

# Introduction

Welcome to the model annual report of Green Dot Holdings Limited and subsidiaries for the year ended 31 December 2009. Green Dot Holdings Limited is a fictional New Zealand company registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange.

Keeping up to date with the various presentation and disclosure requirements of the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') continues to be an ongoing challenge. With this in mind, this model annual report has been designed by Deloitte to assist clients, partners and staff with the preparation of annual financial statements. They have been prepared as an illustrative example of general purpose financial statements of an entity comprising a parent and its subsidiaries, in accordance with the Financial Reporting Act 1993, the Companies Act 1993 and Standards and Interpretations approved by the Accounting Standards Review Board ('ASRB') for application for periods ending on or after 31 December 2009.

This model annual report is not designed to meet the specific needs of specialised industries. Rather, it is intended to meet the needs of the vast majority of entities in complying with the annual reporting requirements of the New Zealand Stock Exchange Listing Rules, Companies Act 1993, Financial Reporting Act 1993 and Standards and Interpretations approved by the ASRB (as at 15 December 2009). Enquiries regarding specialised industries (e.g. life insurance companies, financial institutions, etc.) should be directed to an industry specialist in your nearest Deloitte office.

Current accounting practices and changes in financial reporting standards have been incorporated into this model annual report at the time of publication. Due to the continually evolving nature of accounting practices it is important that the preparer of the annual report maintains an awareness of financial reporting developments and how these impact on the preparer's annual report.

Other useful tools and publications to assist in meeting the International Financial Reporting Standards ('IFRS') challenge can be found on Deloitte's New Zealand website [www.deloitte.co.nz](http://www.deloitte.co.nz) and Deloitte's global IFRS website [www.iasplus.com](http://www.iasplus.com) which contains checklists and other useful IFRS publications.

Denise Hodgkins  
15 December 2009



## Source references

Suggested disclosures are cross referenced to the underlying requirements of the relevant legislation and NZ IFRS in the left hand column of each page of this model annual report. Where doubt exists as to the appropriate treatment examination of the source of the disclosure requirement is recommended.

Abbreviation/Term	What it stands for
ASRB	Accounting Standards Review Board (New Zealand).
CG Handbook	Corporate Governance in New Zealand, Principles and Guidelines: A Handbook for Directors, Executives and Advisors.
Co Act	Companies Act 1993.
FRA	Financial Reporting Act 1993.
FRS	Financial Reporting Standard.
FRSB	Financial Reporting Standards Board (New Zealand).
GAAP	Generally Accepted Accounting Practice.
IAS	International Accounting Standard.
IASB	International Accounting Standards Board.
IFRIC	International Financial Reporting Interpretations Committee of the IASB. Also used to refer to the interpretations issued by this committee.
IFRS	International Financial Reporting Standards.  IFRS incorporates IAS (inherited by the IASB from its predecessor body the IASC), IFRS (issued by the IASB) and the interpretations of both types of standards (SICs, IFRICs).
MED	Ministry of Economic Development.
NZICA	New Zealand Institute of Chartered Accountants.
NZ IAS	New Zealand equivalents to International Accounting Standards.
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards.
NZX	New Zealand Stock Exchange.
NZAX	New Zealand Alternative Market.
NZDX	New Zealand Debt Market.
NZSX	New Zealand Stock Market.
NZXCGBPC	New Zealand Stock Exchange Corporate Governance Best Practice Code.
Qualifying Entity	An entity which qualifies for differential reporting concessions in accordance with the <i>Framework for Differential Reporting for Entities Applying the NZ IFRS Regime</i> .
Reporting Entity	Entities subject to legal requirements on financial reporting.  Which entities constitute reporting entities has been reviewed by the MED and the proposals are open for comment. Refer to page A1.
SIC	Interpretation(s) issued by the Standing Interpretations Committee of the IASC, the predecessor committee to the IFRIC.

# Model annual report

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This publication is intended as background briefing only. It should only be utilised by someone with a detailed knowledge of New Zealand equivalents to International Financial Reporting Standards. It is not intended to be relied upon as, nor to be a substitute for, specific professional advice. Although this document is based on information from sources which are considered reliable, Deloitte, its partners, directors, employees and consultants do not represent, warrant or guarantee that the information contained in this document is complete and accurate.

No liability will be accepted for any loss occasioned to any party acting upon or refraining from acting in reliance on information contained in this publication, nor does Deloitte accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document. As this document is prepared without consideration of any specific objectives, financial situation or needs, deals with aspects of the industry in question rather than its entirety and is time sensitive, a Deloitte partner should be consulted before any financial reporting decisions are made.



