

## Appendix 4E

### Preliminary Final Report to the Australian Securities Exchange

<b>Name of entity</b>	MPower Group Limited
<b>ACN</b>	009 485 625
<b>Financial year ended</b>	30 June 2019
<b>Previous corresponding reporting period</b>	30 June 2018

#### Results for announcement to the market

	\$'000	Percentage increase /(decrease) over previous corresponding period
<b>Revenue</b>	48,047	18%
<b>Other income</b>	7	75%
<b>Loss after tax attributable to members</b>	(6,163)	(110%)
<b>Net loss for the period attributable to members</b>	(6,163)	(110%)

**Brief explanation of any of the figures reported above necessary to enable the figures to be understood:**

Refer accompanying ASX announcement titled 'Preliminary Final Report' dated 30 August 2019.

## Dividends

	Amount per security	Franked amount per security
Current period - 2019	-	-
Previous corresponding period - 2018	-	-
There were no dividends declared or paid in the current or previous periods.		

## NTA Backing


	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	0.4c	4.4c

## Other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Refer above.

## Audit or review status

This report is based on accounts to which one of the following applies:			
	The accounts have been audited		The accounts have been subject to review
✓	The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed

Signed by Chairman	
Print Name	Peter Wise
Date	30 August 2019

# MPower Group Limited

ABN 73 009 485 625

Preliminary Financial Statements  
for the financial year ended 30 June 2019

**Consolidated statement of profit or loss and other comprehensive income**  
for the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Continuing operations</b>			
Revenue	3	48,011	40,770
Other revenue	4	36	32
Other income	5	7	4
Raw materials and consumables used		(35,505)	(26,557)
Advertising and marketing expense		(142)	(153)
Depreciation and amortisation expense	7	(258)	(288)
Employee benefits expense	7	(12,483)	(11,440)
Finance costs	6	(432)	(329)
Freight and transport		(825)	(770)
Occupancy expense		(562)	(329)
Other expenses		(3,976)	(3,835)
Loss before income tax		(6,129)	(2,895)
Income tax expense	8	-	-
<b>LOSS FOR THE YEAR</b>		<b>(6,129)</b>	<b>(2,895)</b>
Attributable to:			
Owners of the company		(6,163)	(2,929)
Non-controlling interest		34	34
		<b>(6,129)</b>	<b>(2,895)</b>
<b>Other comprehensive income (net of tax)</b>			
Items that may be reclassified subsequently to profit or loss:			
(Loss) / Gain on cash flow hedges taken to equity		(106)	347
Exchange gain / (loss) on translating foreign operations		10	(54)
Other comprehensive (loss) / income net of tax		(96)	293
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(6,225)</b>	<b>(2,602)</b>
Total comprehensive loss attributable to:			
Owners of the company		(6,259)	(2,636)
Non-controlling interest		34	34
		<b>(6,255)</b>	<b>(2,602)</b>
<b>Earnings per share</b>			
Basic (cents per share)	32	(4.4)	(2.4)
Diluted (cents per share)	32	(4.4)	(2.4)

The accompanying notes form part of these financial statements.

## Consolidated statement of financial position

as at 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	2,655	2,438
Trade receivables and contract assets	10	9,130	8,184
Inventories	11	6,845	6,454
Other current assets	12	1,438	943
Other financial assets	14	36	129
		20,104	18,148
Non-current assets classified as held for sale	15	1,839	-
<b>Total current assets</b>		<b>21,943</b>	<b>18,148</b>
<b>Non-current assets</b>			
Property, plant & equipment	16	1,018	2,936
<b>Total non-current assets</b>		<b>1,018</b>	<b>2,936</b>
<b>Total assets</b>		<b>22,961</b>	<b>21,084</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	12,045	8,049
Borrowings	19	6,975	4,428
Liabilities associated with assets classified as held for sale	20	1,030	-
Provisions	21	1,423	1,430
Other liabilities	22	403	45
<b>Total current liabilities</b>		<b>21,876</b>	<b>13,952</b>
<b>Non-current liabilities</b>			
Borrowings	19	32	1,122
Provisions	21	8	44
Other liabilities	22	3	82
<b>Total non-current liabilities</b>		<b>43</b>	<b>1,248</b>
<b>Total liabilities</b>		<b>21,919</b>	<b>15,200</b>
<b>Net assets</b>		<b>1,042</b>	<b>5,884</b>
<b>Equity</b>			
Issued capital	23	25,121	23,410
Reserves	24	533	617
Accumulated losses		(25,058)	(18,589)
<b>Equity attributable to owners of the company</b>		<b>596</b>	<b>5,438</b>
<b>Non-controlling interest</b>	25	<b>446</b>	<b>446</b>
<b>Total equity</b>		<b>1,042</b>	<b>5,884</b>

The accompanying notes form part of these financial statements

**Consolidated statement of changes in equity**  
for the year ended 30 June 2019

	Issued Capital \$'000	Reserves \$'000	Accumulated losses \$'000	Attributable to owners of parent entity \$'000	Non- Controlling Interest \$'000	Total \$'000
<b>Balance at 1 July 2017</b>	23,410	266	(15,660)	8,016	401	8,417
Loss for the period	-	-	(2,929)	(2,929)	34	(2,895)
<i>Other comprehensive income/(loss) net of tax</i>						
Exchange differences arising on translation of foreign operations	-	(54)	-	(54)	-	(54)
Loss on cash flow hedge taken to equity	-	347	-	347	-	347
Total comprehensive income/(loss) for the period	-	293	(2,929)	(2,636)	34	(2,602)
Recognition of revaluation of property	-	52	-	52	43	95
Recognition of share-based payments	-	6	-	6	-	6
Payment of distributions	-	-	-	-	(32)	(32)
<b>Balance at 30 June 2018</b>	<b>23,410</b>	<b>617</b>	<b>(18,589)</b>	<b>5,438</b>	<b>446</b>	<b>5,884</b>
Opening balance adjustment on application of AASB 15	-	-	(306)	-	-	(306)
<b>Balance at 1 July 2018</b>	<b>23,410</b>	<b>617</b>	<b>(18,895)</b>	<b>5,132</b>	<b>446</b>	<b>5,578</b>
Loss for the period	-	-	(6,163)	(6,163)	34	(6,129)
<i>Other comprehensive income/(loss) net of tax</i>						
Exchange differences arising on translation of foreign operations	-	10	-	10	-	10
Gain on cash flow hedge taken to equity	-	(106)	-	(106)	-	(106)
Total comprehensive income/(loss) for the period	-	(96)	(6,163)	(6,259)	34	(6,225)
Issue of shares	1,711	-	-	1,711	-	1,711
Recognition of share-based payments	-	12	-	12	-	12
Payment of distributions	-	-	-	-	(34)	(34)
<b>Balance at 30 June 2019</b>	<b>25,121</b>	<b>533</b>	<b>(25,058)</b>	<b>596</b>	<b>446</b>	<b>1,042</b>

