



Financial Reporting Specialists

Example Financial Report

FRS Proprietary General Purpose Pty Limited

ABN 12 345 678 901

Annual Report - 31 December 2019

FRS Proprietary General Purpose Pty Limited

Directors' report

31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of FRS Proprietary General Purpose Pty Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2019.

Directors

The following persons were directors of FRS Proprietary General Purpose Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Anthony Example
Brad Example
Christina Example
Daniel Example
Elizabeth Example (resigned on 20 February 2020)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Computer manufacturing
- Computer retailing
- Computer distribution

The computer distribution division was significantly enhanced during the year with the acquisition of FRS CompCarrier Pty Limited.

Dividends

Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Final dividend for the year ended 31 December 2018 (2018: 31 December 2017) of 15 cents (2018: 8 cents) per ordinary share | 22,037 | 11,744 |
| Interim dividend for the year ended 31 December 2019 (2018: 31 December 2018) of 5 cents (2018: 4 cents) per ordinary share | 7,346 | 5,872 |
| | <u>29,383</u> | <u>17,616</u> |

On [date] the directors declared a final dividend for the year ended 31 December 2019 of 17 cents per ordinary share to be paid on [date], a total estimated distribution of \$24,975,000 based on the number of ordinary shares on issue as at [date]. As the dividend was fully franked, there are no income tax consequences for the owners of FRS Proprietary General Purpose Pty Limited relating to this dividend.

Review of operations

The profit for the consolidated entity after providing for income tax and non-controlling interest amounted to \$27,763,000 (31 December 2018: \$22,690,000).

Significant changes in the state of affairs

On [date] FRS Logistics Pty Limited, a subsidiary of FRS Proprietary General Purpose Pty Limited, acquired 100% of the ordinary shares of FRS CompCarrier Pty Limited (formerly known as CompCarrier Pty Limited) for the total consideration transferred of \$8,230,000. This is a freight business and operates in the computer distribution division of the consolidated entity.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

FRS Proprietary General Purpose Pty Limited

Directors' report

31 December 2019

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Shares under option

There were no unissued ordinary shares of FRS Proprietary General Purpose Pty Limited under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of FRS Proprietary General Purpose Pty Limited issued on the exercise of options during the year ended 31 December 2019 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Daniel Example
Director

24 February 2020
Sydney

FRS Proprietary General Purpose Pty Limited
Auditor's independence declaration

[This page has intentionally been left blank for the insertion of the auditor's independence declaration]

FRS Proprietary General Purpose Pty Limited

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31 December 2019

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General information

The financial statements cover FRS Proprietary General Purpose Pty Limited as a consolidated entity consisting of FRS Proprietary General Purpose Pty Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is FRS Proprietary General Purpose Pty Limited's functional and presentation currency.

FRS Proprietary General Purpose Pty Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

10th Floor
Universal Administration Building
12 Highland Street
Sydney NSW 2000

Principal place of business

5th Floor
FRS Business Centre
247 Edward Street
Brisbane QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 February 2020. The directors have the power to amend and reissue the financial statements.

FRS Proprietary General Purpose Pty Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|--|------|--------------------------------|----------------|
| Revenue | 3 | 466,748 | 435,341 |
| Share of profits of associates accounted for using the equity method | 4 | 3,211 | 2,661 |
| Other income | 5 | 692 | 1,692 |
| Interest revenue calculated using the effective interest method | | 1,087 | 543 |
| Net gain on derecognition of financial assets at amortised cost | | 50 | - |
| Expenses | | | |
| Changes in inventories | | (3,523) | (782) |
| Raw materials and consumables used | | (127,025) | (131,050) |
| Employee benefits expense | | (225,150) | (218,728) |
| Depreciation and amortisation expense | 6 | (52,276) | (22,214) |
| Impairment of goodwill | 6 | (500) | - |
| Impairment of receivables | | (491) | (432) |
| Net fair value loss on investment properties | 6 | (600) | - |
| Other expenses | | (4,513) | (31,847) |
| Finance costs | 6 | (18,930) | (3,451) |
| Profit before income tax expense | | 38,780 | 31,733 |
| Income tax expense | 7 | (10,875) | (8,814) |
| Profit after income tax expense for the year | | 27,905 | 22,919 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Gain on the revaluation of land and buildings, net of tax | | - | 1,400 |
| Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax | | 35 | - |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Cash flow hedges transferred to profit or loss, net of tax | | - | (2) |
| Cash flow hedges transferred to inventory in the statement of financial position, net of tax | | (3) | (7) |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | | (7) | (18) |
| Foreign currency translation | | (257) | (218) |
| Other comprehensive income for the year, net of tax | | (232) | 1,155 |
| Total comprehensive income for the year | | <u>27,673</u> | <u>24,074</u> |
| Profit for the year is attributable to: | | | |
| Non-controlling interest | | 142 | 229 |
| Owners of FRS Proprietary General Purpose Pty Limited | 41 | 27,763 | 22,690 |
| | | <u>27,905</u> | <u>22,919</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | 142 | 369 |
| Owners of FRS Proprietary General Purpose Pty Limited | | 27,531 | 23,705 |
| | | <u>27,673</u> | <u>24,074</u> |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

FRS Proprietary General Purpose Pty Limited
Statement of financial position
As at 31 December 2019

| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|---|------|--------------------------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 26,136 | 5,524 |
| Trade and other receivables | 9 | 13,349 | 12,354 |
| Contract assets | 10 | 2,617 | 2,144 |
| Inventories | 11 | 39,525 | 43,048 |
| Financial assets at fair value through profit or loss | 12 | 360 | - |
| Other | 13 | 3,935 | 3,444 |
| | | <u>85,922</u> | <u>66,514</u> |
| Non-current assets classified as held for sale | 14 | 6,000 | - |
| Total current assets | | <u>91,922</u> | <u>66,514</u> |
| Non-current assets | | | |
| Receivables | 15 | 145 | 145 |
| Investments accounted for using the equity method | 16 | 34,192 | 30,981 |
| Financial assets at fair value through other comprehensive income | 17 | 170 | - |
| Investment properties | 18 | 46,900 | 47,500 |
| Property, plant and equipment | 19 | 117,139 | 134,014 |
| Right-of-use assets | 20 | 305,485 | - |
| Intangibles | 21 | 12,170 | 11,616 |
| Deferred tax | 22 | 15,574 | 8,994 |
| Other | 23 | 2,308 | 2,405 |
| Total non-current assets | | <u>534,083</u> | <u>235,655</u> |
| Total assets | | <u>626,005</u> | <u>302,169</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 24 | 20,004 | 17,306 |
| Contract liabilities | 25 | 2,269 | 2,135 |
| Borrowings | 26 | 4,500 | 4,610 |
| Lease liabilities | 27 | 22,072 | - |
| Derivative financial instruments | 28 | 122 | 107 |
| Income tax | 29 | 6,701 | 2,351 |
| Employee benefits | 30 | 8,352 | 8,143 |
| Provisions | 31 | 3,494 | 2,837 |
| Other | 32 | 2,130 | 1,869 |
| | | <u>69,644</u> | <u>39,358</u> |
| Liabilities directly associated with assets classified as held for sale | 33 | 4,000 | - |
| Total current liabilities | | <u>73,644</u> | <u>39,358</u> |
| Non-current liabilities | | | |
| Borrowings | 34 | 19,000 | 22,437 |
| Lease liabilities | 35 | 301,714 | - |
| Deferred tax | 36 | 4,665 | 4,333 |
| Employee benefits | 37 | 11,149 | 10,854 |
| Provisions | 38 | 1,475 | 1,070 |
| Total non-current liabilities | | <u>338,003</u> | <u>38,694</u> |
| Total liabilities | | <u>411,647</u> | <u>78,052</u> |
| Net assets | | <u>214,358</u> | <u>224,117</u> |

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

FRS Proprietary General Purpose Pty Limited
Statement of financial position
As at 31 December 2019

| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|--|------|--------------------------------|-----------------------|
| Equity | | | |
| Issued capital | 39 | 182,953 | 182,678 |
| Reserves | 40 | 3,276 | 3,508 |
| Retained profits | 41 | 10,766 | 20,710 |
| Equity attributable to the owners of FRS Proprietary General Purpose Pty Limited | | <u>196,995</u> | <u>206,896</u> |
| Non-controlling interest | 42 | 17,363 | 17,221 |
| Total equity | | <u><u>214,358</u></u> | <u><u>224,117</u></u> |