# Section A – Reporting obligations

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# Reporting requirements

## Adoption of New Zealand equivalents to International Financial Reporting Standards

On 24 November 2004 the ASRB approved the stable platform of NZ IFRS. NZ IFRS has additional requirements for profit-oriented entities and for public benefit entities to those required under International Financial Reporting Standards ('IFRS').

The compelling reason for New Zealand's convergence with IFRS is that a single set of high quality accounting standards which are accepted in major international capital markets will greatly facilitate cross-border comparisons by investors, reduce the cost of capital and assist New Zealand companies wishing to raise capital or list overseas.

All reporting entities in New Zealand, other than those noted below, were required to comply with NZ IFRS for reporting periods beginning on or after 1 January 2007.

**A list of the NZ IFRS applicable on or after 1 January 2009 is detailed in Section D of this model annual report.**

## Delay in mandatory adoption of NZ IFRS

The ASRB and the FRSB made a joint announcement in September 2007 regarding the deferral of the mandatory adoption of NZ IFRS for certain small entities. A company may delay its adoption if it meets the following criteria:

- it is not an Issuer as defined by the FRA in either the current or preceding accounting period;
- it is not required by s.19 of the FRA to file its financial statements; and
- it is not large, as defined by s.19A of the FRA (i.e. a company or group is not large if at least two of the following apply - total revenue of group does not exceed \$20 million; total assets do not exceed \$10 million; it does not have more than 50 full time equivalent employees).

Other entities may delay their adoption if they are:

- not subject to the FRA or otherwise required to comply with financial reporting standards approved by the ASRB; and
- not publicly accountable and not large as defined in the Framework for Differential Reporting (i.e. an entity is not large if at least two of the following apply - total income does not exceed \$20 million; total assets do not exceed \$10 million; it does not have more than 50 employees).

## Proposed changes to the financial reporting framework

The above delay is subject to the government review of the financial reporting requirements applying to small and medium sized companies under the FRA which commenced in mid-2008. In September 2009 the MED released a discussion paper '*The Statutory Framework for Financial Reporting*' which proposes changes to the standard setting infrastructure and discusses which entities should have financial reporting obligations. The ASRB simultaneously released a companion document '*Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting*'. This document identifies the changes that the ASRB proposes to implement in the event that the changes that are outlined in the MED document are enacted.

The new framework is intended to be all encompassing and considers all entities in the for-profit, public and not-for-profit sectors. The proposals will have some far-reaching consequences including:

- small closely held companies (including small overseas owned and overseas incorporated entities) may find that they no longer have any legislative financial reporting requirements;
- large for-profit entities, other than companies, will be brought within the financial reporting regime;
- many not-for-profit entities will become subject to financial reporting preparation, audit and filing requirements;
- large, privately-held companies may be required to file audited financial statements, however companies existing when the legislation is passed may be exempted (a grandfathering provision).

Changes in accounting standards are also proposed including:

- the International Accounting Standards Board's IFRS for small and medium-sized entities (IFRS for SMEs) or an alternative differential reporting IFRS framework may be adopted for non publicly accountable entities;
- the accounting standards of the International Public Sector Accounting Standards Board (IPSASB) may be adopted for public sector and not-for-profit entities instead of NZ IFRS;
- simple format reporting for small not-for-profit and small public sector entities.

The proposed statutory framework will affect most entities. The proposals in the papers are open for discussion and submissions are due by 29 January 2010.

**The MED discussion document is available on the MED website at [www.med.govt.nz](http://www.med.govt.nz)**

**The ASRB discussion document is available on the ASRB website at [www.arsb.co.nz](http://www.arsb.co.nz)**



### The Framework for Differential Reporting

For those entities that are not exempt from the mandatory adoption of NZ IFRS, the Framework for Differential Reporting may be available to reduce the reporting requirements under NZ IFRS. The *Framework for Differential Reporting for Entities Applying the NZ IFRS Reporting Regime* was approved by the ASRB in June 2005 under the Financial Reporting Act 1993 as an interim approach to reduce the reporting requirements imposed on certain qualifying entities. The Framework is based on the *Framework for Differential Reporting* for superseded NZ GAAP initially developed in 1994. The new Framework was issued in June 2005 and includes subsequent amendments.

