statements December 2018 – Appendices

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## Appendix A: Operating and financial review (management commentary)

### International Organization of Securities Commissions

1. In 2010, the International Organization of Securities Commissions (IOSCO) issued *Principles for Periodic Disclosure by Listed Entities* which are aimed at facilitating agreement on common high level principles to provide guidance to jurisdictions that are developing or reviewing their periodic disclosure requirements for listed entities. While IOSCO's principles and standards are not mandatory, they are increasingly incorporated in national stock exchange requirements for prospectuses and annual reports. Following is a summary of IOSCO's principles for operating and financial reviews (OFRs) or management's discussion and analysis (MD&A) in annual and interim reports.
2. According to IOSCO, OFRs/MD&As should provide a balanced explanation of factors that have affected the entity's financial condition and results of operations for the periods covered by the financial statements. The disclosures should provide a context within which the financial results and financial position can be interpreted and enable investors to see the entity through the eyes of management. For example, there should be a discussion based on segment information and explanations for material changes from year to year in financial statement line items. In particular, OFRs should cover the following topics:

(a) Operating results

Discuss the significant factors that materially affected the entity's income from operations, including unusual or infrequent events or new developments and the extent to which income was affected by these factors (eg the impact of inflation, the impact of foreign currency fluctuations, and any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, the company's operations). Information about any significant components of revenues and expenses that are necessary to understand the entity's results of operations can also be useful.

(b) Liquidity and capital resources

Provide information about the entity's short-term and long-term liquidity, i.e., its ability to generate adequate amounts of cash to meet its cash obligations, and its financial key performance indicators (eg the issuer's internal and external sources of liquidity, a discussion of the risk of illiquidity of assets that may be held to settle the liabilities of the issuer, any material, unused sources of liquidity and any material restrictions on all sources of liquidity).

With respect to capital resources, disclose the entity's material commitments for capital expenditures as of the end of its latest financial year, the general purpose of such commitments and the anticipated sources of funds needed to fulfil such commitments.

(c) Trend information

Provide information about the facts and circumstances surrounding known material trends and uncertainties that could affect the entity's prospects (eg the potential impact of currently known trends, events and uncertainties that are reasonably likely to have material effects on the entity's net sales or revenues, income from operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition).

(d) Off-balance sheet arrangements

Disclose any material off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on the issuer's financial position. Such arrangements can incur profits and losses that are not fully transparent to investors.

(e) Critical accounting estimates

Explain any estimates and assumptions involved in applying accounting policies that can have a material impact on the entity's reported operating results, financial condition and changes in financial condition, as well as on the comparability of reported information over different reporting periods (eg because of the subjectivity and judgement required to account for highly uncertain matters, or because the estimate or assumption could have a material impact on financial condition or operating performance). Disclose the methodology for determining the critical accounting estimates, and explain why the accounting estimates or assumptions could change, possibly combined with an analysis of the sensitivity of the critical accounting estimates and assumptions to change.

### IASB guidance for management commentary

3. The IASB issued a non-mandatory practice statement on management commentary in December 2010 that provides principles for the presentation of a narrative report on an entity's financial performance, position and cash flows.
4. The IASB's practice statement provides a broad framework of principles, qualitative characteristics and elements that might be used to provide users of financial reports with decision-useful information. The practice statement recommends that the commentary is entity-specific and may include the following components:
  - (a) A description of the business including discussion of matters such as the industries, markets and competitive position; legal, regulatory and macro-economic environment; and the entity's structure and economic model.
  - (b) Management's objectives and strategies to help users understand the priorities for action and the resources that must be managed to deliver results.
  - (c) The critical financial and non-financial resources available to the entity and how those resources are used in meeting management's objectives for the entity.
  - (d) The principal risks, and management's plans and strategies for managing those risks, and the effectiveness of those strategies.
  - (e) The performance and development of the entity to provide insights into the trends and factors affecting the business and to help users understand the extent to which past performance may be indicative of future performance.
  - (f) The performance measures that management uses to evaluate the entity's performance against its objectives, which helps users to assess the degree to which goals and objectives are being achieved.

### Disclosing alternative performance measures (APMs or non-GAAP measures)

5. Some entities present measures of performance in their OFR that are different to the profit or loss for the period or any of the sub-totals or line items required by PAS 1. Many regulators provide guidance and rules regarding the type and location of APMs, including the European Securities and Markets Authority (ESMA) and the US Securities and Exchange Commission (SEC).
6. Judgement is required to decide what presentations are acceptable. In order for users to properly understand alternative performance measures, in our view, they should be:
  - (a) relevant to the users' understanding of the financial statements
  - (b) transparent and clearly disclosed in the financial statements
  - (c) clearly and accurately defined
  - (d) applied consistently from one year to the next
  - (e) applied in accordance with the definition, and
  - (f) presented in a manner that is fair, unbiased and not misleading.
7. Some alternative performance measures are sub-totals and additional line items that are derived directly from the elements of the PFRS financial statements and are commonly understood by users of the financial statements, for example operating profit or earnings before interest and tax (EBIT). Referring to these measures in the OFR is likely to provide sufficient information for users to properly understand the performance measure.
8. However, other alternative performance measures are not derived directly from the elements of the PFRS financial statements and therefore usually require additional disclosures to be properly understood. Such performance measures might include earnings before interest, tax, depreciation and amortization (EBITDA), adjusted EBITDA or a sub-total for operating profit that excludes items that would usually be considered operating in nature, such as impairment charges, restructuring costs or other 'exceptional' or 'non-cash' items. In our view, these additional disclosures should include:
  - (a) a description of the basis for the alternative performance measure and how it is derived. This would normally be achieved through a reconciliation of the measure to a profit measure or other measure defined by PFRS; and
  - (b) the purpose and objective of disclosing the measure and, if applicable, a statement that the measure might not be consistent with measures (of similar description) used by other entities.

9. The **ESMA guidelines** require entities to:
  - (a) Define APMs in a clear and readable way and give meaningful labels (impairments and restructuring charges are 'rarely ... unusual or non-recurring').
  - (b) Reconcile APMs to the most directly reconcilable GAAP line item explaining material reconciling items.
  - (c) Explain the use of APMs so users understand relevance and reliability.
  - (d) Not display APMs with more prominence, emphasis or authority than GAAP measures.
  - (e) Present APMs with comparatives which also need to be reconciled.
  - (f) Define APMs consistently over time and justify any changes made.
10. The **SEC's interpretative guidance** on the use of non-GAAP financial measures provides examples of potentially misleading non-GAAP measures and examples disclosures that would cause a non-GAAP measure to be more prominent than the most directly comparable GAAP measure. The guidance also clarifies that non-GAAP liquidity measures cannot be presented on a per share basis in documents filed or furnished with the Commission and describes how income tax effects of non-GAAP measures should be presented and calculated.