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

FRS Proprietary General Purpose Pty Limited
Statement of changes in equity
For the year ended 31 December 2019

| Consolidated | Issued capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
|--|----------------------------------|----------------------------|------------------------------------|--|--------------------------------|
| Balance at 1 January 2018 | 104,922 | 2,493 | 15,636 | 16,852 | 139,903 |
| Profit after income tax expense for the year | - | - | 22,690 | 229 | 22,919 |
| Other comprehensive income for the year, net of tax | - | 1,015 | - | 140 | 1,155 |
| Total comprehensive income for the year | - | 1,015 | 22,690 | 369 | 24,074 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Contributions of equity, net of transaction costs (note 39) | 77,756 | - | - | - | 77,756 |
| Dividends paid (note 43) | - | - | (17,616) | - | (17,616) |
| Balance at 31 December 2018 | <u>182,678</u> | <u>3,508</u> | <u>20,710</u> | <u>17,221</u> | <u>224,117</u> |

| Consolidated | Issued capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Non-controlling interest \$'000 | Total equity \$'000 |
|--|----------------------------------|----------------------------|------------------------------------|--|--------------------------------|
| Balance at 1 January 2019 | 182,678 | 3,508 | 20,710 | 17,221 | 224,117 |
| Adjustment for change in accounting policy (note 1) | - | - | (8,324) | - | (8,324) |
| Balance at 1 January 2019 - restated | 182,678 | 3,508 | 12,386 | 17,221 | 215,793 |
| Profit after income tax expense for the year | - | - | 27,763 | 142 | 27,905 |
| Other comprehensive income for the year, net of tax | - | (232) | - | - | (232) |
| Total comprehensive income for the year | - | (232) | 27,763 | 142 | 27,673 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Contributions of equity, net of transaction costs (note 39) | 275 | - | - | - | 275 |
| Dividends paid (note 43) | - | - | (29,383) | - | (29,383) |
| Balance at 31 December 2019 | <u>182,953</u> | <u>3,276</u> | <u>10,766</u> | <u>17,363</u> | <u>214,358</u> |

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

FRS Proprietary General Purpose Pty Limited
Statement of cash flows
For the year ended 31 December 2019

| | Note | Consolidated 2019 \$'000 | 2018 \$'000 |
|--|------|--------------------------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 508,040 | 474,832 |
| Payments to suppliers and employees (inclusive of GST) | | (402,184) | (428,469) |
| | | 105,856 | 46,363 |
| Interest received | | 1,084 | 540 |
| Other revenue | | 3,964 | 3,358 |
| Interest and other finance costs paid | | (18,845) | (3,451) |
| Income taxes paid | | (9,142) | (8,461) |
| Net cash from operating activities | 58 | 82,917 | 38,349 |
| Cash flows from investing activities | | | |
| Payment for purchase of business, net of cash acquired | 53 | (8,072) | (155) |
| Payments for investments | | (510) | - |
| Payments for property, plant and equipment | | (6,215) | (3,048) |
| Proceeds from sale of investments | | 80 | - |
| Proceeds from sale of property, plant and equipment | | 1,511 | 250 |
| Proceeds from release of security deposits | | 155 | - |
| Net cash used in investing activities | | (13,051) | (2,953) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 39 | 275 | 78,750 |
| Proceeds from borrowings | | 12,000 | - |
| Share issue transaction costs | | - | (1,420) |
| Dividends paid | 43 | (29,383) | (17,616) |
| Repayment of borrowings | | (5,500) | (95,601) |
| Repayment of lease liabilities | | (25,385) | - |
| Net cash used in financing activities | | (47,993) | (35,887) |
| Net increase/(decrease) in cash and cash equivalents | | 21,873 | (491) |
| Cash and cash equivalents at the beginning of the financial year | | 4,251 | 4,734 |
| Effects of exchange rate changes on cash and cash equivalents | | 12 | 8 |
| Cash and cash equivalents at the end of the financial year | 8 | 26,136 | 4,251 |

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

FRS Proprietary General Purpose Pty Limited
Notes to the financial statements
31 December 2019

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

| | 1 January 2019 \$'000 |
|---|-----------------------------|
| Operating lease commitments as at 1 January 2019 (AASB 117) | 504,707 |
| Finance lease commitments as at 1 January 2019 (AASB 117) | 4,774 |
| Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16) | (118,294) |
| Short-term leases not recognised as a right-of-use asset (AASB 16) | (37) |
| Low-value assets leases not recognised as a right-of-use asset (AASB 16) | (82) |
| Accumulated depreciation as at 1 January 2019 (AASB 16) | (59,309) |
| Right-of-use assets (AASB 16) | <u>331,759</u> |
| Lease liabilities - current (AASB 16) | (20,812) |
| Lease liabilities - non-current (AASB 16) | (322,838) |
| Tax effect on the above adjustments | <u>3,567</u> |
| Reduction in opening retained profits as at 1 January 2019 | <u><u>(8,324)</u></u> |

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

FRS Proprietary General Purpose Pty Limited
Notes to the financial statements
31 December 2019

Note 1. Significant accounting policies (continued)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 52.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of FRS Proprietary General Purpose Pty Limited ('company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the year then ended. FRS Proprietary General Purpose Pty Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is FRS Proprietary General Purpose Pty Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Note 1. Significant accounting policies (continued)

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Note 1. Significant accounting policies (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

FRS Proprietary General Purpose Pty Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Note 1. Significant accounting policies (continued)

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Contract assets

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

Customer fulfilment costs

Customer fulfilment costs are capitalised as an asset when all the following are met: (i) the costs relate directly to the contract or specifically identifiable proposed contract; (ii) the costs generate or enhance resources of the consolidated entity that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Customer fulfilment costs are amortised on a straight-line basis over the term of the contract.

Right of return assets

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

Note 1. Significant accounting policies (continued)

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Note 1. Significant accounting policies (continued)

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Investment properties

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the consolidated entity. Investment properties are initially recognised at cost, including transaction costs, and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit or loss.

Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Transfers to and from investment properties to property, plant and equipment are determined by a change in use of owner-occupation. The fair value on the date of change of use from investment properties to property, plant and equipment are used as deemed cost for the subsequent accounting. The existing carrying amount of property, plant and equipment is used for the subsequent accounting cost of investment properties on the date of change of use.

Investment properties also include properties under construction for future use as investment properties. These are carried at fair value, or at cost where fair value cannot be reliably determined and the construction is incomplete.

Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|------------------------|------------|
| Buildings | 40 years |
| Leasehold improvements | 3-10 years |
| Plant and equipment | 3-7 years |

Note 1. Significant accounting policies (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Note 1. Significant accounting policies (continued)

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Refund liabilities

Refund liabilities are recognised where the consolidated entity receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the consolidated entity does not expect to be entitled and is updated at the end of each reporting period for changes in circumstances. Historical data is used across product lines to estimate such returns at the time of sale based on an expected value methodology.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 1. Significant accounting policies (continued)

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Note 1. Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

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

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract or where goods or services have a variable component. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

FRS Proprietary General Purpose Pty Limited
Notes to the financial statements
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Note 2. Critical accounting judgements, estimates and assumptions (continued)

Warranty provision

In determining the level of provision required for warranties the consolidated entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Revenue

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Revenue from contracts with customers</i> | | |
| Sale of goods | 459,358 | 428,115 |
| Rendering of services | 3,696 | 3,868 |
| | <u>463,054</u> | <u>431,983</u> |
| <i>Other revenue</i> | | |
| Rent from investment properties | 3,623 | 3,310 |
| Other revenue | 71 | 48 |
| | <u>3,694</u> | <u>3,358</u> |
| Revenue | <u><u>466,748</u></u> | <u><u>435,341</u></u> |

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

| | Consolidated | |
|--------------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Major product lines</i> | | |
| Laptops | 376,696 | 344,285 |
| Desktops | 51,844 | 58,921 |
| Components | 34,514 | 28,777 |
| | <u>463,054</u> | <u>431,983</u> |
| <i>Geographical regions</i> | | |
| Australia | 409,946 | 389,460 |
| New Zealand | 39,020 | 32,567 |
| Rest of the World | 14,088 | 9,956 |
| | <u>463,054</u> | <u>431,983</u> |
| <i>Timing of revenue recognition</i> | | |
| Goods transferred at a point in time | 459,358 | 428,115 |
| Services transferred over time | 3,696 | 3,868 |
| | <u>463,054</u> | <u>431,983</u> |

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Note 4. Share of profits of associates accounted for using the equity method

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Share of profit - associates | 3,211 | 2,661 |

Note 5. Other income

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Net fair value gain on investment properties | - | 1,500 |
| Net gain on disposal of property, plant and equipment | 422 | 192 |
| Insurance recoveries | 270 | - |
| Other income | 692 | 1,692 |

Note 6. Expenses

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Profit before income tax includes the following specific expenses: | | |
| <i>Cost of sales</i> | | |
| Cost of sales | 284,451 | 277,984 |
| <i>Depreciation</i> | | |
| Leasehold improvements | 5,281 | 5,721 |
| Plant and equipment | 12,199 | 13,414 |
| Plant and equipment under lease | - | 853 |
| Buildings right-of-use assets | 13,582 | - |
| Plant and equipment right-of-use assets | 18,570 | - |
| Total depreciation | 49,632 | 19,988 |
| <i>Amortisation</i> | | |
| Development | 321 | 321 |
| Patents and trademarks | 32 | 32 |
| Customer contracts | 229 | - |
| Software | 22 | 22 |
| Customer acquisition costs | 1,288 | 1,164 |
| Customer fulfilment costs | 752 | 687 |
| Total amortisation | 2,644 | 2,226 |

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Note 6. Expenses (continued)