The *Framework for Differential Reporting for Entities Applying the NZ IFRS Reporting Regime* issued by the FRSB allows qualifying entities to avail themselves of exemptions from certain disclosures and measurement requirements of NZ IFRS. For more details refer to A6 to A7.

Entities who apply the Differential Reporting exemptions cannot assert compliance with IFRS. Such entities are however able to assert that the financial statements have been prepared in accordance with NZ GAAP and NZ IFRS, as appropriate for profit orientated / public benefit entities that qualify for and apply differential reporting concessions.

**Differential reporting disclosure exemptions are identified in this model annual report by a vertical border against the far left margin of the 'source' column.**

**An illustrative example of model financial statements for an entity that qualifies for differential reporting is available on [www.deloitte.co.nz](http://www.deloitte.co.nz)**



## Legislative Framework

The current legislative framework as it is relevant to financial reporting in New Zealand is detailed below:

Key definitions used in this section are set out on pages A11 to A12.

### Annual report

#### When is an annual report required?

The Companies Act 1993 s.208 requires companies to prepare an annual report on the affairs of the company during the accounting period. This report is required within 5 months of balance date (9 months for an exempt company).

**Please refer to the Timeline of Critical Dates in Section D of this model annual report for a summary of all reporting dates.**

#### Who should receive a copy of the annual report?

The Companies Act 1993 s.209 requires the Board of a company to send to every shareholder of the company not less than 20 working days before the date fixed for holding the annual meeting of the shareholders:

- (a) a copy of the annual report; or
- (b) a notice containing:
  - (i) a statement to the effect that the shareholder has a right to receive from the company, free of charge, a copy of the annual report if the shareholder, within 15 working days of receiving the notice, makes a request to the company to receive a copy of the annual report; and
  - (ii) a statement to the effect that the shareholder may obtain a copy of the annual report by electronic means; and
  - (iii) a statement as to how the shareholder may obtain a copy of the annual report by electronic means (e.g. from a specified website address); and
  - (iv) a statement as to whether the Board of the company has prepared, in relation to the same accounting period as the annual report, a concise annual report and if so, a statement containing the information detailed in (i) to (iii) above in respect of the concise annual report.

Upon receiving a request (as per (b)(i) above) from the shareholder to receive a copy of the annual report or concise annual report then the Board of the company must send to the shareholder a copy of the annual report or concise annual report, free of charge, as soon as practicable after receiving the request.

Under s.211A of the Companies Act 1993 the obligations to prepare an annual report under s.208 or to send and make available under s.209 to s.209B any annual report, notice or other document in respect of the accounting period do not apply to non-active companies.

### What are the minimum requirements of an annual report?

#### The Companies Act 1993 Requirements:

Illustrative disclosures have been set out on pages B8 to B12.

The Companies Act 1993 s.211 requires the annual report to be in writing, dated and signed by two directors of the company or, if the company only has one director, by that director. The following additional disclosures are required:

- (a) a description of any material change during the accounting period in:
  - (i) the nature of the business of the company or any of its subsidiaries; or
  - (ii) the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise; and
- (b) signed company and group financial statements for the period; and
- (c) an auditors' report if required; and
- (d) particulars of entries in the interest register made during the accounting period; and
- (e) in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the accounting period; and
- (f) the number of employees or former employees of the company (not being directors of the company) who received remuneration and any other benefits during the accounting period of \$100,000 per annum or more. The number of such employees or former employees in brackets of \$10,000 is required; and
- (g) the total amount of donations made during the accounting period; and
- (h) the names of the persons holding office as directors of the company at the end of the accounting period and those who ceased to hold office as directors during the accounting period; and
- (i) amounts payable to the auditor of the company as audit fees and, as a separate item, for other services provided.

Where group financial statements are required, the annual report should also disclose the information specified in (d) to (i) above including its subsidiaries. Where all shareholders agree, the annual report of a company need not comply with paragraphs (a) and (d) to (i) above.

### ***The New Zealand Stock Exchange Listing Rules:***

Illustrative disclosures have been set out on pages B13 to B16.

### **NZSX/NZDX Listing Rules:**

Rules 10.5.1 and 10.5.5 of the NZSX/NZDX Listing Rules require a number of disclosures in annual reports of Issuers with securities which are traded on the Exchange.

