

# ANNUAL FINANCIAL STATEMENTS

VISTA GROUP INTERNATIONAL LIMITED

2019



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# Management commentary

The Board and Management are pleased to present the full year financial statements and highlights of Vista Group International Limited (the 'Company' and its subsidiaries, collectively 'Vista Group'), for the year ended 31 December 2019.

## Key financial metrics

- Revenue up 11% to \$144.5m
- EBITDA<sup>(1)</sup> down 5% to \$31.1m on a like for like basis<sup>(2)</sup>
- Operating cashflow of \$15.5m
- Final dividend of 2.1 cents per share.

## Key operational metrics

- Vista Group global leadership position in the cinema industry grew to 51% market share of the 20+ screens segment excluding China, up from 48% in 2018
- 857 new Vista Cinema sites (including 143 sites in China) – another very strong year of site growth to a cumulative 8,059 sites
- Core revenue growth (Cinema and Movio) 16% for the year
- 11% growth in recurring revenue to \$88.2m – representing 61% of total revenue.

## Industry overview

### Box Office

2019 was another good year for the film industry, with global box office of \$US42.5b, an all-time high. European receipts up 4.5% on 2018 to a new record high and domestic US box office at \$US11.4b, the second best year ever. China continued to break records in attendance, screen growth and film releases in 2019.

## Segment overview

### Cinema

Vista Cinema continues to consistently add around 800 sites per year. In 2019, by adding 857 new sites to its slate, it now serves over 8,000 sites worldwide representing 40% of all large circuits. Revenue was up 17% and like for like EBITDA<sup>(1,2)</sup> up 9%. Recurring revenue was steady at 52% of total revenue and revenue from third parties in the ecosystem increased strongly. Particularly pleasing is the expansion of payment processing opportunities the team are exploring.

Vista Cinema continues to invest considerably in its product roadmap. A special mention also goes to the product development organisation in Vista Cinema, who have delivered new products, innovated with existing products, taken on new implementation for some of the world's largest cinema chains and embarked on a significant SaaS transformation.

Veezi continues to build momentum with 161 additional sites added and now serves more than 1,000 customers worldwide. Veezi ARR<sup>(3)</sup> (excluding China) was up 22% in the year – driven by an increase in sites and a modest increase in revenue per site.

### Movio

Movio Cinema and Movio Research (now split out from Movio Media) reported solid growth, 19% and 15% respectively, in their customer base and revenues. Pleasingly, Movio Cinema is now in 57 countries, with strong growth particularly in EMEA in the last 12 months and 100% of Movio Research's revenue is now recurring in nature.

Movio Media was flat on 2018, however it made strong progress in the key area of digital campaigns (68%). This offset a reduction in direct campaigns (16%).

The Moviegoer Data Platform announced in 2019 has progressed well and will have its first pilot customer in test from March 2020.

## Additional Group Companies

This segment comprises of Maccs, Numero (from October 2019), Powster and Flicks.

Maccs was the standout performer, recording strong revenue growth of 21% and positive EBITDA<sup>(1)</sup>, while launching its new Mica offering, aimed at serving the independent distributor market segment.

Numero had a good year, with revenue up due to wider customer uptake and was breakeven for Q4 2019.

Powster grew steadily in the year whilst building its internal capabilities in the US to complement its UK offering. The volume of contracts and project opportunities increased in Q4 2019 and Powster enters 2020 with a strong pipeline. Traffic across the Powster platforms increased 23% over the prior year.

Flicks continues to extend its lead as the largest independent movie site in Australasia. Sales and marketing investment in Australia resulted in good growth in the second half of the year. Users were up 13% over 2018.

## Early Stage Investments

This segment comprises the businesses of Cinema Intelligence and MovieXchange and generated revenue of \$2.9m and an EBITDA<sup>(1)</sup> loss of \$1.3m in 2019. Both businesses are tracking to breakeven and will be folded into the Cinema segment from 2020, as there is a significant overlap in current and expected customer base. This will greatly reduce both businesses' sales and marketing costs.

## Associates and Joint Ventures

Vista China's revenue was slightly down on 2018 and its net loss reduced significantly. Vista China's percentage of revenue based on share of online ticket sales reached 80% by year end and the team have fine-tuned their strategy to focus on luxury top end cinemas with partner relationships for the independent market.

In December 2019, Vista Group announced that it had agreed to purchase a further 14.5% of Vista China from its partner WePiao. Due to the uncertainty around the impact of the coronavirus (COVID-19), Vista Group initiated discussions with WePiao in February 2020 that it intends to pause the transaction until the impact can better be assessed.

Stardust was deconsolidated in February 2019 and continues to be run and funded independently of the Vista Group.

## Financial overview

Trading performance for 2019 represents a continuation of growth across the Vista Group. Reported revenue was up 11% and up 14% excluding the one-off Vista China localisation revenue in 2018. EBITDA<sup>(1)</sup> was down 5% on a like for like basis<sup>(2)</sup> to \$31.1m. This was above expectations, though benefited from reduced LTI scheme costs (\$2.0m) due to some parts of Vista Group not achieving their targets.

During the year, Vista Group was required to implement the new lease standard (NZ IFRS 16) which impacts the current year reported results within costs, EBITDA<sup>(1)</sup> and various sections of the balance sheet. The first-time adoption of this standard is explained in section 8.4 of the following annual financial statements.

Vista Group continues to maintain a strong balance sheet. Total trade receivables at year end were consistent with the half year and continue to be an area of focus for management. Intangible assets increased as a result of the continued capitalisation of internally generated software (\$11.7m) as Vista Group continues to invest for the future.

Vista Group continues to produce positive cashflow from operating activities. As noted in the prior year Management Commentary, 2018 operating cashflow benefited from one-off early customer payments (\$7.6m) against which no revenue could be recognised. Excluding this timing impact, the underlying operating cashflow performance of the business is in line with 2018. Investing cashflow increased with increases in both software development and the fit out of our new Los Angeles premises. Cash balances were \$19.5m at year end.

With the positive operating result, strong balance sheet and cash position, Vista Group has declared a final dividend of 2.1 cents per share (\$3.5m) bringing the full 2019 dividend to 3.3 cents per share (\$5.5m). This compares to 3.7 cents per share in 2018.

(1) EBITDA is a non-GAAP measure and is defined as earnings before net finance costs, income tax, depreciation and amortisation, acquisition expenses, capital gains/losses, impairment losses and equity accounted results from associates and joint venture companies.

(2) To enable a like for like comparison, the 2018 results have been adjusted to include the impact of NZ IFRS 16. See section 8.4 of the following annual financial statements for full details on the impact of adopting NZ IFRS 16 on both the current and prior year.

(3) Annual recurring revenue (ARR) is a 12-month forward view of recurring revenue components of a software business at a point in time. For Veezi, it represents the number of contracted cinema sites at December, multiplied by the average revenue per site for the preceding year.

# Statement of comprehensive income

For the year ended 31 December 2019

	SECTION	2019 NZ\$m	2018 NZ\$m
<b>Total revenue</b>	2.1, 2.2	<b>144.5</b>	<b>130.7</b>
Sales and marketing expenses	2.3	9.5	8.5
Operating expenses	2.3	68.2	59.9
Administration expenses	2.3	45.5	38.3
Acquisition expenses		0.1	0.3
Foreign currency gains		(0.1)	(1.0)
<b>Total expenses</b>		<b>123.2</b>	<b>106.0</b>
<b>Operating profit</b>		<b>21.3</b>	<b>24.7</b>
Finance costs		(1.7)	(1.0)
Finance income		0.6	0.3
Share of loss from associates and joint ventures	5.3	(2.2)	(3.0)
Capital gains and losses	2.3	0.4	-
<b>Profit before tax</b>		<b>18.4</b>	<b>21.0</b>
Tax expense	6.1	(5.6)	(8.0)
<b>Profit for the year</b>		<b>12.8</b>	<b>13.0</b>
<i>Profit for the year is attributable to:</i>			
Owners of the parent		10.8	12.3
Non-controlling interests		2.0	0.7
<b>Profit for the year</b>		<b>12.8</b>	<b>13.0</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit and loss:</i>			
Excess income tax benefit on share-based payments	6.2	-	0.2
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations, net of tax		(0.6)	1.2
<b>Total other comprehensive income</b>		<b>(0.6)</b>	<b>1.4</b>
<b>Total comprehensive income for the year</b>		<b>12.2</b>	<b>14.4</b>
<i>Total comprehensive income for the year is attributable to:</i>			
Owners of the parent		10.2	13.6
Non-controlling interests		2.0	0.8
<b>Total comprehensive income for the year</b>		<b>12.2</b>	<b>14.4</b>
<b>Earnings per share for profit attributable to the owners of the parent</b>			
Basic earnings per share (cents)	7.2	\$0.07	\$0.07
Diluted earnings per share (cents)	7.2	\$0.06	\$0.07

The above statement should be read in conjunction with the accompanying notes.

# Statement of changes in equity

For the year ended 31 December 2019

ATTRIBUTABLE TO THE OWNERS OF THE PARENT							
SECTION	CONTRIBUTED EQUITY NZ\$m	RETAINED EARNINGS NZ\$m	FOREIGN CURRENCY RESERVE NZ\$m	SHARE-BASED PAYMENT RESERVE NZ\$m	TOTAL NZ\$m	NON- CONTROLLING INTERESTS NZ\$m	TOTAL EQUITY NZ\$m
Balance at 1 January 2019	59.4	80.9	3.2	2.8	146.3	13.1	159.4
Accounting policy change 8.4	-	(0.4)	-	-	(0.4)	(0.1)	(0.5)
<b>Restated total equity</b>	<b>59.4</b>	<b>80.5</b>	<b>3.2</b>	<b>2.8</b>	<b>145.9</b>	<b>13.0</b>	<b>158.9</b>
Profit for the year	-	10.8	-	-	10.8	2.0	12.8
Other comprehensive income	-	-	(0.6)	-	(0.6)	-	(0.6)
<b>Total comprehensive income</b>	<b>-</b>	<b>10.8</b>	<b>(0.6)</b>	<b>-</b>	<b>10.2</b>	<b>2.0</b>	<b>12.2</b>
<i>Transactions with owners in their capacity as owners:</i>							
Non-controlling interest change	-	-	-	-	-	(1.3)	(1.3)
Share-based payments 7.5	2.4	-	-	(0.7)	1.7	-	1.7
Dividends paid 7.3	-	(5.5)	-	-	(5.5)	(2.5)	(8.0)
<b>Balance at 31 December 2019</b>	<b>61.8</b>	<b>85.8</b>	<b>2.6</b>	<b>2.1</b>	<b>152.3</b>	<b>11.2</b>	<b>163.5</b>
Balance at 1 January 2018	57.8	75.2	2.1	1.7	136.8	11.2	148.0
Accounting policy change	-	(1.3)	-	-	(1.3)	-	(1.3)
<b>Restated total equity</b>	<b>57.8</b>	<b>73.9</b>	<b>2.1</b>	<b>1.7</b>	<b>135.5</b>	<b>11.2</b>	<b>146.7</b>
Profit for the year	-	12.3	-	-	12.3	0.7	13.0
Other comprehensive income	-	0.2	1.1	-	1.3	0.1	1.4
<b>Total comprehensive income</b>	<b>-</b>	<b>12.5</b>	<b>1.1</b>	<b>-</b>	<b>13.6</b>	<b>0.8</b>	<b>14.4</b>
<i>Transactions with owners in their capacity as owners:</i>							
Issue of equity	-	-	-	-	-	1.9	1.9
Non-controlling interest change	0.2	-	-	-	0.2	(0.2)	-
Share-based payments 7.5	0.9	-	-	1.6	2.5	-	2.5
Dividends paid 7.3	-	(5.5)	-	-	(5.5)	(0.6)	(6.1)
VCL share-based payment	0.5	-	-	(0.5)	-	-	-
<b>Balance at 31 December 2018</b>	<b>59.4</b>	<b>80.9</b>	<b>3.2</b>	<b>2.8</b>	<b>146.3</b>	<b>13.1</b>	<b>159.4</b>

The above statement should be read in conjunction with the accompanying notes.

# Statement of financial position

As at 31 December 2019

	SECTION	2019 NZ\$m	2018 NZ\$m
<b>CURRENT ASSETS</b>			
Cash		19.5	34.4
Trade and other receivables	5.1	56.2	61.4
Income tax receivable		2.0	0.8
<b>Total current assets</b>		<b>77.7</b>	<b>96.6</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5.2	7.3	5.4
Lease assets	5.8	21.8	-
Investment in associates and joint ventures	5.3	31.6	31.9
Goodwill	5.4	69.9	63.9
Other intangible assets	5.6	27.4	20.5
Deferred tax asset	6.2	7.9	2.8
<b>Total non-current assets</b>		<b>165.9</b>	<b>124.5</b>
<b>Total assets</b>		<b>243.6</b>	<b>221.1</b>
<b>CURRENT LIABILITIES</b>			
Borrowings – related party	4.2	0.2	-
Trade and other payables	5.7	13.2	18.6
Lease liabilities	5.8	6.1	-
Deferred revenue	5.9	22.9	21.4
Contingent consideration		0.4	-
Income tax payable		1.7	3.7
<b>Total current liabilities</b>		<b>44.5</b>	<b>43.7</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings – related party	4.2	0.7	0.9
Borrowings – external	4.2	10.9	11.1
Lease liabilities	5.8	17.4	-
Deferred revenue	5.9	0.2	4.5
Provisions		0.6	0.5
Deferred tax liability	6.2	5.8	1.0
<b>Total non-current liabilities</b>		<b>35.6</b>	<b>18.0</b>
<b>Total liabilities</b>		<b>80.1</b>	<b>61.7</b>
<b>Net assets</b>		<b>163.5</b>	<b>159.4</b>
<b>EQUITY</b>			
Contributed equity	7.1	61.8	59.4
Retained earnings		85.8	80.9
Foreign currency reserve		2.6	3.2
Share-based payment reserve	7.5	2.1	2.8
<b>Total equity attributable to owners of the parent</b>		<b>152.3</b>	<b>146.3</b>
Non-controlling interests		11.2	13.1
<b>Total equity</b>		<b>163.5</b>	<b>159.4</b>

For and on behalf of the Board who authorised these financial statements for issue on 27 February 2020.



Kirk Senior Chairman



James Ogden Chair Audit and Risk Committee

The above statement should be read in conjunction with the accompanying notes.

# Statement of cashflows

For the year ended 31 December 2019

	SECTION	2019 NZ\$m	2018 NZ\$m
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		143.6	132.4
Interest received		-	0.1
Payments to suppliers		(118.0)	(96.0)
Taxes paid		(9.1)	(8.2)
Interest paid		(1.0)	(0.7)
<b>Net cash inflow from operating activities</b>	<b>4.1</b>	<b>15.5</b>	<b>27.6</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	5.2	(4.1)	(2.5)
Purchase of internally generated software and other intangibles	5.6	(12.6)	(7.9)
Proceeds from disposal of intangibles		-	1.4
Related party loan advance – Numero	5.3	(0.7)	(1.3)
Derecognition of Stardust cash balances	5.3	(1.5)	-
Numero acquisition, net of cash acquired	3	0.2	-
Vista China acquisition deposit	5.1, 5.3	(0.4)	-
Vista China dividends received	5.3	0.4	-
Vista China 2018 transaction proceeds		-	0.2
<b>Net cash applied to investing activities</b>		<b>(18.7)</b>	<b>(10.1)</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Lease payments (principal elements)	5.8	(3.7)	-
Loans and borrowings		-	0.2
Dividends paid to non-controlling interests		(2.5)	(0.6)
Dividends paid to the owners of the parent	7.3	(5.5)	(5.5)
<b>Net cash applied to financing activities</b>		<b>(11.7)</b>	<b>(5.9)</b>
Net (decrease)/increase in cash		(14.9)	11.6
Cash at beginning of year		34.4	21.0
Foreign exchange differences		-	1.8
<b>Cash at end of year</b>		<b>19.5</b>	<b>34.4</b>

The above statement should be read in conjunction with the accompanying notes.



# Notes to the financial statements



## General information

The notes are consolidated into ten sections. Each section contains an introduction which is indicated by the symbol above. The first section outlines general information about Vista Group International Limited (the Company and its subsidiaries, collectively Vista Group) and guidance on how to navigate through this document.



## Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out throughout the document where they are applicable. These policies have been consistently applied to all years presented, unless otherwise stated. Accounting policies are identified by the symbol above.



## Significant accounting judgements and sources of estimation uncertainty

Significant accounting judgements are those judgements that Vista Group makes when applying its accounting policies that may have a significant effect on amounts that are recognised in these financial statements.

Significant sources of estimation uncertainty relate to assumptions and estimates made at the end of the current reporting period that have a risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In applying its accounting policies, Vista Group continually evaluates judgements and estimates based on experience and other factors, including expectations of future events that may have an impact on Vista Group. All judgements and estimates made are believed to be reasonable based on the most current set of circumstances available to Vista Group. Actual results may differ from the judgements and estimates applied.