PAS1(10)(b),(10A)	<b>Consolidated statement of profit or loss and other comprehensive income – single statement, showing expenses by nature</b>		
PAS1(51)(c),(e) PAS1(113)	Notes	2018 CU'000	2017 Restated * CU'000
		(198)	(470)
		<i>Subtotal other comprehensive income</i>	
		<i>Items that will not be reclassified to profit or loss</i>	
PAS1(82A)(a)(i)			
PAS1(82A),(7)(a)	9(c)	7,243	5,840
PAS1(82A),(7)(e)			
	9(c)	632	-
	12(a)	-	642
PAS1(82A)	9(c)	300	100
PAS1(82A),(7)(b) PAS19(120)(c)	9(c)	119	(910)
PAS1(91)	9(c)	(2,489)	(1,702)
PAS1(81A)(b)		<b>5,607</b>	<b>3,500</b>
PAS1(81A)(c)		<b>41,978</b>	<b>32,906</b>
PAS1(81B)(a)			
		Profit is attributable to:	
		33,366	27,087
		3,005	2,319
		<b>36,371</b>	<b>29,406</b>
PAS1(81B)(b)			
		Total comprehensive income for the period is attributable to:	
		39,072	30,330
		2,906	2,576
		<b>41,978</b>	<b>32,906</b>
		Total comprehensive income for the period attributable to owners of Value PFRS Plc arises from:	
		38,187	29,873
PFRS5(33)(d)		885	457
		<b>39,072</b>	<b>30,330</b>
PAS33(66)			
		<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:</b>	
	22	53.7	46.8
	22	52.8	46.6
PAS33(66)			
		<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>	
	22	54.9	47.5
	22	54.0	47.3

\* See note 11(b) for details regarding the restatement as a result of an error.

Not mandatory

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of cash flows – direct method

PAS1(10)(d) IAS7(1),(10) PAS1(113)		Notes	2018 CU'000	2017 CU'000
	<b>Cash flows from operating activities</b>			
IAS7(10),(18)(a)	Receipts from customers (inclusive of goods and services tax)		196,280	185,333
IAS7(14)(a)	Payments to suppliers and employees (inclusive of goods and services tax)		(138,629)	(141,912)
			<u>57,651</u>	43,421
IAS7(14)(g)	Payments for financial assets at fair value through profit or loss		(135)	(1,235)
IAS7(14)(g)	Proceeds from disposal of financial assets at fair value through profit or loss		600	-
IAS7(14)(b)	Insurance recovery relating to fire	4(b)	300	-
IAS7(16)	Transaction costs relating to acquisition of subsidiary	14	(750)	-
IAS7(14)(b)	Other income		7,490	7,484
IAS7(31)-(33)	Interest received		1,262	905
IAS7(31)-(33)	Interest paid		(6,617)	(4,044)
IAS7(14)(f),(35),(36)	Income taxes paid		(16,251)	(12,264)
	<b>Net cash inflow from operating activities</b>		<u>43,550</u>	<u>34,267</u>
	<b>Cash flows from investing activities</b>			
IAS7(10),(21)	Payment for acquisition of subsidiary, net of cash acquired	14	(2,600)	-
IAS7(39)	Payments for property, plant and equipment	8(a)	(25,387)	(17,602)
IAS7(16)(a)	Payments for investment property	8(b)	(1,900)	-
IAS7(16)(c)	Payments for financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)		(259)	(2,029)
IAS7(16)(c)	Payments for held-to-maturity investments	7(b)	-	(1,175)
IAS7(16)(a)	Payment of software development costs	8(c)	(880)	(720)
IAS7(16)(e)	Loans to related parties		(1,180)	(730)
IAS7(39)	Proceeds from sale of engineering division	15	3,110	-
IAS7(16)(b)	Proceeds from sale of property, plant and equipment		9,585	639
IAS7(16)(d)	Proceeds from sale of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)		1,375	820
IAS7(16)(f)	Repayment of loans by related parties		469	626
IAS7(38)	Dividends from joint ventures and associates	16(e)	160	220
IAS7(31),(33)	Other dividends		3,300	4,300
IAS7(31),(33)	Interest received on financial assets held as investments		258	249
	<b>Net cash (outflow) from investing activities</b>		<u>(13,949)</u>	<u>(15,402)</u>
	<b>Cash flows from financing activities</b>			
IAS7(10),(21)	Proceeds from issues of shares and other equity securities	9(a)	12,413	-
IAS7(17)(a)	Proceeds from calls on shares and calls in arrears	9(a)	1,500	-
IAS7(17)(c)	Proceeds from borrowings	10(c)	45,903	25,796
IAS7(17)(b)	Payments for shares bought back	9(a)	(1,350)	-
IAS7(17)(b)	Acquisition of treasury shares		(1,217)	(299)
	Share issue and buy-back transaction costs	9(a)	(245)	-
IAS7(17)(d)	Repayment of borrowings	10(c)	(33,334)	(24,835)
IAS7(17)(e)	Principal elements of finance lease payments	10(c)	(805)	-
IAS7(42A),(42B)	Transactions with non-controlling interests	16(c)	(1,500)	-
IAS7(31),(34)	Dividends paid to company's shareholders	13(b)	(22,271)	(10,470)
IAS7(31),(34)	Dividends paid to non-controlling interests in subsidiaries	16(b)	(3,017)	(1,828)
	<b>Net cash (outflow) from financing activities</b>		<u>(3,923)</u>	<u>(11,636)</u>
	<b>Net increase in cash and cash equivalents</b>		<b>25,678</b>	<b>7,229</b>
	Cash and cash equivalents at the beginning of the financial year		<b>29,018</b>	<b>21,573</b>
IAS7(28)	Effects of exchange rate changes on cash and cash equivalents		(248)	216
	Cash and cash equivalents at end of year	7(e)	<u>54,448</u>	<u>29,018</u>
IAS7(43)	Non-cash financing and investing activities	10(b)		
PFRS5(33)(c)	Cash flows of discontinued operation	15		

Not mandatory

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

## Appendix C: Areas not illustrated in the financial statements of Value PFRS Plc

### Biological assets

		Notes	2018 CU'000	2017 CU'000
PAS1(10)(b),(10A)	<b>Consolidated statement of profit or loss (extract)</b>			
	<b>Revenue</b>	3	<b>26,240</b>	27,548
PAS41(40)	Change in fair value of biological assets	8(b)	<b>22,500</b>	18,028
	Cost of sales of livestock and palm oil		<b>(23,180)</b>	(24,348)

		Notes	31 Dec 2018 CU'000	31 Dec 2017 CU'000	January 1, 2017 CU'000
PAS1(10)(a)	<b>Consolidated balance sheet (extract)</b>				
PAS1(60),(66)	<b>Non-current assets</b>				
PAS1(54)(a)	Property, plant and equipment	8(a)	<b>X</b>	X	X
PAS1(54)(f)	Biological assets	8(b)	<b>4,300</b>	5,760	3,500
PAS1(60),(66)	<b>Current assets</b>				
PAS1(54)(f)	Biological assets	8(b)	<b>19,188</b>	12,437	18,920

## 2 Segment information

### 2(a) Description of segments and principal activities

PAS1(138)(b)  
PAS41(46)(a) The group is engaged in the business of farming sheep primarily for sale to meat processors. The group is also engaged in the business of growing and managing palm oil plantations for the sale of palm oil. The group earns ancillary income from various agricultural produce, such as wool.