Important disclosures required by these rules are as follows:

- (a) all information required by law; and
- (b) all information required in a preliminary announcement (refer to detailed content in section D of this model annual report); and
- (c) information required to be published by sub-part 3 of part 2 of the Securities Markets Act 1988 and, in the case of a company, the information required by s.211 of the Companies Act 1993; and
- (d) the names and holdings of equity securities of the holders having the 20 largest holdings of quoted equity securities on the register of the Issuer as at a date not earlier than 2 months before the date of the publication of the annual report; and
- (e) the equity securities in which each director has a relevant interest at the balance date of the current financial year; and
- (f) details of the spread of quoted security holders at a date not earlier than 2 months before the date of the publication of the annual report; and
- (g) current credit rating status (if any) of the Issuer; and
- (h) a summary of all waivers granted and published by NZX, or relied upon by the Issuer, in the 12 month period preceding the date 2 months before the date of the publication of the annual report, or a statement that such waivers have been granted to the Issuer and an appropriate cross reference to the Issuer's website where a summary of such waivers are published and will remain published for a period of 12 months following publication of the annual report; and
- (i) details of any exercise of NZX's powers set out in Rule 5.4.2; and
- (j) a statement of any corporate governance policies, practices and processes, adopted and followed by the Issuer; and
- (k) a statement on whether and, if so, how the corporate governance principles adopted or followed by the Issuer materially differ from the Corporate Governance Best Practice Code or a clear reference to where such statement may be found on the Issuer's public website; and

- (l) a statement as to which of its directors are independent directors and which of its directors are not independent directors, as at the balance date of the Issuer; and
- (m) details of any director appointed pursuant to provisions of the Constitution complying with Rule 3.3.5 and the security holder which appointed that director; and
- (n) Any other information prescribed by the NZX.

### **NZAX Listing Rules:**

Similar disclosures are required by rules 10.5.1 and 10.5.5 of the NZAX Listing Rules.

### **Other**

In accordance with Rule 10.5.3 of the NZSX/NZDX and NZAX Listing Rules the requirements of half-yearly reports are detailed in Appendix 1 to the respective NZX Listing Rules.

Rule 10.5.7 of the NZSX/NZDX and NZAX Listing Rules requires an Issuer which extends its half-yearly reporting period or changes its annual balance date to a later date, to make a report containing such information. This report is to be released at such time as NZX shall require in respect of the existing half-yearly reporting period or the period ending on the existing balance date.

Rule 10.5.5(h) of the NZSX/NZDX and NZAX Listing Rules requires listed companies to provide a statement of any corporate governance policies, practices and processes which are adopted or followed by the Issuer. We recommend the issue of such a statement by all publicly accountable entities, as an assurance to users that reasonable steps have been taken to minimise the corporate governance related risks to which entities and investors are exposed. Refer to more detailed guidance on pages B1 to B7.

**Further details of the NZSX/NZDX/NZAX Listing Rules can be found at: [www.nzx.co.nz](http://www.nzx.co.nz)**



## What are the minimum requirements of a concise annual report?

### *The Companies Act 1993 Requirements*

The Companies Act 1993 s.209(5) requires every concise annual report for a company to include either:

- (a) the financial statements or group financial statements, as appropriate, for the accounting period completed and signed in accordance with the FRA and any auditor's report on those financial statements; or
- (b) summary financial statements for the company or group, as appropriate, which must give a true and fair view and comply with generally accepted accounting practice.

### *The New Zealand Stock Exchange Listing Rules*

Where a concise annual report is prepared in relation to the same accounting period as an annual report Rule 10.5.6 of the NZSX/NZDX and NZAX Listing Rules requires the following disclosures to be contained in the concise annual report:

- (a) the disclosures required by s.209(5) of the Companies Act 1993 (as above); and
- (b) the information detailed in (g) to (i) on page A4.



## Financial statements

### When are financial statements required to be prepared?

The FRA s.10 requires the directors of every reporting entity to prepare financial statements within 5 months of balance date. This same requirement applies to group financial statements as prescribed by the FRA s.13. The financial statements and group financial statements must be dated and signed on behalf of the directors by two directors of the entity, or, if the entity only has one director, by that director.

If all shareholders agree, the directors of an exempt company may extend this period to 9 months after balance date.

Group financial statements are not required in relation to a reporting entity that is a company if, on the balance date of the company, the company is not an Issuer and the only shareholder of the company is a reporting entity that is a body corporate that is incorporated in New Zealand (and/or its subsidiary and/or the nominee of either).

A non-active entity is not required to prepare financial statements in accordance with the FRA s.10A if it has, within a specified period, delivered to the Registrar a declaration in the prescribed form stating that it is a non-active entity in respect of that accounting period.