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Total depreciation and amortisation | 52,276 | 22,214 |
| <i>Impairment</i> | | |
| Goodwill | 500 | - |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable on borrowings | 1,799 | 3,389 |
| Interest and finance charges paid/payable on lease liabilities | 17,046 | - |
| Unwinding of the discount on provisions | 85 | 62 |
| Finance costs expensed | 18,930 | 3,451 |
| <i>Net foreign exchange loss</i> | | |
| Net foreign exchange loss | 13 | 6 |
| <i>Net fair value loss</i> | | |
| Net fair value loss on investment properties | 600 | - |
| <i>Cash flow hedge ineffectiveness</i> | | |
| Cash flow hedge ineffectiveness | 4 | 2 |
| <i>Leases</i> | | |
| Minimum lease payments | - | 34,874 |
| Variable lease payments | 1,167 | - |
| Short-term lease payments | 102 | - |
| Low-value assets lease payments | 135 | - |
| | 1,404 | 34,874 |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | 18,089 | 17,629 |
| <i>Research costs</i> | | |
| Research costs | 124 | 107 |
| <i>Write off of assets</i> | | |
| Inventories | 538 | 112 |
| <i>Expenses on investment properties</i> | | |
| Direct operating expenses from property that generated rental income | 61 | 59 |
| Direct operating expenses from property that did not generate rental income | 8 | 3 |
| Total expenses on investment properties | 69 | 62 |

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Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Cash on hand | 123 | 107 |
| Cash at bank | 14,113 | 5,017 |
| Cash on deposit | 11,900 | 400 |
| | <u>26,136</u> | <u>5,524</u> |

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

| | | |
|--------------------------|---------------|--------------|
| Balances as above | 26,136 | 5,524 |
| Bank overdraft (note 26) | - | (1,273) |
| | <u>26,136</u> | <u>4,251</u> |

Note 9. Current assets - trade and other receivables

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Trade receivables | 14,344 | 13,181 |
| Less: Allowance for expected credit losses | (1,062) | (874) |
| | <u>13,282</u> | <u>12,307</u> |
| Other receivables | 60 | 43 |
| Interest receivable | 7 | 4 |
| | <u>13,349</u> | <u>12,354</u> |

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$491,000 in profit or loss in respect of the expected credit losses for the year ended 31 December 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| | Expected credit loss rate | | Carrying amount | | Allowance for expected credit losses | |
|-----------------------|----------------------------------|-------------|------------------------|---------------|---|---------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Consolidated | % | % | \$'000 | \$'000 | \$'000 | \$'000 |
| Not overdue | 1% | 1% | 6,931 | 6,793 | 69 | 68 |
| 0 to 3 months overdue | 5% | 5% | 4,129 | 3,951 | 206 | 198 |
| 3 to 6 months overdue | 10% | 10% | 2,395 | 1,762 | 240 | 176 |
| Over 6 months overdue | 50% | 50% | 1,094 | 863 | 547 | 432 |
| | | | <u>14,549</u> | <u>13,369</u> | <u>1,062</u> | <u>874</u> |

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Note 9. Current assets - trade and other receivables (continued)

Movements in the allowance for expected credit losses are as follows:

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Opening balance | 874 | 50 |
| Additional provisions recognised | 491 | 1,041 |
| Receivables written off during the year as uncollectable | (287) | (209) |
| Unused amounts reversed | (16) | (8) |
| | <u>1,062</u> | <u>874</u> |

Note 10. Current assets - contract assets

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Contract assets | <u>2,617</u> | <u>2,144</u> |

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

| | | |
|---------------------------------|--------------|--------------|
| Opening balance | 2,144 | - |
| Additions | 5,687 | 7,299 |
| Cumulative catch-up adjustments | 1,531 | 1,374 |
| Transfer to trade receivables | (6,745) | (6,529) |
| | <u>2,617</u> | <u>2,144</u> |

Note 11. Current assets - inventories

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Raw materials | 6,817 | 6,081 |
| Work in progress | 16,040 | 17,434 |
| Finished goods | 16,464 | 19,346 |
| Stock in transit | 204 | 187 |
| | <u>39,525</u> | <u>43,048</u> |

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Note 12. Current assets - financial assets at fair value through profit or loss

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Listed ordinary shares - designated at fair value through profit or loss | 82 | - |
| Listed ordinary shares - held for trading | 278 | - |
| | <u>360</u> | <u>-</u> |

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

| | | |
|------------------------|------------|----------|
| Opening fair value | - | - |
| Additions | 310 | - |
| Revaluation increments | 50 | - |
| | <u>360</u> | <u>-</u> |

Refer to note 45 for further information on fair value measurement.

Note 13. Current assets - other

| | Consolidated | |
|----------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Prepayments | 1,110 | 903 |
| Security deposits | 65 | 35 |
| Customer acquisition costs | 1,417 | 1,274 |
| Customer fulfilment costs | 672 | 614 |
| Right of return assets | 671 | 618 |
| | <u>3,935</u> | <u>3,444</u> |

Note 14. Current assets - non-current assets classified as held for sale

| | Consolidated | |
|------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Land | <u>6,000</u> | <u>-</u> |

The vacant land situated at 22 Smith Street, Parramatta NSW is currently for sale and is expected to be sold within five months from the reporting date through an auction process. The proposed development of a head office building on the site has been abandoned and the land is now surplus to requirements.

Note 15. Non-current assets - receivables

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Other receivables | <u>145</u> | <u>145</u> |

The other receivables are due to be repaid by 31 December 2022 and the effect of discounting is considered not to be material. This receivable is not past due nor impaired.

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Note 16. Non-current assets - investments accounted for using the equity method

| | Consolidated | |
|-------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Investment in associate | 34,192 | 30,981 |

Refer to note 55 for further information on interests in associates.

Note 17. Non-current assets - financial assets at fair value through other comprehensive income

| | Consolidated | |
|--------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Unlisted ordinary shares | 170 | - |

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

| | | |
|------------------------|------|---|
| Opening fair value | - | - |
| Additions | 200 | - |
| Disposals | (80) | - |
| Revaluation increments | 50 | - |
| Closing fair value | 170 | - |

Refer to note 45 for further information on fair value measurement.

Note 18. Non-current assets - investment properties

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Investment properties - at independent valuation | 46,900 | 47,500 |

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

| | | |
|------------------------|--------|--------|
| Opening fair value | 47,500 | 46,000 |
| Revaluation increments | - | 1,500 |
| Revaluation decrements | (600) | - |
| Closing fair value | 46,900 | 47,500 |

Refer to note 45 for further information on fair value measurement.

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Note 18. Non-current assets - investment properties (continued)

Lessor commitments

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Minimum lease commitments receivable but not recognised in the financial statements: | | |
| Within one year | 3,580 | 3,442 |
| One to five years | 15,810 | 15,202 |
| More than five years | 4,356 | 8,544 |
| | <u>23,746</u> | <u>27,188</u> |

Note 19. Non-current assets - property, plant and equipment

| | Consolidated | |
|---|---------------------|-----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Land and buildings - at independent valuation | <u>52,500</u> | <u>58,500</u> |
| Leasehold improvements - at cost | 33,585 | 27,185 |
| Less: Accumulated depreciation | <u>(18,401)</u> | <u>(13,120)</u> |
| | 15,184 | 14,065 |
| Plant and equipment - at cost | 105,607 | 100,362 |
| Less: Accumulated depreciation | <u>(56,152)</u> | <u>(44,044)</u> |
| | 49,455 | 56,318 |
| Plant and equipment under lease | - | 6,184 |
| Less: Accumulated depreciation | - | <u>(1,053)</u> |
| | - | 5,131 |
| | <u>117,139</u> | <u>134,014</u> |

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Note 19. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Land and buildings \$'000 | Leasehold improvements \$'000 | Plant and equipment \$'000 | Plant under lease \$'000 | Total \$'000 |
|---|---------------------------------|-------------------------------------|----------------------------------|--------------------------------|-----------------|
| Balance at 1 January 2018 | 56,500 | 17,478 | 69,050 | 3,650 | 146,678 |
| Additions | - | 2,308 | 740 | 2,334 | 5,382 |
| Disposals | - | - | (58) | - | (58) |
| Revaluation increments | 2,000 | - | - | - | 2,000 |
| Depreciation expense | - | (5,721) | (13,414) | (853) | (19,988) |
| Balance at 31 December 2018 | 58,500 | 14,065 | 56,318 | 5,131 | 134,014 |
| Additions | - | 6,400 | 365 | - | 6,765 |
| Additions through business combinations (note 53) | - | - | 6,060 | - | 6,060 |
| Classified as held for sale (note 14) | (6,000) | - | - | - | (6,000) |
| Disposals | - | - | (1,089) | - | (1,089) |
| Transfers in/(out) | - | - | - | (5,131) | (5,131) |
| Depreciation expense | - | (5,281) | (12,199) | - | (17,480) |
| Balance at 31 December 2019 | <u>52,500</u> | <u>15,184</u> | <u>49,455</u> | <u>-</u> | <u>117,139</u> |

Refer to note 45 for further information on fair value measurement.

Land and buildings stated under the historical cost convention

If land and buildings were stated under the historical cost convention, the amounts would be as follows:

| | Consolidated | Consolidated |
|--------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Land and buildings - at cost | 46,000 | 52,000 |
| Less: Accumulated depreciation | (1,059) | (1,007) |
| | <u>44,941</u> | <u>50,993</u> |

Note 20. Non-current assets - right-of-use assets

| | Consolidated | Consolidated |
|------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Land and buildings - right-of-use | 271,636 | - |
| Less: Accumulated depreciation | (37,350) | - |
| | <u>234,286</u> | <u>-</u> |
| Plant and equipment - right-of-use | 126,363 | - |
| Less: Accumulated depreciation | (55,164) | - |
| | <u>71,199</u> | <u>-</u> |
| | <u>305,485</u> | <u>-</u> |

Additions to the right-of-use assets during the year were \$5,521,000.