Significant accounting judgements and estimates made by Vista Group in the preparation of these financial statements are outlined within the following financial statement notes:

**Section 3** Fair value of intangible assets acquired in a business combination

**Section 5.3** Carrying value of investment in Vista China

**Section 5.3** Initial fair value of joint venture companies

**Section 5.5** Assumptions used in testing goodwill for impairment

**Section 5.6** Capitalisation of development costs

**Section 6.2** Recognition of deferred tax assets

The fair value measurement of equity-settled transactions with employees is no longer considered to be a significant accounting judgement, as the risk of significant differences is considered remote.

The recoverability of the loan to Numero Limited (Numero) is no longer considered to be a source of estimation uncertainty, because at 31 December 2019, Numero is now recognised as a subsidiary of Vista Group (see section 3) with this loan eliminating on consolidation.

# Notes to the financial statements

Continued



## 1. General information

These financial statements are for Vista Group which is a company incorporated and domiciled in New Zealand, and whose shares are publicly traded on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX).

The Company is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of Vista Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

In accordance with the Financial Markets Conduct Act 2013, because financial statements are prepared and presented for Vista Group, separate financial statements for the Company are not presented.

The principal activity of Vista Group is the sale, support and associated development of software for the film industry. These financial statements were approved by the Board on 27 February 2020.

## 2. Financial performance



This section outlines further details of Vista Group's financial performance by building on information presented in the statement of comprehensive income.



### 2.1 Revenue

Vista Group recognises revenue when performance obligations have been settled. A performance obligation is settled when the customer has received all the benefits associated with the performance obligation.

The following details revenue types recognised within each category:

#### Product

Product revenue comprises different items across each of Vista Group's operating segments. Within the Cinema segment, product revenue relates primarily to fees charged for perpetual software licenses. The exception is the Veezi subscription-based software which is charged monthly.

Movio segment product revenue relates to annual access fees for cloud-hosted marketing and analytics platforms.

The Additional Group Companies segment recognises product revenue for perpetual and recurring licensing (Maccs); and the website/marketing platform revenue (Powster).

#### Maintenance

Maintenance services are billed in advance for a fixed term. Revenue is recorded within deferred revenue on the statement of financial position and recognised on a straight-line basis over the term of the contract billing period, as services are provided. Maintenance revenue relates to fees charged for support services and upgrades to software applications.

#### Service

Service revenue relates to fees charged for value-add services which are one-off charges. Revenue is recognised when the service is complete or on a stage of completion basis.

#### Development

Development services are revenues associated with bespoke development effort as requested and paid for by customers. This category includes revenue associated with development services to deliver the localisation of Vista Group software under the reseller agreement with Vista China. This revenue is recognised on a stage of completion basis as the performance obligations are delivered.

#### Hardware

Revenue from hardware is recognised at a point in time when delivery has been made.

#### Other revenue

Other revenue comprises revenue earned primarily from advertising and variable processing fees.

# Notes to the financial statements

Continued

## Process and policy

The tables below provide further information on the application of NZ IFRS 15 *Revenue from Contracts with Customers*, across the most significant revenue streams of Vista Group.

### Vista Cinema Segment

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
<b>Product – Cinema</b>	<b>Non-recurring revenue</b> Perpetual ERP software license targeted at larger cinema circuits.	Determining the distinct performance obligations and whether items are required to be bundled to form a distinct performance obligation.	Providing a software license is a distinct performance obligation and is not required to be bundled with other performance obligations.	<b>Point in time</b> Recognised at the point in time when the software goes live, which is when the customer can benefit from using the software.
<b>Product – Veezi</b>	<b>Recurring revenue</b> Subscription-based software targeted at small and independent theatres. Revenue includes a fixed monthly fee plus a variable component based on the number of tickets sold.	Determining whether a sales-based license of intellectual property exists. Determining whether there is a sales-based variable component.	The subscription to Veezi is a sales-based license of intellectual property. There is a sales-based variable component.	<b>Point in time</b> Recognised at the end of each month, once the sales-based variable usage is known.
<b>Maintenance – Cinema</b>	<b>Recurring revenue</b> Basic support and any enhancements or upgrades to the software.	No major judgement required, other than confirming the scope and period of the maintenance contract.	N/A	<b>Over time</b> Benefits are simultaneously received and consumed; revenue is recognised over the maintenance term.
<b>Services &amp; Development</b>	<b>Non-recurring revenue</b> Value-add services, implementation services and bespoke development of the software.	Determining whether the services and development provided are a distinct performance obligation.	Services & development are a distinct performance obligation as they are not highly dependent or interrelated to other performance obligations in the contract.	<b>Over time</b> Recognised when the service/development is complete or on a stage of completion basis.

### Movio Segment

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
<b>Product – Cinema</b>	<b>Recurring revenue</b> Movio Cinema cloud-hosted data, marketing and analytics platform. Customers are charged an annual access fee to platform plus a variable component (see below).	Determining whether the platform access is a distinct performance obligation.	Access to the platform is a distinct performance obligation and is not required to be bundled with other performance obligations.	<b>Over time</b> Platform access is recognised over time as benefits are simultaneously received and consumed.
	<b>Recurring revenue</b> Variable revenue based on the number of active members managed and the number of promotional messages sent during a given period.	Determining if a usage-based license of intellectual property exists.	The variable revenue is a usage-based license of intellectual property.	<b>Point in time</b> Variable license revenue is recognised at the end of each month once usage-based quantities are known.

# Notes to the financial statements

Continued

## Movio Segment – continued

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
<b>Product – Media</b>	<b>Recurring revenue</b> Movio Media cloud-hosted data, marketing and analytics platform.	Determining whether the platform access is a distinct performance obligation.	Access to the platform is a distinct performance obligation and is not required to be bundled with other performance obligations.	<b>Over time</b> Platform access is recognised over time as benefits are simultaneously received and consumed.
	<b>Non-recurring revenue</b> Targeted marketing campaigns, digital advertising and reports.	No major judgement required.	N/A	<b>Point in time</b> Revenue is recognised when the campaigns and reports are completed.
<b>Services</b>	<b>Non-recurring revenue</b> Value-add services, data scientist services and setup & configuration.	Determining whether the services provided are a distinct performance obligation.	The services are distinct performance obligations as they are not highly dependent or interrelated to other performance obligations in the contract.	<b>Over time</b> Recognised when the service is complete or on a stage of completion basis.

## Additional Group Companies Segment

REVENUE TYPE	DESCRIPTION	KEY JUDGEMENTS	OUTCOME	TIMING OF REVENUE RECOGNITION
<b>Product – Showtimes Platform</b>	<b>Recurring revenue</b> Website and marketing platform for feature films, incorporating showtimes data.	Determining the distinct performance obligations and the requirements to bundle performance obligations.	Two distinct performance obligations exist; platform creation and incorporating showtimes data.	<b>Point in time</b> Recognised at a point in time when the platform is live and subsequently when the showtimes data is incorporated.
<b>Product – Maccs</b>	<b>Non-recurring revenue</b> Perpetual theatrical distribution software for film distributors.	Determining the distinct performance obligations and whether they are required to be bundled as one performance obligation.	Provision of the software license is a distinct performance obligation but is required to be bundled with development where the license is dependent on the development.	<b>Point in time</b> Recognised at a point in time when the territory is live on the software, and the customer is able to benefit from the software license.
<b>Maintenance – Maccs</b>	<b>Recurring revenue</b> Basic support and any enhancements or upgrades of the software.	No major judgement required, other than confirming the scope and period of the maintenance contract.	N/A	<b>Over time</b> Benefits are simultaneously received and consumed; revenue recognised over the maintenance term.
<b>Services &amp; Development</b>	<b>Non-recurring revenue</b> Value-add services, implementation services and bespoke development of the software.	Determining the distinct performance obligation and whether the development is required to be bundled to form a distinct performance obligation.	Where the services & development are highly interrelated to a license, they are bundled with the license as a single performance obligation. Otherwise, the services and development are a distinct performance obligation.	<b>Over time</b> Recognised when the services and development are complete or on a stage of completion basis.

# Notes to the financial statements

Continued

	2019		2018	
	NZ\$m	%	NZ\$m	%
Product	41.1		36.4	
Maintenance	47.1		43.3	
<b>Recurring revenue</b>	<b>88.2</b>	<b>61%</b>	<b>79.7</b>	<b>61%</b>
Product	30.2		26.4	
Services	14.9		12.7	
Development	5.4		8.2	
Hardware	5.5		3.2	
Other	0.3		0.5	
<b>Non-recurring revenue</b>	<b>56.3</b>	<b>39%</b>	<b>51.0</b>	<b>39%</b>
<b>Total revenue</b>	<b>144.5</b>	<b>100%</b>	<b>130.7</b>	<b>100%</b>

Recurring and non-recurring revenues are non-GAAP financial measures that the Chief Operating Decision Maker (CODM) uses to help evaluate the financial performance of Vista Group and its operating segments. Recurring revenue is the portion of product and maintenance revenues that are expected to continue in the future. Unlike non-recurring revenues, these revenues are predictable, stable and can be expected to occur at regular intervals going forward with a relatively high degree of certainty.

No individual customer exceeded 10% of revenue in either the current or prior comparative year.

The timing of when recurring and non-recurring revenues are recognised in these financial statements is shown below:

	2019		2018	
	RECURRING REVENUE NZ\$m	NON-RECURRING REVENUE NZ\$m	RECURRING REVENUE NZ\$m	NON-RECURRING REVENUE NZ\$m
At a point in time	17.5	36.7	16.0	30.5
Over time	70.7	19.6	63.7	20.5
<b>Total revenue</b>	<b>88.2</b>	<b>56.3</b>	<b>79.7</b>	<b>51.0</b>

## 2.2 Operating segments

Vista Group operates in the vertical cinema/film market via four reportable segments and a corporate segment. The Chief Executive and the Board of Vista Group are collectively considered to be the CODM in terms of NZ IFRS 8 *Operating Segments*. These segments have been defined based on the reports regularly reviewed by the CODM to make strategic decisions.

### Cinema segment

Software associated with cinema management via the Vista software suite of products, plus the cloud based Veezi product for smaller scale cinemas.

### Movio segment

Includes the Movio Cinema and Media products, both of which provide data analytics and campaign management.

### Additional Group Companies segment (AGC)

An aggregation of Maccs, Powster, Flicks, plus the addition of Numero from 14 October 2019 (see section 3). None of these businesses individually exceed the 10% threshold for segment revenue or profitability that would require separate disclosure under NZ IFRS 8.

### The Early Stage Investments segment (ESI)

An aggregation of MovieXchange, Share Dimension (Cinema Intelligence) and Stardust until 25 February 2019 (see section 5.3). Like the AGC segment, none of the businesses included in this segment individually exceed the 10% threshold for segment revenue or profitability that would require separate disclosure under NZ IFRS 8.

### Corporate segment

The shared services functions associated with Vista Group, being legal, finance, and senior management. Revenue received from the associate company Vista China is recognised within this segment.

Full legal names of each entity can be obtained from section 8.3.

# Notes to the financial statements

Continued

2019	CINEMA NZ\$m	MOVIO NZ\$m	AGC NZ\$m	ESI <sup>(1,2)</sup> NZ\$m	CORPORATE NZ\$m	TOTAL NZ\$m
<b>Timing of revenue recognition</b>						
At a point in time	39.2	9.5	3.9	1.6	-	54.2
Over time	57.1	16.2	13.7	1.3	2.0	90.3
<b>Total revenue</b>	<b>96.3</b>	<b>25.7</b>	<b>17.6</b>	<b>2.9</b>	<b>2.0</b>	<b>144.5</b>
<i>Revenue growth<sup>(5)</sup></i>	17%	13%	17%	-36%	-66%	11%
<b>Operating segment performance</b>						
Recurring revenue	50.0	19.8	14.0	2.4	2.0	88.2
Non-recurring revenue	46.3	5.9	3.6	0.5	-	56.3
<b>Total revenue</b>	<b>96.3</b>	<b>25.7</b>	<b>17.6</b>	<b>2.9</b>	<b>2.0</b>	<b>144.5</b>
Operating expenses	(47.7)	(10.6)	(7.5)	(2.2)	(0.2)	(68.2)
Sales, marketing and admin expenses	(18.0)	(8.4)	(6.5)	(2.0)	(10.4)	(45.3)
Foreign currency gains/(losses)	0.3	0.1	(0.3)	-	-	0.1
<b>EBITDA<sup>(3)</sup></b>	<b>30.9</b>	<b>6.8</b>	<b>3.3</b>	<b>(1.3)</b>	<b>(8.6)</b>	<b>31.1</b>
<i>EBITDA margin<sup>(5)</sup></i>	32%	26%	19%			22%
2018	CINEMA NZ\$m	MOVIO NZ\$m	AGC NZ\$m	ESI NZ\$m	CORPORATE NZ\$m	TOTAL NZ\$m
<b>Timing of revenue recognition</b>						
At a point in time	31.7	9.3	1.8	3.7	-	46.5
Over time	50.8	13.5	13.2	0.8	5.9	84.2
<b>Total revenue</b>	<b>82.5</b>	<b>22.8</b>	<b>15.0</b>	<b>4.5</b>	<b>5.9</b>	<b>130.7</b>
<i>Revenue growth<sup>(5)</sup></i>	22%	47%	22%	286%	-41%	23%
<b>Operating segment performance</b>						
Recurring revenue	43.7	17.8	12.5	3.6	2.1	79.7
Non-recurring revenue	38.8	5.0	2.5	0.9	3.8	51.0
<b>Total revenue</b>	<b>82.5</b>	<b>22.8</b>	<b>15.0</b>	<b>4.5</b>	<b>5.9</b>	<b>130.7</b>
Operating expenses	(40.7)	(9.7)	(7.3)	(2.0)	(0.2)	(59.9)
Sales, marketing and admin expenses	(17.8)	(7.0)	(6.4)	(2.1)	(9.3)	(42.6)
Foreign currency gains/(losses)	1.6	0.1	0.1	-	(0.8)	1.0
<b>EBITDA (as previously reported)<sup>(6)</sup></b>	<b>25.6</b>	<b>6.2</b>	<b>1.4</b>	<b>0.4</b>	<b>(4.4)</b>	<b>29.2</b>
Impact of NZ IFRS 16 <sup>(6)</sup>	2.7	0.2	0.7	-	-	3.6
<b>EBITDA (adjusted for NZ IFRS 16)<sup>(6)</sup></b>	<b>28.3</b>	<b>6.4</b>	<b>2.1</b>	<b>0.4</b>	<b>(4.4)</b>	<b>32.8</b>
<i>EBITDA margin (adjusted for NZ IFRS 16)<sup>(5,6)</sup></i>	34%	28%	14%	9%		25%

To assist the readers' understanding of these financial statements, the revenues of each segment have been split to show both recurring and non-recurring revenues.

Movio derives \$0.7m inter-segment revenues from the Cinema segment (2018: \$0.5m) and \$0.2m from Numero since its inclusion in the AGC segment. These revenues are not included in the above tables as they eliminate on consolidation.

# Notes to the financial statements

Continued

## Reconciliation of EBITDA<sup>(3)</sup> to profit before tax

	2019 NZ\$m	2018 NZ\$m
<b>EBITDA<sup>(3)</sup></b>	<b>31.1</b>	<b>29.2</b>
Depreciation and amortisation	(9.7)	(4.2)
<b>EBIT<sup>(4)</sup></b>	<b>21.4</b>	<b>25.0</b>
Finance income	0.6	0.3
Finance costs	(1.7)	(1.0)
Acquisition expenses	(0.1)	(0.3)
Share of loss from associates and joint ventures	(2.2)	(3.0)
Capital gains and losses	0.4	-
<b>Profit before tax</b>	<b>18.4</b>	<b>21.0</b>

- (1) Includes results of Numero from 14 October 2019, the date control was obtained through the step acquisition (see section 3).
- (2) Includes results of Stardust until 25 February 2019, at which date the entity no longer meets the requirements for control (see section 5.3).
- (3) EBITDA is a non-GAAP measure and is defined as earnings before net finance costs, income tax, depreciation and amortisation, acquisition expenses, capital gains/losses, impairment losses and equity accounted results from associates and joint venture companies.
- (4) EBIT is a non-GAAP measure and is defined as earnings before net finance costs, income tax, acquisition expenses, capital gains/losses, impairment losses and equity accounted results from associate and joint venture companies.
- (5) Revenue growth and EBITDA margin are non-GAAP measures which the CODM regularly reviews. EBITDA margin is calculated as EBITDA over total revenue.
- (6) On first-time implementation of NZ IFRS 16 *Leases*, Vista Group elected to not restate the comparative year values. To assist the readers' understanding of the year on year EBITDA trading growth, the prior year segment disclosures have been reported showing both the values reported in the prior year financial statements ('as previously reported') and to show the EBITDA as if NZ IFRS 16 had also been adopted in the prior year ('adjusted for NZ IFRS 16'). See section 8.4 for more details on first time adoption of NZ IFRS 16.

## Revenue by domicile of entity

Vista Group recognises revenue within entities across several jurisdictions. Revenue is allocated to geographical regions based on where the sale is recorded by each operating entity within Vista Group. Independent resellers are used to promote Vista Group's products in multiple jurisdictions. The revenues recognised via these independent resellers are not allocated geographically, rather they are shown within the New Zealand and United Kingdom jurisdictions based on the location of the transacting Vista Group entity.