**Refer to the Timeline of Critical Dates in section D of this model annual report for a summary of all reporting dates.**

### When are financial statements required to be audited?

#### Issuers

The FRA s.15 requires the directors of an Issuer to ensure that the financial statements of the Issuer and group financial statements (if any), are audited. The auditor must be appointed in accordance with the Companies Act 1993 or, in the case of an overseas issuer, be qualified for appointment under s.199 of the Companies Act 1993. If the Issuer is incorporated or registered under any other Act that provides for the appointment of an auditor, an auditor will be appointed under that Act. If the Issuer is a public entity under the Public Audit Act 2001, the financial statements and any group financial statements will be audited by the Auditor-General.

The New Zealand Stock Exchange Rules require the financial statements contained in the annual report of an Issuer to be audited (Rule 10.5.1).

#### Other

The Companies Act 1993 s.196 requires overseas companies and other companies with overseas connections (as outlined in the definitions section) to appoint an auditor.

Section 196 also requires other companies to appoint an auditor unless there is a unanimous resolution of shareholders at or before the annual meeting of shareholders. If the company is a public entity as defined in the Public Audit Act 2001 s.4 and 5, the Auditor-General is automatically appointed its auditor.

### When are financial statements required to be filed?

All Issuers, overseas companies and certain other companies with overseas connections are required to deliver copies of their financial statements, group financial statements and auditor's report to the Registrar within 20 working days after the financial statements are required to be signed in accordance with the FRA s.18(1) and s.19.

NZSX/NZDX and NZAX Rule 10.5.1 requires each Issuer to deliver to the NZX electronically, and make available to each quoted security holder an annual report (which must contain audited financial statements) within three months (NZDX/NZSX) / four months (NZAX) after the end of each financial year of the Issuer. The annual report is required to be delivered to the NZX before or at the same time as it is made available to security holders.

### What should the financial statements include?

The financial statements and group financial statements of all reporting entities must comply with GAAP and provide a true and fair view. The content of financial statements is covered by financial reporting standards.

In respect of a reporting entity that is an overseas company, the financial statements and group financial statements includes, in addition to the financial statements and group financial statements (if any) of the overseas company, financial statements and group financial statements in respect of the company's and the group's New Zealand business prepared as if that business were conducted by a company/companies formed and registered in New Zealand.

Rule 10.6.2 of the NZSX/NZDX and NZAX Listing Rules notes that the NZX may require an Issuer to provide in its financial statements information additional to that required by the FRA.

### On what basis should the financial statements be prepared?

Financial reporting requirements are governed by the FRA and the *Framework for Differential Reporting for Entities Applying the NZ IFRS Reporting Regime*, issued by the New Zealand Institute of Chartered Accountants (NZICA). The three tiers of reporting requirements are as follows:

#### Exempt Companies under the FRA

Exempt companies are required to produce their financial statements in accordance with the Financial Reporting Order 1994. They are not reporting entities under the FRA and are not required to comply with GAAP.

#### Reporting entities which are qualifying entities under the Framework for Differential Reporting

The *Framework for Differential Reporting for Entities Applying the NZ IFRS Reporting Regime* allows qualifying entities to avail themselves of exemptions from certain disclosures and measurement requirements of NZ IFRS. The criteria for identifying qualifying entities are detailed in the diagram on the next page.

An entity may only qualify for differential reporting on the basis of size if the size criteria have been met for two consecutive balance dates (or one if it is the entity's first balance date).

Where the entity is a group, the criteria is applied to the group comprising the parent company and all its subsidiaries.

## How to identify qualifying entities

### THE ENTITY DOES NOT HAVE 'PUBLIC ACCOUNTABILITY – THAT IS:

- it was not an Issuer in the current or preceding reporting period; and
- it does not have the coercive power to tax, rate or levy to obtain public funds

AND

EITHER

Every owner of the entity is also a member of its governing body **and** neither its parent nor its ultimate controlling body has the coercive power to tax, rate or levy to obtain public funds.

OR

The entity is not 'large'. An entity is 'large' if any two of the following apply:

- total income exceeds \$20 million
- total assets exceed \$10 million
- number of full-time equivalent paid employees exceeds 50.