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Note 20. Non-current assets - right-of-use assets (continued)

The consolidated entity leases land and buildings for its offices, warehouses and retail outlets under agreements of between five to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity also leases plant and equipment under agreements of between three to seven years.

The consolidated entity leases office equipment under agreements of less than two years. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Note 21. Non-current assets - intangibles

| | Consolidated | |
|----------------------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Goodwill | 9,908 | 9,500 |
| Less: Impairment | (500) | - |
| | <u>9,408</u> | <u>9,500</u> |
| Development - at cost | 3,208 | 3,208 |
| Less: Accumulated amortisation | (1,605) | (1,284) |
| | <u>1,603</u> | <u>1,924</u> |
| Patents and trademarks - at cost | 320 | 320 |
| Less: Accumulated amortisation | (224) | (192) |
| | <u>96</u> | <u>128</u> |
| Customer contracts - at cost | 1,250 | - |
| Less: Accumulated amortisation | (229) | - |
| | <u>1,021</u> | <u>-</u> |
| Software - at cost | 108 | 108 |
| Less: Accumulated amortisation | (66) | (44) |
| | <u>42</u> | <u>64</u> |
| | <u><u>12,170</u></u> | <u><u>11,616</u></u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Goodwill \$'000 | Development \$'000 | Patents and trademarks \$'000 | Customer contracts \$'000 | Software \$'000 | Total \$'000 |
|---|--------------------|-----------------------|-------------------------------------|---------------------------------|--------------------|-----------------|
| Balance at 1 January 2018 | 9,500 | 2,245 | 160 | - | 86 | 11,991 |
| Amortisation expense | - | (321) | (32) | - | (22) | (375) |
| Balance at 31 December 2018 | 9,500 | 1,924 | 128 | - | 64 | 11,616 |
| Additions through business combinations (note 53) | 408 | - | - | 1,250 | - | 1,658 |
| Impairment of assets | (500) | - | - | - | - | (500) |
| Amortisation expense | - | (321) | (32) | (229) | (22) | (604) |
| Balance at 31 December 2019 | <u>9,408</u> | <u>1,603</u> | <u>96</u> | <u>1,021</u> | <u>42</u> | <u>12,170</u> |

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Note 21. Non-current assets - intangibles (continued)

Impairment testing

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

| | Consolidated | |
|-----------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Computer retailing | 8,700 | 9,200 |
| Computer distribution | 708 | 300 |
| | <u>9,408</u> | <u>9,500</u> |

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2 year projection period approved by management and extrapolated for a further 3 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the computer retailing division:

- 18% (2018: 18%) pre-tax discount rate;
- 2% (2018: 5%) per annum projected revenue growth rate;
- 5% (2018: 8%) per annum increase in operating costs and overheads.

The discount rate of 18% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the computer retailing division, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 2% revenue growth rate is prudent and justified, based on the general slowing in the market.

Compared to prior years, management have reduced their estimation of the increase in operating costs and overheads, due to the lower inflation rate and also an effort by the consolidated entity to contain costs.

There were no other key assumptions for the computer retailing division.

Based on the above, an impairment charge of \$500,000 has been applied as the carrying amount of goodwill exceeded its recoverable amount for the computer retailing division.

The following key assumptions were used in the discounted cash flow model for the computer distribution division:

- 17% (2018: 18%) pre-tax discount rate;
- 5% (2018: 5%) per annum projected revenue growth rate.

The discount rate of 17% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the computer distribution division, the risk free rate and the volatility of the share price relative to market movements.

Management have estimated a 5% growth in accordance with the acquisition strategy and have no reason to revise this estimation based on current performance.

There were no other key assumptions for the computer distribution division.

Based on the above, the recoverable amount of the computer distribution division exceeded the carrying amount by \$1,250,000.

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Note 21. Non-current assets - intangibles (continued)

Sensitivity

As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- Revenue would need to decrease by more than 1% for the computer distribution division before goodwill would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by 1% for the computer distribution division before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of computer distribution division's goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for the computer retailing division's goodwill.

Note 22. Non-current assets - deferred tax

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Deferred tax asset comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Allowance for expected credit losses | 296 | 247 |
| Property, plant and equipment | 411 | - |
| Contract liabilities | 681 | 641 |
| Employee benefits | 5,850 | 5,699 |
| Leases | 5,899 | 286 |
| Provision for legal claims | 18 | - |
| Provision for lease make good | 512 | 321 |
| Provision for warranties | 961 | 851 |
| Accrued expenses | 343 | 278 |
| Refund liabilities | 296 | 283 |
| | 15,267 | 8,606 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | 270 | 356 |
| Derivative financial instruments | 37 | 32 |
| | 307 | 388 |
| Deferred tax asset | 15,574 | 8,994 |
| <i>Movements:</i> | | |
| Opening balance | 8,994 | 7,885 |
| Credited to profit or loss (note 7) | 6,126 | 672 |
| Credited to equity (note 7) | 5 | 437 |
| Additions through business combinations (note 53) | 449 | - |
| Closing balance | 15,574 | 8,994 |

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Note 23. Non-current assets - other

| | Consolidated | |
|----------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Security deposits | 1,260 | 1,445 |
| Customer acquisition costs | 564 | 517 |
| Customer fulfilment costs | 484 | 443 |
| | <u>2,308</u> | <u>2,405</u> |

Note 24. Current liabilities - trade and other payables

| | Consolidated | |
|----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Trade payables | 18,070 | 15,711 |
| Other payables | 1,934 | 1,595 |
| | <u>20,004</u> | <u>17,306</u> |

Refer to note 44 for further information on financial instruments.

Note 25. Current liabilities - contract liabilities

| | Consolidated | |
|----------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Contract liabilities | <u>2,269</u> | <u>2,135</u> |

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

| | | |
|---|--------------|--------------|
| Opening balance | 2,135 | - |
| Payments received in advance | 1,441 | 2,211 |
| Cumulative catch-up adjustments | 174 | 249 |
| Transfer to revenue - included in the opening balance | (1,141) | - |
| Transfer to revenue - performance obligations satisfied in previous periods | (208) | (178) |
| Transfer to revenue - other balances | <u>(132)</u> | <u>(147)</u> |
| Closing balance | <u>2,269</u> | <u>2,135</u> |

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Note 25. Current liabilities - contract liabilities (continued)

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$3,891,000 as at 31 December 2019 (\$3,507,000 as at 31 December 2018) and is expected to be recognised as revenue in future periods as follows:

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Within 6 months | 1,482 | 1,344 |
| 6 to 12 months | 1,128 | 1,032 |
| 12 to 18 months | 874 | 817 |
| 18 to 24 months | 407 | 314 |
| | 3,891 | 3,507 |
| | 3,891 | 3,507 |

Note 26. Current liabilities - borrowings

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank overdraft | - | 1,273 |
| Bank loans | 4,500 | 2,000 |
| Lease liability | - | 1,337 |
| | 4,500 | 4,610 |
| | 4,500 | 4,610 |

Refer to note 34 for further information on assets pledged as security and financing arrangements.

Refer to note 44 for further information on financial instruments.

Note 27. Current liabilities - lease liabilities

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Lease liability | 22,072 | - |
| | 22,072 | - |

Refer to note 44 for further information on financial instruments.

Note 28. Current liabilities - derivative financial instruments

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Forward foreign exchange contracts - cash flow hedges | 122 | 107 |
| | 122 | 107 |

Refer to note 44 for further information on financial instruments.

Refer to note 45 for further information on fair value measurement.

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Note 29. Current liabilities - income tax

| | Consolidated | |
|--------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Provision for income tax | 6,701 | 2,351 |
| | <u>6,701</u> | <u>2,351</u> |

Note 30. Current liabilities - employee benefits

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Employee benefits | 8,352 | 8,143 |
| | <u>8,352</u> | <u>8,143</u> |

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Employee benefits obligation expected to be settled after 12 months | 1,603 | 1,292 |
| | <u>1,603</u> | <u>1,292</u> |

Note 31. Current liabilities - provisions

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Lease make good | 230 | - |
| Legal claims | 60 | - |
| Warranties | 3,204 | 2,837 |
| | <u>3,494</u> | <u>2,837</u> |

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Legal claims

The provision represents a claim by a customer of the computer retailing division. This claim is expected to be settled in the next financial year and the outcome of this claim is not expected to exceed the amount provided for, based on independent legal advice.

Warranties

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

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Note 31. Current liabilities - provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| Consolidated - 2019 | Lease make good \$'000 | Legal claims \$'000 | Warranties \$'000 |
|--|------------------------------|---------------------------|----------------------|
| Carrying amount at the start of the year | - | - | 2,837 |
| Additional provisions recognised | - | 60 | 503 |
| Amounts transferred from non-current | 230 | - | - |
| Amounts used | - | - | (91) |
| Unused amounts reversed | - | - | (45) |
| | <hr/> | <hr/> | <hr/> |
| Carrying amount at the end of the year | <u>230</u> | <u>60</u> | <u>3,204</u> |

Note 32. Current liabilities - other

| | Consolidated | |
|--------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Accrued expenses | 1,143 | 927 |
| Refund liabilities | 987 | 942 |
| | <hr/> | <hr/> |
| | <u>2,130</u> | <u>1,869</u> |

Note 33. Current liabilities - liabilities directly associated with assets classified as held for sale

| | Consolidated | |
|------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank loans | 4,000 | - |
| | <hr/> | <hr/> |

The liabilities identified above represents the bank loan secured over the vacant land currently for sale. Refer to note 14 for further information.