The accompanying notes form part of these financial statements

**Consolidated statement of cash flows**  
for the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		52,366	45,234
Payments to suppliers and employees		(55,819)	(46,098)
Cash used in operations		(3,453)	(864)
Interest received		2	5
Interest and other costs of finance paid		(432)	(328)
Net cash used by operating activities	9	(3,883)	(1,187)
<b>Cash flows from investing activities</b>			
Proceeds on sale of property, plant & equipment		17	20
Payments for property, plant & equipment		(70)	(288)
Net cash used in investing activities		(53)	(268)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		6,733	4,262
Repayment of borrowings		(4,253)	(4,158)
Distributions paid by controlled entities to non-controlling interests		(34)	(32)
Proceeds from share issue		1,795	-
Share issue costs		(83)	-
Net cash generated by financing activities		4,158	72
Net increase / (decrease) in cash and cash equivalents		222	(1,383)
Cash and cash equivalents at the beginning of the financial year		2,438	3,855
Effects of exchange rate changes on the balance of cash held in foreign currencies		(5)	(34)
Cash and cash equivalents at the end of the financial year	9	2,655	2,438

The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the financial year ended 30 June 2019

## 1. GENERAL INFORMATION

MPower Group Limited is a strategic investor and is a listed public company, incorporated and domiciled in Australia. MPower Group Limited is also the ultimate parent of the MPower Group (MPower Group Limited and its controlled entities).

The registered office and principal place of business of the company is:

MPower Group Limited  
Level 32, Australia Square  
264 George Street  
Sydney NSW 2000  
Australia

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Effective from 13 December 2018, the Company changed its name from Tag Pacific Limited to MPower Group Limited.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The following is a summary of the material accounting policies adopted by the MPower Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

### Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

The consolidated financial statements have been prepared on the basis of historical costs, except for certain properties and financial instruments that are measured at revalued amounts or fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars unless otherwise noted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of

AASB 117, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use AASB 136.

The MPower Parent has applied the relief available to it in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191. Accordingly, amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Critical accounting judgments and key sources of estimation uncertainty

In the application of the MPower Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key estimates — Revenue from contracts with customers

Revenue from provision of projects and installation is recognised over time as the performance obligations are fulfilled over time. Significant management estimation is required after assessing all factors relevant to each contract, including the following:

- Estimation of total contract costs, including revisions to total forecast costs for events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract;
- Determination of stage of completion and measurement of progress towards satisfaction of performance obligations;
- Determination of contractual entitlement; and
- Estimation of project completion date.



## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of MPower Group Limited and entities controlled by MPower Group Limited (its subsidiaries).

Control is achieved when MPower Group Limited:

- has the power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the returns.

MPower Group Limited reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. A list of subsidiaries is contained in note 13. All controlled entities have a 30 June financial year-end.

The results of the subsidiaries acquired or disposed of during the year are included in consolidated profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the MPower Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the MPower Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests' interest in the subsidiary's equity are allocated against the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as required.

At the acquisition date, the identifiable assets acquired and the

liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payments of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of consolidation (continued)

Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 'Provisions, Contingent Liabilities and Contingent Assets', as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 July 2009 were accounted for in accordance with the previous version of AASB3.

#### (b) Income tax

##### Current tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### Deferred tax

Deferred tax is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in profit or loss except where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Capitalised losses are only brought to account when it is probable they will be recouped through future taxable gains.

#### (c) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Refer to note 2(p) for the policy in relation to work in progress and construction contracts.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment.

##### Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets, employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the MPower Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the MPower Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

##### Land and buildings

Freehold land and buildings are shown at their fair value being the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date, based on a valuation by external independent valuers, less subsequent depreciation for buildings. Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are charged to profit or loss.

##### Depreciation

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The depreciable amount of all fixed assets including capitalised lease assets are depreciated on a straight-line and diminishing value basis over their useful lives to the MPower Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of fixed asset</b>	<b>Depreciation rate</b>
Leasehold improvements	6-33%
Plant and equipment	5-40%
Buildings	2.5%
Leased plant and equipment	20-23%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

#### (e) Leased assets

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the MPower Group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the life of the lease term. Lease incentives under operating leases are recognised as a liability and amortised over the life of the lease term.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Financial assets

##### Recognition

Financial assets are initially measured at fair value on trade date, which includes transaction costs (other than financial assets at fair value through profit/loss), when the related contractual rights or obligations exist. Subsequent to initial recognition these financial assets are measured as set out below.

##### Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management and within the requirements of AASB 139: *Recognition and Measurement of Financial Instruments*. Specifically, the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with the MPower Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in profit or loss in the period in which they arise.

##### Loans and receivables

Trade receivables, loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method less impairment. Interest income is recognised by applying the effective interest rate.

##### Fair value

For all quoted investments fair value is determined by reference to observable prices of market transactions for identical assets at or near the measurement date whenever that information is available. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

##### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### (g) Impairment of assets

At each reporting date, the MPower Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the MPower Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

##### (h) Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Investments in associates (continued)

Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss. Where a group transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

#### (i) Intangible assets

##### Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisition of controlled entities is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purposes of impairment testing.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to reduce the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

##### Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

##### Research and development

Expenditure during the research phase of a project is recognised as an expense as incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs are amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

#### (j) Foreign currency transactions and balances

##### Functional and presentation currency

The functional currency of each of the MPower Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated

financial statements are presented in Australian dollars which is the MPower Group's functional and presentation currency.

##### Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow hedge.

##### MPower Group companies

The financial results and position of foreign operations whose functional currency is different from the MPower Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the historical exchange rates.

Exchange differences arising on translation of foreign operations are transferred directly to the MPower Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated profit or loss in the period in which the operation is disposed.

#### (k) Employee benefits

A liability is recognised at balance date for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the MPower Group to employee superannuation funds and are charged as an expense when employees have rendered service entitling them to the contributions.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (l) Provisions

Provisions are recognised when the MPower Group has a present obligation (legal or constructive), as a result of a past event, for which it is probable that the MPower Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### (m) Provision for warranties

Provision is made in respect of the MPower Group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the MPower Group's history of warranty claims.

#### (n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

#### (o) Revenue

The Group has applied AASB 15 'Revenue from Contracts with Customers' for the first time in the current period. AASB introduces a 5-step approach to revenue recognition. Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying a particular performance obligation is transferred to the customer.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what was previously classified as 'accrued revenue receivable' and 'deferred revenue'. The Group has adopted the terminology used in AASB 15 to describe such balances.

The Group recognises revenue from the following major sources:

- Sale of goods;
- Rendering of services; and
- Projects and installations.

Revenue from provision of projects and installation is recognised over time based on the stage of completion of the contract, which is determined with reference to the ratio of project hours to date relative to total estimated project hours. The Group has assessed that this is an appropriate measure of progress towards the satisfaction of the performance obligation under AASB 15.

Revenue from support and maintenance service is based on a fixed-price contract and the customer pays the fixed amount based on an agreed payment schedule. If the services rendered by the Group exceed the payments, a contract asset is recognised. If the payments exceed the service rendered, a contract liability is recognised.

All revenue is stated net of the amount of goods and services tax (GST).