Qualifying entity



Differential reporting applies

The implications of qualifying for differential reporting are:

- qualifying entities are granted **full exemption** from NZ IAS 7 *Statement of Cash Flows*; and
- qualifying entities are given **partial exemption** from the following standards:

NZ IAS 1	<i>Presentation of Financial Statements (revised 2007)</i>
NZ IAS 2	<i>Inventories</i>
NZ IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
NZ IAS 11	<i>Construction Contracts</i>
NZ IAS 12	<i>Income Taxes</i>
NZ IAS 16	<i>Property, Plant and Equipment</i>
NZ IAS 17	<i>Leases</i>
NZ IAS 18	<i>Revenue</i>
NZ IAS 19	<i>Employee Benefits</i>
NZ IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
NZ IAS 23	<i>Borrowing Costs (revised 2007)</i>
NZ IAS 24	<i>Related Party Disclosures</i>
NZ IAS 28	<i>Investments in Associates</i>
NZ IAS 36	<i>Impairment of Assets</i>
NZ IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
NZ IAS 38	<i>Intangible Assets</i>
NZ IAS 40	<i>Investment Property</i>
NZ IAS 41	<i>Agriculture</i>

NZ IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
NZ IFRS 7	<i>Financial Instruments: Disclosures</i>
FRS 42	<i>Prospective Financial Statements</i>
NZ SIC 27	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>
NZ SIC 32	<i>Intangible Assets – Web Site Costs</i>
NZ IFRIC 7	<i>Applying the Restatement Approach under NZ IAS 29 Financial Reporting in Hyperinflationary Economies</i>
NZ IFRIC 15	<i>Agreements for the Construction of Real Estate</i>

Except in relation to the exemptions available in the standards noted above, qualifying entities are required to comply fully with GAAP which includes NZ IFRS.

Differential reporting disclosure exemptions are identified by a vertical border against the far left margin of the 'source' column in this model annual report. Entities may need to consider whether some disclosures should still be made to give a true and fair view or to comply with the general disclosure principles e.g. NZ IFRS 7.7 requires an entity to give information that enables users to evaluate the significance of financial instruments for its financial position and financial performance.

### Reporting entities that are not qualifying entities

All Issuers and companies (other than exempt companies, qualifying entities and public sector entities which do not meet the size criteria) are required to comply fully with GAAP.





### Compliance with Generally Accepted Accounting Practice

The financial statements and group financial statements of all reporting entities must comply with GAAP, in accordance with the FRA s.11(1) and 14(1).

The annual financial statements of the Crown and all Departments, Offices of Parliament and Crown entities must be prepared in accordance with GAAP as required by the Public Finance Act 1989 and the Crown Entities Act 2004. A number of other entities are also required to comply with GAAP by their empowering legislation.

GAAP is defined in s.3 of the FRA as:

- (a) applicable financial reporting standards; and
- (b) in relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of law, accounting policies that:
  - (i) are appropriate to the circumstances of the reporting entity; and
  - (ii) have authoritative support within the accounting profession in New Zealand.

NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that in the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy and in doing so the following should be considered in descending order:

- (a) the requirements and guidance in Standards and Interpretations dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *New Zealand Framework*.

In making their judgement, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources described above.

### Summary Financial Statements

The Companies Act 1993 s.209 allows a company to prepare a concise annual report and include summary financial statements rather than full financial statements. S.209(6) requires summary financial statements to give a true and fair view and comply with GAAP. For summary financial statements GAAP is governed by FRS 43 *Summary Financial Statements*.

## Other information in annual reports

### Management discussion and analysis

#### What matters should be considered when preparing the management discussion and analysis?

A Directors' Report or management discussion and analysis is not specifically required by the Companies Act 1993 however s.211(1)(a) of the Companies Act 1993 requires details of material changes in the nature of the business of the company or the class of business in which the company has an interest. In addition, a commentary on the results for the period is a requirement under NZSX/NZDX and NZAX Listing Rules for the Preliminary Announcement in respect of a full year.

**The full requirements of the NZX preliminary announcement are detailed in Section D of this model annual report.**

To this end many companies include a Chairman's Report and a Managing Directors' Report in their annual report which include information regarding the performance of the company and the events that have occurred during the reporting period.

The content and structure of these reports have historically been at the preparer's discretion. The IASB has issued an Exposure Draft entitled *Management Commentary* which presents a proposed framework for preparing and presenting both historical and prospective commentary presented in conjunction with financial statements prepared in accordance with IFRS. While the IASB intends to issue the final document as non-mandatory guidance rather than a Standard, the document would likely be considered to represent best practice.