PFRS8(22)(a),(b),(aa) The group's strategic steering committee, consisting of the chief executive officer, the chief financial officer and the manager for corporate planning, receives separate reports for each sheep farm and palm oil plantation. However, the farms and the plantations have been aggregated into two operating segments, being sheep and palm oil, as they have the same economic characteristics.

## 3 Revenue

PFRS8(23)(a) The group derives the following types of revenue by operating segment:

		2018 CU'000	2017 CU'000
PFRS15(114)	Sheep		
	Sale of livestock (note 8(b))	<b>9,225</b>	12,096
	Sale of wool	<b>2,500</b>	2,350
	Sale of palm oil (note 8(b))	<b>14,515</b>	13,102
	<b>Total revenue</b>	<b>26,240</b>	27,548

## 8 Non-financial assets and liabilities

### 8(a) Property, plant and equipment

Non-current		Mature oil palm trees CU'000	Immature oil palm trees CU'000	Freehold land CU'000	Freehold buildings CU'000	Other corporate assets CU'000	Total CU'000
<b>At January 1, 2017</b>							
PAS16(73)(d)	Cost or fair value	8,200	2,000	X	X	X	X
PAS16(73)(d)	Accumulated depreciation	-	-	X	X	X	X
	Net book amount	8,200	2,000	X	X	X	X
<b>Year ended December 31, 2017</b>							
PAS16(73)(e)	Opening net book amount	8,200	2,000	X	X	X	X
PAS16(73)(e)(i),(74)(b)	Additions		2,503	X	X	X	X
PAS16(73)(e)(ix)	Transfer	3,000	(3,000)				
PAS16(73)(e)(vii)	Depreciation charge	(2,000)	-	X	X	X	X
PAS16(73)(e)	Closing net book amount	9,200	1,503	X	X	X	X
<b>At December 31, 2017</b>							
PAS16(73)(d)	Cost or fair value	11,200	1,503	X	X	X	X
PAS16(73)(d)	Accumulated depreciation	(2,000)	-	X	X	X	X
PAS1(77)	Net book amount	9,200	1,503	X	X	X	X
<b>Year ended December 31, 2018</b>							
PAS16(73)(e)	Opening net book amount	9,200	1,503	X	X	X	X
PAS16(73)(e)(i),(74)(b)	Additions	-	4,309	X	X	X	X
PAS16(73)(e)(ix)	Transfer	2,700	(2,700)				
PAS16(73)(e)(vii)	Depreciation charge	(2,400)	-	X	X	X	X
PAS16(73)(e)(v)	Impairment loss	-	-	X	X	X	X
PAS36(126)(a),(b)							
PAS16(73)(e)	Closing net book amount	9,500	3,112	X	X	X	X
<b>At December 31, 2018</b>							
PAS16(73)(d)	Cost or fair value	13,900	3,112	X	X	X	X
PAS16(73)(d)	Accumulated depreciation and impairment	(4,400)	-	X	X	X	X
PAS1(77)	Net book amount	9,500	3,112	X	X	X	X

PAS1(117)

#### (vii) Accounting for land and buildings and palm oil trees

PAS16(73)(a)

Land and buildings are recognized at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to other reserves in shareholders' equity (note 9(b)). All other property, plant and equipment, including oil palm trees is recognized at historical cost less depreciation.

PAS16(50),(73)(b)

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

PAS16(73)(c)

- Buildings 25-40 years
- Oil palm trees 25 years
- Corporate assets 3-10 years

The group's oil palm trees qualify as bearer plants under the definition in PAS 41 *Agriculture* and are therefore accounted for under the rules for plant and equipment. The trees are classified as immature until the produce can be commercially harvested. At that point they are reclassified and depreciation commences. Immature palm oil trees are measured at accumulated cost.

**8(b) Biological assets <sup>2</sup>**

*(i) Analysis by group of biological assets*

PAS41(41) Biological assets comprise sheep and oil palm fresh fruit bunches (FFB) growing on palm trees.

PFRS13(93)(e)		2018			2017 Restated		
		Sheep CU'000	Oil palm FFB CU'000	Total CU'000	Sheep CU'000	Oil palm FFB CU'000	Total CU'000
PAS41(50)	Opening balance at January 1	11,450	6,747	18,197	18,781	3,639	22,420
PAS41(50)(b)	Increase due to purchases	5,971	-	5,971	2,097	-	2,097
PAS41(50)(a)	Livestock losses	(480)	-	(480)	(350)	-	(350)
PAS41(50)(a),(51)	Change in fair value due to biological transformation	3,444	18,006	21,450	1,430	15,500	16,930
PAS41(50)(a),(51)	Change in fair value due to price changes	1,180	350	1,530	1,088	360	1,448
PAS41(50)(d)	Transfer of harvested fresh fruit bunches (FFB) to inventory	-	(14,115)	(14,115)	-	(12,752)	(12,752)
PAS41(50)(c)	Decrease due to sale of lambs for slaughter	(9,065)	-	(9,065)	(11,596)	-	(11,596)
PAS41(50)	Closing balance at December 31	12,500	10,988	23,488	11,450	6,747	18,197
	Current assets:						
	- Sheep held for slaughter	8,200	-	8,200	5,690	-	5,690
	- Oil palm FFB on trees	-	10,988	10,988	-	6,747	6,747
		8,200	10,988	19,188	5,690	6,747	12,437
	Non-current assets:						
	- Breeding stock – mature	3,950	-	3,950	5,190	-	5,190
	- Breeding stock – immature	350	-	350	570	-	570
	Total non-current	4,300	-	4,300	5,760	-	5,760

PAS41(46)(b) As at December 31, 2018 the group had 6,500 sheep (2017 – 5,397 sheep) and 3,123 sheep were sold during the year (2017 – 4,098 sheep sold).

As at December 31, 2018 there were 2,600,000 hectares of palm oil plantations (2017 – 2,170,000 hectares). During the year the group sold 550,000 kgs of palm oil (2017 – 545,000 kgs).

*(ii) Accounting for biological assets*

Biological assets are measured at fair value less cost to sell, see (iii) below for further information on determining the fair value.

PAS1(117) Costs to sell include the incremental selling costs, including auctioneers' fees, commission paid to brokers and dealers and estimated costs of transport to the market but excludes finance costs and income taxes.