The Other category in the tables below include entities in the Netherlands, Germany, Malaysia, Romania and South Africa.

	2019 NZ\$m	2018 NZ\$m
New Zealand	28.9	34.3
United States	54.5	45.6
United Kingdom	34.4	27.7
Mexico	15.7	15.7
Other	11.0	7.4
<b>Total revenue</b>	<b>144.5</b>	<b>130.7</b>

# Notes to the financial statements

Continued

## Non-current assets by domicile of entity

Non-current operating assets by location of the reporting entity are presented in the following table.

	2019 NZ\$m	RESTATED 2018 NZ\$m
New Zealand	55.7	41.6
United States	25.7	8.5
United Kingdom	12.5	8.8
Mexico	11.7	11.4
Other	20.8	19.5

As required by NZ IFRS 8, the table above excludes deferred tax assets (the comparatives have been restated accordingly). Investment in associates are excluded from the non-current assets balance presented.

## 2.3 Expenses



### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants are recognised within the statement of comprehensive income as an offset to operating expenses.

During the year, Vista Group recognised a total of \$4.2m (2018: \$3.2m) of grants from Callaghan Innovation in New Zealand and Ministry of Economic Affairs (WBSO) in Netherlands to assist with research and development. At balance date, there is a 10% retention amount related to 2019 grants of \$0.4m (2018: \$0.3m) yet to be paid and subject to independent auditor review.

### Auditor's remuneration included in administration expenses

	2019 NZ\$m	2018 NZ\$m
<b>Audit of financial statements</b>		
Audit and review of financial statements – PwC	0.5	0.4
Audit of subsidiary financial statements – Scrutton Bland	-	0.1
<b>Total audit fees</b>	<b>0.5</b>	<b>0.5</b>

Vista Group engaged PwC to perform non-audit services relating to assurance services (review of R&D growth grants schedule \$15k (2018: \$15k)), advisory services relating to long-term employee incentive schemes \$7k (2018: \$24k) and the preparation of an immaterial subsidiary's financial statements \$12k (2018: \$nil). The cumulative cost for these engagements was less than \$0.1m (2018: less than \$0.1m).

## Capital gains and losses

	SECTION	2019 NZ\$m	2018 NZ\$m
Capital gain – derecognition of Stardust	5.3	0.1	-
Capital gain – step acquisition of Numero	3	0.3	-
<b>Total capital gains and losses</b>		<b>0.4</b>	<b>-</b>



# Notes to the financial statements

Continued

## Other expenses

Sales and marketing expenses are those costs incurred by Vista Group in directly selling or marketing its products, along with the associated personnel costs.

Operating expenses include those costs incurred by Vista Group in running its business operations. Such costs include hosting, research, maintenance, development and the associated personnel costs. Vista Group has expensed \$25.4m of aggregated software related research and development expenditure (2018: \$22.4m) within this operating expense line.

Administration expenses include the overhead costs incurred by Vista Group that are not directly associated with sales, marketing or costs incurred in running its business operations.

	SECTION	2019 NZ\$m	2018 NZ\$m
<i>Included in administration expenses:</i>			
Depreciation of property, plant & equipment	5.2	2.1	1.7
Depreciation of lease assets	5.8	3.9	-
Amortisation of intangible assets	5.6	3.7	2.5

## 3. Business combinations



This section outlines how Vista Group has accounted for transactions when acquiring its associated company (Numero) and the disposal of an existing subsidiary (Stardust). There were no business combinations that completed in 2018.



### Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises cash and the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired as well as any liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Vista Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

Goodwill represents the excess of purchase considerations over the fair value of net assets acquired in a business combination. Goodwill is allocated to cash generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed. See section 5.4 for more detail on the components of goodwill recognised. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of exchange. The discount rate applied is the entity's incremental borrowing rate (being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions).

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes recognised in the statement of comprehensive income.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the statement of comprehensive income.

# Notes to the financial statements

Continued



## Significant accounting judgement – Fair value of intangible assets acquired in a business combination

The fair value of the acquired intangible assets of Numero are to be performed by external valuation experts as these fair values are likely to be significant. Due to this acquisition only completing late in 2019, the valuation of the acquired intangible assets has yet to be finalised and therefore the acquired net assets have been reported on a provisional basis.

### Numero step acquisition

On 14 October 2019, Vista Group announced it had acquired the remaining 50% stake in Numero. This transaction results in Vista Group obtaining control of Numero and therefore has been consolidated into Vista Group's results from the date of the transaction.

Numero provides an aggregated Box Office reporting platform that delivers the film industry and media clean, fast and effective Box Office information. Management consider this consolidation transaction to be a natural progression due to the similarity of its business model to that of the rest of Vista Group.

The share purchase agreement includes contingent consideration with components payable in cash of \$0.1m and up to 20,000 Vista Group shares. The contingent consideration is payable once certain 2020 and 2021 EBITDA and revenue performance targets are achieved. Vista Group determined the fair value of the shares contingent on these performance targets was \$nil, as they are not considered likely to be earned.

Due to the recency of the Numero transaction, the fair value of net assets acquired are provisional. In accordance with NZ IFRS 3 *Business Combinations*, these fair values will be finalised and adjusted within 12 months of completing the transaction.

The provisional goodwill currently includes the customer contracts and IP, which are still being measured by an external valuation expert. Provisional goodwill, after removing the acquired intangibles, will be attributable to future growth in Numero obtained from future operating synergies and the ability to leverage Vista Group's existing infrastructure and customer network. Lastly, the provisional goodwill will include a portion relating to the assembled workforce, which do not meet the NZ IAS 38 *Intangible Assets* criteria of intangible assets.

While the total receivables on the date of acquisition were \$9.1 million, Vista Group concluded the previously recognised provision for impairment of \$3.6 million at 30 June 2019 remained appropriate, meaning the fair value of the receivables were \$5.5 million. This fair value is confirmed using a 5-year Discounted Cash Flow (DCF) of Numero's future cash flows, which is a level 3 fair value measurement technique as per the fair value hierarchy set out in section 10.2. As this step acquisition resulted in a change in control, a non-taxable capital gain of \$0.3m was recognised, calculated as follows:

	2019 NZ\$m
Fair value of the 50.0% of Numero acquired by Vista Group	0.3
Less: equity accounted carrying value of Numero	-
<b>Capital gain on step acquisition of Numero</b>	<b>0.3</b>

# Notes to the financial statements

Continued

## Business combinations completed during the year

	NUMERO NZ\$m
<b>Fair value of net liabilities acquired</b>	
Cash	0.3
Trade and other receivables	0.4
Trade and other payables	(0.7)
Deferred revenue	(0.1)
Lease assets	0.1
Lease liabilities – current	(0.1)
<b>Net liabilities acquired</b>	<b>(0.1)</b>
Provisional goodwill	6.1
<b>Total consideration</b>	<b>6.0</b>
<b>Consideration is satisfied by:</b>	
Cash consideration	0.1
Cash contingent consideration	0.1
Derecognition of receivables owed to Vista Group	5.5
Fair value of previously held equity interest	0.3
<b>Total consideration</b>	<b>6.0</b>
<b>Net cash outflow arising on acquisition</b>	
Cash consideration	(0.1)
Cash acquired	0.3
<b>Net cash inflow</b>	<b>0.2</b>
<b>Contribution to Vista Group since control was obtained</b>	
Revenue	0.6
EBITDA	(0.1)
<b>Results of the acquired subsidiary for the year ended 31 December 2019</b>	
Revenue	2.2
EBITDA	(0.3)

None of Vista Group's acquisitions have goodwill that is deductible for taxation purposes.

# Notes to the financial statements

Continued

## 4. Cash flows and borrowings



This section builds on information from the statement of cashflows. Cash comprises cash at bank and on hand.

### 4.1 Reconciliation of net profit to operating cash flows

	SECTION	2019 NZ\$m	2018 NZ\$m
<b>Profit for the year</b>		<b>12.8</b>	<b>13.0</b>
<i>Non-cash items:</i>			
Amortisation	5.6	3.7	2.5
Depreciation	5.2, 5.8	6.0	1.7
Share-based payment expense	7.5	1.7	2.5
Non-cash finance charges		0.7	0.3
Acquisition expenses		0.1	1.0
Capital gains and losses	2.3	(0.4)	-
Share of loss from investment in associates and joint ventures	5.3	2.2	1.8
Deferred tax		-	1.0
Foreign exchange movements		(0.2)	(0.5)
Expected credit loss expense	5.1	(0.7)	(0.5)
<b>Net non-cash items</b>		<b>13.1</b>	<b>9.8</b>
<i>Movements in working capital:</i>			
(Decrease)/increase in related party trade and other payables		(4.7)	1.6
Decrease in related party trade and other receivables, net of deferred revenue		6.0	5.9
Increase in trade and other payables		0.6	2.5
Increase in trade and other receivables, net of deferred revenue		(8.8)	(5.0)
Decrease in taxation receivable and payable		(3.5)	(0.2)
<b>Net change in working capital</b>		<b>(10.4)</b>	<b>4.8</b>
<b>Net cash inflow from operating activities</b>		<b>15.5</b>	<b>27.6</b>



### 4.2 Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Borrowing costs are expensed as incurred.

	2019 NZ\$m	2018 NZ\$m
Borrowings – related party	0.9	0.9
Borrowings – external	10.9	11.1
<b>Total borrowings</b>	<b>11.8</b>	<b>12.0</b>
Current	0.2	-
Non-current	11.6	12.0
<b>Total borrowings</b>	<b>11.8</b>	<b>12.0</b>

# Notes to the financial statements

Continued

The table below details the movement in borrowings during the year:

	2019 NZ\$m	2018 NZ\$m
<b><i>Borrowings – related party:</i></b>		
Opening	0.9	0.6
Additional borrowing – Maccs minority shareholders	-	0.2
Movement in foreign exchange	-	0.1
<b>Balance at 31 December</b>	<b>0.9</b>	<b>0.9</b>
<b><i>Borrowings – external:</i></b>		
Opening	11.1	10.7
Movement in foreign exchange	(0.2)	0.4
<b>Balance at 31 December</b>	<b>10.9</b>	<b>11.1</b>

A schedule of all debt facilities is shown below:

FACILITY PROVIDER	REASON FOR LOAN	EXPIRY DATE	INTEREST RATE		LIMIT (m)	DEBT DRAWN (NZ\$m)	
			2019	2018		2019	2018
ASB – term loan	Maccs acquisition	Jan 2023	2.50%	2.97%	€3.0	5.0	5.1
ASB – term loan	Vista Latam acquisition	Jan 2023	4.27%	5.59%	US\$4.0	5.9	6.0
ASB – revolving credit	Future acquisitions/ SaaS project	Jan 2023	3.81%	n/a	NZ\$41.0	-	-
ASB – overdraft	Working capital	Jan 2023	6.08%	6.12%	NZ\$2.0	-	-
<b>Total borrowings – external</b>					<b>NZ\$54.0</b>	<b>10.9</b>	<b>11.1</b>
Maccs	Working capital	Apr 2020	5.00%	5.00%	€0.1	0.2	0.2
Share Dimension	Working capital	Jul 2022	5.00%	5.00%	€0.4	0.7	0.7
<b>Total borrowings – related party</b>					<b>0.5</b>	<b>0.9</b>	<b>0.9</b>

On 31 January 2020, Vista Group entered into a refinancing arrangement with ASB to assist in funding the SaaS transformation project, the 2020 Vista China step acquisition and any future acquisition related opportunities.

All ASB facilities are secured by a general security agreement under which the bank has a security interest in all Vista Group's tangible assets. Agreed covenants include:

- EBITDA of the charging group not being less than 80% of Vista Group;
- Gearing ratio of not greater than 2.5 times; and
- Interest cover of equal or greater than 3.0 times.

Vista Group has been compliant with all covenants for both the current and prior reporting periods.

Related party borrowings include loans from minority shareholders for Maccs and Share Dimension.

# Notes to the financial statements

Continued

## 5. Assets and liabilities



This section outlines further details of Vista Group's financial performance by building on information presented in the statement of financial position.

### 5.1 Trade and other receivables

Trade and other receivables at 31 December were as follows:

		2019	2018
	SECTION	NZ\$m	NZ\$m
Trade receivables		35.4	44.3
Sundry receivables		3.8	3.9
Accrued revenue		13.2	4.9
Prepayments		3.4	2.9
Vista China acquisition deposit	5.3	0.4	-
Related party loan – Numero		-	5.4
<b>Total trade and other receivables</b>		<b>56.2</b>	<b>61.4</b>

The prior year related party loan to Numero was presented net of a provision for impairment of \$3.0m. An additional provision for impairment of \$0.6m was recognised in 2019 prior to Vista Group obtaining control of Numero. Subsequent to this date, both the related party loan and impairment provision eliminate on consolidation. See section 3 for further details of the Numero step acquisition.

Included within trade receivables is a receivable from Vista China of \$0.9m (2018: \$6.8m), see section 5.3 for further details.

Accrued revenues are recognised with regard to customer contracts where Vista Group's performance obligations have been fully satisfied, but billing is not contractually due until a subsequent date.

Included within trade and other receivables is a \$0.4m (RMB2.0m) deposit paid to WePiao as part of the proposed Vista China step acquisition (see section 5.3 for further details).

The following table summarises the impact of the expected credit loss provision on the trade receivables balance. See section 10.2 for further details on the accounting policies that impact trade receivables:

	2019	2018
	NZ\$m	NZ\$m
Trade receivables – gross	36.6	46.2
Expected credit loss – general provision	(0.4)	(1.1)
Expected credit loss – specific provision	(0.8)	(0.8)
<b>Trade receivables – net of provisions</b>	<b>35.4</b>	<b>44.3</b>

The movement in the expected credit loss provision during the year was as follows:

	2019	2018
	NZ\$m	NZ\$m
Balance at 1 January	1.9	1.0
Bad debts written off	(1.4)	(0.2)
Change in provision	0.7	1.1
<b>Expected credit loss provision at 31 December</b>	<b>1.2</b>	<b>1.9</b>

# Notes to the financial statements

Continued

The expected credit loss provision for trade receivables has been measured using the same techniques as the prior year, determined as follows:

	CURRENT	91-180 DAYS PAST DUE	181-270 DAYS PAST DUE	271-360 DAYS PAST DUE	361+ DAYS PAST DUE	TOTAL
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>31 DECEMBER 2019</b>						
<b>Gross carrying amount</b>	28.7	3.8	2.6	0.8	0.7	36.6
Baseline	0.1	-	0.1	-	-	0.2
Aging and write offs	-	-	-	-	0.1	0.1
Country, customer and market	0.1	-	-	-	-	0.1
General provision	0.2	-	0.1	-	0.1	0.4
Specific provision	-	-	0.1	0.3	0.4	0.8
<b>Total ECL provision</b>	<b>0.2</b>	<b>-</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>	<b>1.2</b>
<i>General provision effective rate</i>	0.7%	-	3.8%	-	14.3%	1.7%
	CURRENT	91-180 DAYS PAST DUE	181-270 DAYS PAST DUE	271-360 DAYS PAST DUE	361+ DAYS PAST DUE	TOTAL
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>31 DECEMBER 2018</b>						
<b>Gross carrying amount</b>	32.3	3.8	2.1	0.5	7.5	46.2
Baseline	0.1	-	0.1	-	0.4	0.6
Aging and write offs	-	-	-	-	0.4	0.4
Country, customer and market	-	-	-	-	0.1	0.1
General provision	0.1	-	0.1	-	0.9	1.1
Specific provision	0.3	-	0.1	-	0.4	0.8
<b>Total ECL provision</b>	<b>0.4</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>1.3</b>	<b>1.9</b>
<i>General provision effective rate</i>	0.3%	-	4.8%	-	12.0%	2.4%

The movement in accrued revenues during the year was as follows:

	2019 NZ\$m	2018 NZ\$m
Accrued revenues at 1 January	4.9	6.2
Amounts included in opening balance released in the current year	(4.9)	(5.9)
Additional accrued revenue recognised at year end	13.1	4.4
Exchange movements	0.1	0.2
<b>Accrued revenue at 31 December</b>	<b>13.2</b>	<b>4.9</b>



## 5.2 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation on assets is charged on a straight-line basis to allocate the differences between their original cost and the residual values over their estimated useful lives, as follows:

- Fixtures and fittings 7 to 10 years, or the term of any associated property lease
- Computer equipment 3 to 5 years

The residual values and useful lives of assets are reviewed and adjusted if appropriate. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is immediately written down to its recoverable amount.