The Exposure Draft can be downloaded from the IASB website. Comments on the Exposure Draft should be submitted to the IASB by 1 March 2010. Further information on the proposals presented in the exposure draft can be found in the Deloitte IAS Plus Newsletter: *IASB issues proposals regarding management commentary*.

Although the relevant focus of management commentary will depend on the facts and circumstances of the entity, the Exposure Draft *Management Commentary* provides that a management commentary includes information that is essential to an understanding of:

- (a) the nature of the business including discussion of matters such as:
- the industries in which the entity operates;
  - the entity's main markets and competitive position within those markets;
  - significant features of the legal, regulatory and macro-economic environment that influence the entity and the markets in which the entity operates;
  - the entity's main products and services, business processes and distribution methods; and
  - the entity's structure and its economic model;

- (b) management's objectives and strategies for meeting those objectives;
- (c) the entity's most significant resources, risks and relationships including:
- critical financial and non-financial resources available and how they will be used in meeting management's stated objectives for the entity;
  - analysis of the adequacy of the entity's capital structure, financial arrangements, liquidity, cash flows and plans to address any identified inadequacies or surplus resources;
  - principal strategic, commercial, operational and financial risks covering both exposure to negative consequences and potential opportunities; and
  - identification of significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed;
- (d) the results of operations and prospects including:
- the extent to which these results (both financial and non-financial) may be indicative of future performance; and
  - management's assessment of the entity's prospects;
- (e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.



## Corporate governance

### What is corporate governance?

Put simply, corporate governance is the method used by corporations to manage and control their activities. Directors are accountable for the effectiveness of these requirements. These principles are equally applicable to governing boards of non corporate entities in the private and public sectors.

### Who is required to prepare a Statement of Corporate Governance?

The NZSX/NZDX Listing Rule 10.5.5(h) and NZAX Listing Rule 10.5.5(h) requires listed companies to provide a statement of any corporate governance policies, practices and processes adopted or followed by the Issuer for the reporting period.

We recommend the issue of such a statement by all publicly accountable entities as an assurance to users that the Board has considered and implemented good corporate governance policies and practices.

### What other matters should be considered when preparing a Statement of Corporate Governance?

When preparing a Statement of Corporate Governance the company should consider the following:

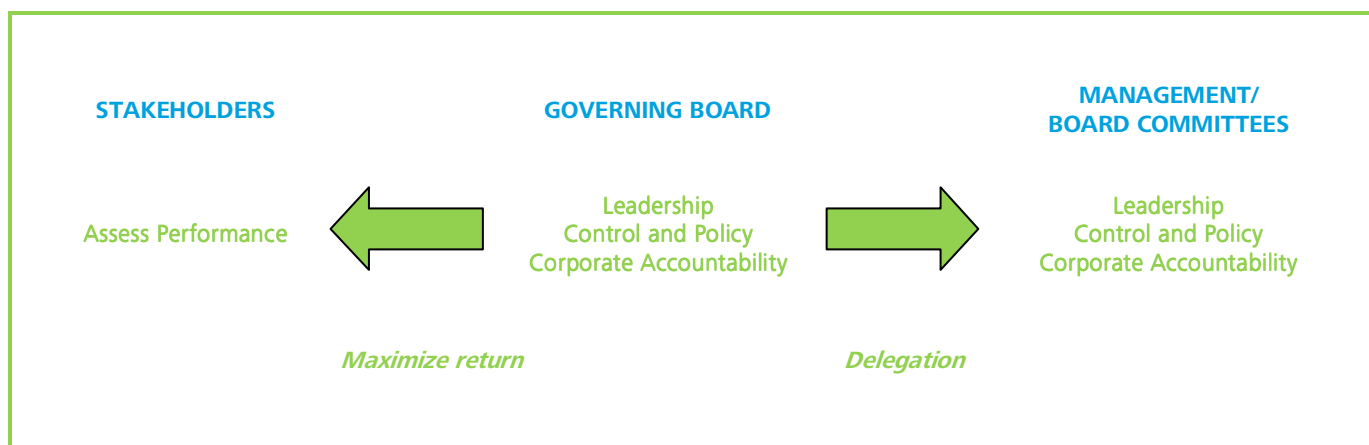
- distinguishing between executive and non-executive directors;

- procedures relating to the nomination and appointment of new directors;
- company policy relating to the appointment and retirement of directors;
- procedures for the assessment of individual and board performance;
- procedures to enable directors to obtain independent legal or accounting advice;
- procedures for the determination of remuneration for the Chief Executive Officer, senior executives and board members;
- procedures for the nomination, appointment and maintaining communication with external auditors;
- the board of directors' approach to identifying and managing significant business risks; and
- company policy relating to the maintenance of ethical standards.