Note 34. Non-current liabilities - borrowings

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank loans | 19,000 | 19,000 |
| Lease liability | - | 3,437 |
| | <hr/> | <hr/> |
| | <u>19,000</u> | <u>22,437</u> |

Refer to note 44 for further information on financial instruments.

FRS Proprietary General Purpose Pty Limited
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Note 34. Non-current liabilities - borrowings (continued)

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

| | Consolidated | |
|----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank overdraft | - | 1,273 |
| Bank loans | 27,500 | 21,000 |
| | <u>27,500</u> | <u>22,273</u> |

Assets pledged as security

The bank overdraft and loans are secured by first mortgages over the consolidated entity's land and buildings.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Total facilities | | |
| Bank overdraft | 5,000 | 5,000 |
| Bank loans | 40,000 | 25,000 |
| | <u>45,000</u> | <u>30,000</u> |
| Used at the reporting date | | |
| Bank overdraft | - | 1,273 |
| Bank loans | 27,500 | 21,000 |
| | <u>27,500</u> | <u>22,273</u> |
| Unused at the reporting date | | |
| Bank overdraft | 5,000 | 3,727 |
| Bank loans | 12,500 | 4,000 |
| | <u>17,500</u> | <u>7,727</u> |

Note 35. Non-current liabilities - lease liabilities

| | Consolidated | |
|-----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Lease liability | 301,714 | - |
| | <u>301,714</u> | <u>-</u> |

Refer to note 44 for further information on financial instruments.

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Note 36. Non-current liabilities - deferred tax

| | Consolidated | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Deferred tax liability comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss: | | |
| Financial assets at fair value through profit or loss | 15 | - |
| Prepayments | 302 | 228 |
| Development costs | 481 | 577 |
| Customer contracts | 306 | - |
| Net fair value gain on investment properties | 270 | 450 |
| Contract assets | 184 | 89 |
| Customer acquisition costs | 594 | 537 |
| Customer fulfilment costs | 347 | 317 |
| Right of return assets | 201 | 185 |
| | <u>2,700</u> | <u>2,383</u> |
| Amounts recognised in equity: | | |
| Revaluation of property, plant and equipment | 1,950 | 1,950 |
| Revaluation of financial assets at fair value through other comprehensive income | 15 | - |
| | <u>1,965</u> | <u>1,950</u> |
| Deferred tax liability | <u><u>4,665</u></u> | <u><u>4,333</u></u> |
| <i>Movements:</i> | | |
| Opening balance | 4,333 | 2,143 |
| Charged/(credited) to profit or loss (note 7) | (58) | 1,590 |
| Charged to equity (note 7) | 15 | 600 |
| Additions through business combinations (note 53) | 375 | - |
| Closing balance | <u><u>4,665</u></u> | <u><u>4,333</u></u> |

Note 37. Non-current liabilities - employee benefits

| | Consolidated | |
|-------------------|----------------------|----------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Employee benefits | <u><u>11,149</u></u> | <u><u>10,854</u></u> |

Note 38. Non-current liabilities - provisions

| | Consolidated | |
|-----------------|---------------------|---------------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Lease make good | <u><u>1,475</u></u> | <u><u>1,070</u></u> |

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

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Note 38. Non-current liabilities - provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| | Lease make good \$'000 |
|--|------------------------------|
| Consolidated - 2019 | |
| Carrying amount at the start of the year | 1,070 |
| Additional provisions recognised | 550 |
| Amounts transferred to current | (230) |
| Unwinding of discount | 85 |
| | <hr/> |
| Carrying amount at the end of the year | <u>1,475</u> |

Note 39. Equity - issued capital

| | 2019 Shares | Consolidated 2018 Shares | 2019 \$'000 | 2018 \$'000 |
|------------------------------|--------------------|--------------------------------|----------------|----------------|
| Ordinary shares - fully paid | <u>146,910,000</u> | <u>146,800,000</u> | <u>182,953</u> | <u>182,678</u> |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$'000 |
|---|------------------|--------------------|-------------|----------------|
| Balance | 1 January 2018 | 111,800,000 | | 104,922 |
| Issue of shares | [date] | 35,000,000 | \$2.25 | 78,750 |
| Share issue transaction costs, net of tax | [date] | - | \$0.00 | (994) |
| | | | | <hr/> |
| Balance | 31 December 2018 | 146,800,000 | | 182,678 |
| Issue of shares | [date] | 10,000 | \$2.50 | 25 |
| Issue of shares | [date] | 100,000 | \$2.50 | 250 |
| | | | | <hr/> |
| Balance | 31 December 2019 | <u>146,910,000</u> | | <u>182,953</u> |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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Note 39. Equity - issued capital (continued)

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 31 December 2018 Annual Report.

Note 40. Equity - reserves

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Revaluation surplus reserve | 4,095 | 4,095 |
| Financial assets at fair value through other comprehensive income reserve | 35 | - |
| Foreign currency reserve | (769) | (512) |
| Hedging reserve - cash flow hedges | (85) | (75) |
| | <u>3,276</u> | <u>3,508</u> |

Revaluation surplus reserve

The reserve is used to recognise increments and decrements in the fair value of land and buildings, excluding investment properties.

Financial assets at fair value through other comprehensive income reserve

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Revaluation surplus \$'000 | Financial assets at fair value through OCI \$'000 | Foreign currency \$'000 | Hedging \$'000 | Total \$'000 |
|------------------------------|----------------------------------|---|-------------------------------|-------------------|-----------------|
| Balance at 1 January 2018 | 2,835 | - | (294) | (48) | 2,493 |
| Revaluation - gross | 1,800 | - | - | (38) | 1,762 |
| Deferred tax | (540) | - | - | 11 | (529) |
| Foreign currency translation | - | - | (218) | - | (218) |
| Balance at 31 December 2018 | 4,095 | - | (512) | (75) | 3,508 |
| Revaluation - gross | - | 50 | - | (15) | 35 |
| Deferred tax | - | (15) | - | 5 | (10) |
| Foreign currency translation | - | - | (257) | - | (257) |
| Balance at 31 December 2019 | <u>4,095</u> | <u>35</u> | <u>(769)</u> | <u>(85)</u> | <u>3,276</u> |

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Note 41. Equity - retained profits

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Retained profits at the beginning of the financial year | 20,710 | 15,636 |
| Adjustment for change in accounting policy (note 1) | (8,324) | - |
| | <u>12,386</u> | <u>15,636</u> |
| Retained profits at the beginning of the financial year - restated | 12,386 | 15,636 |
| Profit after income tax expense for the year | 27,763 | 22,690 |
| Dividends paid (note 43) | (29,383) | (17,616) |
| | <u>10,766</u> | <u>20,710</u> |

Note 42. Equity - non-controlling interest

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Issued capital | 16,000 | 16,000 |
| Reserves | 455 | 455 |
| Retained profits | 908 | 766 |
| | <u>17,363</u> | <u>17,221</u> |

The non-controlling interest has a 10% (2018: 10%) equity holding in FRS Manufacturing Pty Limited.

Note 43. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Final dividend for the year ended 31 December 2018 (2018: 31 December 2017) of 15 cents (2018: 8 cents) per ordinary share | 22,037 | 11,744 |
| Interim dividend for the year ended 31 December 2019 (2018: 31 December 2018) of 5 cents (2018: 4 cents) per ordinary share | 7,346 | 5,872 |
| | <u>29,383</u> | <u>17,616</u> |

On [date] the directors declared a final dividend for the year ended 31 December 2019 of 17 cents per ordinary share to be paid on [date], a total estimated distribution of \$24,975,000 based on the number of ordinary shares on issue as at [date]. As the dividend was fully franked, there are no income tax consequences for the owners of FRS Proprietary General Purpose Pty Limited relating to this dividend.

Franking credits

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | <u>11,520</u> | <u>10,621</u> |

Note 43. Equity - dividends (continued)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 44. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge between 30% and 80% of anticipated foreign currency transactions for the subsequent 4 months.

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

| | Sell Australian dollars | | Average exchange rates | |
|--------------------------------|-------------------------|--------|------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$'000 | \$'000 | | |
| Buy US dollars | | | | |
| Maturity: | | | | |
| 0 - 3 months | 121 | 89 | 0.9123 | 0.8132 |
| 3 - 6 months | 34 | 23 | 0.9057 | 0.8294 |
| Buy Euros | | | | |
| Maturity: | | | | |
| 0 - 3 months | 274 | 207 | 0.6342 | 0.5861 |
| 3 - 6 months | 86 | 49 | 0.6355 | 0.6082 |
| Buy New Zealand dollars | | | | |
| Maturity: | | | | |
| 0 - 3 months | 182 | 163 | 1.2345 | 1.2643 |
| 3 - 6 months | 107 | 71 | 1.2407 | 1.2847 |

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Note 44. Financial instruments (continued)

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| Consolidated | Assets | | Liabilities | |
|---------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 2019 \$'000 | 2018 \$'000 | 2019 \$'000 | 2018 \$'000 |
| US dollars | 35 | 18 | 64 | 69 |
| Euros | 7 | 21 | 82 | 74 |
| New Zealand dollars | 45 | 32 | 61 | 52 |
| | <u>87</u> | <u>71</u> | <u>207</u> | <u>195</u> |

The consolidated entity had net liabilities denominated in foreign currencies of \$120,000 (assets of \$87,000 less liabilities of \$207,000) as at 31 December 2019 (2018: \$124,000 (assets of \$71,000 less liabilities of \$195,000)). Based on this exposure, had the Australian dollar weakened by 10%/strengthened by 5% (2018: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been \$12,000 lower/\$6,000 higher (2018: \$6,000 lower/\$6,000 higher) and equity would have been \$8,000 lower/\$4,000 higher (2018: \$4,000 lower/\$4,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 31 December 2019 was \$13,000 (2018: loss of \$6,000).