# Notes to the financial statements

Continued

The carrying amount of property, plant and equipment is represented as follows:

	FIXTURES & FITTINGS NZ\$m	COMPUTER EQUIPMENT NZ\$m	TOTAL NZ\$m
<b>2019</b>			
<b>Gross carrying amount</b>			
Balance at 1 January	5.8	4.9	10.7
Additions	2.8	1.3	4.1
Disposals	(0.3)	(2.5)	(2.8)
Exchange differences	(0.4)	(0.2)	(0.6)
<b>Balance at year end</b>	<b>7.9</b>	<b>3.5</b>	<b>11.4</b>
<b>Accumulated depreciation</b>			
Balance at 1 January	(2.1)	(3.2)	(5.3)
Current year depreciation	(0.9)	(1.2)	(2.1)
Disposals	0.3	2.5	2.8
Exchange differences	0.4	0.1	0.5
<b>Balance at year end</b>	<b>(2.3)</b>	<b>(1.8)</b>	<b>(4.1)</b>
<b>Carrying amount at 31 December 2019</b>	<b>5.6</b>	<b>1.7</b>	<b>7.3</b>
	FIXTURES & FITTINGS NZ\$m	COMPUTER EQUIPMENT NZ\$m	TOTAL NZ\$m
<b>2018</b>			
<b>Gross carrying amount</b>			
Balance at 1 January	4.6	3.5	8.1
Additions	1.2	1.3	2.5
Exchange differences	-	0.1	0.1
<b>Balance at year end</b>	<b>5.8</b>	<b>4.9</b>	<b>10.7</b>
<b>Accumulated depreciation</b>			
Balance at 1 January	(1.4)	(2.1)	(3.5)
Current year depreciation	(0.6)	(1.1)	(1.7)
Exchange differences	(0.1)	-	(0.1)
<b>Balance at year end</b>	<b>(2.1)</b>	<b>(3.2)</b>	<b>(5.3)</b>
<b>Carrying amount at 31 December 2018</b>	<b>3.7</b>	<b>1.7</b>	<b>5.4</b>



## 5.3 Investment in associates and joint ventures

Associates are all entities over which the Vista Group has significant influence but not control or joint control. This is generally the case where Vista Group holds between 20% and 50% of the voting rights.

Joint ventures are all entities over which Vista Group has a joint arrangement where two or more of the parties have joint control of the arrangement and have rights to the net assets of the arrangement.

Investments in both associates and joint ventures are accounted for using the equity method of accounting, after initially being recognised at cost.

In the event of loss of control of a subsidiary, resulting in an associate company, the investment is recognised initially at fair value. The carrying amount of the investment in an associate is increased or decreased to recognise Vista Group's share of the profit or loss and other comprehensive income of the associate after the acquisition date. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When Vista Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, Vista Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. The carrying amount of equity-accounted investments are tested for impairment in accordance with the policy described in section 5.5.



# Notes to the financial statements

Continued

The financial statements of associates and joint ventures are prepared for the same reporting period as Vista Group. When necessary, adjustments are made to bring the accounting policies in line with those of Vista Group.

## Holdings in associates and joint ventures

The principal associates and joint ventures all have share capital consisting solely of ordinary shares. None of these entities are considered strategic to Vista Group's core operations.

NAME OF ENTITY	ASSOCIATE OR JOINT VENTURE	COUNTRY OF INCORPORATION	PRINCIPAL PLACE OF BUSINESS	HOLDING PERCENTAGE	
				2019	2018
Vista Entertainment Solutions (Shanghai) Limited	Associate	China	China	47.5%	47.5%
Stardust Solutions Limited	Joint Venture	New Zealand	USA	55.9%	58.9%

At 31 December 2018, Vista Group recognised its 50.0% stake in Numero as an associated company.



## Significant estimation uncertainty – Carrying value of investment in Vista China

An independent valuation of Vista China at 31 December 2019 has been prepared by an external valuation expert using a combined DCF and capitalisation of revenue method to ensure Vista China's carrying value does not exceed its recoverable amount. The external valuation expert also considered the implied \$106.4m (RMB500.0m) equity valuation from the proposed transaction between Vista Group and WePiao (more detail provided below in this section). This combined approach represents a fair value less costs to dispose (FVLCD) methodology.

The key inputs applied by the external valuation expert into the valuation models were:

- Discount rate: a range of 20-25% (2018: 20-25%), based on authoritative studies into the rates of return required by venture capital firms of China-based companies.
- Revenue multiple range of 4.00x to 5.00x (2018: 4.25x to 5.25x), based on a study of 83 listed 'Application Software' companies in China, adjusted for outliers (below 20th percentile, or above 80th percentile).

Judgement was applied by management in estimating the 5-year operating performance of Vista China upon which this valuation was based, which forecasts Vista China revenues to grow at a CAGR of 11.8% from 2019 to 2024. The values applied by management were cross-checked by the external valuation expert to other externally published sources, with the associated risks being reflected in their adopted discount rate range.

When completing the FVLCD calculation, a 10% control discount and an assumed 2% transaction cost were applied. The result of this external valuation was that Vista Group's equity accounted carrying value of Vista China did not exceed the recoverable amount.

## Proposed Vista China step acquisition

On 20 December 2019, Vista Group announced that it had agreed to acquire a further 14.5% stake in Vista China. The initial cash consideration will include cash payments of RMB26.3m and US\$5.2m. Further cash of RMB10.0m will be payable 12 months after completion. The acquisition implies an equity valuation of Vista China of \$106.4m (RMB500.0m). Consideration for this transaction is to be funded through a combination of existing cash resources and an enhanced ASB revolving credit facility.

At 31 December 2019, this step acquisition was subject to approval from the relevant Chinese regulatory authorities which is expected to be obtained during the first half of 2020.

Management consider China to be a very good long-term market prospect for Vista Group with 12 of the world's top 20 cinema exhibitor chains operating in the Chinese market; continued strong box office growth; and cinemas being built at such a rate that by 2021, China is expected to have almost double the number of US cinema screens.

This step acquisition will enable Vista Group to have greater control over the strategic direction of Vista China and to take advantage of the opportunities that arise in that market.

Vista Group have paid a deposit of NZ\$0.4m (RMB2.0m) to WePiao, which is included within trade and other receivables (see section 5.1) at 31 December 2019. This deposit is fully refundable should an adverse ruling be obtained from the regulators. Should the acquisition complete, the consideration payable will be reduced by this deposit.

# Notes to the financial statements

Continued



## Significant Accounting judgement – Initial fair value of joint venture companies (Stardust)

On 25 February 2019, Vista Group entered into agreements that resulted in Stardust no longer meeting the requirements for control under NZ IFRS 10 *Consolidated Financial Statements*. Under the terms of the amended shareholders' agreement, Vista Group no longer has an entitlement to appoint a majority of the Directors, nor to solely appoint the CEO. Holding two of the four Board seats enables Vista Group to exercise joint control over Stardust and therefore classifies this entity as a joint venture. Vista Group ceased to consolidate Stardust as of 25 February 2019 with its shareholding remaining unchanged at 58.9%.

On 25 February 2019, the carrying value of Stardust's net assets were \$3.2m, of which \$1.5m consisted of cash at bank. The fair value of the retained 58.9% shareholding in Stardust required judgement with the intellectual property being calculated using a 'cost to replace' valuation model (a level 3 fair value measurement technique). Vista Group recognised a \$0.1m gain on deconsolidation, calculated as follows:

	2019 NZ\$m
Fair value of the 58.9% of Stardust retained by Vista Group	2.0
Less: carrying value of net assets of Stardust	(3.2)
Add: carrying value of non-controlling interests	1.3
<b>Capital gain on deconsolidation of Stardust</b>	<b>0.1</b>
Income tax expense	-
<b>Capital gain on deconsolidation of Stardust</b>	<b>0.1</b>

## Numero step acquisition

On 14 October 2019, Vista Group obtained control of Numero by acquiring a further 50% shareholding, taking Vista Group's holding to 100%. From the date of acquisition, Numero is no longer accounted for as an associated entity and is instead fully consolidated into Vista Group's results. For more information on this transaction, see section 3.

## Carrying value of associates and joint ventures

	STARDUST		VISTA CHINA	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Opening net assets	-	-	24.6	28.7
Net assets of Stardust at 25 Feb 2019	3.2	-	-	-
Loss for the year	(0.9)	-	(2.3)	(4.1)
Dividends declared	-	-	(1.5)	-
<b>Closing net assets</b>	<b>2.3</b>	<b>-</b>	<b>20.8</b>	<b>24.6</b>
Vista Group interest	55.9%	-	47.5%	47.5%
Vista Group's share	1.3	-	9.9	11.7
Goodwill	0.2	-	20.2	20.2
<b>Carrying values</b>	<b>1.5</b>	<b>-</b>	<b>30.1</b>	<b>31.9</b>

On 24 November 2019, Stardust raised an additional \$0.4m of cash funding from two of the existing shareholders, both of whom are related parties of Vista Group. The transaction was completed at fair value using a valuation of US\$32.31 per share and dilutes Vista Group's ownership stake from 58.9% to 55.9%.

The carrying value of Vista Group's share of Numero on the date control of the entity was obtained was \$nil (31 December 2018: \$nil).

# Notes to the financial statements

Continued

## Summarised financial position

A summarised statement of financial position of Vista Group's material associates and joint ventures at 31 December 2019 is presented below:

	VISTA CHINA	
	2019	2018
	NZ\$m	NZ\$m
Cash	12.6	26.4
Trade and other receivables	14.4	11.6
Total current assets	27.0	38.0
Total non-current assets	3.0	1.3
<b>Total assets</b>	<b>30.0</b>	<b>39.3</b>
Total current liabilities	(7.9)	(13.2)
Total non-current liabilities	-	-
<b>Total liabilities</b>	<b>(7.9)</b>	<b>(13.2)</b>
Effect of translation	(1.3)	(1.5)
<b>Net assets</b>	<b>20.8</b>	<b>24.6</b>

## Summarised trading results

A summarised statement of comprehensive income of Vista Group's material associates and joint ventures, and a reconciliation to the equity accounted losses recognised in Vista Group is detailed below. Unless stated otherwise, all profits/losses are derived from continuing operations and there was no movement in other comprehensive income. Adjustments have been applied to align the associate and joint venture company accounting policies to those of Vista Group.

	VISTA CHINA	
	2019	2018
	NZ\$m	NZ\$m
<b>Revenue</b>	<b>19.2</b>	<b>20.6</b>
Total expenses	(21.5)	(24.7)
<b>Loss for the year</b>	<b>(2.3)</b>	<b>(4.1)</b>
Vista Group equity accounted interest – through August 2018	-	39.5%
Vista Group equity accounted interest – through December 2019	47.5%	47.5%
<b>Vista Group equity accounted loss for the year</b>	<b>(1.0)</b>	<b>(1.8)</b>

## Related parties

Vista Group's associate and joint venture related party balances are detailed in the table below:

	NUMERO <sup>(1)</sup>		VISTA CHINA		STARDUST <sup>(1)</sup>	
	2019	2018	2019	2018	2019	2018
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Related party receivable	-	-	0.9	6.8	0.1	-
Related party payable	-	-	(0.1)	(4.8)	(0.4)	-
Related party loan	-	8.4	-	-	-	-
Provision for impairment	-	(3.0)	-	-	-	-
<b>Net receivable/(payable)</b>	<b>-</b>	<b>5.4</b>	<b>0.8</b>	<b>2.0</b>	<b>(0.3)</b>	<b>-</b>

(1) Numero has been classified as a subsidiary of Vista Group from 14 October 2019, while Stardust was classified as a subsidiary until 25 February 2019. The tables above reflect the transactions that occurred while these entities were not classified as a subsidiary.

# Notes to the financial statements

Continued

Vista Group's associate and joint venture related party transactions were as follows:

	NUMERO <sup>(1)</sup>		VISTA CHINA		STARDUST <sup>(1)</sup>	
	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m	2019 NZ\$m	2018 NZ\$m
Development fees	0.3	0.5	-	(3.8)	-	-
Vista China acquisition deposit	-	-	0.4	-	-	-
Maintenance, licence, service fees	0.2	0.4	(0.8)	(2.2)	-	-
Interest on loan	0.2	0.3	-	-	-	-
Dividend to Vista Group <sup>(2)</sup>	-	-	(0.7)	-	-	-
Other advances	-	0.1	0.3	-	(0.1)	-
<b>Total related party transactions</b>	<b>0.7</b>	<b>1.3</b>	<b>(0.8)</b>	<b>(6.0)</b>	<b>(0.1)</b>	<b>-</b>

(1) Numero has been classified as a subsidiary of Vista Group from 14 October 2019, while Stardust was classified as a subsidiary until 25 February 2019. The tables above reflect the transactions that occurred while these entities were not classified as a subsidiary.

(2) Of the \$0.7m dividend received from Vista China, \$0.4m had been received in cash by 31 December 2019. The remaining balance will reduce the consideration payable on the proposed Vista China acquisition.

During the period, Vista Group recognised \$2.0m of revenue from Vista China (2018: \$5.9m). At the end of the period, \$nil remains as deferred revenue (2018: \$1.5m).

On 30 January 2019, Vista China provided a retention accommodation loan of \$4.3m (RMB20.0m) to the CEO of Vista China. This loan is interest free, secured against equity in Vista China and matures on 30 January 2022.

As part of the step acquisition of Vista China, on 23 December 2019 Vista China provided a shareholder loan of \$3.0m (RMB14.3m) to WePiao. This loan is expected to be repaid with proceeds from the proposed transaction, which is awaiting regulatory approval.



## 5.4 Goodwill

The amount of goodwill initially recognised is a function of the allocated purchase price to the fair value of the identifiable net assets acquired. The determination of the net assets fair value, particularly intangible assets, is to a considerable extent based on judgement.

A summary of movements in goodwill is detailed below:

SECTION	2019 NZ\$m	2018 NZ\$m
<b>Gross carrying amount</b>		
Balance at 1 January	67.5	66.4
Additions – Numero	6.1	-
Exchange differences	(0.1)	1.1
<b>Gross carrying amount at year end</b>	<b>73.5</b>	<b>67.5</b>
<b>Accumulated impairment</b>		
Balance at 1 January	(3.6)	(3.6)
<b>Accumulated impairment at year end</b>	<b>(3.6)</b>	<b>(3.6)</b>
<b>Goodwill at 31 December</b>	<b>69.9</b>	<b>63.9</b>

# Notes to the financial statements

Continued

Goodwill has been allocated to the following CGUs:

SECTION	2019 NZ\$m	2018 NZ\$m
Vista Entertainment Solutions Limited (VESL)	24.4	24.4
Virtual Concepts Limited (Movio)	17.0	17.0
Maccs International BV (Maccs)	12.3	12.5
Share Dimension BV (Cinema Intelligence)	1.9	2.0
Powster Limited (Powster)	7.6	7.4
Flicks.co.nz Limited (Flicks)	0.6	0.6
Numero Limited (Numero)	3 6.1	-
<b>Goodwill at 31 December</b>	<b>69.9</b>	<b>63.9</b>

The above CGUs are the lowest level at which goodwill is monitored for internal management reporting purposes. Value in use (VIU) calculations are used in determining the recoverable amount of each CGU. Cash flows were projected based on a 5-year business model for each CGU, including Board approved 2020 budgets. Determination of appropriate post-tax cash flows, terminal growth rates and discount rates for the calculation of VIU is subjective and requires significant judgement to determine the growth in revenue and EBITDA, timing and quantum of future capital expenditure, working capital, long-term growth rates and the selection of discount rates to reflect the risks involved.

## 5.5 Impairment testing



### Impairment testing of goodwill and other assets

Goodwill is not amortised and is tested for impairment annually irrespective of whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is the greater of its VIU and its FVLCD, however in line with NZ IAS 36 *Impairment of Assets*, FVLCD is only determined where VIU would result in an impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). The allocation is made to those CGUs that are expected to benefit from the business combination in which goodwill arose. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



### Significant estimation uncertainty – Assumptions used in testing goodwill for impairment

Vista Group has carried out an annual impairment review of goodwill allocated to the CGUs in order to ensure that recoverable amounts exceed aggregate carrying amounts. VIU was determined by discounting the future cash flows generated by each CGU. Cash flows were projected based on a 5-year business model for each CGU, including Board approved 2020 budgets. Information about estimates and judgements that have the most significant effect on recognition and measurement of goodwill and intangible assets are provided below. Actual results may be substantially different.

The discount rate is determined using the Capital Asset Pricing Model (CAPM) methodology of determining the weighted average cost of capital (WACC), using market specific inputs. Vista Group's WACC is reviewed annually.

# Notes to the financial statements

Continued

The key assumptions used for the VIU calculation are as follows:

CGU	REVENUE CAGR		PRE-TAX WACC		POST-TAX WACC	
	2020 – 2024	2019 – 2023	2019	2018	2019	2018
VESL	10.7%	8.6%	12.8%	12.5%	10.4%	9.7%
Movio	17.0%	26.2%	13.3%	12.4%	10.4%	9.7%
Flicks	14.3%	14.4%	16.1%	11.9%	13.5%	9.7%
Maccs	10.9%	16.8%	14.1%	13.7%	11.8%	11.5%
Powster	12.6%	10.6%	16.4%	14.1%	13.9%	12.0%
Cinema Intelligence	26.3%	31.3%	14.6%	15.3%	11.8%	12.6%
Numero	20.7%	N/A	17.5%	N/A	13.5%	N/A

The terminal growth rate for all CGUs is calculated based on the 2024 year and assumes continuous growth of a minimum of projected inflation estimates of 2.5% (2018: 2.5%). The values assigned to the key assumptions represent Vista Group's assessment of future trends and are based on both external and internal sources.