#### (p) Construction contracts and work in progress

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs or completion of a physical proportion of the contract work, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

#### (q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

#### (s) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### (t) Derivative financial instruments

The MPower Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts. Note 32 contains details of the fair values of the derivative instruments used for hedging purposes.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated as effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### Hedge accounting

The Group designates certain hedging instruments, which include derivatives as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

#### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (u) Share-based payments

Share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest.

At each reporting date, the group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

#### (v) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of the subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.



**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
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**3. REVENUE**

The following is an analysis of the group's revenue for the year from continuing operations (excluding other revenue – refer note 4):

- Revenue from sale of goods	26,252	25,864
- Revenue from the rendering of services	2,789	2,561
- Revenue from projects and installations	<u>18,970</u>	<u>12,345</u>
Total revenue	<u>48,011</u>	<u>40,770</u>

**4. OTHER REVENUE**

Interest revenue	2	5
Other	<u>34</u>	<u>27</u>
Total other revenue	<u>36</u>	<u>32</u>

The following is an analysis of other revenue earned on financial assets by category of asset:

Loans and receivables (including cash and bank balances)	2	5
Total interest income for financial assets not designated at fair value through profit or loss	2	5
Other income earned on non-financial assets	<u>34</u>	<u>27</u>
Total other revenue	<u>36</u>	<u>32</u>

**5. OTHER INCOME**

Gain on disposal of assets	<u>7</u>	<u>4</u>
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**6. FINANCE COSTS**

Finance costs		
- banks/financial institutions	424	316
- finance lease charges	<u>8</u>	<u>13</u>
Total finance costs	<u>432</u>	<u>329</u>

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>7. LOSS FOR THE YEAR</b>		
The loss before income tax has been determined after:		
Depreciation of property plant & equipment	258	288
Employee benefits expense		
- Post-employment benefits	756	445
- Short-term employee benefits	11,715	10,989
- Share-based payments	12	6
Total employee benefits expense	<u>12,483</u>	<u>11,440</u>
Provision for doubtful debts raised	(30)	21
Operating lease rentals – minimum lease payments net of lease surrender benefit	509	215
Net foreign exchange (gain) / loss	(42)	125
<b>8. INCOME TAX EXPENSE</b>		
(a) The components of income tax expense comprise:		
<b>Current tax</b>		
In respect of the current year	-	-
<b>Deferred tax</b>		
In respect of the current year	<u>-</u>	<u>-</u>
Total income tax expense recognised in the current year	<u>-</u>	<u>-</u>
(b) The prima facie tax on loss before income tax is reconciled to income tax as follows:		
Prima facie tax benefit on loss before income tax at 30%	(1,726)	(869)
Add tax effect of:		
- unused tax losses not brought to account	<u>1,726</u>	<u>869</u>
Income tax expense attributable to the entity	<u>-</u>	<u>-</u>
The applicable weighted average effective tax rates are as follows:	<u>-</u>	<u>-</u>
The tax rate used for the reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.		

## Notes to the financial statements

for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>9. CASH &amp; CASH EQUIVALENTS</b>		
For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the statement of financial position as follows:		
Cash and bank balances	2,655	2,426
Short-term bank deposits	-	12
	<u>2,655</u>	<u>2,438</u>

The weighted average effective interest rate on cash and cash equivalents for the financial year ended 30 June 2019 was 0.08% (2018: 0.16%).

### Reconciliation of loss for the year to net cash flow from operating activities

Loss from operating activities after income tax	(6,129)	(2,895)
Non-cash flows		
- depreciation	258	288
- share based payments	12	6
- unrealised currency (gain) / losses	(42)	125
- gain on sale of property, plant and equipment	(7)	(4)
Changes in assets and liabilities		
- (Increase) / decrease in receivables, prepayments and other assets	(568)	1,709
- (Increase) / decrease in inventories	(811)	990
- Increase / (decrease) in trade creditors & accruals	3,093	(1,141)
- Increase / (decrease) in provisions	311	(265)
Net cash used by operating activities	<u>(3,883)</u>	<u>(1,187)</u>

### Liquidity risk management

#### Financing facilities <sup>1</sup>

Credit facilities	12,982	13,026
Amounts utilised	<u>(11,804)</u>	<u>(7,233)</u>
Unused credit facilities	<u>1,178</u>	<u>5,793</u>

1. Finance facilities include bank guarantees and surety bonds.

### Loan and non-financial facilities

Loan and non-financial facilities are arranged with a number of Australian and New Zealand institutions with the general terms and conditions being set and agreed to annually. Interest rates are variable and subject to adjustment.

### Non-cash financing and investment activities

During the year the MPower Group did not acquire any plant and equipment by means of finance leases and hire purchases (2018: nil).

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>10. TRADE RECEIVABLES AND CONTRACT ASSETS</b>		
Trade receivables	5,930	4,503
Less: Credit loss allowance	<u>(45)</u>	<u>(111)</u>
	5,885	4,392
Contract assets - Accrued revenue receivable	<u>3,245</u>	<u>3,792</u>
Total trade receivables and contract assets	<u>9,130</u>	<u>8,184</u>
<b>Ageing of past due but not impaired</b>		
60-90 days	6	82
90-120 days	<u>149</u>	<u>530</u>
Total	<u>155</u>	<u>612</u>
Average age of trade receivables (days)	<u>42</u>	<u>40</u>
<b>Movement in credit loss allowance</b>		
Balance at the beginning of the year	111	141
Impairment losses recognised on receivables	(34)	19
Amounts written off during the year as uncollectible	<u>(32)</u>	<u>(49)</u>
Balance at the end of the year	<u>45</u>	<u>111</u>
<b>Ageing of impaired trade receivables</b>		
90-120 days	<u>45</u>	<u>111</u>
Total	<u>45</u>	<u>111</u>

The principles applied in determining the expected credit losses are as follows:

- (i) Trade and other receivables  
The Group has recognised a loss allowance for lifetime expected credit losses (ECL). The ECL is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at reporting date. When the Group considers an exposure to be credit impaired it is individually assessed and a specific provision raised. This includes, but is not limited to, instances where the counterparty is in external receivership or liquidation.
- (ii) Contract Assets  
The Group measures the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the same principles and methodology applied to trade debtors. None of the amounts due from customers at the end of the reporting period are past due.

**11. INVENTORIES**

	2019 \$'000	2018 \$'000
At lower of cost and net realisable value:		
Raw materials	297	321
Goods-in-transit	713	520
Finished goods	<u>5,835</u>	<u>5,613</u>
Total inventories	<u>6,845</u>	<u>6,454</u>

The cost of inventory recognised as an expense during the year was \$40.7 million (2018: \$31.2 million).