PAS41(43) Sheep held for slaughter are classified as immature until they are ready for slaughter. Livestock are classified as current assets if they are to be sold within one year.

PAS41(7),(13)  
PAS16(6) The palm oil trees are bearer plants and are therefore presented and accounted for as property, plant and equipment, see note 8(a). However, the FFB growing on the trees is accounted for as biological assets until the point of harvest. Harvested FFB are transferred to inventory at fair value less costs to sell when harvested.

PAS41(26) Changes in fair value of livestock and oil palm FFB on trees are recognized in the statement of profit or loss.

Farming costs such as feeding, labour costs, pasture maintenance, veterinary services and sheering are expensed as incurred. The cost of purchase of sheep plus transportation charges are capitalized as part of biological assets.

**8(b) Biological assets**

PAS1(117)

*(iii) Measuring biological assets at fair value*

PFRS13(91)(a),(93)(d)

Sheep are measured at fair value less cost to sell, based on market prices at auction of livestock of similar age, breed and genetic merit with adjustments, where necessary, to reflect the differences. Market prices are obtained from the weekly auctions at the local market, which is considered the principal market for the purpose of the valuation.

PFRS13(91)(a),(93)(d)

The fair value of growing oil palm FFB is determined using a discounted cash flow model based on the expected palm oil yield by plantation size, the market price for crude palm oil and palm kernel oil and after allowing for harvesting costs, contributory asset charges for the land and palm trees owned by the entity and other costs yet to be incurred in getting the fruit bunches to maturity.

*Significant estimates and judgements*

PAS1(122),(125)  
PFRS13(93)(d)

In measuring the fair value of sheep and oil palm FFB various management estimates and judgements are required:

*Sheep*

Estimates and judgements in determining the fair value of sheep relate to market prices, average weight and quality of animals and mortality rates.

The sheep grow at different rates and there can be a considerable spread in the quality and weight of animals that affects the price achieved. An average weight is assumed for the slaughter sheep livestock that are not yet at marketable weight.

*Oil palm FFB on oil palm trees*

Estimates and judgements in determining the fair value of the FFB growing on palm trees include the volume and stages of maturity of FFB at balance date, palm oil yield, the long term crude palm oil price, palm kernel oil price and the discount rates. See below for key assumptions about unobservable inputs and their relationship to fair value.

*(iv) Fair value hierarchy*

This note explains the judgements and estimates made in determining the fair values of the biological assets that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its non-financial and assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 7(h).

PFRS13(93)(a),(b)

At December 31, 2018	Notes	Level 1 CU'000	Level 2 CU'000	Level 3 CU'000	Total CU'000
Sheep					
Mature – breeding stock		-	3,950	-	3,950
Immature – breeding stock		-	350	-	350
Held for slaughter		-	8,200	-	8,200
Oil palm FFB on trees		-	-	10,988	10,988
<b>Total biological assets</b>		-	<b>12,500</b>	<b>10,988</b>	<b>23,488</b>

PFRS13(93)(a),(b)

At December 31, 2017	Notes	Level 1 CU'000	Level 2 CU'000	Level 3 CU'000	Total CU'000
Sheep					
Mature – breeding stock		-	5,190	-	5,190
Immature – breeding stock		-	570	-	570
Held for slaughter		-	5,690	-	5,690
Oil palm FFB on trees		-	-	6,747	6,747
<b>Total biological assets</b>		-	<b>11,450</b>	<b>6,747</b>	<b>18,197</b>

There were no transfers between any levels during the year.



**8(b) Biological assets**

The quality of livestock sold at the local markets is considered to approximate the group’s breeding and slaughter livestock. Sheep have therefore been classified as level 2 in the fair value hierarchy, since no significant adjustments need to be made to the prices obtained from the local markets.

PFRS13(93)(e)

The movements in the fair value of assets within level 3 of the hierarchy, being the FFB growing on trees, can be seen from the table in (i) above. The gains or (losses) recognized in relation to the palm fruit bunches are as follows:

	<b>2018</b>	2017
	<b>CU'000</b>	Restated CU'000
PFRS13(93)(e)(i) Total gains for the period recognized in profit or loss under ‘Change in fair value of biological assets’	<b>18,356</b>	15,860
PFRS13(93)(f) Change in unrealized gains or losses for the period recognized in profit or loss attributable to palm fruit bunches held at the end of the reporting period	<b>9,300</b>	5,900

*(v) Valuation inputs and relationships to fair value*

PFRS13(93)(d),(99)

The following table summarizes the quantitative information about the significant unobservable inputs used in the fair value measurements of the palm fruit bunches on trees. The fair values are determined based on discounted cash flows.

PFRS13(91)(a),(93)(d),(h)(i)

Description	Fair value at		Unobservable inputs *	Range of inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	31 Dec 2018 CU'000	31 Dec 2017 CU'000		2018	2017	
Oil palm FFB on trees	10,988	6,747	Palm oil yield – tonnes per hectare	20-30 (24) per year	20-30 (25) per year	The higher the palm oil yield, the higher the fair value
			Crude palm oil price	US\$800- \$1,100 (\$900) per tonne	US\$750- \$1,070 (\$900) per tonne	The higher the market price, the higher the fair value
			Palm kernel oil price	US\$1,000 - \$1,200 (\$1,050) per tonne	US\$900 - \$1,150 (\$1,030) per tonne	
			Discount rate	9%-11% (10.5%)	9%-11% (10.5%)	The higher the discount rate, the lower the fair value

*(vi) Valuation processes*

PFRS13(93)(g)

The group’s finance department includes a team that performs the valuations of the group’s biological assets for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and the audit committee (AC). Discussions of valuation processes and results are held between the CFO, AC and the valuation team at least once every six months, in line with the group’s half-yearly reporting requirements.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Palm oil yield is determined based on the age of the plantation, historical yields, climate-induced variations such as severe weather events, plant losses and new areas coming into production.
- Crude palm oil prices and palm kernel oil prices are quoted prices for the relevant region.
- Discount rates are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the CFO, AC and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

The cash outflows include notional cash flows (contributory asset charges) for the land and palm trees owned by the entity. They are based on market rental payable for orchards of similar size and maturity.

## 12 Financial risk management (extracts)

### 12(a) Financial risk management strategies for biological assets

PAS41(49)(c)

The group is exposed to risks arising from environmental and climatic changes, commodity prices and financing risks.

The group's geographic spread of farms allows a high degree of mitigation against adverse climatic conditions such as droughts and floods and disease outbreaks. The group has strong environmental policies and procedures in place to comply with environmental and other laws.

The group is exposed to risks arising from fluctuations in the price and sales volume of sheep. Where possible, the group enters into supply contracts for sheep to ensure sales volumes can be met by meat processing companies. The group has long-term contracts in place for supply of palm oil to its major customers.