An illustration of a Statement of Corporate Governance is included in this model annual report on pages B1 to B7. It is based on the NZSX/NZDX Listing Rules - Appendix 16 'Corporate Governance Best Practice Code'.

Further details of the New Zealand Stock Exchange Listing Rules can be found at [www.nzx.co.nz](http://www.nzx.co.nz)

Corporate governance can be shown diagrammatically as follows:





## Definitions

Key definitions used in this section are as follows:

A **reporting entity** is defined in:

- NZ IFRS 3 (2004) *Business Combinations* as 'an entity for which there are users who rely on the entity's general purpose financial statements for information that will be useful to them for making decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries'; and
- The FRA s.2 as:
  - (a) an Issuer; or
  - (b) a company, other than an exempt company; or
  - (c) a person that is required by any Act, other than this Act, to comply with this Act as if it were a reporting entity.

An **Issuer** is defined in the FRA s.4 as

- every person who has, whether before or after the commencement of the FRA, allotted securities pursuant to:
  - (i) an offer for which, or for which but for an exemption granted by the Securities Commission pursuant to s.5 of the Securities Act 1978, an investment statement or a registered prospectus, or both, is or was required under that Act (other than an offer of a unit in a unit trust); or
  - (ii) an offer required to be contained in a prospectus required to be registered under the Companies Act 1955,

whether or not the securities allotted are securities of the same type as the securities offered;

- every manager of a unit trust (within the meaning of s.2 of the Unit Trusts Act 1960) in which securities have been allotted, whether before or after the commencement of the FRA, pursuant to an offer of securities to the public within the meaning of the Securities Act 1978;
- every recipient of money from a conduit issuer (within the meaning of s.4A of the FRA);
- every person who is a party to a listing agreement with a stock exchange in New Zealand and who has issued securities which are quoted on such an exchange;
- every insurer to whom Part 10 of the Injury Prevention Rehabilitation and Compensation Act 2001 applies;
- every operator within the meaning of the Retirement Villages Act 2003 (other than a receiver or liquidator, or a person who has no financial interest in the village);
- every registered bank that has allotted securities to the public.

Certain entities are specifically excluded from the definition of an Issuer by s.6 of the FRA including:

- the Crown;
- a local authority;
- the Board of Trustees of the National Provident Fund;
- the Reserve Bank of New Zealand; and
- a company that does not have more than 25 shareholders and that would be an Issuer by reason only of the allotment of equity securities.

An **exempt company** under the FRA s.6A is a company (other than an overseas company or an Issuer), where at the balance date of the accounting period:

- at least two of the following apply:
  - the value of total assets (including intangible assets) did not exceed \$1,000,000;
  - turnover did not exceed \$2,000,000;
  - it has 5 or fewer full time equivalent employees; and
- the company was not a subsidiary of another body corporate or association of persons; and
- the company did not have any subsidiaries.

An **overseas company** under the FRA s.2 is a company incorporated outside New Zealand that carries on business in New Zealand within the meaning of s.332 of the Companies Act 1993.





***Other companies with overseas connections*** under the FRA s.19 are:

- subsidiaries of companies or body corporates incorporated outside New Zealand; or
- companies in which shares that in aggregate carry the right to exercise or control the exercise of 25% or more of the voting power at a meeting of the company are held by:
  - (ii) a subsidiary of a company or body corporate incorporated outside New Zealand; or
  - (iii) a company or body corporate incorporated outside New Zealand; or
  - (iv) a person not ordinarily resident in New Zealand.

A ***non-active entity*** under the FRA s.10A is an entity which is not an Issuer and which, during the period,

- has not derived, or been deemed to have derived, any income; and
- has no expenses; and
- has not disposed of, or been deemed to have disposed of, any assets; and
- has not been a party to, perpetuated, or continued with, any transactions that, during the period, give rise to obligations under the Income Tax Act 2004 in relation to the entity or any other person (or both).

In determining whether an entity is a non-active entity, no account may be taken of any statutory company filing fees or associated accounting or other costs, bank charges or other minimal administration costs less than \$50 or interest earned on bank accounts to the extent that the total interest does not exceed the total cost of bank charges or other administration costs.

***General purpose financial statements*** are defined in NZ IAS 1 *Presentation of Financial Statements* as financial statements 'intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs'.