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>12. OTHER CURRENT ASSETS</b>		
<b>Current</b>		
Prepayments	736	603
Other debtors	197	340
GST Receivable	505	-
Total other assets	<u>1,438</u>	<u>943</u>

**13. SUBSIDIARIES**

Details of the Group's subsidiaries at 30 June 2019 are as follows:

Entity	Place of incorporation	Class of share	% Owned 2019	% Owned 2018
ACN 071 129 738 Pty Limited	Australia	ord	100	100
Electro Securities Pty Limited	Australia	ord	100	100
MPower Business Services Pty Limited	Australia	ord	100	100
MPower Capital Pty Limited	Australia	ord	100	100
MPower Nominees Pty Limited	Australia	ord	100	100
MPower Products Pty Limited	Australia	ord	100	100
MPower Projects Pty Limited	Australia	ord	100	100
Power Property Nominees Pty Ltd <sup>(i)</sup>	Australia	ord	75	75
Power Property Unit Trust <sup>(i)</sup>	Australia	units	55	55
ShareCover Pty Limited <sup>(iii)</sup>	Australia	ord	-	100
ShareCover Services Pty Limited <sup>(iii)</sup>	Australia	ord	-	100
Flatbat Ltd <sup>(ii)</sup>	New Zealand	ord	100	100
MPower Pacific Limited <sup>(ii)</sup>	New Zealand	ord	100	100
PISL Limited <sup>(ii)</sup>	New Zealand	ord	100	100
Spedding Ltd <sup>(ii)</sup>	New Zealand	ord	100	100
MPower Samoa Limited <sup>(ii)</sup>	Samoa	ord	100	100

- (i) The MPower Group has majority ownership and board representation of all non-wholly owned subsidiaries. Percentages have been rounded.
- (ii) Companies incorporated in New Zealand and Samoa carry on business primarily in their respective countries.
- (iii) Company was deregistered on 9 January 2019.

	2019 \$'000	2018 \$'000
<b>14. OTHER FINANCIAL ASSETS</b>		
<b>Current</b>		
<b>Derivatives designated and effective as hedging instruments carried at fair value</b>		
Forward exchange contracts	<u>36</u>	<u>129</u>

The financial assets have been classified in this manner as this group of assets is managed and its performance is evaluated monthly on a fair value basis in accordance with an investment strategy.

## Notes to the financial statements

for the financial year ended 30 June 2019

2019	2018
\$'000	\$'000

### 15. NON-CURRENT ASSETS HELD FOR SALE

Land and Buildings	1,839	-
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A process to dispose of the group's Rowville property was commenced in June 2019. The property is expected to be sold within 12 months and has been classified as a non-current asset held for sale and presented separately in the statement of financial position. The proceeds from disposal are expected to exceed the carrying value of the related asset and accordingly no impairment loss has been recognised on the classification of the asset as held for sale.

Borrowings secured over the property are disclosed in note 20.

#### Assets pledged as security

Land and buildings classified as held for sale have been pledged as security for bank loans under a mortgage that was used to acquire the land and buildings. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
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**16. PROPERTY, PLANT & EQUIPMENT**

Cost or valuation	4,839	6,738
Accumulated depreciation	(3,821)	(3,802)
Total property, plant & equipment	<u>1,018</u>	<u>2,936</u>
Plant & equipment	816	845
Leasehold improvements	-	-
Capitalised leased assets	202	242
Land & buildings	-	1,849
Total property, plant & equipment	<u>1,018</u>	<u>2,936</u>

Cost	Plant & equipment at cost \$'000	Leasehold improvements at cost \$'000	Capitalised leased assets at cost \$'000	Land & buildings at fair value \$'000	Total \$'000
Balance at 30 June 2017	3,921	188	634	1,948	6,691
Additions	293	-	-	-	293
Revaluation of assets	-	-	-	95	95
Other disposals	(328)	-	-	-	(328)
Effect of foreign currency exchange differences	(13)	-	-	-	(13)
Balance at 30 June 2018	<u>3,873</u>	<u>188</u>	<u>634</u>	<u>2,043</u>	<u>6,738</u>
Additions	159	-	-	15	174
Transfer to non-current assets held for sale	-	-	-	(2,058)	(2,058)
Other disposals	(28)	-	-	-	(28)
Effect of foreign currency exchange differences	13	-	-	-	13
Balance at 30 June 2019	<u>4,017</u>	<u>188</u>	<u>634</u>	<u>-</u>	<u>4,839</u>

Accumulated Depreciation	Plant & equipment \$'000	Leasehold improvements \$'000	Capitalised leased assets \$'000	Land & buildings \$'000	Total \$'000
Balance at 30 June 2017	(3,136)	(188)	(344)	(168)	(3,836)
Eliminated on disposals of assets	314	-	-	-	314
Depreciation expense	(214)	-	(48)	(26)	(288)
Effect of foreign currency exchange differences	8	-	-	-	8
Balance at 30 June 2018	<u>(3,028)</u>	<u>(188)</u>	<u>(392)</u>	<u>(194)</u>	<u>(3,802)</u>
Eliminated on disposals of assets	29	-	-	-	29
Depreciation expense	(192)	-	(40)	(26)	(258)
Transfer to non-current assets held for sale	-	-	-	220	220
Effect of foreign currency exchange differences	(10)	-	-	-	(10)
Balance at 30 June 2019	<u>(3,201)</u>	<u>(188)</u>	<u>(432)</u>	<u>-</u>	<u>(3,821)</u>
Net Balance at 30 June 2019	<u>816</u>	<u>-</u>	<u>202</u>	<u>-</u>	<u>1,018</u>
Net Balance at 30 June 2018	<u>845</u>	<u>-</u>	<u>242</u>	<u>1,849</u>	<u>2,936</u>

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>17. TAXATION</b>		
<b>Current tax liabilities</b>	-	-
<b>Deferred tax balances</b>	-	-
Deferred tax assets not brought to account which will only be realised if the conditions for deductibility set out in note 2(b) occur comprise:		
- timing differences	849	745
- revenue losses	10,920	9,151
- capital losses	4,201	4,201

The recoverability of the deferred tax assets has been determined by reference to forecast future taxable profits of the group. As a result of the uncertainty as to the timing of utilisation of tax losses and timing differences, deferred tax assets of \$11.365 million have not been raised (2018: \$9.896 million). This position is reassessed on an ongoing basis. The losses will remain available indefinitely to offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, the same business test.

**Tax consolidation**

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is MPower Group Limited. The wholly-owned Australian resident entities that are members of the tax-consolidated group are included in the list of subsidiaries in note 13. MPower Holdings Pty Limited and its Australian resident subsidiaries joined the MPower Group Limited tax consolidated group on 28 September 2012 on acquisition by MPower of the minority interest.

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

**18. TRADE & OTHER PAYABLES**

<b>Current unsecured liabilities</b>		
- trade payables	8,056	4,527
- sundry payables and accrued expenses	3,989	3,522
	<u>12,045</u>	<u>8,049</u>

The general policy for subsidiaries within the MPower Group with foreign currency exposure arising from cross border trading is to hedge between 50% and 100% of the exposure.

The credit period on purchases from overseas suppliers generally ranges from 30 to 90 days. No interest is charged on trade payables paid within the relevant supplier term. Average credit periods for local purchases range from 7 to 30 days.