Other factors considered when testing goodwill for impairment include actual financial performance against budgeted financial performance; any material unfavourable operational and regulatory factors; and any material unfavourable economic outlook and market competition.

Vista Group's impairment review concluded there was no impairment of goodwill or other assets during the year (2018: \$nil).

## Sensitivity testing

Based on previous experience, Vista Group applied judgement in determining a reasonably possible change in the key assumptions (sensitised rates) in the VIU models. The CGUs that would result in a potential impairment scenario are as follows:

- Maccs – the VIU recoverable amount for this CGU is the same as the carrying value (i.e. no headroom). In isolation, this means an adverse change of the revenue CAGR to 10.0% would result in an impairment charge of \$1.3m; an increase of the pre-tax WACC to 16.0% would result in an impairment charge of \$2.3m; and a reduction of the terminal growth rate to 0.5% would result in an impairment charge of \$0.9m.
- Numero – the VIU recoverable amount for this CGU exceeds the carrying amount by \$3.6m. A reduction in the revenue CAGR to 18.6% would result in no headroom. Neither the discount rate nor terminal growth rate are considered sensitive for this CGU.

## 5.6 Other intangible assets



### Intangible assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least annually.

## Development costs and internally generated software

### Maintenance

Costs associated with maintaining computer software programmes are recognised as an expense within the statement of comprehensive income as incurred.

### Development – capitalised

Internally developed software is capitalised as an intangible asset when they meet the recognition criteria of NZ IAS 38 (see following page).

### Development – other

Other development expenditures that do not meet the recognition criteria are classified as operating expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# Notes to the financial statements

Continued



## Significant accounting judgement – Capitalisation of development costs

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Vista Group are only recognised as intangible assets when all the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

## Other intangible assets

Intellectual property that has been acquired through business combinations and amounts spent subsequently.

Customer relationships include the purchase of existing customer bases via an existing license agreement or business combination.

Software licenses include the purchase of third-party software in the normal course of business.

Intangible assets are amortised on a straight-line basis over the following useful economic lives:

- Intellectual property 4 to 15 years
- Customer relationships 4 to 15 years
- Software licenses 2.5 to 15 years
- Internally generated software 3 to 5 years based on their estimated useful life.

The carrying amount of other intangible assets is represented as follows:

	INTERNALLY GENERATED SOFTWARE	SOFTWARE LICENSES	INTELLECTUAL PROPERTY	CUSTOMER RELATIONSHIPS	TOTAL
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>2019</b>					
<b>Gross carrying amount</b>					
Balance at 1 January	17.7	2.6	2.2	4.9	27.4
Additions	11.7	-	0.2	0.7	12.6
Disposals – deconsolidation of Stardust	(1.9)	-	-	-	(1.9)
Exchange differences	-	(0.1)	-	(0.1)	(0.2)
<b>Balance at year end</b>	<b>27.5</b>	<b>2.5</b>	<b>2.4</b>	<b>5.5</b>	<b>37.9</b>
<b>Accumulated amortisation</b>					
Balance at 1 January	(1.9)	(1.3)	(1.0)	(2.7)	(6.9)
Amortisation	(2.7)	(0.2)	(0.4)	(0.4)	(3.7)
Exchange differences	-	0.2	-	(0.1)	0.1
<b>Balance at year end</b>	<b>(4.6)</b>	<b>(1.3)</b>	<b>(1.4)</b>	<b>(3.2)</b>	<b>(10.5)</b>
<b>Carrying amount at 31 December 2019</b>	<b>22.9</b>	<b>1.2</b>	<b>1.0</b>	<b>2.3</b>	<b>27.4</b>

# Notes to the financial statements

Continued

	INTERNALLY GENERATED SOFTWARE	SOFTWARE LICENSES	INTELLECTUAL PROPERTY	CUSTOMER RELATIONSHIPS	TOTAL
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>2018</b>					
<b>Gross carrying amount</b>					
Balance at 1 January	9.8	2.6	2.1	7.8	22.3
Additions	7.9	-	-	-	7.9
Disposals	-	-	-	(3.0)	(3.0)
Exchange differences	-	-	0.1	0.1	0.2
<b>Balance at year end</b>	<b>17.7</b>	<b>2.6</b>	<b>2.2</b>	<b>4.9</b>	<b>27.4</b>
<b>Accumulated amortisation</b>					
Balance at 1 January	(0.6)	(1.1)	(0.7)	(3.9)	(6.3)
Amortisation	(1.3)	(0.2)	(0.3)	(0.7)	(2.5)
Disposals	-	-	-	1.8	1.8
Exchange differences	-	-	-	0.1	0.1
<b>Balance at year end</b>	<b>(1.9)</b>	<b>(1.3)</b>	<b>(1.0)</b>	<b>(2.7)</b>	<b>(6.9)</b>
<b>Carrying amount at 31 December 2018</b>	<b>15.8</b>	<b>1.3</b>	<b>1.2</b>	<b>2.2</b>	<b>20.5</b>

On 23 March 2018, Vista Group announced the termination of the French market distribution agreement with Cote Cine Group (CCG). This resulted in the disposal of the customer relationship previously recognised. A settlement payment of \$1.4m was received.

## 5.7 Trade and other payables

	2019	2018
	NZ\$m	NZ\$m
Trade payables	0.3	5.8
Sundry accruals	6.6	6.3
Deferred lease incentives	-	0.3
Employee benefits	6.3	6.2
<b>Total trade and other payables</b>	<b>13.2</b>	<b>18.6</b>

Included in trade payables is a balance of \$0.1m (2018: \$4.8m) payable to the associate company Vista China. See section 5.3 for detail.



### Employee benefits

Accruals for wages, salaries, including non-monetary benefits, commissions and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid using the remuneration rate expected to apply at the time of settlement, on an undiscounted basis. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Vista Group has pension obligations in respect of various defined contribution plans. Vista Group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. Vista Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee entitlement expense when they are due.



# Notes to the financial statements

Continued

Employee expenses included in total expenses:

	2019	2018
	NZ\$m	NZ\$m
Wages and salaries	71.2	63.0
Share-based payment expense	1.6	2.4
Defined contribution plans	5.1	4.0
<b>Total employee benefits</b>	<b>77.9</b>	<b>69.4</b>

## 5.8 Lease assets & liabilities



### Recognition and measurement of Vista Group's leasing activities

Vista Group predominantly leases property for fixed periods of 1-7 years, but may have extension options. These extension options are usually at the discretion of Vista Group and are included in the measurement of the lease asset if management is reasonably certain the extension will be exercised. Lease terms are negotiated on an individual basis and contain a variety of terms and conditions. However, these lease agreements do not impose any covenants.

Prior to 31 December 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right of use asset (lease asset) and a corresponding lease liability at the date at which the leased asset is available for use by Vista Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The lease asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Lease assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

See section 8.4 for more information on adjustments recognised on adoption of NZ IFRS 16, practical expedients applied and the impact of first-time adoption on these financial statements.

# Notes to the financial statements

Continued

## Lease assets

Vista Group lease assets predominantly comprise property leases. Key movements relating to lease balances are presented below:

	2019 NZ\$m
<b>Balance at 1 January</b>	-
Additions due to first-time adoption of NZ IFRS 16	6.1
Additions during the year	19.3
Depreciation charges	(3.9)
Exchange differences	0.3
<b>Lease assets at 31 December</b>	<b>21.8</b>

## Lease liabilities

The maturity of the lease liabilities is as follows:

	2019 NZ\$m
Less than one year	6.1
One to five years	13.5
More than five years	3.9
<b>Total lease liabilities</b>	<b>23.5</b>

The total interest expense on lease liabilities and the total cash outflow for the year was \$0.6m and \$3.7m, respectively.

## 5.9 Deferred revenue



Deferred revenues are recognised on payments received from customers for which the correlating performance obligations have yet to be satisfied by Vista Group.

The following table represents the revenues recognised in the current year relating to carried forward deferred revenue, as well as the additional deferred revenue recognised at 31 December where the performance obligations are yet to be satisfied.

	2019 NZ\$m	2018 NZ\$m
<b>Total deferred revenue at 1 January</b>	<b>25.9</b>	<b>25.1</b>
Revenue recognised from performance obligations satisfied in the current year	(20.7)	(18.6)
Additional deferred revenues from unsatisfied performance obligations	17.5	15.9
Exchange movements	0.4	3.5
<b>Total deferred revenue at 31 December</b>	<b>23.1</b>	<b>25.9</b>
<i>Represented by:</i>		
Current portion	22.9	21.4
Non-current portion	0.2	4.5
<b>Total deferred revenues</b>	<b>23.1</b>	<b>25.9</b>

# Notes to the financial statements

Continued

## 6. Taxation



This section outlines further details of the income tax expenses incurred by Vista Group, as well as the deferred taxes recognised on the statement of financial position.

### 6.1 Income tax expense



#### Income tax

The income tax expense for the year comprises current and deferred tax. Taxation is recognised in profit or loss in the statement of comprehensive income, except when it relates to items recognised directly in equity (in which case the income tax is recognised in equity). Income tax expense is based on tax rates and regulation enacted, or substantively enacted at the balance sheet date, in the jurisdiction in which the group entities operate.

Income tax is comprised of:

	SECTION	2019 NZ\$m	2018 NZ\$m
Current tax expense		5.6	8.8
Deferred tax expense	6.2	-	(0.8)
<b>Total tax expense</b>		<b>5.6</b>	<b>8.0</b>

#### Reconciliation of income tax expense

The relationship between the expected tax expense based on the domestic effective tax rate of the Company at 28% (2018: 28%) and the reported tax expense in the statement of comprehensive income can be reconciled as follows:

	2019 NZ\$m	2018 NZ\$m
Profit before tax (taxable income)	18.4	21.0
Domestic tax rate for the Company	28%	28%
<b>Expected tax expense</b>	<b>5.2</b>	<b>5.9</b>
Foreign subsidiary company tax	(0.1)	0.2
Non-assessable income/non-deductible expenses	0.4	0.9
Prior period adjustment	(1.0)	(0.1)
Deferred tax assets no longer recognised	-	1.0
Other	1.1	0.1
<b>Total tax expense</b>	<b>5.6</b>	<b>8.0</b>
Effective tax rate	30%	38%

As at 31 December 2019, Vista Group has \$16.0m (2018: \$12.9m) of imputation credits available for use in subsequent reporting periods. Vista Group also has \$0.4m (2018: \$3.4m) of unused tax losses for which no deferred tax asset has been recognised, as they do not meet the recognition criteria.

### 6.2 Deferred tax assets and liabilities



#### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

# Notes to the financial statements

Continued



## Significant estimation uncertainty – Recognition of deferred tax assets

The net deferred tax asset at balance date includes temporary timing differences and income tax losses available to carry forward against future profits. A deferred tax asset is recognised on losses, only when it is considered probable that sufficient taxable profits will be available to utilise the losses in the near future. Vista Group applies judgement when reviewing current business plans and forecasts to ascertain the likelihood of future taxable profits. The financial forecasts used in this assessment are the same as those used in the impairment review of goodwill and other assets in section 5.5.

Deferred taxes arising from temporary differences and unused tax losses can be summarised as follows:

	OPENING BALANCE	ACQUIRED AS PART OF A BUSINESS COMBINATION	INITIAL RECOGNITION OF NZ IFRS 16	RECOGNISED IN OCI	RECOGNISED IN INCOME STATEMENT	CLOSING BALANCE
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>2019</b>						
Trade and sundry receivables	0.4	-	-	-	(0.2)	0.2
Employee benefits	1.6	-	-	-	(0.5)	1.1
Property, plant and equipment	(0.1)	-	-	-	-	(0.1)
Lease assets	-	-	(1.5)	-	(2.9)	(4.4)
Lease liabilities	-	-	1.8	-	3.0	4.8
Intangible assets	(1.3)	-	-	-	-	(1.3)
Unused tax losses	1.1	-	-	-	0.6	1.7
Other	0.1	-	-	-	-	0.1
<b>Deferred tax temporary net asset</b>	<b>1.8</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>2.1</b>

*Represented by:*

Deferred tax asset	7.9
Deferred tax liability	(5.8)
<b>Deferred tax temporary net asset</b>	<b>2.1</b>

	OPENING BALANCE	ACQUIRED AS PART OF A BUSINESS COMBINATION	INITIAL RECOGNITION OF NZ IFRS 16	RECOGNISED IN OCI	RECOGNISED IN INCOME STATEMENT	CLOSING BALANCE
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
<b>2018</b>						
Trade and sundry receivables	0.2	-	-	-	0.2	0.4
Employee benefits	0.5	-	-	0.2	0.9	1.6
Property, plant and equipment	(0.1)	-	-	-	-	(0.1)
Intangible assets	(1.5)	-	-	-	0.2	(1.3)
Unused tax losses	1.5	-	-	-	(0.4)	1.1
Other	0.2	-	-	-	(0.1)	0.1
<b>Deferred tax temporary net asset</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>0.8</b>	<b>1.8</b>

*Represented by:*

Deferred tax asset	2.8
Deferred tax liability	(1.0)
<b>Deferred tax temporary net asset</b>	<b>1.8</b>

# Notes to the financial statements

Continued

## 7. Capital structure



This section outlines Vista Group's capital structure, earnings per share and share-based employee incentives which have an impact on Vista Group's equity.



### Contributed equity

Contributed equity represents the value of shares that have been issued. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

All transactions with owners of the parent are recorded separately within share capital.

All shares are ordinary, authorised, issued and fully paid shares. They all have equal voting rights and share equally in dividends and any surplus on winding up. The shares have no par value.

### Retained earnings

Retained earnings include all current and prior period retained profits and losses.

### Dividend payments

Dividends payable to equity shareholders are included in trade and other payables when the dividends have been approved by the Board on or before the end of the reporting period but not yet distributed.

### Foreign currency reserve

This reserve is used to record cumulative translation differences on the assets and liabilities of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.

### Share-based payment reserve

The share-based payment reserve is used to record any equity share-based incentives. The reserve value represents the difference between the value at the time of allocation and the cash received incentives plus the equity component of contingent consideration payable.

## 7.1 Contributed equity

During the 2019 financial year, 861,704 shares were issued (2018: 778,960). The following reflects where these shares were allocated:

	MILLIONS OF SHARES		NZ\$m	
	2019	2018	2019	2018
<b>Shares issued and fully paid:</b>				
Beginning of the year	165.5	164.8	59.4	57.8
<b>Ordinary shares issued during the year:</b>				
VCL contingent consideration	-	0.4	-	0.5
Employee incentives	0.9	0.3	2.4	0.9
Non-controlling interest change	-	-	-	0.2
<b>Total contributed equity at end of the year</b>	<b>166.4</b>	<b>165.5</b>	<b>61.8</b>	<b>59.4</b>

# Notes to the financial statements

Continued

## 7.2 Earnings per share

Vista Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to owners of the parent and the weighted average number of ordinary shares in issue during the year for the effects of all dilutive potential ordinary shares, which for Vista Group comprise share-based payments and performance rights. Potential ordinary shares are treated as dilutive when their conversion to ordinary shares would decrease EPS or increase the loss per share.

	NUMBER OF SHARES (MILLIONS)	
	2019	2018
<b>Weighted average ordinary shares for basic earnings per share</b>	<b>166.1</b>	<b>165.3</b>
<i>Effect of dilution:</i>		
Share options and awards	1.3	1.8
<b>Weighted average ordinary shares adjusted for the effect of dilution</b>	<b>167.4</b>	<b>167.1</b>
Profit attributable to owners of the parent (NZ\$m)	10.8	12.3
<b>Basic earnings per share (cents)</b>	<b>\$0.07</b>	<b>\$0.07</b>
<b>Diluted earnings per share (cents)</b>	<b>\$0.06</b>	<b>\$0.07</b>

## 7.3 Dividends

The following reflects the dividends paid by Vista Group during the year:

DIVIDEND	PAYMENT DATE	VISTA GROUP NUMBER OF SHARES (MILLIONS)	NZ\$ PER SHARE	NZ\$m
2019 interim dividend	27 September 2019	166.4	\$0.0120	2.0
2018 final dividend	22 March 2019	165.5	\$0.0210	3.5
2018 interim dividend	27 September 2018	165.5	\$0.0160	2.6
2017 final dividend	23 March 2018	164.8	\$0.0174	2.9

## 7.4 Foreign currency reserve

### Functional and presentation currency

Items included in the financial statements of each of Vista Group's entities are measured using the currency of the primary economic environment in which the entity operates (the Functional Currency). The financial statements are presented in New Zealand Dollars (NZD), which is Vista Group's presentation currency. All financial information has been presented rounded as millions of dollars (NZ\$m).

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income.

# Notes to the financial statements

Continued

## 7.5 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value includes the effect of market based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed evenly over the vesting period within administration expenses, based on our estimate of equity instruments that will eventually vest. At each balance sheet date, we revise our estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

The share-based payment reserve is used to record any equity share-based incentives.

