

Appendix 4E

Preliminary final report

N1 Holdings Limited

ACN: 609 268 279

The following information is provided pursuant to ASX Listing Rule 4.3A.

N1 Holdings Limited (ASX: N1H, **N1** or **Company**) is pleased to provide its preliminary final report for the financial year ended 30 June 2020 (**FY20**) to shareholders.

The financial year has seen significant growth in the Company's unique direct channel of small-to-medium enterprise (**SME**) lending business, comprising amounts lent from the Company's balance sheet and One Lending Fund (**Fund**). The fund is operated through the Company's Asset Management arm, N1 Asset Management, which holds an Australian Financial Services licence (number 477879). The Fund initially issued \$2.1m worth of units on 1 February 2019 and the total funds under management as of 30 June 2020 amounted to \$17.44m (30 June 2019: \$6.2m).

SME lending business captures demand in the market void left by banks retreating from the segment and has become the most prominent revenue driver for the Company, offsetting the foregone revenue from the Finsure aggregated trailbook (sold in August 2019) as well as the decline in real estate and migration revenue due to the property cycle downturn and negative impacts from the COVID-19 pandemic.

Annual revenue of the Company and its controlled entities (together the "group") recorded an increase of 1.9% to \$4.14m (FY19: \$4.06m), among which SME lending related revenue is \$2.29m (FY19: \$1.04m), which represents a 120% increase.

The COVID-19 pandemic since March 2020 has caused significant impact on global economies, and Australia is no exception. The Company has implemented various measures to ensure the health and wellbeing of its staff as well as the viability of all business units. At the same time, the Company's robust risk management framework continues to minimise the adverse impact of the health crisis. The nature of our business poses double-edged challenges in this environment and at times of economic downturn, businesses require more funding. Fortunately, the Company has close to a decade of credit experience, having settled over billions of dollars' worth of loans since inception. The Company possess a unique advantage in the market to be selective and only take on quality borrowers onto its portfolio among the extensive pipeline of enquiries from SME borrowers generally.

Management of the Company made the strategic decision to offload its trailbook in the financial year ended 30 June 2020, putting a brake on loss of value in a tightening regulatory environment correlating to accelerating trail income run off. The focus to move the Company's core business into SME lending has since been prioritised and the result is encouraging as evidenced by its growth. Whilst management is pleased with the exponential growth, the Company acknowledges its success factor lies in a rigid structure of risk management. Notwithstanding the shift of the Company's core business into being a direct SME lender, the Company broking business continues to thrive, and has since re-accumulated new trail income, attaining an asset value of \$298,089, which steadily increases month-on-month.

During FY20, N1 Loans was once again recognised as an innovative leader by industry peers. It was recognised by the MFAA Excellence Awards as a finalist for the Diversified Business Award and Mortgage Professional Australia Top 10 Commercial Brokers of the year.

The grant of additional Australian Financial Services Licence (**AFSL**) authorisations to N1 Venture Pty Limited by ASIC in February 2020 has enabled N1 Asset Management to operate its own wholesale funds, allowing it to reduce its operational costs of engaging a third party trustee services provider. These additional authorisations have also empowered new revenue sources, with the Company now being able to drive new business of being a funds management and trustee services provider. The Company has effectively turned the tables of being a cost-incurring party in the funds management and trustee services sector, to becoming a revenue-generating service provider. Management of the Company in the foreseeable future will implement a set of actions to enter this highly complementary sector.

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The Company steered its growth strategy into business to business (**B2B**) financial advisory services since the previous financial year. Recapping the Company's core business of SME lending, and new revenue sources from (funds management and trustee services), the core target audience of the Company's marketing are businesses of any nature. The targeted B2B audience strategy has undoubtedly contributed to the Company's growth plan.

1. Company details

Name of entity:	N1 Holdings Limited
ACN:	609 268 279
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	1.9% to	4,139,470
Loss from ordinary activities after tax	down	29.3% to	(1,816,685)
Loss for the year	down	29.3% to	(1,816,685)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

During FY20, the Company generated revenue of \$4.14m (FY19: \$4.06m) delivering a net loss of \$1.82m (FY19: loss \$2.57m). Normalised EBITDA with trailbook retainer write offs and other once off costs, has improved to a loss of \$299,309 (FY19: loss of \$628,683). During the financial year the company adopted the new accounting standard of AASB 16, as such the below table has been adjusted to reflect the impact of AASB 16 relating to its 2019 comparatives of depreciation and interest. No dividend was declared during FY20 (FY19: Nil).