The seasonal nature of the sheep farming business requires a high level of cash flow in the second half of the year. The group actively manages the working capital requirements and has secured sufficient credit facilities to meet the cash flow requirements.

## 18 Commitments

PAS41(49)(b)

The group has entered into a contract to acquire 250 breeding sheep at December 31, 2018 for CU1,250,000 (2017 – nil).

PAS1(117)

## 25 Summary of significant accounting policies (extracts)

PAS1(112)(a),(117)

### 25(a) Basis of preparation

#### (ii) Historical cost convention

PAS1(117)(a)

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments) certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell
- certain biological assets – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value.

### Biological assets

#### Disclosures not illustrated: not applicable to VALUE PFRS Agriculture Plc

1. The following disclosure requirements of PAS 41 *Agriculture* are not illustrated above:

PAS41(49)(a)

PAS41(50)(e),(f)

PAS41(53),PAS1(97)

PAS41(54)-(56)

PAS41(57)

Item	Nature of disclosure
Biological assets with restricted title and/or pledged as security	Disclose existence and carrying amount.
Reconciliation of carrying amount of biological assets	Show separately increases due to business combinations and net exchange differences.
Material items of income or expense as result of climatic, disease and other natural risks	Disclose amount and nature.
The fair value of biological assets cannot be measured reliably	Provide additional information.
Government grants received in relation to agricultural activity	Disclose the nature and extent of the grants, any unfulfilled conditions and other contingencies and if there are significant decreases expected in the level of government grants.

## Oil and gas exploration assets

### 8 Non-financial assets and liabilities

#### 8(a) Property, plant and equipment (extracts)

PAS16(73)  
PFRS6(24)(b),(25)

	Capitalized exploration and evaluation expenditure CU'000	Capitalized development expenditure CU'000	Subtotal – assets under construction CU'000	Production assets CU'000	Other businesses and corporate assets CU'000	Total CU'000
<b>At January 1, 2018</b>						
Cost	218	12,450	12,668	58,720	3,951	75,339
Accumulated amortization and impairment	(33)	-	(33)	(5,100)	(77)	(5,210)
	<u>185</u>	<u>12,450</u>	<u>12,635</u>	<u>53,620</u>	<u>3,874</u>	<u>70,129</u>
<b>Year ended December 31, 2018</b>						
Opening net book amount	185	12,450	12,635	53,620	3,874	70,129
Exchange differences	17	346	363	1,182	325	1,870
Acquisitions	-	386	386	125	4	515
Additions	45	1,526	1,571	5,530	95	7,196
Transfers	(9)	(958)	(967)	1,712	-	745
Disposals	(12)	(1,687)	(1,699)	-	-	(1,699)
Depreciation charge	-	-	-	(725)	(42)	(767)
Impairment charge	(7)	(36)	(43)	(250)	(3)	(296)
<b>Closing net book amount</b>	<u>219</u>	<u>12,027</u>	<u>12,246</u>	<u>61,194</u>	<u>4,253</u>	<u>77,693</u>
<b>At December 31, 2018</b>						
Cost	264	12,027	12,291	67,019	4,330	83,640
Accumulated amortization and impairment	(45)	-	(45)	(5,825)	(77)	(5,947)
	<u>219</u>	<u>12,027</u>	<u>12,246</u>	<u>61,194</u>	<u>4,253</u>	<u>77,693</u>

#### (i) Accounting for oil and gas assets

PFRS6(24)(a)  
PAS1(117)

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalized until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortization is charged during the exploration and evaluation phase.

#### *Development tangible and intangible assets*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalized within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production or intangible assets.

#### *Oil and gas production assets*

Oil and gas production properties are aggregated exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

#### *Depreciation/amortization*

No depreciation or amortization is charged during the exploration and evaluation phase.

Oil and gas properties intangible assets are depreciated or amortized using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

**8(a) Property, plant and equipment (extracts)**

*Impairment – exploration and evaluation assets*

PFRS6(18)

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognized for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

*Impairment – proved oil and gas production properties and intangible assets*

PAS36(9),(18),(59)

Proven oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

*(ii) Other exploration and evaluation assets and liabilities*

PFRS6(24)(b)

In addition to the exploration and evaluation assets disclosed above, the group also has the following assets and liabilities relating to exploration:

	<b>2018</b>	2017
	<b>CU'000</b>	CU'000
Receivables from joint venture partners (note 7(a))	<b>35</b>	22
Payable to subcontractors and operators (note 7(f))	<b>32</b>	34

*(iii) Amounts recognized in profit or loss*

PFRS6(24)(b)

Exploration and evaluation activities have led to total expenses of CU5,900,000 (2017 – CU5,700,000), of which CU5,200,000 (2017 – CU4,300,000) are impairment charges to write off costs of unsuccessful exploration activities.

In 2018, the disposal of a 16.67% interest in an offshore exploration stage 'Field X' resulted in post-tax profits on sale of CU3,000,000 (2017: nil).

Cash payments of CU41,500,000 (2017 – CU39,500,000) have been incurred related to exploration and evaluation activities. The cash proceeds due to the disposal of the interest in Field X were CU8,000,000 (2017 – nil).

**8(c) Intangible assets (extracts)**

PAS38(118)  
PFRS6(24)(b),(25)

	Capitalized exploration and evaluation expenditure CU'000	Capitalized development expenditure CU'000	Subtotal – assets under construction CU'000	Produc- tion assets CU'000	Goodwill CU'000	Other CU'000	Total CU'000
<b>At January 1, 2018</b>							
Cost	5,192	750	5,942	3,412	9,475	545	19,374
Accumulated amortization and impairment	(924)	-	(924)	(852)	(75)	(19)	(1,870)
	<u>4,268</u>	<u>750</u>	<u>5,018</u>	<u>2,560</u>	<u>9,400</u>	<u>526</u>	<u>17,504</u>
<b>Year ended December 31, 2018</b>							
Opening net book amount	4,268	750	5,018	2,560	9,400	526	17,504
Exchange differences	152	8	160	195	423	28	806
Acquisitions	26	32	58	5	-	5	68
Additions	381	8	389	15	-	86	490
Transfers to production	(548)	(302)	(850)	105	-	-	(745)
Disposals	-	(28)	(28)	(15)	-	-	(43)
Amortization charge	-	-	-	(98)	-	(42)	(140)
Impairment charge	(45)	-	(45)	-	(175)	(5)	(225)
<b>Closing net book amount</b>	<u>4,234</u>	<u>468</u>	<u>4,702</u>	<u>2,767</u>	<u>9,648</u>	<u>598</u>	<u>17,715</u>
<b>At December 31, 2018</b>							
Cost	5,203	468	5,671	3,717	9,898	659	19,945
Accumulated amortization and impairment	(969)	-	(969)	(950)	(250)	(61)	(2,230)
	<u>4,234</u>	<u>468</u>	<u>4,702</u>	<u>2,767</u>	<u>9,648</u>	<u>598</u>	<u>17,715</u>

**Oil and gas exploration assets**

**Comparatives required**

*Disclosure objectives*

1. This appendix does not show any comparative information for the illustrative disclosures. However, readers should note that comparative amounts must be disclosed to comply with the requirements of PAS 1.