## Notes to the financial statements

for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>19. BORROWINGS</b>		
<b>Current</b>		
- Bank facilities (secured)	6,692	4,172
- Other interest bearing liabilities	224	183
- Asset finance liabilities (secured) (refer note 27)	59	73
	<u>6,975</u>	<u>4,428</u>
<b>Non-current</b>		
- Bank facilities (secured)	-	1,030
- Asset finance liabilities (secured) (refer note 27)	32	92
	<u>32</u>	<u>1,122</u>

Bank facilities are fully secured by registered mortgage debentures given by controlled entities over their assets. The total carrying amounts of assets pledged as security are \$22,436,343 (2018: \$21,313,645).

### Summary of borrowing and financial facility arrangements

MPower Holdings Pty Ltd (and subsidiaries) has \$6.7 million of borrowings from St George Bank Limited charged at a weighted average interest rate of 5.86%. There were covenant reporting requirements at 30 June 2019 (2018: nil).

The lease liabilities are secured by the leased assets as disclosed in note 16.

## 20. LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

### Current

Bank facilities (secured)	<u>1,030</u>	-
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The Power Property Unit Trust has \$1.03 million of the bank borrowings from National Australia Bank Limited charged at an interest rate of 5.56%. The facility has no financial covenants for the year ending 30 June 2019.

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>21. PROVISIONS</b>		
Employee benefits <sup>(a)</sup>	1,349	1,353
Warranties <sup>(b)</sup>	82	121
<b>Total provisions</b>	<b>1,431</b>	<b>1,474</b>
Current	1,423	1,430
Non-current	8	44
<b>Total provisions</b>	<b>1,431</b>	<b>1,474</b>
<b>Warranties</b>		
Opening balance at beginning of year	121	105
Provisions (reversed) / raised during year	(39)	40
Amounts used	-	(24)
<b>Balance at end of year</b>	<b>82</b>	<b>121</b>

(a) The provision for employee benefits represents annual leave and long service leave entitlements accrued by employees. A provision has been recognised for employee entitlements relating to long service leave. The calculation for the present value of future cash flows in respect of long service leave is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in note 2.

(b) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the MPower Group's warranty program for projects undertaken or products sold. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes, other events affecting product quality or changes in the nature of projects undertaken.

**22. OTHER LIABILITIES**

**Current**

Forward exchange contract liability	-	2
Customer deposits in advance	403	43
<b>Total current other liabilities</b>	<b>403</b>	<b>45</b>

**Non-Current**

Sundry other liabilities	3	82
<b>Total non-current other liabilities</b>	<b>3</b>	<b>82</b>

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019	2018
	\$'000	\$'000

**23. ISSUED CAPITAL**

158,846,416 (2018: 124,328,175) fully paid ordinary shares

	Number of shares '000	Share capital \$'000
Balance at 30 June 2017	124,328	23,410
Shares issued during the year <sup>(a)</sup>	-	-
Balance at 30 June 2018	124,328	23,410
Shares issued during the year <sup>(a)</sup>	34,518	1,711
Balance at 30 June 2019	158,846	25,121

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the company does not have authorised capital or par value in respect of the issued shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. 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 is entitled to one vote for each share held.

- (a) 34,518,241 shares were issued during the current financial year (2018: nil).
- (b) During the financial year, an on-market share buy-back facility was in place. No shares were acquired under the facility during the year (2018: nil) and to date a total of 1,532,983 shares have been purchased for \$368,541.
- (c) 2,173,500 unlisted executive share options remain on issue at 30 June 2019 (refer note 30).
- (d) On 29 November 2018 the shareholders approved a share placement facility which allows the issue of equity securities up to 10% of the issued capital of the company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2.

**Notes to the financial statements**  
for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>24. RESERVES</b>		
Revaluation reserve <sup>(a)</sup>	425	425
Share option reserve <sup>(b)</sup>	274	262
Foreign currency translation reserve <sup>(c)</sup>	(219)	(230)
Cash flow hedge reserve <sup>(d)</sup>	53	160
<b>Total reserves</b>	<b>533</b>	<b>617</b>
<b>(a) Revaluation reserve</b>		
Balance at beginning of the year	425	373
Revaluation of property net of minority interests	-	52
<b>Balance at end of the year</b>	<b>425</b>	<b>425</b>
The revaluation reserve records a revaluation of land and buildings (refer notes 15 and 16).		
<b>(b) Share option reserve</b>		
Balance at beginning of the year	262	256
Share based payments for the year	12	6
<b>Balance at end of the year</b>	<b>274</b>	<b>262</b>
The share option reserve records items recognised as expenses in relation to executive share options.		
<b>(c) Foreign currency translation reserve</b>		
Balance at beginning of the year	(230)	(176)
Exchange differences arising on translating the foreign operations	10	(54)
<b>Balance at end of the year</b>	<b>(220)</b>	<b>(230)</b>
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.		
<b>(d) Cash flow hedge reserve</b>		
Balance at beginning of the year	160	(187)
Cash flow hedges movements for the year net of tax	(106)	347
<b>Balance at end of the year</b>	<b>54</b>	<b>160</b>
The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedge reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as an adjustment to the non-financial hedged item, consistent with the relevant accounting policy.		
Losses arising on changes in fair value of hedging instruments reclassified from equity into profit or loss during the year are included in the following line item in the consolidated statement of profit or loss and other comprehensive income:		
Other expenses	(12)	(32)

## Notes to the financial statements

for the financial year ended 30 June 2019

	2019 \$'000	2018 \$'000
<b>25. NON-CONTROLLING INTEREST IN CONTROLLED ENTITIES</b>		
Non-controlling interest comprises:		
- profits	446	446
<b>26. DIVIDENDS</b>		
<b>Recognised amounts</b>		
No dividends were paid during the current or previous years.		
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax, amounts transferred in and franking debits arising from payment of dividends	7,420	7,420
<b>27. CAPITAL AND LEASING COMMITMENTS</b>		
<b>Operating lease commitments</b>		
Operating leases are non-cancellable property leases with varying terms, with variable renewable options and contingent rental provisions.		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Minimum lease payments payable		
- not later than one year	131	606
- later than one year but not later than five years	135	2,094
- later than five years	-	1,895
Minimum lease payments	266	4,595
<b>Finance lease commitments</b>		
Finance leases relate principally to motor vehicles with terms up to 5 years typically with a 20% residual value.		
Minimum lease payments payable		
- not later than one year	63	81
- later than one year but not later than five years	34	97
Minimum lease payments	97	178
Less: future finance charges	(6)	(13)
Present value of minimum lease payments	91	165

**Notes to the financial statements**  
for the financial year ended 30 June 2019

**28. SEGMENT INFORMATION**

**(a) Products and services from which reportable segments derive their revenues**

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group's reportable segments under AASB 8 are therefore as follows:

- Power investments – consists of MPower Holdings Pty Limited, MPower Business Services Pty Ltd, MPower Products Pty Ltd, MPower Pacific Ltd, MPower Projects Pty Ltd, MPower Samoa Limited, ACN 071 129 738 Pty Ltd and MPower Nominees Pty Ltd (all 100% owned at 30 June 2019). This group is a leading provider of innovative and dependable power solutions for use in all manner of emergency, back-up, generated and renewable power situations in Australia, New Zealand and the Pacific Islands.
- Property investments consist principally of MPower's investments in the Power Property Unit Trust which owns a property occupied by MPower Products in Melbourne, Victoria.