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the consolidated entity to interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value risk. The policy is to maintain approximately 60% of current borrowings at fixed rates using interest rate swaps to achieve this when necessary.

The consolidated entity's bank loans outstanding, totalling \$27,500,000 (2018: \$21,000,000), are principal and interest payment loans. Monthly cash outlays of approximately \$180,000 (2018: \$140,000) per month are required to service the interest payments. An official increase/decrease in interest rates of 100 (2018: 100) basis points would have an adverse/favourable effect on profit before tax of \$275,000 (2018: \$210,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of \$8,500,000 (2018: \$2,000,000) are due during the year ending 31 December 2020 (2018: 31 December 2019).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

The consolidated entity has a credit risk exposure with a major Australian retailer, which as at 31 December 2019 owed the consolidated entity \$10,680,000 (76% of trade receivables) (2018: \$9,510,000 (74% of trade receivables)). This balance was within its terms of trade and no impairment was made as at 31 December 2019. There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

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Note 44. Financial instruments (continued)

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|----------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Bank overdraft | 5,000 | 3,727 |
| Bank loans | 12,500 | 4,000 |
| | <u>17,500</u> | <u>7,727</u> |

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have an average maturity of 3 years (2018: 4 years).

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|---|---|--------------------------|------------------------------------|------------------------------------|------------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 18,070 | - | - | - | 18,070 |
| Other payables | - | 1,934 | - | - | - | 1,934 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Bank loans | 8.20% | 10,407 | 9,710 | 10,931 | - | 31,048 |
| Lease liability | 5.03% | 37,574 | 37,542 | 112,415 | 290,764 | 478,295 |
| Total non-derivatives | | <u>67,985</u> | <u>47,252</u> | <u>123,346</u> | <u>290,764</u> | <u>529,347</u> |
| Derivatives | | | | | | |
| Forward foreign exchange contracts net settled | - | 122 | - | - | - | 122 |
| Total derivatives | | <u>122</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>122</u> |

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Note 44. Financial instruments (continued)

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Remaining contractual maturities \$'000 |
|--|----------------------------------|-----------------------|------------------------------|------------------------------|---------------------|---|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 15,711 | - | - | - | 15,711 |
| Other payables | - | 1,595 | - | - | - | 1,595 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Bank overdraft | 12.80% | 1,355 | - | - | - | 1,355 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Bank loans | 8.20% | 3,640 | 9,710 | 11,095 | - | 24,445 |
| Lease liability | 8.65% | 1,692 | 1,841 | 1,902 | - | 5,435 |
| Total non-derivatives | | 23,993 | 11,551 | 12,997 | - | 48,541 |
| Derivatives | | | | | | |
| Forward foreign exchange contracts net settled | - | 107 | - | - | - | 107 |
| Total derivatives | | 107 | - | - | - | 107 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Hedge accounting

The effects of hedge accounting on the statement of financial position at the reporting date were as follows:

| Consolidated | Nominal amount \$'000 | Carrying amount \$'000 | Change in fair value \$'000 | Hedging reserve \$'000 | Cost of reserve \$'000 |
|--|-----------------------|------------------------|-----------------------------|------------------------|------------------------|
| Forward foreign exchange contracts for purchases at 31 December 2018 | 602 | 107 | (9) | (75) | (20) |
| Forward foreign exchange contracts for purchases at 31 December 2019 | 804 | 122 | 4 | (85) | (19) |

FRS Proprietary General Purpose Pty Limited
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Note 44. Financial instruments (continued)

Movements in hedging reserves by risk category during the current and previous financial year are set out below:

| Consolidated | Spot component \$'000 | Value of options \$'000 | Cost of reserve \$'000 | Total \$'000 |
|---|-----------------------------|-------------------------------|------------------------------|-----------------|
| Balance at 1 January 2018 | (76) | 46 | (18) | (48) |
| Change in fair value of hedging instrument recognised in other comprehensive income | (73) | 64 | - | (9) |
| Costs of hedging deferred and recognised in other comprehensive income | - | - | (17) | (17) |
| Reclassified to the cost of inventory - recognised in other comprehensive income | (24) | - | 14 | (10) |
| Reclassified from other comprehensive income to profit or loss | (2) | - | - | (2) |
| Deferred tax | 29 | (19) | 1 | 11 |
| Balance at 31 December 2018 | (146) | 91 | (20) | (75) |
| Change in fair value of hedging instrument recognised in other comprehensive income | (8) | 12 | - | 4 |
| Costs of hedging deferred and recognised in other comprehensive income | - | - | (15) | (15) |
| Reclassified to the cost of inventory - recognised in other comprehensive income | (20) | - | 16 | (4) |
| Deferred tax | 9 | (4) | - | 5 |
| Balance at 31 December 2019 | <u>(165)</u> | <u>99</u> | <u>(19)</u> | <u>(85)</u> |

Note 45. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

| Consolidated - 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| Assets | | | | |
| Ordinary shares at fair value through profit or loss | 360 | - | - | 360 |
| Ordinary shares at fair value through other comprehensive income | - | - | 170 | 170 |
| Investment properties | - | - | 46,900 | 46,900 |
| Land and buildings | - | - | 58,500 | 58,500 |
| Total assets | <u>360</u> | <u>-</u> | <u>105,570</u> | <u>105,930</u> |
| Liabilities | | | | |
| Forward foreign exchange contracts | - | 122 | - | 122 |
| Total liabilities | <u>-</u> | <u>122</u> | <u>-</u> | <u>122</u> |

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Note 45. Fair value measurement (continued)

| Consolidated - 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------|-------------------|-------------------|-------------------|-----------------|
| <i>Assets</i> | | | | |
| Investment properties | - | - | 47,500 | 47,500 |
| Land and buildings | - | - | 58,500 | 58,500 |
| Total assets | - | - | 106,000 | 106,000 |
| <i>Liabilities</i> | | | | |
| Forward foreign exchange contracts | - | 107 | - | 107 |
| Total liabilities | - | 107 | - | 107 |

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Unquoted investments have been valued using a discounted cash flow model.

The basis of the valuation of investment properties is fair value. The investment properties are revalued annually based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of investment property being valued. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment.

The basis of the valuation of land and buildings is fair value. The land and buildings were last revalued on 31 December 2018 based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of land and buildings being valued. The directors do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

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Note 45. Fair value measurement (continued)

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| Consolidated | Ordinary shares at fair value through OCI \$'000 | Investment properties \$'000 | Land and buildings \$'000 | Total \$'000 |
|--|--|------------------------------------|---------------------------------|-----------------|
| Balance at 1 January 2018 | - | 46,000 | 56,500 | 102,500 |
| Gains recognised in profit or loss | - | 1,500 | - | 1,500 |
| Gains recognised in other comprehensive income | - | - | 2,000 | 2,000 |
| Balance at 31 December 2018 | - | 47,500 | 58,500 | 106,000 |
| Losses recognised in profit or loss | - | (600) | - | (600) |
| Gains recognised in other comprehensive income | 50 | - | - | 50 |
| Additions | 200 | - | - | 200 |
| Disposals | (80) | - | - | (80) |
| Balance at 31 December 2019 | <u>170</u> | <u>46,900</u> | <u>58,500</u> | <u>105,570</u> |

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

| Description | Unobservable inputs | Range (weighted average) | Sensitivity |
|--|------------------------|-----------------------------|--|
| Ordinary shares at fair value through other comprehensive income | Growth rate | 2.5% to 3.5% (3.0%) | 0.25% change would increase/decrease fair value by \$5,000 |
| | Discount rate | 8.0% to 11.0% (9.5%) | 1.00% change would increase/decrease fair value by \$14,000 |
| Investment properties | Rental yield | 7.5% to 9.0% (8.5%) | 0.75% change would increase/decrease fair value by \$352,000 |
| | Rental growth | 1.25% to 2.0% (1.75%) | 0.25% change would increase/decrease fair value by \$117,000 |
| | Long-term vacancy rate | 5.0% to 9.0% (7.5%) | 0.75% change would increase/decrease fair value by \$276,000 |
| | Discount rate | 4.0% to 6.0% (5.25%) | 0.5% change would increase/decrease fair value by \$57,000 |
| Land and buildings | Rental yield | 6.0% to 8.0% (7.5%) | 0.75% change would increase/decrease fair value by \$440,000 |
| | Discount rate | 5.0% to 7.0% (6.25%) | 0.5% change would increase/decrease fair value by \$61,000 |

FRS Proprietary General Purpose Pty Limited
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Note 46. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 1,617,781 | 1,508,452 |
| Post-employment benefits | 129,192 | 111,767 |
| Long-term benefits | 10,059 | 22,776 |
| | <u>1,757,032</u> | <u>1,642,995</u> |

Note 47. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Accounting Firm 123, the auditor of the company, its network firms and unrelated firms:

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services - Accounting Firm 123</i> | | |
| Audit of the financial statements | <u>243,000</u> | <u>230,000</u> |
| <i>Other services - Accounting Firm 123</i> | | |
| Preparation of the tax return | 12,950 | 12,400 |
| Transfer pricing review | <u>5,500</u> | <u>5,000</u> |
| | <u>18,450</u> | <u>17,400</u> |
| | <u>261,450</u> | <u>247,400</u> |
| <i>Audit services - network firms</i> | | |
| Audit of the financial statements | <u>-</u> | <u>15,000</u> |
| <i>Other services - network firms</i> | | |
| Due diligence | - | 22,450 |
| Transfer pricing review | <u>18,000</u> | <u>64,500</u> |
| | <u>18,000</u> | <u>86,950</u> |
| | <u>18,000</u> | <u>101,950</u> |
| <i>Audit services - unrelated firms</i> | | |
| Audit of the financial statements | <u>26,500</u> | <u>23,000</u> |

FRS Proprietary General Purpose Pty Limited
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Note 48. Contingent assets

FRS Manufacturing Pty Limited, a subsidiary, will be paid a success premium of up to \$3,000,000 by Compdesign Partnership, in which it holds a 35% interest, if the rights to a computer manufacturing process are sold to a Korean based company. The likelihood of this proceeding is highly probable. No asset has been recognised within these financial statements.