PAS1(38)

## Appendix D: PFRS 16 Leases <sup>1,5,19</sup>

PFRS 16 was issued in January 2016. This appendix illustrates the types of disclosures that would be required if our fictional company, Value PFRS Plc, decided to apply PFRS 16 for its reporting period ending December 31, 2018 [as a lessee](#). Other circumstances might require additional disclosures that are not applicable to Value PFRS Plc. These are explained in the commentary at the end of this [document](#).

The disclosures in this document must be read in the context of the assumptions set out below. Different facts and circumstances could result in different measurements and classifications. Footnote references point to additional commentary at the end of this document.

### Assumptions made

In compiling these illustrative disclosures, we have made the following assumptions:

- Value PFRS Plc has applied PFRS 16 for the first time in the 2018 financial report (initial application date: January 1, 2018) and has chosen to adopt the new rules retrospectively as of January 1, 2018 (ie limited retrospective application) as permitted under PFRS 16 (C5)(b)). As a consequence, a third balance sheet is not required in the year of [adoption](#).
- The adoption of PFRS 16 required changes in the group's accounting policies and affected the recognition, measurement and presentation of certain amounts recognized in the statement of profit or loss and the balance sheet. See [note 26](#) for explanations.
- Value PFRS Plc has chosen to present the right-of-use assets as part of property, plant and equipment and the lease liabilities as other liabilities in the balance sheet. The related detailed information is provided in one single note.
- The primary financial statements reproduced below only show those line items that will be affected by the implementation of PFRS 16.
- Disclosures required under other standards are not illustrated (eg disclosures for property, plant and equipment in accordance with PAS 16 *Property, Plant and Equipment* and for financial instruments under PFRS 7 *Financial Instruments: Disclosures*). Deferred tax consequences arising as a result of the adoption of the new rules have also been ignored.
- Value PFRS Plc does not have any [right-of-use](#) assets that would meet the definition of investment property.
- Value PFRS Plc does not have any finance leases as lessor. None of the new disclosures that apply to lessors are therefore relevant and have been illustrated. The existing disclosures provided in relation to the operating leases of Value PFRS Plc [as lessor](#) in [note 8\(b\)](#) in the main body of this publication [will need to be supplemented by a number of additional disclosures, see paragraph 19 of the commentary to this Appendix for details](#).

PAS1(10)(b),(10A)

**Consolidated statement of profit or loss (extract)**PAS1(51)(c),(e)  
PAS1(113)

	Notes	2018 CU'000	2017 CU'000
<b>Continuing operations</b>			
Depreciation and amortization	8(a),8(c)	xxx	-
Operating leases		-	xxx
Other		xxx	-
PAS1(82)(b) Finance costs <sup>6</sup>	5(d)	xxx	-

PAS1(10)(a),(54)

**Consolidated balance sheet (extract)**PAS1(51)(c),(e)  
PAS1(113)

	Notes	2018 CU'000	2017 CU'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
PAS1(60),(66) Property, plant and equipment <sup>2,3</sup>	8(a),8(x)	xxx	-
<b>Non-current liabilities</b>			
PAS1(54)(k) Other liabilities <sup>2,4</sup>		xxx	-
<b>Current liabilities</b>			
PAS1(60),(69) Other liabilities <sup>2,4</sup>		xxx	-

PAS1(10)(c),(106)

**Consolidated statement of changes in equity (extract)**

	Notes	Attributable to owners of Value PFRS Plc						
		Share capital and premium CU'000	Other equity CU'000	Other reserves CU'000	Retained earnings CU'000	Total CU'000	Non-controlling interests CU'000	Total equity CU'000
PAS1(106)(d) <b>Balance at December 31, 2017</b>		63,976	(550)	11,566	36,561	111,553	5,689	117,242
PAS1(106)(b) Adjustment on adoption of PFRS 16 (net of tax)	26	-	-	-	xx	xx	-	xx
<b>Restated total equity at January 1, 2018</b>		<b>63,976</b>	<b>(550)</b>	<b>11,566</b>	<b>xx,xxx</b>	<b>xx,xxx</b>	<b>5,689</b>	<b>xxx,xxx</b>

PAS1(10)(d)  
IAS7(1),(10)  
PAS1(113)**Consolidated statement of cash flows (extract) <sup>7</sup>**

	Notes	2018 CU'000	2017 CU'000
<b>Cash flows from operating activities</b>			
Operating lease payments *		-	xxx
Payments for short-term and low value leases *		xxx	-
IAS7(31)-(33) Interest paid		xxx	xxx
<b>Cash flows from financing activities</b>			
IAS7(10),(21) <b>Principal elements of finance lease payments</b>		-	xxx
IAS7(17)(e) <b>Principal elements of lease payments</b>		xxx	-

\* These payments will generally not be shown separately, but included in payments to suppliers and employees (direct method of cash flow presentation) or cash generated from operations (indirect method).





**8(x) Leases**PAS1(117)  
PFRS16(27)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

PAS1(117)  
PFRS16(24)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date [less any lease incentives received](#)
- any initial direct costs, and
- restoration costs.

PFRS16(60)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

*(iv) Variable lease payments*

PFRS16(59)(b)(i),(B49)

*Estimation uncertainty arising from variable lease payments*

[Some property](#) leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

A 5% increase in sales across all stores in the group with such variable lease contracts would increase total lease payments by approximately x.x to x.x %.

PFRS16(59)(b)(ii),(B50)

*(v) Extension and termination options*

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by [the group](#) and not by the respective [lessor](#).

PFRS16(59)(b)(ii),(B50)

*Critical judgements in determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. [Extension options \(or periods after termination options\) are only included in the lease term if the lease is reasonably certain to be extended \(or not terminated\)](#). Potential future cash outflows of CUxx,000 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

PFRS16(20)

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment [and that is within the control of the lessee](#). During [the current](#) financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognized lease liabilities and [right-of-use](#) assets of CUxx,000.

**8(x) Leases***(vi) Residual value guarantees*

PFRS16(59)(b)(iii),(B51) To optimise lease costs during the contract period, the group sometimes provides residual value guarantees in relation to equipment leases.

*Estimating the amount payable under residual value guarantees*

PFRS16(59)(b)(iii),(B51) The group initially estimates and recognizes amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. At the end of reporting period, CUxx,000 (2017 – CUxxx,000) is expected to be payable and is included in calculating the lease liabilities while CUxx,000 (2017 – CUxxx,000) is not expected to be payable and has hence been excluded from the lease liabilities.