### Share-based payment expense

The share-based payment expense relating to each scheme is as follows:

	2019 NZ\$m	2018 NZ\$m
LTI Scheme – Group Results	0.4	0.6
LTI Scheme – Total Shareholder Return	0.1	0.4
LTI Scheme – Segmental Results	0.1	0.2
LTI Scheme – Movio CEO (Variable)	0.5	-
Retention Scheme – Group CEO	0.6	1.3
<b>Total share-based payment expense</b>	<b>1.7</b>	<b>2.5</b>

In the prior year, judgement was applied in assuming the non-market conditions of all awards on grant date would be 100% achieved. In line with NZ IFRS 2 *Share-based Payment*, this assumption was revised at 31 December 2019 which resulted in a lower share-based payment expense being recognised in the current year.

### Summary of performance rights

The movement in the number of performance rights outstanding is summarised in the following table:

NUMBER OF RIGHTS (MILLIONS)	GROUP RESULTS	LONG-TERM INCENTIVE SCHEMES				RETENTION SCHEME GROUP CEO	TOTAL
		TSR	SEGMENTAL RESULTS	MOVIO CEO (TERMINAL)	MOVIO CEO (VARIABLE)		
At 1 January 2018	-	1.1	-	-	-	-	<b>1.1</b>
Granted	0.3	-	0.2	-	-	0.7	<b>1.2</b>
Forfeited	-	(0.1)	-	-	-	-	<b>(0.1)</b>
Exercised	-	(0.1)	-	-	-	(0.2)	<b>(0.3)</b>
At 1 January 2019	0.3	0.9	0.2	-	-	0.5	<b>1.9</b>
Granted	0.4	-	-	0.3	0.4	-	<b>1.1</b>
Forfeited	-	(0.1)	-	(0.3)	(0.1)	-	<b>(0.5)</b>
Exercised	(0.2)	(0.6)	-	-	-	(0.1)	<b>(0.9)</b>
<b>At 31 December 2019</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>	<b>-</b>	<b>0.3</b>	<b>0.4</b>	<b>1.6</b>

The share price of awards on the date of exercise for the Group Results scheme was \$4.85 (2018: none exercised); the TSR scheme was \$4.85 (2018: \$2.86); and the Group CEO scheme was \$5.54 (2018: \$3.00).

At the end of the year, no rights are exercisable as all are issued when they vest (2018: none). As all rights are granted at nil cost, the weighted average exercise price of the rights at all times is \$nil (2018: \$nil).

The weighted average contractual life of the outstanding performance rights is 1.2 years (2018: 1.1 years).

In the current year, awards in the TSR scheme and both Movio CEO schemes were forfeited as the required performance targets were not achieved, resulting in the associated share-based payment expense being reversed.

# Notes to the financial statements

Continued

## Assumptions

The below assumptions were applied when using the Black-Scholes and Monte Carlo option pricing models to determine the fair value of rights granted in both the current and prior year:

ASSUMPTION	2019			2018		
	GROUP RESULTS	MOVIO CEO (TERMINAL)	MOVIO CEO (VARIABLE)	GROUP RESULTS	SEGMENTAL RESULTS	GROUP CEO
Share price on grant date (NZ\$)	\$3.78	\$5.53	\$5.53	\$2.88	\$2.88	\$3.00
Vesting period (months)	12-36	19-31	9-33	12-36	25-61	0-36

As all performance rights are granted at nil-cost, the exercise price is nil and therefore no volatility or risk-free rates are required.

The expected dividend yield for each of the above schemes was assumed to be less than 1%.

Vista Group determined the required performance targets of all new rights granted would be 100% achieved.

The assumed December 2021 proportion of Movio/Vista Group revenues applied to the Movio CEO (Terminal) scheme was 22%.

## LTI Scheme – Group Results

This scheme was approved by the Board with awards issued in both 2018 and 2019. Awards under this scheme are granted to eligible employees meeting criteria determined by the Board to help incentivise sustained performance over the long-term and to promote alignment with the shareholders' interests. The scheme identifies revenue and EBITDA targets over a three-year performance period, with vesting split into 6 tranches, being one per year for each specified target.

This scheme allows the carry forward of any performance rights that do not vest in each vesting period to be eligible to vest in future vesting periods.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The vesting of interests granted to employees is subject to the option holder continuing to be an employee. The fair value of interests awarded under this scheme was determined using the Black-Scholes option pricing model.

## LTI Scheme – Total Shareholder Return (TSR)

This scheme was approved by the Board with awards issued between 2015 and 2017. Awards under this scheme are granted to eligible employees meeting criteria determined by the Board to help incentivise sustained performance over the long-term and to promote alignment with the shareholders' interests. The amount of performance rights that vest is contingent on Vista Group's relative TSR over a two and three-year performance period, against all other NZX50 companies (excluding Vista Group), with 50% of the value of rights allocated under each target. Vesting of the performance rights is defined by the following table:

PERCENTILE PERFORMANCE AGAINST NZX50 COMPANIES	VESTING PERFORMANCE RIGHTS
Less than 50th percentile	Zero
50th – 75th percentile	50% to 100% pro-rata on a straight-line basis
Greater than 75th percentile	100%

The measurement of TSR is determined from the start date of the grant period until the end of the performance period (two years and three years). This scheme allows the carry forward of any performance rights that do not vest in the first vesting period to be eligible to vest in the vesting period for the second tranche of performance rights. The scale at which carried over rights may vest at the end of the tranche two vesting period shall commence at the TSR percentile achieved in respect of the tranche one vesting period.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The vesting of interests granted to employees is subject to the option holder continuing to be an employee.

The fair value of interests awarded under this scheme was determined using a Monte Carlo pricing model.



# Notes to the financial statements

Continued

## LTI Scheme – Segmental Results

This scheme was approved by the Board with awards issued in 2018. Awards under this scheme are granted to selected key management personnel to help incentivise sustained performance over the long-term and to promote alignment with shareholders' interests. The scheme identifies operating segment targets over a five-year service period.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The amount of performance rights to vest depends on operating segment performance against specified targets. Upon the achievement of stated targets, performance rights are allocated with vesting split into 2 tranches

The first tranche (50%) to vest following a 12-month deferral period following performance rights being issued and the second (50%) following an additional 12 months.

The vesting of interests granted to employees is subject to the option holder continuing to be an employee. The fair value of interests awarded under this scheme was determined using a Black-Scholes option pricing model.

## LTI Scheme – Movio CEO (Terminal)

This scheme was approved by the Board with awards issued in 2019. Awards under this scheme are granted to the Movio CEO to ensure continued retention, incentivise sustained performance over the long-term and to promote alignment with shareholders' interests.

The grant of shares under this scheme is activated only when Movio exceeds both revenue and EBITDA targets, each year over a three-year performance period. In addition, the shares will only vest if Vista Group's average market capitalisation exceeds \$1.1 billion over a three-month period until December 2021. 50% of the shares vest within 30 days of the targets being achieved (December 2021) and 50% after a further 12 months.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The vesting of interests granted is subject to the option holder continuing to be an employee. The fair value of interests awarded under this scheme was determined using a Monte Carlo simulation (using 100,000 trials) to predict Vista Group's future share price.

## LTI Scheme – Movio CEO (Variable)

This scheme was approved by the Board with awards issued in 2019. Awards under this scheme are granted to the Movio CEO to ensure continued retention, incentivise sustained performance over the long-term and to promote alignment with shareholders' interests. The share rights vest on an annual basis dependent on continued tenure along with annual Movio revenue and EBITDA targets.

The allocation of performance rights is determined by the proportion of increased Vista Group market capitalisation that is attributable to Movio which vest annually over a three-year period. This scheme allows 50% of any performance rights to be eligible to vest in the next vesting period should the annual targets not be achieved.

The calculation of Movio's approximated market capitalisation is determined as a proportion of Movio revenues to those of Vista Group.

Performance rights are granted under the plan for no consideration and carry no dividend or voting rights.

The vesting of interests granted is subject to the option holder continuing to be an employee. The fair value of interests awarded under this scheme was determined using a Monte Carlo simulation (using 100,000 trials) to predict Vista Group's future share price and the resulting number of shares that are predicted to vest.

## Retention Scheme – Group CEO

This scheme was approved by the Board with awards issued in 2018. Awards under this scheme are granted to the Vista Group CEO to align with shareholders' interests and ensure continued retention.

The share rights vest on an annual basis dependent on continued tenure with no further performance requirements. Share rights are granted for no consideration and carry no dividend or voting rights until vested.

The Vista Group CEO Retention Scheme vested 200,000 shares in April 2018 upon signing of the scheme documentation, with an additional 150,000 vesting in April 2019. A further two tranches will vest in April 2020 and 2021.

The fair value of interests awarded under this scheme was determined using the Black-Scholes option pricing model.

# Notes to the financial statements

Continued

## 8. Basis of preparation & accounting policies

This section outlines the legislation and accounting standards which have been followed in the preparation of these financial statements along with explaining how the information has been aggregated.

### 8.1 Key legislation and accounting standards

The financial statements of Vista Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). Vista Group is a for-profit entity for the purposes of complying with NZ GAAP. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand financial reporting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The financial statements also comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis except for contingent consideration which is measured at fair value.

### 8.2 Basis of consolidation

Vista Group's financial statements consolidate those of the Company and its subsidiaries as at 31 December 2019. A subsidiary is an entity over which Vista Group has control. Control is achieved when Vista Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the activities of the investee.

Consolidation of a subsidiary begins when Vista Group obtains control over the subsidiary and ceases when Vista Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included within the statement of comprehensive income from the date Vista Group gains control until the date Vista Group ceases to control the subsidiary. All subsidiaries have a reporting date of 31 December. In preparing the financial statements, all inter-entity balances and transactions, and unrealised profits and losses, arising within the consolidated entity have been eliminated in full. A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by Vista Group. Vista Group attributes total comprehensive income or loss of subsidiaries to the amounts of the Company and the non-controlling interests based on their ownership interests.

Vista Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

### 8.3 Group companies

The results and financial position of all Vista Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows;

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of other comprehensive income, are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- all resulting exchange differences are recognised in other comprehensive income; and
- goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

# Notes to the financial statements

Continued

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other expenses.

## Group information

These financial statements consolidate the following subsidiaries of the Company:

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	SHAREHOLDING	
			2019	2018
Book My Show Limited	Inactive	New Zealand	74%	74%
Book My Show (NZ) Limited	Inactive	New Zealand	74%	74%
Flicks Limited	Advertising sales	New Zealand	100%	100%
Maccs International B.V.	Software development and licensing	Netherlands	50%	50%
Maccs US	Software licensing	United States	50%	50%
MovieXchange International Limited	Web platform development and licensing	New Zealand	100%	100%
MovieXchange Limited	Web platform licensing	New Zealand	100%	100%
Movio Limited	Provision of online loyalty, data analytics and marketing	New Zealand	100%	100%
Movio, Inc.	Provision of online loyalty, data analytics and marketing	United States	100%	100%
Numero Limited	Holding company	New Zealand	100%	50%
Numero (Aust) Pty Ltd	Software development and licensing	Australia	100%	50%
Powster, Inc.	Marketing and creative solutions	United States	50%	50%
Powster Ltd	Marketing and creative solutions	United Kingdom	50%	50%
S.C. Share Dimension S.R.L.	Software development	Romania	50%	50%
Senda DO Brasil Serviços de Tecnologia LTDA.	Software licensing	Brazil	60%	60%
Share Dimension B.V.	Software development and licensing	Netherlands	50%	50%
Virtual Concepts Limited	Holding company	New Zealand	100%	100%
Vista Entertainment Solutions Limited	Software development and licensing	New Zealand	100%	100%
Vista Entertainment Solutions (Asia) Sdn. Bhd.	Software licensing	Malaysia	100%	-
Vista Entertainment Solutions (Canada) Limited	Inactive	Canada	100%	100%
Vista Entertainment Solutions (NL) B.V.	Software licensing	Netherlands	100%	-
Vista Entertainment Solutions (Spain), S.L.U.	Inactive	Spain	100%	100%
Vista Entertainment Solutions (UK) Limited	Software licensing	United Kingdom	100%	100%
Vista Entertainment Solutions (USA), Inc.	Software licensing	United States	100%	100%
Vista Group Limited	Inactive	New Zealand	100%	100%
Vista International Entertainment Solutions South Africa (Pty) Ltd	Software licensing	South Africa	100%	100%
Vista Latin America, S.A. de C.V. <sup>(1)</sup>	Software licensing	Mexico	60%	60%
VPF Hub GmbH	Inactive	Germany	45%	45%

(1) Prior to its name change in 2019, previously known as Senda Dirección Tecnológica S.A. de C.V.

# Notes to the financial statements

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## 8.4 Adoption of new accounting standards

### Impact of new standards adopted by Vista Group

A number of new or amended standards became applicable for the current reporting period. The only new or amended standard that had a significant impact on Vista Group's accounting policies was the first-time adoption of NZ IFRS 16.

#### NZ IFRS 16 Leases

NZ IFRS 16 is effective for annual reports beginning on or after 1 January 2019. Vista Group has adopted NZ IFRS 16 using the modified retrospective transition approach. Under this approach, the cumulative effect of initially applying NZ IFRS 16 is recognised as an adjustment to retained earnings at 1 January 2019. Comparative figures for the year ended 31 December 2018 are not restated but instead continue to reflect the accounting policies under NZ IAS 17 *Leases*.

#### Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, Vista Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.4%. Vista Group held no finance leases at 31 December 2018.

A reconciliation of operating lease commitments at 31 December 2018 to the lease liability recognised at 1 January 2019 is shown below:

	NZ\$m
Operating lease commitments disclosed as at 31 December 2018	24.3
Discounted using the lessee's incremental borrowing rate at the date of initial application	(0.6)
Different treatment of leases not yet commenced to which Vista Group are committed <sup>(1)</sup>	(18.3)
Different treatment of extensions and incentives	1.8
<b>Lease liability recognised as at 1 January 2019</b>	<b>7.2</b>
<i>Classified as:</i>	
Less than one year	3.4
One to five years	3.3
More than five years	0.5
<b>Lease liability recognised as at 1 January 2019</b>	<b>7.2</b>

(1) Vista Group committed to a 7-year property lease in Los Angeles which was only available for use in 2019, therefore was not included as a lease liability at 1 January 2019.

The lease assets predominantly comprise property leases which were measured on a retrospective basis as if the new rules had always been applied.

#### Practical expedients applied

In applying NZ IFRS 16 for the first time, Vista Group has used the following practical expedients permitted by the standard:

- use of a single discount rate to leases with reasonably similar characteristics;
- use of hindsight in determining a lease term;
- reliance on previous assessments on whether leases are onerous; and
- exclusion of initial direct costs for the measurement of the lease asset at the date of initial application.

Vista Group has also elected not to reassess whether a contract contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, Vista Group relied on its assessment made applying NZ IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

# Notes to the financial statements

Continued

## Impact of NZ IFRS 16 on these financial statements

On first time implementation of NZ IFRS 16, Vista Group elected not to restate the comparative year values.

The following summarised primary statements detail the impact of NZ IFRS 16 on the current year, as well as the prior year, should Vista Group have elected to restate its comparative values.