FRS Manufacturing Pty Limited, a subsidiary, has an outstanding insurance claim with respect to inventory that was damaged in the Queensland floods that occurred during the financial year. An assessment is currently being undertaken by the insurer as to whether it was the cause of a flood or rising waters, which will affect the payout. Because the insurance proceeds are not virtually certain, no asset has been recognised within these financial statements. The inventory of approximately \$400,000 has been written off during the current financial year.

Note 49. Contingent liabilities

During the financial year there was a work related accident involving a member of staff. Although the investigation is still in progress, the directors are of the opinion, based on independent legal advice, that the consolidated entity will not be found to be at fault and any compensation will be covered by the consolidated entity's insurance policy. Accordingly, no provision has been provided within these financial statements.

The consolidated entity has given bank guarantees as at 31 December 2019 of \$3,105,000 (2018: \$2,844,000) to various landlords.

Note 50. Commitments

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Capital commitments</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Investment properties | 170 | 170 |
| Property, plant and equipment | 1,165 | 1,145 |
| Intangible assets | 160 | - |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | - | 35,162 |
| One to five years | - | 155,287 |
| More than five years | - | 314,258 |
| | <u>-</u> | <u>504,707</u> |
| <i>Lease commitments - finance</i> | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | - | 1,692 |
| One to five years | - | 3,743 |
| Total commitment | - | 5,435 |
| Less: Future finance charges | - | (661) |
| Net commitment recognised as liabilities | <u>-</u> | <u>4,774</u> |

Note 51. Related party transactions

Parent entity

FRS Proprietary General Purpose Pty Limited is the parent entity.

FRS Proprietary General Purpose Pty Limited
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Note 51. Related party transactions (continued)

Subsidiaries

Interests in subsidiaries are set out in note 54.

Associates

Interests in associates are set out in note 55.

Key management personnel

Disclosures relating to key management personnel are set out in note 46.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Payment for goods and services: | | |
| Payment for services from associate | 3,397,327 | 3,234,986 |
| Payment for marketing services from BE Promotions Pty Limited (director-related entity of Brad Example) | 81,238 | 67,905 |

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current payables: | | |
| Trade payables to associate | 361,334 | 345,876 |
| Trade payables to BE Promotions Pty Limited (director-related entity of Brad Example) | 7,108 | 6,388 |

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 52. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|---------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Profit after income tax | 29,737 | 21,383 |
| Total comprehensive income | 29,737 | 21,383 |

FRS Proprietary General Purpose Pty Limited
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Note 52. Parent entity information (continued)

Statement of financial position

| | Parent | |
|---|----------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Total current assets | 24,976 | 899 |
| Total assets | 308,810 | 283,025 |
| Total current liabilities | 11,173 | 2,738 |
| Total liabilities | 120,535 | 95,404 |
| Equity | | |
| Issued capital | 182,953 | 182,678 |
| Revaluation surplus reserve | 350 | 350 |
| Financial assets at fair value through other comprehensive income reserve | 35 | - |
| Hedging reserve - cash flow hedges | (85) | (75) |
| Retained profits | 5,022 | 4,668 |
| Total equity | <u>188,275</u> | <u>187,621</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity and some of its subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. No deficiencies of assets exist in any of these subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

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Note 53. Business combinations

On [date] FRS Logistics Pty Limited, a subsidiary of FRS Proprietary General Purpose Pty Limited, acquired 100% of the ordinary shares of FRS CompCarrier Pty Limited (formerly known as CompCarrier Pty Limited) for the total consideration transferred of \$8,230,000. This is a freight business and operates in the computer distribution division of the consolidated entity. It was acquired to better utilise the existing computer distribution division administrative function. The goodwill of \$408,000 represents the expected synergies from merging this business with the computer distribution division and eliminating third party freight costs. The acquired business contributed revenues of \$5,428,000 and profit after tax of \$670,000 to the consolidated entity for the period from [date] to 31 December 2019. If the acquisition occurred on 1 January 2019, the full year contributions would have been revenues of \$5,901,000 and profit after tax of \$729,000. The values identified in relation to the acquisition of CompCarrier are final as at 31 December 2019.

Details of the acquisition are as follows:

| | Fair value \$'000 |
|--|------------------------------|
| Cash and cash equivalents | 3 |
| Trade receivables | 822 |
| Prepayments | 106 |
| Plant and equipment | 6,060 |
| Customer contracts | 1,250 |
| Deferred tax asset | 449 |
| Trade payables | (364) |
| Deferred tax liability | (375) |
| Employee benefits | (129) |
| | <hr/> |
| Net assets acquired | 7,822 |
| Goodwill | 408 |
| | <hr/> |
| Acquisition-date fair value of the total consideration transferred | <u><u>8,230</u></u> |
| Representing: | |
| Cash paid or payable to vendor | <u><u>8,230</u></u> |
| Acquisition costs expensed to profit or loss | <u><u>182</u></u> |
| Cash used to acquire business, net of cash acquired: | |
| Acquisition-date fair value of the total consideration transferred | 8,230 |
| Less: cash and cash equivalents | (3) |
| Less: payments made in prior periods | (155) |
| | <hr/> |
| Net cash used | <u><u>8,072</u></u> |

The fair value of trade receivables is \$822,000. The gross contractual amount for trade receivables due is \$874,000, of which \$52,000 is not expected to be collected.

FRS Proprietary General Purpose Pty Limited
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Note 54. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|-------------------------------------|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| FRS Retailing Pty Limited | Australia | 100.00% | 100.00% |
| FRS Logistics Pty Limited | Australia | 100.00% | 100.00% |
| FRS CompCarrier Pty Limited | Australia | 100.00% | - |
| FRS Retailing International Limited | New Zealand | 100.00% | 100.00% |

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Principal activities | Parent | | Non-controlling interest | |
|------------------------------------|---|---------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | | | Ownership interest 2019 % | Ownership interest 2018 % | Ownership interest 2019 % | Ownership interest 2018 % |
| FRS Manufacturing Pty Limited * | Australia | Computer manufacturing | 90.00% | 90.00% | 10.00% | 10.00% |

* the non-controlling interests hold 25% of the voting rights of FRS Manufacturing Pty Limited

FRS Proprietary General Purpose Pty Limited
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Note 54. Interests in subsidiaries (continued)

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that are material to the consolidated entity are set out below:

| | FRS Manufacturing Pty Limited | |
|--|--------------------------------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| <i>Summarised statement of financial position</i> | | |
| Current assets | 48,800 | 50,443 |
| Non-current assets | 163,318 | 162,342 |
| Total assets | 212,118 | 212,785 |
| Current liabilities | 25,735 | 22,452 |
| Non-current liabilities | 18,183 | 23,047 |
| Total liabilities | 43,918 | 45,499 |
| Net assets | 168,200 | 167,286 |
| <i>Summarised statement of profit or loss and other comprehensive income</i> | | |
| Revenue | 231,564 | 219,870 |
| Expenses | (229,506) | (216,649) |
| Profit before income tax expense | 2,058 | 3,221 |
| Income tax expense | (644) | (935) |
| Profit after income tax expense | 1,414 | 2,286 |
| Other comprehensive income | - | 1,400 |
| Total comprehensive income | 1,414 | 3,686 |
| <i>Statement of cash flows</i> | | |
| Net cash from operating activities | 9,262 | 12,284 |
| Net cash used in investing activities | (7,962) | (11,212) |
| Net cash used in financing activities | (2,500) | (500) |
| Net increase/(decrease) in cash and cash equivalents | (1,200) | 572 |
| <i>Other financial information</i> | | |
| Profit attributable to non-controlling interests | 142 | 229 |
| Accumulated non-controlling interests at the end of reporting period | 17,363 | 17,221 |

Significant restrictions

FRS Manufacturing Pty Limited cannot move its manufacturing location without the prior consent of the non-controlling interests.