**12 Financial risk management (extract)****12(d) Liquidity risk (extract) <sup>8</sup>**

PFRS7(39)(b),(c), (B11)	<b>Contractual maturities of financial liabilities At December 31, 2018</b>	<b>Less than 6 months</b> CU'000	<b>6 – 12 months</b> CU'000	<b>Between 1 and 2 years</b> CU'000	<b>Between 2 and 5 years</b> CU'000	<b>Over 5 years</b> CU'000	<b>Total contractual cash flows</b> CU'000	<b>Carrying amount (assets)/ liabilities</b> CU'000
PFRS16(58)	Lease liabilities	xxx	xxx	xxx	xxx	xxx	xxx	xxx

**25 Summary of significant accounting policies (extract)****25(a) Basis of preparation (extract)***(iii) New and amended standards adopted by the group*

PAS1(117) The group has elected to apply PFRS 16 *Leases*. In accordance with the transition provisions in PFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on January 1, 2018. Comparatives for the 2017 financial year have not been restated. See **note 26** below for further details on the impact of the change in accounting policy.

**25(h) Leases (extracts)**

PAS1(119) As explained in **note 25(a)** above, the group has changed its accounting policy for leases. The new policy is described in **note 8(x)** and the impact of the change in **note 26**.

Until the 2017 financial year, leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership were classified as finance leases (**note 8(a)**). [See previous **policy 25(h)** in the main body of this publication for remainder of the text.]

**26 Changes in accounting policies <sup>11-18</sup>**

IAS8(28)(a)-(d)  
PFRS16(C5)(b),(C7) As indicated in **note 25(a)** above, the group has adopted PFRS 16 *Leases* retrospectively from January 1, 2018, but has not restated comparatives for the 2017 reporting period as permitted under the specific transition provisions in the standard.

PFRS16(C8),(C12)(a) On adoption of PFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2018 was xx.x%.

## 26 Changes in accounting policies

	2018 CU'000
<p>PFRS16(C12)(b) Operating lease commitments disclosed as at December 31, 2017 <sup>16,17</sup></p> <p>Discounted using the group's incremental borrowing rate of xx.x%</p> <p>Add: finance lease liabilities recognized as at December 31, 2017</p> <p>(Less): short-term leases recognized on a straight-line basis as expense</p> <p>(Less): low-value leases recognized on a straight-line basis as expense</p> <p>(Less): contracts reassessed as service agreements</p> <p>Add/(less): adjustments as a result of a different treatment of extension and termination options</p> <p>Add/(less): adjustments relating to changes in the index or rate affecting variable payments</p> <p><b>Lease liability recognized as at January 1, 2018</b></p>	<p>x,xxx</p> <p>x,xxx</p> <p>x,xxx</p> <p>(xxx)</p> <p>(xxx)</p> <p>(xxx)</p> <p>xx</p> <p>xx</p> <hr/> <p><b>x,xxx</b></p>
<p>PFRS16(C8)(b)(ii) The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2017. Property, plant and equipment increased by CUx,xxx,000 on January 1, 2018, prepayments reduced by CUxxx,000 and trade and other payables by CUxxx,000. The net impact on retained earnings on January 1, 2018 was CUxxx,000. <sup>17</sup></p>	
<p>PFRS16(C13),(C10) In applying PFRS 16 for the first time, the group has used the following practical expedients permitted by the standard: <sup>18</sup></p> <ul style="list-style-type: none"> <li>• the use of a single discount rate to a portfolio of leases with reasonably similar characteristics</li> <li>• the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2018 as short-term leases</li> <li>• the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and</li> <li>• the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.</li> </ul>	
<p>PFRS16(C4) The group has also elected not to apply PFRS 16 to contracts that were not identified as containing a lease under PAS 17 and IFRIC 4 <i>Determining whether an Arrangement contains a Lease</i>.</p>	

### PFRS 16 Leases

#### Objectives of disclosures

- PFRS16(51) 1. The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the balance sheet, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

#### Presentation

- PFRS16(47) 2. Right-of-use assets and lease liabilities must be presented separately from other assets and liabilities, but this can be done in the notes.
3. For the purpose of presentation in the balance sheet, right-of-use assets can be included within the same line item as that within which the corresponding underlying assets would be presented if they were owned, or in a separate line item. If right-of-use assets and lease liabilities are not presented as separate line items in the balance sheet, the notes must identify the line items which include these assets and liabilities.
4. While Value PFRS Plc has decided to reclassify lease liabilities from borrowings to other liabilities, this is not required under the standard and different presentations may be equally appropriate.
- PFRS16(48) 5. Right-of-use assets that meet the definition of investment property must be presented in the balance sheet as investment property.
- PFRS16(49) 6. Interest expense on lease liabilities must be presented as a component of finance cost in the statement of profit or loss and other comprehensive income.

## PFRS 16 Leases

PFRS16(50)

7. Cash flows relating to leases must be presented as follows
- (a) cash payments for the principal portion of the lease liabilities as cash flows from financing activities
  - (a) cash payments for the interest portion consistent with presentation of interest payments chosen by the group (see the commentary in relation to presentation of interest in the statement of cash flows in the main body of this publication on [page 25](#)), and
  - (b) short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

PFRS16(58)

8. Lease liabilities must be disclosed separately in the disclosure of maturities of financial liabilities that is required under PFRS 7 paragraphs 39 and B11.

### Right-of-use assets

9. Where [right-of-use assets](#) are presented together with other items of property, plant and [equipment, entities](#) will need to consider how this affects the relevant disclosures ([note 8\(a\)](#) in the main body of this publication). Depending on materiality, [right-of-use assets](#) may need to be disclosed as a separate class of assets in the reconciliation that is required under PAS 16 *Property, Plant and Equipment*.
10. Where an entity elects to present [right-of-use assets](#) as separate line items in the balance sheet, the disclosures in PAS 16 do not apply and the illustrative disclosures provided in [note 8\(x\)](#) in this [Appendix](#) would be sufficient. However, if the entity has significant amounts of [right-of-use assets](#), readers of the financial statements might find it useful if the entity provides the information set out in [note 8\(x\)\(i\)](#) and [\(ii\)](#) in form of reconciliations from opening to closing balances for the [right-of-use assets](#) and lease liabilities.

### Transition

PFRS16(C1)

11. PFRS 16 is effective for reporting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with PFRS 15 *Revenue from Contracts with Customers*.

PFRS16(C3)

12. As practical expedient, entities can elect to apply the new guidance regarding the definition of a lease only to contracts entered into (or changed) on or after the date of initial application. Existing lease contracts will not need to be reassessed. However, this expedient must be consistently applied to all contracts.

PFRS16(C9),(C10)

13. Other transition exemptions are available for leases with a remaining term of 12 months or less and for low value assets (both on a lease-by-lease basis).