STATEMENT OF FINANCIAL POSITION (EXTRACT)	31 DEC 2019 ADJUSTED FOR NZ IFRS 16 NZ\$m	IMPACT OF NZ IFRS 16 NZ\$m	31 DEC 2019 EXCLUDING NZ IFRS 16 NZ\$m	31 DEC 2018 ADJUSTED FOR NZ IFRS 16 NZ\$m	IMPACT OF NZ IFRS 16 NZ\$m	31 DEC 2018 PREVIOUSLY REPORTED NZ\$m
Cash	19.5	-	19.5	34.4	-	34.4
Other current assets	58.2	-	58.2	62.2	-	62.2
<b>Total current assets</b>	<b>77.7</b>	<b>-</b>	<b>77.7</b>	<b>96.6</b>	<b>-</b>	<b>96.6</b>
Property, plant and equipment	7.3	-	7.3	5.4	-	5.4
Lease assets	21.8	21.8	-	6.1	6.1	-
Deferred tax asset	7.9	4.8	3.1	4.6	1.8	2.8
Other non-current assets	128.9	-	128.9	116.3	-	116.3
<b>Total non-current assets</b>	<b>165.9</b>	<b>26.6</b>	<b>139.3</b>	<b>132.4</b>	<b>7.9</b>	<b>124.5</b>
<b>Total assets</b>	<b>243.6</b>	<b>26.6</b>	<b>217.0</b>	<b>229.0</b>	<b>7.9</b>	<b>221.1</b>
Trade and other payables	13.2	-	13.2	18.3	(0.3)	18.6
Lease liabilities	6.1	6.1	-	3.4	3.4	-
Other current liabilities	25.2	-	25.2	25.1	-	25.1
<b>Total current liabilities</b>	<b>44.5</b>	<b>6.1</b>	<b>38.4</b>	<b>46.8</b>	<b>3.1</b>	<b>43.7</b>
Lease liabilities	17.4	17.4	-	3.8	3.8	-
Deferred tax liability	5.8	4.4	1.4	2.5	1.5	1.0
Other non-current liabilities	12.4	-	12.4	17.0	-	17.0
<b>Total non-current liabilities</b>	<b>35.6</b>	<b>21.8</b>	<b>13.8</b>	<b>23.3</b>	<b>5.3</b>	<b>18.0</b>
<b>Total liabilities</b>	<b>80.1</b>	<b>27.9</b>	<b>52.2</b>	<b>70.1</b>	<b>8.4</b>	<b>61.7</b>
<b>Net assets</b>	<b>163.5</b>	<b>(1.3)</b>	<b>164.8</b>	<b>158.9</b>	<b>(0.5)</b>	<b>159.4</b>
Contributed equity	61.8	-	61.8	59.4	-	59.4
Retained earnings	85.8	(1.1)	86.9	80.5	(0.4)	80.9
Foreign currency reserve	2.6	-	2.6	3.2	-	3.2
Share-based payment reserve	2.1	-	2.1	2.8	-	2.8
Total equity attributable to owners of the parent	152.3	(1.1)	153.4	145.9	(0.4)	146.3
Non-controlling interests	11.2	(0.2)	11.4	13.0	(0.1)	13.1
<b>Total equity</b>	<b>163.5</b>	<b>(1.3)</b>	<b>164.8</b>	<b>158.9</b>	<b>(0.5)</b>	<b>159.4</b>

# Notes to the financial statements

Continued

<b>STATEMENT OF COMPREHENSIVE INCOME (EXTRACT)</b>	<b>31 DEC 2019 ADJUSTED FOR NZ IFRS 16 NZ\$m</b>	<b>IMPACT OF NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2019 EXCLUDING NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2018 ADJUSTED FOR NZ IFRS 16 NZ\$m</b>	<b>IMPACT OF NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2018 PREVIOUSLY REPORTED NZ\$m</b>
<b>Total revenue</b>	<b>144.5</b>	<b>-</b>	<b>144.5</b>	<b>130.7</b>	<b>-</b>	<b>130.7</b>
Operating expenses	68.2	-	68.2	59.9	-	59.9
Administration expenses	45.5	0.2	45.3	37.5	(0.8)	38.3
Other expenses	9.5	-	9.5	7.8	-	7.8
<b>Total expenses</b>	<b>123.2</b>	<b>0.2</b>	<b>123.0</b>	<b>105.2</b>	<b>(0.8)</b>	<b>106.0</b>
<b>Operating profit</b>	<b>21.3</b>	<b>(0.2)</b>	<b>21.5</b>	<b>25.5</b>	<b>0.8</b>	<b>24.7</b>
Finance costs	(1.7)	(0.6)	(1.1)	(1.3)	(0.3)	(1.0)
Finance income	0.6	-	0.6	0.3	-	0.3
Share of loss from associates and joint ventures	(2.2)	-	(2.2)	(3.0)	-	(3.0)
Capital gains and losses	0.4	-	0.4	-	-	-
<b>Profit before tax</b>	<b>18.4</b>	<b>(0.8)</b>	<b>19.2</b>	<b>21.5</b>	<b>0.5</b>	<b>21.0</b>
Tax expense	(5.6)	(0.1)	(5.5)	(8.0)	-	(8.0)
<b>Profit for the year</b>	<b>12.8</b>	<b>(0.9)</b>	<b>13.7</b>	<b>13.5</b>	<b>0.5</b>	<b>13.0</b>
Other comprehensive income	(0.6)	-	(0.6)	1.4	-	1.4
<b>Total comprehensive income for the year</b>	<b>12.2</b>	<b>(0.9)</b>	<b>13.1</b>	<b>14.9</b>	<b>0.5</b>	<b>14.4</b>
<b>Earnings per share for profit attributable to the equity holders of the parent</b>						
Basic earnings per share (cents)	\$0.07	-	\$0.07	\$0.07	-	\$0.07
Diluted earnings per share (cents)	\$0.06	\$0.01	\$0.07	\$0.07	-	\$0.07

Other than the reclassification of the principal portion of operating lease payments to financing activities, NZ IFRS 16 had no other significant impact on the cash flow statement.

A reconciliation of EBITDA to profit before tax for the period is as follows:

	<b>31 DEC 2019 ADJUSTED FOR NZ IFRS 16 NZ\$m</b>	<b>IMPACT OF NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2019 EXCLUDING NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2018 ADJUSTED FOR NZ IFRS 16 NZ\$m</b>	<b>IMPACT OF NZ IFRS 16 NZ\$m</b>	<b>31 DEC 2018 PREVIOUSLY REPORTED NZ\$m</b>
<b>EBITDA<sup>(1)</sup></b>	<b>31.1</b>	<b>3.7</b>	<b>27.4</b>	<b>32.8</b>	<b>3.6</b>	<b>29.2</b>
Depreciation and amortisation	(9.7)	(3.9)	(5.8)	(7.0)	(2.8)	(4.2)
<b>EBIT<sup>(2)</sup></b>	<b>21.4</b>	<b>(0.2)</b>	<b>21.6</b>	<b>25.8</b>	<b>0.8</b>	<b>25.0</b>
Finance income	0.6	-	0.6	0.3	-	0.3
Finance costs	(1.7)	(0.6)	(1.1)	(1.3)	(0.3)	(1.0)
Acquisition expenses	(0.1)	-	(0.1)	(0.3)	-	(0.3)
Share of loss from associates and joint ventures	(2.2)	-	(2.2)	(3.0)	-	(3.0)
Capital gains and losses	0.4	-	0.4	-	-	-
<b>Profit before tax</b>	<b>18.4</b>	<b>(0.8)</b>	<b>19.2</b>	<b>21.5</b>	<b>0.5</b>	<b>21.0</b>

# Notes to the financial statements

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A reconciliation of segmental EBITDA<sup>(1)</sup> for the period is as follows:

	31 DEC 2019 ADJUSTED FOR NZ IFRS 16	IMPACT OF NZ IFRS 16	31 DEC 2019 EXCLUDING NZ IFRS 16	31 DEC 2018 ADJUSTED FOR NZ IFRS 16	IMPACT OF NZ IFRS 16	31 DEC 2018 PREVIOUSLY REPORTED
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Cinema	30.9	2.7	28.2	28.3	2.7	25.6
Movio	6.8	0.2	6.6	6.4	0.2	6.2
Additional Group Companies	3.3	0.7	2.6	2.1	0.7	1.4
Early Stage Investments	(1.3)	0.1	(1.4)	0.4	-	0.4
Corporate	(8.6)	-	(8.6)	(4.4)	-	(4.4)
<b>Vista Group EBITDA<sup>(1)</sup></b>	<b>31.1</b>	<b>3.7</b>	<b>27.4</b>	<b>32.8</b>	<b>3.6</b>	<b>29.2</b>

(1) EBITDA is a non-GAAP measure and is defined as earnings before net finance costs, income tax, depreciation and amortisation, acquisition expenses, capital gains/losses, impairment losses and equity accounted results from associates and joint venture companies.

(2) EBIT is a non-GAAP measure and is defined as earnings before net finance costs, income tax, acquisition expenses, capital gains/losses, impairment losses and equity accounted results from associate and joint venture companies.

A reconciliation of non-current assets by domicile of entity is as follows:

	31 DEC 2019 ADJUSTED FOR NZ IFRS 16	IMPACT OF NZ IFRS 16	31 DEC 2019 EXCLUDING NZ IFRS 16	31 DEC 2018 ADJUSTED FOR NZ IFRS 16	IMPACT OF NZ IFRS 16	31 DEC 2018 PREVIOUSLY REPORTED
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
New Zealand	55.7	2.0	53.7	42.5	0.9	41.6
United States	25.7	15.1	10.6	10.3	1.8	8.5
United Kingdom	12.5	3.2	9.3	10.8	2.0	8.8
Mexico	11.7	0.2	11.5	11.5	0.1	11.4
Other	20.8	1.3	19.5	20.8	1.3	19.5

## Impact of standards issued but not yet effective

The IASB have issued IFRS 17 *Insurance Contracts*, as well as various amendments to existing international accounting standards. IFRS 17 is mandatory for reporting periods on, or after 1 January 2021. Vista Group does not intend to adopt this standard before its mandatory date.

Vista Group's financial reporting will be presented in accordance with these new and amended standards when they become mandatory, however none are expected to have a material impact on Vista Group's consolidated results.

# Notes to the financial statements

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## 9. Financial risk management



Vista Group is exposed to three main types of risks in relation to financial instruments, being market (foreign currency risk and interest rate risk), credit and liquidity.

Vista Group's risk management framework is set by the Board and implemented by management. The framework focus includes actively monitoring and securing Vista Group's short to medium-term cash flows by minimising the exposure to financial markets. The most significant financial risks to which Vista Group is exposed are described below.

### 9.1 Capital management

The following table summarises the capital of Vista Group:

	2019 NZ\$m	2018 NZ\$m
Borrowings – related party	0.9	0.9
Borrowings – external	10.9	11.1
Equity	163.5	159.4
<b>Total capital</b>	<b>175.3</b>	<b>171.4</b>

Vista Group's policy is to use a mixture of capital raised on the NZX/ASX exchanges and borrowing facilities to meet anticipated funding requirements. These borrowings together with cash generated from operations, are loaned internally or contributed as equity to certain subsidiaries.

### 9.2 Foreign currency risk

Vista Group operates internationally and is exposed to foreign exchange risk in US Dollars (USD), Pounds Sterling (GBP), Euros (EUR), Chinese Yuan Renminbi (RMB) and Australian Dollars (AUD). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity.

To mitigate exposure to foreign currency risk, foreign currency cash flows are monitored in accordance with the Vista Group's risk management policies. Vista Group's risk management policies include treasury management and foreign exchange policies, the implementation of which is set and reviewed regularly by the Board. Vista Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. The foreign exchange policy allows for the use of hedging activity however no hedging arrangements have been used in either the current or prior year.



# Notes to the financial statements

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Foreign currency denominated financial assets and liabilities which expose Vista Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into NZD at the closing rate.

	USD NZ\$m	GBP NZ\$m	EUR NZ\$m	RMB NZ\$m	AUD NZ\$m
<b>AT 31 DECEMBER 2019</b>					
<b>Financial assets</b>					
Cash	11.5	2.8	2.0	-	0.8
Trade receivables	25.6	3.0	5.0	0.8	1.8
Sundry receivables	0.5	0.6	0.3	0.4	-
<b>Financial liabilities</b>					
Trade payables	(0.2)	-	(0.1)	-	-
Sundry payables	(2.0)	(1.2)	(0.5)	-	-
Borrowings – external	(5.9)	-	(5.0)	-	-
Borrowings – related party	-	-	(0.9)	-	-
Contingent consideration	(0.3)	-	-	-	(0.1)
<b>Net exposure</b>	<b>29.2</b>	<b>5.2</b>	<b>0.8</b>	<b>1.2</b>	<b>2.5</b>
<b>AT 31 DECEMBER 2018</b>					
<b>Financial assets</b>					
Cash	19.6	9.9	1.6	-	1.9
Trade receivables	27.8	3.8	5.2	5.9	1.5
Sundry receivables	0.5	-	0.4	-	-
<b>Financial liabilities</b>					
Trade payables	(1.4)	-	(0.1)	(2.4)	-
Sundry payables	(1.0)	(0.5)	-	-	-
Borrowings – external	(6.0)	-	(5.1)	-	-
Borrowings – related party	-	-	(0.9)	-	-
<b>Net exposure</b>	<b>39.5</b>	<b>13.2</b>	<b>1.1</b>	<b>3.5</b>	<b>3.4</b>

The following table illustrates the sensitivity of profit or loss and equity in regard to Vista Group's financial assets and liabilities affected by the USD/NZD exchange rate, the GBP/NZD exchange rate, the EUR/NZD exchange rate, the RMB/NZD exchange rate and the AUD/NZD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the NZD to currency exchange rate for the year ended 31 December 2019 (2018: 10%). The sensitivity analysis is based on Vista Group's foreign currency financial instruments held at each reporting date.

	PROFIT/EQUITY				
	USD NZ\$m	GBP NZ\$m	EUR NZ\$m	RMB NZ\$m	AUD NZ\$m
<b>31 DECEMBER 2019</b>					
10% strengthening in NZD	(2.6)	(0.5)	(0.1)	(0.1)	(0.2)
10% weakening in NZD	3.2	0.6	0.1	0.1	0.3
<b>31 DECEMBER 2018</b>					
10% strengthening in NZD	(3.6)	(1.2)	(0.1)	(0.3)	(0.3)
10% weakening in NZD	4.4	1.5	0.1	0.4	0.4

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of Vista Group's exposure to market risk.

# Notes to the financial statements

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## 9.3 Interest rate risk

Vista Group's interest rate risk primarily arises from long-term borrowing, lease liabilities, cash and advances to associates. Borrowings and deposits at variable rates expose Vista Group to cash flow interest rate risk. Borrowings and deposits at fixed rates expose Vista Group to fair value interest rate risk.

The following tables set out the interest rate repricing profile and current interest rate of the interest-bearing financial assets and liabilities:

	EFFECTIVE INTEREST RATE	FLOATING NZ\$m	FIXED UP TO 3 MONTHS NZ\$m	FIXED UP TO 6 MONTHS NZ\$m	FIXED UP TO 5 YEARS NZ\$m	TOTAL NZ\$m
<b>AT 31 DECEMBER 2019</b>						
<b>Financial assets</b>						
Cash	-	19.5	-	-	-	19.5
<b>Financial liabilities</b>						
Borrowings – external	4.1%	-	-	-	(10.9)	(10.9)
Borrowings – related party	5.0%	-	-	-	(0.9)	(0.9)
Lease liabilities	3.9%	-	(0.1)	-	(23.4)	(23.5)
Contingent consideration	-	-	-	-	(0.4)	(0.4)
<b>Net exposure</b>		<b>19.5</b>	<b>(0.1)</b>	<b>-</b>	<b>(35.6)</b>	<b>(16.2)</b>
<b>AT 31 DECEMBER 2018</b>						
<b>Financial assets</b>						
Related party loan – Numero	6.0%	-	-	-	8.4	8.4
Cash	-	34.4	-	-	-	34.4
<b>Financial liabilities</b>						
Borrowings – external	4.4%	-	-	-	(11.1)	(11.1)
Borrowings – related party	5.0%	-	-	-	(0.9)	(0.9)
<b>Net exposure</b>		<b>34.4</b>	<b>-</b>	<b>-</b>	<b>(3.6)</b>	<b>30.8</b>

Profit or loss is sensitive to higher/lower interest income/expense from cash as a result of changes in interest rates.

	EFFECTIVE INTEREST RATE +1% NZ\$m	EFFECTIVE INTEREST RATE -1% NZ\$m
<b>AT 31 DECEMBER 2019</b>		
Cash	0.2	(0.2)
Borrowings – external	(0.1)	0.1
Borrowings – related party	-	-
Lease liabilities	(0.2)	0.2
Contingent consideration	-	-
<b>Net exposure</b>	<b>(0.1)</b>	<b>0.1</b>

# Notes to the financial statements

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## 9.4 Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to Vista Group. Vista Group is exposed to this risk for various financial instruments, for example trade and sundry receivables and deposits with financial institutions and related parties. The maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December, as summarised in section 10.2.

Vista Group continuously monitors defaults of customers and other counterparties, identified either individually or by Vista Group and incorporates this information into its credit risk controls. Vista Group's policy is to deal only with credit-worthy counterparties.

At 31 December, Vista Group has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired because of the nature of contracts and/or the longevity of ongoing customer relationships. The amounts at 31 December, analysed by the length of time past due, are:

	2019 NZ\$m	2018 NZ\$m
Not more than 6 months	3.8	3.8
Between 6 months and 9 months	2.6	2.1
Over 9 months	1.5	8.0
<b>Total credit risk</b>	<b>7.9</b>	<b>13.9</b>

In respect of trade receivables, Vista Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of many customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good.

Judgement has been applied to the recoverability of all trade receivables, with management confirming that the net balances receivable (excluding the expected credit loss provision) are deemed recoverable and not impaired.

Vista Group has financial assets classified and measured at amortised cost that are subject to the expected credit loss model requirements of NZ IFRS 9 *Financial Instruments* (see section 5.1 for the expected credit loss recognised on trade receivable balances). The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

At 31 December 2019, due to Numero now being a controlled subsidiary of Vista Group, advances from Vista Group are no longer subject to credit risk due to the balances eliminating on consolidation.

## 9.5 Liquidity risk

Liquidity risk is the risk that Vista Group might be unable to meet its obligations. Vista Group's objective is to maintain a balance between continuity of funding and flexibility through monitoring of cash and the use of bank overdrafts and bank loans (see section 4). Vista Group's policy is that not more than 25% of borrowings should mature in the next 12-month period. Of the \$0.9m related party borrowings balance at 31 December 2019, \$0.7m will mature in greater than one year. Vista Group assessed the concentration of risk with respect to refinancing its debt as being low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

Vista Group has significant cash balances held as cash on hand of \$19.5m. Vista Group's dividend policy is to distribute between 30% to 50% of net profit after tax attributable to owners of the parent, subject to immediate and future growth opportunities and identified capital expenditure requirements. At balance date, Vista Group has an NZD \$2m overdraft facility with ASB, which remains undrawn. Subsequent to balance date, Vista Group agreed to extended revolving credit facilities with ASB, primarily to fund the SaaS transformation project and to facilitate the step-acquisition of Vista China (see section 4.2).