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Note 55. Interests in associates

Interests in associates are accounted for using the equity method of accounting. Information relating to associates that are material to the consolidated entity are set out below:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|------------------------|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Compdesign Partnership | Australia | 35.00% | 35.00% |

Summarised financial information

| | Compdesign Partnership | |
|---|------------------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| <i>Summarised statement of financial position</i> | | |
| Current assets | 28,994 | 26,806 |
| Non-current assets | 205,203 | 198,240 |
| Total assets | 234,197 | 225,046 |
| Current liabilities | 19,440 | 16,486 |
| Non-current liabilities | 117,066 | 120,043 |
| Total liabilities | 136,506 | 136,529 |
| Net assets | 97,691 | 88,517 |

Summarised statement of profit or loss and other comprehensive income

| | | |
|----------------------------|----------|----------|
| Revenue | 109,706 | 97,951 |
| Expenses | (96,601) | (87,089) |
| Profit before income tax | 13,105 | 10,862 |
| Income tax expense | (3,931) | (3,259) |
| Profit after income tax | 9,174 | 7,603 |
| Other comprehensive income | - | - |
| Total comprehensive income | 9,174 | 7,603 |

Reconciliation of the consolidated entity's carrying amount

| | | |
|----------------------------------|--------|--------|
| Opening carrying amount | 30,981 | 28,320 |
| Share of profit after income tax | 3,211 | 2,661 |
| Closing carrying amount | 34,192 | 30,981 |

Contingent liabilities

| | Consolidated | |
|--------------------------|----------------|----------------|
| | 2019 \$'000 | 2018 \$'000 |
| Share of bank guarantees | 276 | 266 |

FRS Proprietary General Purpose Pty Limited
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Note 55. Interests in associates (continued)

Commitments

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Share of capital commitments | 175 | 74 |

Significant restrictions

Compdesign Partnership must reduce its bank loans to under \$50,000,000 and achieve pre-determined profit targets before any cash dividends can be distributed.

Note 56. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

FRS Proprietary General Purpose Pty Limited
FRS Retailing Pty Limited
FRS Logistics Pty Limited
FRS CompCarrier Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by FRS Proprietary General Purpose Pty Limited, they also represent the 'Extended Closed Group'.

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Note 56. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Statement of profit or loss and other comprehensive income | | |
| Revenue | 416,134 | 387,501 |
| Other income | 270 | - |
| Interest revenue calculated using the effective interest method | 1,012 | 431 |
| Net gain on derecognition of financial assets at amortised cost | 50 | - |
| Changes in inventories | (2,721) | (670) |
| Raw materials and consumables used | (168,599) | (180,222) |
| Employee benefits expense | (145,202) | (141,854) |
| Depreciation and amortisation expense | (40,588) | (8,456) |
| Impairment of goodwill | (500) | - |
| Impairment of receivables | (491) | (432) |
| Net fair value loss on investment properties | (600) | - |
| Other expenses | (4,942) | (23,019) |
| Finance costs | (17,761) | (561) |
| Profit before income tax expense | 36,062 | 32,718 |
| Income tax expense | (10,846) | (10,327) |
| Profit after income tax expense | 25,216 | 22,391 |
| Other comprehensive income | | |
| Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax | 35 | - |
| Cash flow hedges transferred to profit or loss, net of tax | - | (2) |
| Cash flow hedges transferred to inventory in the statement of financial position, net of tax | (3) | (7) |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | (7) | (18) |
| Other comprehensive income for the year, net of tax | 25 | (27) |
| Total comprehensive income for the year | 25,241 | 22,364 |
| Equity - retained profits | | |
| Retained profits at the beginning of the financial year | 8,138 | 11,687 |
| Profit after income tax expense | 25,216 | 22,391 |
| Dividends paid | (29,383) | (17,616) |
| Retained profits at the end of the financial year | 3,971 | 16,462 |
| Statement of financial position | | |
| Current assets | | |
| Cash and cash equivalents | 25,264 | 3,504 |
| Trade and other receivables | 5,564 | 6,042 |
| Contract assets | 2,617 | 2,144 |
| Inventories | 15,835 | 18,556 |
| Financial assets at fair value through profit or loss | 360 | - |
| Other | 1,621 | 1,256 |
| Non-current assets classified as held for sale | 6,000 | - |
| | 57,261 | 31,502 |

FRS Proprietary General Purpose Pty Limited
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Note 56. Deed of cross guarantee (continued)

| Statement of financial position | 2019 \$'000 | 2018 \$'000 |
|---|------------------------|------------------------|
| Non-current assets | | |
| Receivables | 145 | 145 |
| Financial assets at fair value through other comprehensive income | 170 | - |
| Other financial assets | 149,000 | 149,000 |
| Investment properties | 46,900 | 47,500 |
| Property, plant and equipment | 22,401 | 27,817 |
| Right-of-use assets | 305,485 | - |
| Intangibles | 10,471 | 9,564 |
| Deferred tax | 11,999 | 5,590 |
| Other | 1,922 | 1,769 |
| | <u>548,493</u> | <u>241,385</u> |
| Total assets | <u>605,754</u> | <u>272,887</u> |
| Current liabilities | | |
| Trade and other payables | 21,360 | 20,255 |
| Contract liabilities | 2,269 | 2,135 |
| Borrowings | 500 | 1,806 |
| Lease liabilities | 22,072 | - |
| Derivative financial instruments | 122 | 107 |
| Income tax | 6,701 | 2,351 |
| Employee benefits | 5,314 | 5,230 |
| Provisions | 290 | - |
| Other | 372 | 189 |
| Liabilities directly associated with assets classified as held for sale | 4,000 | - |
| | <u>63,000</u> | <u>32,073</u> |
| Non-current liabilities | | |
| Borrowings | 43,900 | 32,393 |
| Lease liabilities | 301,714 | - |
| Deferred tax | 2,130 | 1,727 |
| Employee benefits | 6,581 | 6,479 |
| Provisions | 1,205 | 800 |
| | <u>355,530</u> | <u>41,399</u> |
| Total liabilities | <u>418,530</u> | <u>73,472</u> |
| Net assets | <u>187,224</u> | <u>199,415</u> |
| Equity | | |
| Issued capital | 182,953 | 182,678 |
| Reserves | 300 | 275 |
| Retained profits | 3,971 | 16,462 |
| | <u>187,224</u> | <u>199,415</u> |
| Total equity | <u>187,224</u> | <u>199,415</u> |

Note 57. Events after the reporting period

Apart from the dividend declared as disclosed in note 43, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

FRS Proprietary General Purpose Pty Limited
Notes to the financial statements
31 December 2019

Note 58. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Profit after income tax expense for the year | 27,905 | 22,919 |
| Adjustments for: | | |
| Depreciation and amortisation | 52,276 | 22,214 |
| Impairment of goodwill | 500 | - |
| Net gain on disposal of non-current assets | (422) | (192) |
| Net fair value gain on other financial assets | (50) | - |
| Net fair value loss/(gain) on investment properties | 600 | (1,500) |
| Share of profit - associates | (3,211) | (2,661) |
| Foreign exchange differences | (269) | (226) |
| Unwinding of the discount on provisions | 85 | 62 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | (173) | 111 |
| Decrease/(increase) in contract assets | (473) | 367 |
| Decrease in inventories | 3,523 | 782 |
| Decrease/(increase) in deferred tax assets | (2,559) | 239 |
| Increase in prepayments | (101) | (168) |
| Increase in other operating assets | (2,382) | (3,976) |
| Increase/(decrease) in trade and other payables | 2,179 | (457) |
| Increase in contract liabilities | 134 | 161 |
| Increase/(decrease) in provision for income tax | 4,350 | (356) |
| Increase/(decrease) in deferred tax liabilities | (58) | 470 |
| Increase in employee benefits | 375 | 283 |
| Increase in other provisions | 427 | 249 |
| Increase in other operating liabilities | 261 | 28 |
| Net cash from operating activities | <u>82,917</u> | <u>38,349</u> |

Note 59. Non-cash investing and financing activities

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Acquisition of plant and equipment by means of leases | - | 2,334 |
| Additions to the right-of-use assets | 5,521 | - |
| Leasehold improvements - lease make good | 550 | - |
| | <u>6,071</u> | <u>2,334</u> |

FRS Proprietary General Purpose Pty Limited
Notes to the financial statements
31 December 2019

Note 60. Changes in liabilities arising from financing activities

| Consolidated | Bank loans \$'000 | Lease liability \$'000 | Total \$'000 |
|---|-------------------------|------------------------------|-----------------|
| Balance at 1 January 2018 | 115,000 | 4,041 | 119,041 |
| Net cash used in financing activities | (94,000) | (1,601) | (95,601) |
| Acquisition of plant and equipment by means of leases | - | 2,334 | 2,334 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2018 | 21,000 | 4,774 | 25,774 |
| Net cash from/(used in) financing activities | 6,500 | (25,385) | (18,885) |
| Leases recognised on the adoption of AASB 16 | - | 338,876 | 338,876 |
| Acquisition of leases | - | 5,521 | 5,521 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2019 | <u>27,500</u> | <u>323,786</u> | <u>351,286</u> |

FRS Proprietary General Purpose Pty Limited
Directors' declaration
31 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 56 to the financial statements.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Daniel Example
Director

24 February 2020
Sydney

FRS Proprietary General Purpose Pty Limited
Independent auditor's report to the members of FRS Proprietary General Purpose Pty Limited

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FRS Proprietary General Purpose Pty Limited
Independent auditor's report to the members of FRS Proprietary General Purpose Pty Limited

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