PFRS16(C5)(b),(C6)

14. The standard further permits the use of a simplified transition approach which is outlined below. Full retrospective application is optional, but if chosen must be applied to all leases. Selective application of the simplified transition approach is not permitted.
15. Where a lessee applies the simplified approach, it does not restate any comparative information. Instead, the cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings (or another component of equity, as appropriate) at the date of initial application.

PFRS16(C8)

Balance sheet item	Measurement
<b>Leases previously classified as operating leases</b>	
Lease liability	Present value of remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application
Right-of-use asset	Retrospective calculation, using a discount rate based on the lessee's incremental borrowing rate at the date of initial application.  Or Amount of lease liability (adjusted by the amount of any previously recognized prepaid or accrued lease payments relating to that lease).  <i>Lessees can choose one of the alternatives on a lease-by-lease basis.</i>

## PFRS 16 Leases

PFRS16(C11)

Balance sheet item	Measurement
<b>Leases previously classified as finance leases</b>	
Lease liability	Carrying amount of the lease liability immediately before the date of initial application.
Right-of-use asset	Carrying amount of the lease asset immediately before the date of initial application.
Lease liabilities and right-of-use assets	Any measurement adjustments arising from applying PFRS 16 are recognized post-transition, ie not through retained earnings.

PFRS16(C12)

16. Entities that apply the simplified approach must disclose the weighted average incremental borrowing rate applied to lease liabilities recognized at the date of initial application and an explanation of any difference between:
- the operating lease commitments disclosed applying PAS 17 at the end of the annual reporting period immediately preceding the date of initial application (discounted using the incremental borrowing rate at the date of initial application) and
  - the lease liabilities recognized at the date of initial application under PFRS 16.
- In our view, it would be most meaningful if this information is provided via a reconciliation as demonstrated on page 234. However, the format is not prescribed and it may also be appropriate to provide the relevant information in narrative format without quantifying the actual differences, provided the most significant effects are identified and clearly described.

PFRS16(C12),IAS8(28)(f)

17. An entity that has applied the simplified approach does not need to disclose the impact of the adoption of the standard on the individual line items of the financial statements that are affected. Having said that, we recommend disclosing the adjustments recognized on the date of initial application at least in the narrative explanations provided.

PFRS16(C13),(C10)

18. Entities must disclose if they have applied any of the following practical expedients:
- applying a single discount rate to a portfolio of leases with similar characteristics
  - relying on previous assessment of whether a lease is onerous
  - accounting for leases which end within 12 months of the date of initial application as short-term leases
  - excluding initial direct costs from the measurement of the right-of-use asset, and
  - using hindsight, eg in determining the lease term where the contract includes extension or termination options.

### Disclosures not illustrated: not applicable to Value PFRS Plc

19. The following requirements of PFRS 16 are not illustrated in this Appendix:

PFRS16(53)(i),(59)(d),(B52)

Issue not illustrated	Relevant disclosures or reference
Sale and leaseback transactions	Disclose gain or loss separately in the notes and consider additional information set out in paragraph B52 of the standard.
Sub-leasing of rights of use assets	Disclose income from sub-leasing.
Portfolio of short-term leases at the end of the reporting period is dissimilar to the portfolio of short-term leases held during the year	Disclose lease commitments for short-term leases accounted recognized as expenses on a straight-line basis.
Right-of-use assets that meet the definition of investment property	Apply the disclosure requirements of PAS 40 <i>Investment Property</i> . Lessees are not required to disclose the depreciation charge, income from sub-leasing, additions and the carrying amount by class of underlying asset at the end of the reporting period in relation to these assets.

PFRS16(53)(f)

PFRS16(55)

PFRS16(56)

PFRS 16 Leases		
PFRS16(57)	Right-of-use assets are measured at revalued amount under PAS 16.	Provide the disclosures required by paragraph 77 of PAS 16 in relation to those assets.
PFRS16(59)(b)(iv)	Leases not yet commenced to which the lessee is committed	Provide information about the future cash outflows to which the lessee is potentially exposed.
PFRS16(C10)(b)	Use of practical expedient on transition to PFRS 16 in relation to onerous leases	Disclose the fact that this exception has been applied.
PFRS16(89)-(97)	The entity is a lessor	Provide information which allows users of the financial statements to assess the effect that leases have on the lessor's financial position, financial performance and cash flows.
PFRS16(90)(a)		For finance leases: <ul style="list-style-type: none"> <li>• selling profit or loss</li> <li>• finance income on the net investment in the lease</li> <li>• income relating to variable lease payments not included in the measurement of the net investment</li> </ul>
PFRS16(93)		• qualitative and quantitative explanation of significant changes in the carrying amount of the net investment in the lease, and
PFRS16(94)		• maturity analysis of lease payments receivable for a minimum of each of the first five years plus a total amount for the remaining years; reconciliation to the net investment in the lease.
PFRS16(90)(a)		For operating leases: <ul style="list-style-type: none"> <li>• lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate</li> <li>• maturity analysis of lease payments for a minimum of each of the first five years plus a total amount for the remaining years</li> <li>• for items of property, plant and equipment that are subject to an operating lease, the disclosures required by PAS 16 separately for the assets subject to an operating lease and for those that are held and used by the lessor, and</li> <li>• where applicable, the disclosure required by PAS 36, PAS 38, PAS 40 and PAS 41.</li> </ul>
PFRS16(97)		
PFRS16(95)		
PFRS16(96)		
PFRS16(92)		Qualitative disclosures for all leases about: <ul style="list-style-type: none"> <li>• the nature of the entity's leasing activities, and</li> <li>• the management of the risks associated with any rights retained in the underlying assets.</li> </ul>



## Appendix E: Abbreviations

Abbreviations used in this publication are set out below.

AfS	Available-for-sale (financial assets)
AGM	Annual General Meeting
bps	basis points
CGU	Cash-Generating Unit
CODM	Chief operating decision maker
DP	Discussion Papers
ED	Accounting Exposure Drafts
ESMA	European Securities and Markets Authority
Framework	The <i>Conceptual Framework for Financial Reporting</i> ( <a href="#">September 2010</a> )
FVLCOD	Fair value less costs of disposal
FVOCI	(Financial assets/liabilities at) fair value through other comprehensive income
FVPL	(Financial assets/liabilities at) fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
PAS	International Accounting Standards (“R” indicates revised standard before its mandatory application date)
IASB	International Accounting Standards Board
IFRIC	Interpretations issued by the PFRS Interpretations Committee of the IASB
PFRS	International Financial Reporting Standards (“R” indicates revised standard before its mandatory application date)
ISA	International Standards on Auditing
NCI	Non-controlling interest
OCI	Other comprehensive income
SIC	<a href="#">Interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee, the predecessor of the IASB.</a>
STI	Short-term incentive
TSR	Total shareholder return

Notes