# Notes to the financial statements

Continued

The table below summarises the maturity profile of Vista Group's non-derivative financial liabilities based on contractual undiscounted payments.

	ON DEMAND NZ\$m	LESS THAN 3 MONTHS NZ\$m	3 TO 12 MONTHS NZ\$m	1 TO 5 YEARS NZ\$m	> 5 YEARS NZ\$m	TOTAL NZ\$m
<b>AT 31 DECEMBER 2019</b>						
Trade payables	-	0.3	-	-	-	0.3
Sundry payables	-	5.6	-	-	-	5.6
Borrowings – external	-	-	-	10.9	-	10.9
Borrowings – related party	-	-	0.2	0.7	-	0.9
Interest on borrowings	-	0.1	0.4	0.8	-	1.3
Lease liabilities	-	1.5	4.6	13.5	3.9	23.5
Contingent consideration	-	-	0.4	-	-	0.4
<b>Total liquidity risk</b>	<b>-</b>	<b>7.5</b>	<b>5.6</b>	<b>25.9</b>	<b>3.9</b>	<b>42.9</b>
<b>AT 31 DECEMBER 2018</b>						
Trade payables	-	5.8	-	-	-	5.8
Sundry payables	-	4.0	-	-	-	4.0
Borrowings – external	-	-	-	11.1	-	11.1
Borrowings – related party	-	-	-	0.9	-	0.9
Interest on borrowings	-	0.1	0.4	0.7	-	1.2
<b>Total liquidity risk</b>	<b>-</b>	<b>9.9</b>	<b>0.4</b>	<b>12.7</b>	<b>-</b>	<b>23.0</b>

## 10. Other information

### 10.1 Related parties

Vista Group has various types of transactions with related parties. Refer to section 5.3 for details of transactions with associate and joint venture companies. Refer to section 4.2 for details of related party borrowings. Other related party transactions include transactions with key management personnel which are detailed below.

#### Key management personnel transactions

Key management personnel include Vista Group's Board (executive and non-executive) and senior management. Senior management is defined as personnel who report directly to the Vista Group's Chief Executive. Key management personnel include 18 individuals (6 Directors and 12 senior management) (2018: 16 individuals, being 6 Directors and 10 senior management).

The compensation paid to key management personnel includes:

	2019 NZ\$m	2018 NZ\$m
Salaries including bonuses	5.6	3.8
Share-based payments	1.2	0.7
Director fees	0.3	0.3
<b>Total key management personnel transactions</b>	<b>7.1</b>	<b>4.8</b>

Dividends paid to key management personnel on their Vista Group shareholdings amounted to \$0.6m (2018: \$0.5m).

# Notes to the financial statements

Continued

## 10.2 Financial instruments



### Financial instruments

Financial instruments recognised in the statement of financial position include cash, receivables and payables, lease assets and liabilities, contingent consideration and borrowings. Vista Group's policy is that no speculative trading in financial instruments may be undertaken.

### Fair value of financial assets and liabilities

Vista Group carries out a fair value assessment of its financial assets and liabilities at 31 December 2019 in accordance with NZ IFRS 9. Accordingly, financial instruments are classified as either measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Vista Group's financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels based on the degree to which the fair value is observable:

- Level 1** Fair value measurements derived from quoted prices in active markets for identical assets.
- Level 2** Fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3** Fair value measurements derived from valuation techniques that include inputs for the asset or liability which are not based on observable market data.

There have been no transfers between levels or changes in the valuation methods used to determine the fair value of the Group's financial instruments during the year. As at 31 December 2019, the only financial instrument carried at fair value using level 3 measurements is contingent consideration. Level 3 measurements were also applied in the initial recognition of associates/joint ventures and net assets acquired as part of a business combination.

Vista Group's financial assets and liabilities by category are summarised as follows:

#### Cash

Cash comprises cash at bank and on hand and its carrying value equates to fair value.

#### Trade, related party and other receivables

These assets are short-term in nature and are reviewed for impairment; the carrying value approximates fair value.

#### Trade, related party and other payables

These liabilities are mainly short-term in nature with the carrying value approximating fair value.

#### Borrowings

Borrowings have fixed and floating interest rates. Fair value is estimated using the DCF model based on a current market interest rate for similar products; the carrying value approximates fair value.

#### Lease assets and liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis using the lessee's incremental borrowing rate.

#### Contingent consideration

These liabilities typically arise from a business combination or a reacquired right. Fair value of elements greater than 12 months are determined on a present value basis using the Vista Group's incremental borrowing rate.

### Expected credit losses

For trade receivables, Vista Group applies the simplified approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with Vista Group, and a failure to make contractual payments for a period of greater than 180 days past due.

# Notes to the financial statements

Continued

To measure expected credit losses, trade receivables have been grouped and reviewed based on the number of days past due. The expected credit loss has been calculated by considering the impact of the following characteristics:

- The baseline characteristic considers the age of each invoice and applies an increasing expected credit loss estimate as the trade receivable ages.
- The aging and write off characteristics consider the history of write off related to the specific customer and the relative size of aged debt to current debt. If the trade receivable aged over 180 days past due makes up more than 45% of the total trade receivable for a specific customer, further provision for expected credit loss is added.
- The country, customer and market characteristics consider the relative risk related to the country and/or region within which the customer resides and assesses the financial strength of the customer and the market position that Vista Group has achieved within that market.

Judgement has been applied to remove sundry receivables from the expected credit loss calculation as the counterparties are considered to have a high level of certainty in terms of recoverability.

## Financial instruments by category

	FINANCIAL ASSETS AT AMORTISED COST NZ\$m	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS NZ\$m	FINANCIAL LIABILITIES AT AMORTISED COST NZ\$m	TOTAL CARRYING VALUE NZ\$m
<b>AT 31 DECEMBER 2019</b>				
Cash	19.5	-	-	19.5
Trade receivables	35.4	-	-	35.4
Sundry receivables	2.9	-	-	2.9
<b>Total financial assets</b>	<b>57.8</b>	<b>-</b>	<b>-</b>	<b>57.8</b>
Trade payables	-	-	0.3	0.3
Sundry payables	-	-	5.6	5.6
Borrowings – external	-	-	10.9	10.9
Borrowings – related party	-	-	0.9	0.9
Lease liabilities	-	-	23.5	23.5
Contingent consideration	-	0.4	-	0.4
<b>Total financial liabilities</b>	<b>-</b>	<b>0.4</b>	<b>41.2</b>	<b>41.6</b>
<b>AT 31 DECEMBER 2018</b>				
Cash	34.4	-	-	34.4
Trade receivables	44.3	-	-	44.3
Sundry receivables	8.8	-	-	8.8
<b>Total financial assets</b>	<b>87.5</b>	<b>-</b>	<b>-</b>	<b>87.5</b>
Trade payables	-	-	5.8	5.8
Sundry payables	-	-	4.0	4.0
Borrowings – external	-	-	11.1	11.1
Borrowings – related party	-	-	0.9	0.9
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>21.8</b>	<b>21.8</b>

# Notes to the financial statements

Continued

## 10.3 Other disclosures

### **Contingent liabilities**

There were no contingent liabilities for Vista Group at 31 December 2019 (2018: \$nil).

### **Capital commitments**

There were no capital commitments for Vista Group at 31 December 2019 (2018: \$nil).

### **Events after balance date**

On 31 January 2020, Vista Group entered into a refinancing arrangement with ASB to assist in funding the SaaS transformation project, the 2020 Vista China step acquisition and any future acquisition related opportunities. See section 4.2 for further details.

On 30 January 2020, the spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation. As this declaration was made after the reporting period, Vista Group does not believe it constitutes an 'Adjustable Event', as defined in NZ IAS 10 *Events after the Reporting Period*. Vista Group will continue to monitor the impact of COVID-19 on both Vista Group and the proposed step acquisition of Vista China, but at the date of this report it is too early to determine the full impact this virus may have on Vista Group. Should this public health emergency continue for a prolonged period of time this has the potential to have a material adverse financial impact on Vista China.

On 27 February 2020, the Board approved a fully imputed final dividend of 2.10 cents per share. The dividend record date is 13 March 2020 with a payment date of 27 March 2020.

There have been no other events subsequent to 31 December 2019 which materially impact on the results reported.



## ***Independent auditor's report***

To the shareholders of Vista Group International Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

### ***Our opinion***

In our opinion, the accompanying financial statements of Vista Group International Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of related assurance services (R&D growth grant schedule review), advisory services in relation to long term employee incentive schemes and preparation of an immaterial subsidiary's financial statements. The provision of these other services has not impaired our independence as auditor of the Group.



## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$0.95 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark.

We have determined that there are three key audit matters:

- Carrying value of the investment in Vista Entertainment Solutions Shanghai Limited ("Vista China")
- Impairment testing of goodwill
- Classification of Research and development costs between capitalisation and expenditure

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We performed full scope audits of the financially significant subsidiaries of the Group. In addition, we also performed specific audit procedures over certain balances and transactions of the holding company, other subsidiaries and associates.

The full scope audits and specific audit procedures were undertaken by PwC New Zealand and were performed at a materiality level calculated with reference to a proportion of the Group materiality appropriate to the relative financial scale of the subsidiary concerned.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of the investment in Vista Entertainment Solutions Shanghai Limited ("Vista China")</i></p> <p>As disclosed in Note 5.3, the carrying value of the Group's investment in Vista China amounts to \$30.1 million, including goodwill of \$20.2 million. The Group uses the equity method of accounting for its investment.</p> <p>Management undertook an assessment of the recoverable value of goodwill and of its investment in Vista China to assess whether there had been any impairment. This assessment involved significant management judgement in determining key assumptions and estimates and included consideration of:</p> <ul style="list-style-type: none"> <li>• The recent trading performance of Vista China and the 2020 budget;</li> <li>• The forecast revenue growth rates and cash flows for the following 4 years of the overall 5 year forecast period;</li> <li>• An independent business valuation conducted by an independent expert which complies with the provisions of Advisory Engagement Standard No 2 <i>Independent Business Valuation Engagements</i>, issued by the Chartered Accountants Australia and New Zealand; and</li> <li>• Assumptions relating to a control discount and transaction costs.</li> </ul> <p>Our audit focused on this area due to the value of the Group's investment in Vista China, and the level of judgement involved in assessing the recoverable amount of the investment.</p> <p>The assessment concluded that there was no impairment of the investment.</p>	<p>Our audit procedures in relation to the carrying value of the investment in Vista China included the following:</p> <ul style="list-style-type: none"> <li>• We held discussions with management, including those outside of the Vista finance function, to gain an understanding of the strategy and performance to date of Vista China;</li> <li>• We reviewed Board meeting minutes to identify any events or conditions that indicate potential impairment of the investment;</li> <li>• We considered the report prepared by management's independent expert on their valuation assessment undertaken as at 31 December 2019. We also compared this current assessment to the valuation undertaken by the same independent expert in 2016, 2017 and 2018; and</li> <li>• We engaged our own expert to consider the valuation methodology utilised by management's independent expert and the key assumptions made, in particular the revenue growth rate, discount rate, transaction costs and control discount. Our expert's assessment included comparing the valuation determined by management's independent expert with the valuation indicated by an external share broker.</li> </ul> <p>We have no matters to report as a result of our procedures.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment testing of goodwill</i></p> <p>Note 5.4 of the financial statements provides details of the goodwill balance of \$69.9 million as at 31 December 2019.</p> <p>Management perform an annual assessment to determine whether there is any impairment of goodwill, as disclosed in Note 5.5.</p> <p>A value in use (VIU) methodology was utilised to determine the recoverable amount of each cash generating unit (CGU) using discounted cash flows. This VIU was then compared to the carrying amount of the associated net assets, including goodwill, of each CGU as at 31 December 2019. The estimated cash flows used in the VIU model were based on the 2020 Board approved budget and forecast cash flows for the following four years.</p> <p>The valuations involve the application of significant judgement in forecasting future business performance and determining certain key assumptions and estimates, in particular:</p> <ul style="list-style-type: none"> <li>• Revenue growth rates for the 5 year forecast period;</li> <li>• The long term growth rates for cash flows beyond the 5 year forecast period; and</li> <li>• The appropriate discount rate for each CGU.</li> </ul> <p>Changes in these assumptions might lead to changes in the carrying value of goodwill. The risk is greater for the goodwill attributed to the MACCS International BV (“MACCS”) and Numero Limited (“Numero”) CGUs where the headroom compared to carrying amount is lower than for the other CGUs.</p> <p>Our audit focused on this area due to the value of the goodwill balance, and the level of judgement involved in assessing the recoverable amount of each CGU.</p>	<p>Our audit procedures in relation to impairment testing of goodwill included the following:</p> <ul style="list-style-type: none"> <li>• We gained an understanding of the business processes and controls applied by management in assessing whether there was any impairment of goodwill;</li> <li>• We held discussions with management, including those outside of the Vista finance function, about the performance of each CGU and whether there were any events or circumstances that indicated the carrying amount of the CGU, including goodwill, was impaired;</li> <li>• We tested the calculation of the VIU model, including the inputs and the mathematical accuracy and compared the resulting balances to the relevant net assets of each CGU; and</li> <li>• We assessed the key estimates and assumptions made by management in the CGUs’ VIU models, by performing the following procedures: <ul style="list-style-type: none"> <li>○ Obtained an understanding of how management prepared its budget and forecasts and the associated review and approval processes;</li> <li>○ Assessed management’s ability to accurately forecast by comparing historical forecasts to actual results;</li> <li>○ Compared growth rates used over the 5 year forecast period to historical growth rates and board approved budgets as well as challenging whether the historical growth rates are sustainable as the businesses mature;</li> <li>○ Obtained and evaluated management’s sensitivity analysis to ascertain the impact of reasonably possible changes in key assumptions. We also performed our own sensitivity analysis on the impact of changing key assumptions to consider whether any reasonably possible changes could result in impairment of goodwill; and</li> <li>○ Engaged our own experts to evaluate the discount rates and terminal growth rates used in the CGUs’ VIU models by comparing with those of similar market participants.</li> </ul> </li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>Management concluded that goodwill was not impaired as at 31 December 2019. However, the valuation of the MACCS and Numero CGUs were both sensitive to reasonably possible changes in revenue growth assumptions and the MACCS CGU was also sensitive to reasonably possible changes in the discount rate and terminal growth rate, and such changes could result in an impairment, as disclosed in Note 5.5 of the financial statements</p>	<ul style="list-style-type: none"> <li>For the MACCS and Numero CGUs we also performed the following procedures: <ul style="list-style-type: none"> <li>Considered the performance of those CGUs and gained an understanding of strategic and operational initiatives being undertaken through discussions with management, including those outside of the Vista finance function; and</li> <li>Assessed the extent to which revenue in the 2020 budget is contracted and agreed a sample of forecast amounts to signed customer contracts.</li> </ul> </li> </ul> <p>We have no matters to report as a result of our procedures.</p>
<p><i>Classification of research and development costs between capitalisation and expenditure</i></p> <p>As disclosed in Note 5.6 the Group has capitalised \$11.7 million of costs incurred in the development of its software in the year (FY18 \$7.9 million).</p> <p>As disclosed in Note 2.3 the Group has recognised \$25.4 million of research expenditure in profit or loss in FY19 (FY18 \$22.4 million).</p> <p>The Group's research and development personnel are involved in the research, development and maintenance of the Group's software products.</p> <p>Our audit focused on this area due to the magnitude of the research and development spend and the judgement involved in assessing whether the costs meet the criteria detailed in the accounting standard (NZ IAS 38 Intangible Assets) that require capitalisation, or whether they should be expensed.</p> <p>Management determined the most significant of these judgements to be the:</p> <ul style="list-style-type: none"> <li>Separately identifiable criteria; and</li> <li>Economic feasibility criteria.</li> </ul>	<p>In responding to the significant judgements involved in determining whether research and development spend has been recognised in accordance with the accounting standard, our audit procedures included:</p> <ul style="list-style-type: none"> <li>Updating our understanding of management's process for assessing how much of the research and development spend has met all of the NZ IAS 38 recognition criteria;</li> <li>Obtaining the detailed analysis of the Group's research and development spend for the year allocated by project and tested the reconciliation of amounts reported to accounting and payroll records;</li> <li>For a sample of capitalised projects and for a sample of expensed projects: <ul style="list-style-type: none"> <li>We held discussions with management, including research and development personnel, to discuss the nature of work being completed and their assessment of the areas of judgement for each, in particular whether and how the software was separately identifiable and the economic feasibility of each project selected;</li> <li>Assessed the nature of the projects against the requirements of NZ IAS 38 to determine if they were capital in nature; and</li> <li>For capitalised costs we reviewed management's papers which detail how the NZ IAS 38 recognition criteria are met.</li> </ul> </li> </ul> <p>We have no matters to report as a result of our procedures.</p>

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### *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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### *Responsibilities of the Directors for the financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.



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*Who we report to*

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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The engagement partner on the audit resulting in this independent auditor's report is Leopino Foliaki.

For and on behalf of:

*PricewaterhouseCoopers*

Chartered Accountants  
27 February 2020

Auckland



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