**(b) Segment revenues and results**

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Segment revenue		Segment profit/(loss)	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
<b>Continuing operations</b>				
Power investments	48,020	40,802	(3,530)	(822)
Property investments	171	171	164	162
Other (net of inter-segment eliminations)	(137)	(167)	(137)	(167)
Total for continuing operations	48,054	40,806	(3,503)	(827)
Depreciation and amortisation expense			(258)	(288)
Finance costs			(428)	(329)
Unallocated costs			(1,940)	(1,451)
Consolidated segment loss for the year			(6,129)	(2,895)

Revenue reported above represents revenue generated from external customers. The only inter-segment sale during the year was rental income charged by the other investments segment to the power investments segment of \$170,720 which was eliminated on consolidation (2018: \$170,720). Property investments have been classified as held for sale at 30 June 2019.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, depreciation and amortisation costs, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Notes to the financial statements**  
for the financial year ended 30 June 2019

**28. SEGMENT INFORMATION (CONTINUED)**

**(c) Segment assets and liabilities**

**Segments assets**

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Power investments	23,458	19,271
Property investments	2,083	2,118
Total segment assets	25,541	21,389
Unallocated assets	(2,580)	(305)
Consolidated assets	22,961	21,084

**Segments liabilities**

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Power investments	19,524	12,809
Property investments	1,042	1,076
Total segment liabilities	20,566	13,855
Unallocated liabilities	1,353	1,315
Consolidated liabilities	21,919	15,200

For the purposes of monitoring performance and allocating resources between segments:

- (i) All assets are allocated to reportable segments. There are no assets used jointly by reportable segments.
- (ii) All liabilities are allocated to reportable segments. There are no liabilities for which reportable segments are jointly liable.

**(d) Other segment information**

	<b>Depreciation and amortisation</b>		<b>Additions to non-current assets</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Power investments	229	260	148	282
Property Investments	26	26	15	-
Unallocated	3	2	11	11
Total	258	288	174	293

**(e) Revenue from major products and services**

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Power investments – sale of goods	26,252	25,864
Power investments – rendering of services	2,789	2,561
Power investments – project and installations revenue	18,970	12,345
Other	43	36
Total	48,054	40,806

## Notes to the financial statements

for the financial year ended 30 June 2019

### 28. SEGMENT INFORMATION (CONTINUED)

#### (f) Geographical information

The investment in the power sector has business segments located across Australia and New Zealand. Specifically, geographical segments consist of branches and activities across Australia and includes overseas projects (including Samoa) managed in Australia. The New Zealand segment includes branches in Auckland, Wellington and Christchurch.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Australia	41,185	33,209	598	2,485
New Zealand	6,862	7,593	420	451
Total	48,047	40,802	1,018	2,936

#### (g) Information about major customers

Included in revenues arising from power projects and installation revenue are revenues of \$8.6 million (2018: \$3.3 million) which arose from sales to the Group's largest customer.

### 29. AUDITOR'S REMUNERATION

	2019 \$	2018 \$
Remuneration of the auditor of MPower Group: Deloitte Touche Tohmatsu (including network member firms)		
- Auditing or reviewing financial statements	110,000	97,750
- Taxation services	5,342	5,252
Total	115,342	103,002



## Notes to the financial statements

for the financial year ended 30 June 2019

### 30. EMPLOYEE BENEFITS

#### Executive Share Option Plan

The following share-based payment arrangement existed at 30 June 2019.

Under the MPower Group Limited Executive Share Option Plan, the remuneration committee may offer options to executives having regard to their length of service with the group, the contribution made to the MPower Group by the executive, the potential contribution of the executive and any other matters considered relevant.

The maximum number of options that can be on issue at any time is 5% of the shares on issue at that time. In addition, the maximum number of options that can be issued to any one executive is 2,350,000 (2018: 2,350,000).

An option may be exercised, if vested, by the relevant participant lodging a Notice of Exercise of Option and Application for Shares, together with the exercise price for each share to be issued on exercise. Options may only be exercised by a participant at the times and in the numbers and subject to the satisfaction of any conditions set by the remuneration committee at the time of the offer of the options. The remuneration committee may stipulate that options may only be exercised if the company achieves stipulated performance benchmarks.

There are no performance criteria that need to be met in relation to the options currently on issue, however, an option not exercised will lapse on the expiry of the exercise period or if the relevant senior manager no longer provides services to or is no longer employed by the company. Unless the remuneration committee determines otherwise, options may not be transferred.

No options were granted under the MPower Group Limited Executive Share Option Plan during the year ended 30 June 2019 (2018: 1,300,000).

	MPower Group		Weighted average exercise price	
	2019	2018	2019	2018
	No.	No.	\$	\$
Movement in the number of share options held by executives are as follows:				
Opening balance	3,105,000	2,145,000	0.0826	0.0800
Issued during year	-	1,300,000	-	0.1000
Lapsed during the year	(931,500)	(340,000)	0.0002	0.2274
Balance at end of the year	<b>2,173,500</b>	<b>3,105,000</b>	<b>0.0804</b>	<b>0.0826</b>
Number of holders of share options	7	7		

Details of the options on issue at year end were as follows:

Grant date	Expiry date	Exercise price	Fair value at grant date	Number of options
2 December 2016	31 May 2020	\$0.0700	\$0.01	541,500
2 December 2016	31 May 2021	\$0.0700	\$0.01	722,000
31 January 2018	31 May 2020	\$0.1000	\$0.03	390,000
31 January 2018	31 May 2021	\$0.1000	\$0.03	520,000
<b>Total</b>				<b>2,173,500</b>

During the year no options were issued under the MPower Group Limited Executive Share Option Plan, no options were exercised, and 931,500 share options lapsed. No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

The options outstanding at 30 June 2019 had a weighted average exercise price of \$0.0804, a weighted average remaining contracted life of 1.92 years and the exercise prices range from \$0.0300 to \$0.0100.

The fair value of options issued is calculated by using a Black Scholes option pricing model. Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of potential future movements, which may not eventuate.

Included under employee benefits expense in the statement of profit or loss and other comprehensive income is an expense of \$11,732 (2018: \$5,595) relating to equity-settled share-based payment transactions.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 31. RELATED PARTIES

#### Parent entity

The parent entity and ultimate parent entity of the group is MPower Group Limited.

#### Controlled entities

Information relating to controlled entities is set out in note 13.

#### Director related entities

##### (a) Tag Private Pty Limited

Peter Wise has a controlling interest in Tag Private Pty Ltd through family interests and Nathan Wise is a director of the company. During the year the company was entitled to management fees and allowances for services rendered of \$124,500 (2018: \$312,000). Management fees and other expenses of \$670,014 (2018: \$542,313) are provided for or are accrued and payable at 30 June 2019 (excl. GST). The company acquired 6,664,000 ordinary shares in MPower Group Limited during the year (2018: 44,000).

##### (b) Investment Associates Pty Limited

Nathan Wise has a controlling interest in Investment Associates Pty Ltd through family interests. During the year the company received management fees for services rendered of \$335,000 (2018: \$335,000). There were no unlisted executive share options over unissued ordinary shares in MPower Group Limited were granted during the year (2018: 600,000). The details of the fees and executive share options are included in the remuneration of directors' disclosures in the Directors' Report. During the prior year 450,000 unlisted executive share options held by the company over unissued ordinary shares in MPower Group Limited lapsed.

#### Directors

The names of the directors of the MPower Group during the year under review were Peter Wise, Nathan Wise, Gary Cohen, Robert Constable, and Robert Moran.

#### Key management personnel

The names and positions held by key management personnel of the MPower Group who have held office during the current and previous financial years are:

- Peter Wise – Chairman
- Nathan Wise – Chief Executive Officer and Managing Director
- Gary Cohen – Non-executive Director
- Robert Constable – Non-executive Director
- Robert Moran – Non-executive Director
- Gary Weiss – Non-executive Director - retired with effect from 31 August 2017
- Darrell Godin – Chief Financial Officer and Company Secretary – resigned on 6 August 2019
- Anthony Csillag – Managing Director, MPower Projects Pty Limited – resigned on 25 July 2019

The aggregate compensation made to directors and other key management personnel of the parent entity and consolidated group are set out below:

	MPower Group	
	2019	2018
	\$	\$
Short-term employee benefits	1,094,219	1,279,168
Post-employment benefits	42,149	42,707
Other payments	33,525	34,681
Share based payments	9,217	4,394
	<u>1,179,110</u>	<u>1,360,950</u>

## Notes to the financial statements

for the financial year ended 30 June 2019

### 32. EARNINGS PER SHARE

	2019 cents per share	2018 cents per share
Basic earnings per share	(4.4)	(2.4)
Diluted earnings per share	(4.4)	(2.4)

	2019 \$'000	2018 \$'000
<b>Reconciliation of earnings to net loss</b>		
Net loss after income tax	(6,129)	(2,895)
Attributable to non-controlling interests	(34)	(34)
Earnings used in the calculation of basic and diluted earnings per share	(6,163)	(2,929)
Weighted average number of shares used in the calculation of basic earnings per share	139,581,114	124,328,175
Weighted average number of shares used in the calculation of diluted earnings per share	139,739,411	124,328,175

No dilution has been included as losses were incurred in the current and previous years.

### 33. FINANCIAL INSTRUMENTS

#### (a) Capital risk management

The MPower Group manages its capital to ensure that entities in the MPower Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. This strategy remains unchanged from the previous year.

The capital structure of the MPower Group consists of cash and cash equivalents, debt (including the borrowings disclosed in notes 19 and 20), and equity attributable to equity holders of the MPower Parent, comprising issued capital (disclosed in note 23), reserves (disclosed in note 24) and retained earnings. The MPower Group also utilises certain off-balance sheet bank financing arrangements, including documentary credit facilities to facilitate the purchase of goods from overseas suppliers and the provision of performance guarantees to customers. The MPower Group operates internationally through subsidiary companies established in Samoa and New Zealand. None of the MPower Group entities are subject to externally imposed capital requirements other than those specific bank covenants and conditions referred to under note 20. Operating cash flows are used to maintain and expand the group's manufacturing and distribution assets, as well as to make routine outflows of tax, dividends and repayment of maturing debt.

**Notes to the financial statements**  
for the financial year ended 30 June 2019

**33. FINANCIAL INSTRUMENTS (CONTINUED)**

**Gearing ratio**

The MPower Group's senior management reviews the capital structure on a semi-annual basis. As part of this review, senior management considers the cost of capital and the risks associated with each class of capital. The MPower Group has a target gearing ratio in line with the industry custom that is determined as a proportion of net debt to equity. The MPower Group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year-end was as follows:

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Debt <sup>(i)</sup>	8,037	5,550
Cash and cash equivalents	<u>(2,655)</u>	<u>(2,438)</u>
Net debt	<u>5,382</u>	<u>3,112</u>
Equity <sup>(ii)</sup>	<u>1,042</u>	<u>5,884</u>
Net debt to equity ratio	<u>516.5%</u>	<u>52.9%</u>

(i) Debt is defined as long-term and short-term borrowings, as detailed in notes 19 and 20.

(ii) Equity includes all capital, reserves and non-controlling interests.

**(b) Categories of financial instruments**

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
<b>Financial assets</b>		
Trade and other receivables	9,130	8,184
Cash and cash equivalents	<u>2,655</u>	<u>2,438</u>
Total financial assets	<u>11,785</u>	<u>10,622</u>
<b>Financial liabilities</b>		
Amortised cost	<u>20,082</u>	<u>13,635</u>
Total financial liabilities	<u>20,082</u>	<u>13,635</u>

**(c) Financial risk management objectives**

The MPower Group's corporate treasury function provides services to the business, including negotiation and ongoing co-ordination of financing facilities, and monitors and manages the financial risks relating to the operations of the MPower Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk where appropriate.

The MPower Group generally hedges 50% to 100% of its foreign currency exposures. For certain entities within the MPower Group the use of these derivatives is subject to prior approval of the MPower corporate treasury function and of the board of the relevant entity.

The MPower Group does not enter into or trade financial instruments for speculative purposes.

The board of MPower Group Limited is ultimately responsible for ensuring that there is an effective risk management control framework in place.

## Notes to the financial statements

for the financial year ended 30 June 2019

### 33. FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Market risk

The MPower Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 33(e)) and interest rates (refer note 33(f)).

Market risks are reviewed at least monthly at a MPower Group level and at a subsidiary company level.

There has been no change to the MPower Group's exposure to market risks or the manner in which it manages and measures the risk from the previous year.

#### (e) Foreign currency risk management

The MPower Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

To manage its exposure to foreign currency risk the MPower Group enters into forward foreign exchange contracts to hedge the exchange rate risk arising on sales denominated in foreign currencies and the import of power related products from countries including Europe, China, Singapore and the United States.

The carrying amount of the MPower Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
New Zealand Dollars	1,538	1,064	3,152	2,770
US Dollars	1,749	1,680	103	233
Euros	13	87	-	106
Singapore Dollars	100	159	-	-
British Pounds	-	-	-	8
Total	3,400	2,990	3,255	3,117

#### Foreign currency sensitivity analysis

The following table details the MPower Group's sensitivity to a 10% increase or decrease in the Australian Dollar against the relevant foreign currencies. This sensitivity of 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2019	2018
	\$'000	\$'000
Profit or loss		
US Dollars	150	132
NZ Dollars	(147)	(155)
Euros	1	(2)
Singapore Dollars	9	14
Total	13	(11)

## Notes to the financial statements

for the financial year ended 30 June 2019

### 33. FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Foreign currency risk management (continued)

##### Forward foreign exchange contracts

The MPower Group has entered into contracts to purchase power related products from suppliers in countries including the United States, China, Singapore and Europe. The MPower Group has also entered contracts with customers denominated in USD and NZD. The relevant subsidiaries have entered into forward foreign exchange contracts for terms not exceeding 2 years to cover anticipated foreign currency payments and receipts within 50% to 100% of their respective exposures, which are designated into cash flow hedges.

At 30 June 2019, the aggregate amount of gains/(losses) under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to these anticipated future transactions is a gain of \$36,296 (2018: loss of \$31,917). It is anticipated the purchases of products will take place during the first 6 months of the next financial year at which time the amount deferred in equity will be included in the carrying amount of inventory. It is anticipated the inventory will be sold within 6 months after purchase, at which time the amount deferred in equity will be reclassified to profit or loss.

The following table details the forward foreign currency contracts for the MPower Group outstanding as at reporting date:

Outstanding contracts	Average exchange rate		Foreign currency amount		Contract value in A\$		Fair value in A\$	
	2019	2018	2019 FC'000	2018 FC'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Consolidated</b>								
<b>Buy US Dollars</b>								
Less than 3 months	0.7137	0.7934	1,371	360	1,921	454	30	34
3 to 12 months	0.7087	0.7622	590	2,142	833	2,810	6	86
<b>Sell NZ Dollars</b>								
Less than 3 months	-	1.0795	-	345	-	319	-	3
3 to 12 months	-	-	-	-	-	-	-	-
<b>Buy Euro</b>								
Less than 3 months	-	-	-	-	-	-	-	-
3 to 12 months	-	0.6381	-	228	-	357	-	4
<b>Total</b>					<b>2,754</b>	<b>3,940</b>	<b>36</b>	<b>127</b>

#### (f) Interest rate risk management

The MPower Group is exposed to interest rate risk as entities in the MPower Group borrow funds at both fixed and floating interest rates. The risk is managed by the MPower Group by maintaining an appropriate mix between fixed and floating rate borrowings. The MPower Group does not enter into interest rate hedging activities.

Exposures to interest rates on the financial liabilities of the MPower Group are detailed in note 33(h) below.

##### Interest rate sensitivity analysis

The following analysis illustrates the MPower Group's sensitivity to a 200 basis point (i.e. 2% p.a.) increase or decrease in nominal interest rates, based on exposures in existence at the reporting date. This represents management's assessment of the reasonably possible change in interest rates as at that date.

At reporting date, if interest rates on borrowings had been 200 basis points higher (or lower) and all other variables were held constant, the MPower Group's net profit would decrease/(increase) by \$159,000 (2018: \$108,000). This is mainly attributable to the MPower Group's exposure to interest rates on its variable rate borrowings.

There was no significant change in the MPower Group's sensitivity to interest rates during the current year.

At reporting date, if interest rates had been 200 basis points higher (or lower) and all other variables were held constant, the MPower Group's net profit would increase/(decrease) on deposits by \$53,000 (2018: \$49,000). This is mainly attributable to the MPower Group's exposure to interest rates on its cash and cash equivalents.

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for the financial year ended 30 June 2019

**33. FINANCIAL INSTRUMENTS (CONTINUED)**

**(g) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the MPower Group. The MPower Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The MPower Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management of each operating subsidiary on a regular basis.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate and available, credit guarantee insurance is purchased.

The MPower Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The following table sets out the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, representing the MPower Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	<b>Maximum risk</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>MPower Group</b>		
Trade receivables and contract assets	9,130	8,184
Total	9,130	8,184

**(h) Liquidity risk management**

Liquidity risk is the risk that the MPower Group will encounter difficulty in meeting its obligations associated with financial liabilities.

Ultimate responsibility for liquidity risk management rests with the MPower Parent board of directors, who have built an appropriate liquidity risk management framework for the management of the MPower Group's short, medium and long-term funding and liquidity management requirements. The MPower Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 9 is a listing of additional undrawn facilities that the MPower Group has at its disposal to further reduce liquidity risk.

**Liquidity and interest risk tables**

The following tables detail the MPower Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the MPower Group can be required to pay. The table includes both interest and principal cash flows.

**MPower Group**

<b>Financial liabilities</b>	<b>Weighted average effective interest rate %</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>5+ years</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>2019</b>					
Non-interest bearing liability	-	10,136	1,909	-	-
Finance lease liability	6.21	16	47	34	-
Variable interest rate instruments	14.99	6,930	41	617	358
Forward exchange contract liabilities	-	-	-	-	-
Total		17,082	1,997	651	358
<b>2018</b>					
Non-interest bearing liability	-	7,002	1,047	82	-
Finance lease liability	6.19	20	61	97	-
Variable interest rate instruments	6.86	4,327	29	491	532
Forward exchange contract liabilities	-	-	2	-	-
Total		11,349	1,139	670	532

**Notes to the financial statements**  
for the financial year ended 30 June 2019

**33. FINANCIAL INSTRUMENTS (CONTINUED)**

**(h) Liquidity risk management (continued)**

MPOWER Holdings Pty Limited (and subsidiaries) has an available performance guarantee and surety bond facility with Vero Insurance. There were performance guarantee and surety bond contracts in respect of open construction contracts at year end of \$173,113 (2018: \$1,783,283). At the end of the year it was not probable that the counterparty to any of the performance guarantee contracts will claim under the contract. Consequently, the amount included in the above table is nil.

The MPOWER Group is planning to finance the payment of the above liabilities by way of expected cash-flow arising from operating activities based upon prepared forecasts and budgets.

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

**MPOWER Group**

Financial assets	Weighted average effective interest rate %	Less than 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000
<b>2019</b>					
Non-interest bearing	-	8,471	-	-	-
Variable interest rate instruments	0.15	2,655	-	-	-
Fixed interest rate instruments	-	-	-	-	-
Forward exchange contracts	-	31	6	-	-
Total		11,157	6	-	-
<b>2018</b>					
Non-interest bearing	-	4,843	-	-	-
Variable interest rate instruments	0.15	2,426	-	-	-
Fixed interest rate instruments	2.30	-	9	3	-
Forward exchange contracts	-	39	90	-	-
Total		7,308	99	3	-

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

**(i) Fair value measurements recognised in the statement of financial position**

**Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 30 June 2019 \$'000	Fair value as at 30 June 2018 \$'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Foreign currency forward contracts			Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Assets	36	129				
Liabilities	-	2				



## Notes to the financial statements

for the financial year ended 30 June 2019

### 33. FINANCIAL INSTRUMENTS (CONTINUED)

#### (i) Fair value measurements recognised in the statement of financial position (continued)

**Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The directors consider that the carrying amounts of the following financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values at 30 June:

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
<b>Financial assets</b>		
Trade and other receivables	9,130	8,184
Cash and cash equivalents	2,655	2,438
Total	11,785	10,622
<b>Financial liabilities</b>		
Trade and other payables	12,045	8,049
Borrowings	7,007	5,550
Liabilities associated with assets classified as held for sale	1,030	-
Total	20,082	13,599