	2020 \$	2019 \$
Loss before income tax	(1,850,718)	(2,605,372)
Add: Depreciation and amortisation	632,915	774,240
Add: Interest expense – Corporate*	341,589	252,050
EBITDA	(876,214)	(1,579,082)
Add: Once off legal fee	35,902	-
Add: Once off capital raising cost	60,000	-
Add: Once off loan early repayment cost	136,756	-
Add: AASB16 Impact on lease	-	357,967
Add: Loss for assets classified as held for sale	-	592,432
Add: Loss from write-off of other financial assets	344,248	-
Normalised EBITDA	(299,309)	(628,683)

* Interest expense and interest income from commercial loan receivable are still included in the EBITDA. The EBITDA takes out only the interest expense relating to the corporate, and bank loan for realty rent roll.

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During FY20, the Company's financial services business continued to be the group's major revenue generator, accounting for 85.51% of the total revenue of the group. It is worth noting that 55.28% of the revenue comes from SME lending including management fees from the Fund.

The real estate business generated revenue of \$443,074 representing 10.70% of the group's total revenue and a reduction of 17% compared to FY19. Realty income has declined due to a downturn in the property market triggered by the unprecedented COVID-19 health crisis and increased regulatory intervention in credit provision within the real estate market. Management continues to track the market swiftly, exercising extensive costs management.

N1 Migration generated \$57,880 in revenue representing 1.4% of the group's total revenue. The segment of this business, although miniature, serves as an indirect marketing tool to potential investors seeking yield in AUD denominated assets, such as the mortgage fund managed by N1 Asset Management – One Lending Fund, which further contributes to Company's SME lending growth.

SME lending has brought in the most significant uplift in revenue for the group and has become a major revenue driver for the Company. Total commercial loan origination commissions and SME lending revenue, including interest from loans in the current reporting period, amounted to \$2.29m (FY19: \$1.04m), which represents an increase of 120% on the previous financial year (FY19). The management fees received from One Lending Fund has increased by 389% to \$898,455 in FY20 (FY19: \$183,796).

It is important to note the growth trajectory between the first half of FY20 compared to the second half of FY20, which shows the Company's new core business growth, being SME lending. This also indicates the scalability of the business, which is possible through expanding the Company's lending capacity or increasing its funding size to cater for ever-increasing SME financing demand.

The second half of FY20 has demonstrated the Company's achievement of positive normalised EBITDA. As previously announced on ASX, the Company has committed up to AUD\$25mil into SME lending capital since March 2020 which enabled revenue generation to propel the Company to achieve positive normalised EBITDA.

The promising results in the second half of FY20 demonstrate the potential of SME lending to scale the Company's cashflow, profitability, and revenue growth. It is important that the Company continues its growth through further capital raisings to fulfil the rise in demand of SME debt financing. The Company's core business now stays on course on an easily understood business model while, at the same time, exercising caution, such as requiring borrowers to provide safer forms of collateral, such as first-ranking mortgages over Australian real property.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(1.49)</u>	<u>(1.66)</u>

4. Control gained over entities

Yizhihao (Shanghai) Business Consulting Co., Ltd was incorporated on 8 August 2019, it has been fully owned by the group since incorporation.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$	Previous period \$
1573 Pty Ltd	33.30%	-	-	-
Loan 77 Pty Ltd	50.00%	-	-	-
RN2 Pty Ltd	50.00%	-	-	-
N1X Capital Pty. Ltd.	40.00%	40.00%	-	-
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			-	-
Income tax on operating activities				-

9. Foreign entities

Not applicable.

10. Audit qualification or review

This report is based on accounts which are in the process of being audited. It is not considered likely that any audit qualification will arise.

11. Attachments

Refer to the attached unaudited financial statements and related notes.

12. Signed



Signed

Ren Hor Wong
Executive Chairman and CEO

Date: 31 August 2020

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N1 Holdings Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Revenue	3	4,139,470	4,061,475
Other income	4	347,459	31,542
Expenses			
Consulting and referral fees		(922,239)	(913,576)
Employee cost		(2,474,296)	(2,503,698)
IT and technology		(6,092)	(11,010)
Sales and marketing		(111,846)	(99,682)
Rent and utilities		(108,538)	(487,747)
Professional fee		(394,474)	(374,717)
Office and administrative expense		(231,478)	(238,869)
Finance cost		(1,040,081)	(564,093)
Travel cost		(46,746)	(102,702)
Depreciation and amortisation		(632,915)	(774,240)
Other operation cost		(24,694)	(35,623)
Loss for assets classified as held for sale		-	(592,432)
Loss from write-off of other financial assets		(344,248)	-
Loss before income tax benefit		(1,850,718)	(2,605,372)
Income tax benefit		34,033	34,032
Loss after income tax benefit for the year		(1,816,685)	(2,571,340)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u>(1,816,685)</u>	<u>(2,571,340)</u>
		Cents	Cents
Basic earnings per share	1	(2.2)	(3.2)
Diluted earnings per share	1	(2.2)	(3.2)

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

N1 Holdings Limited
Consolidated statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents		2,781,579	919,532
Trade and other receivables	5	474,423	283,585
Contract assets	6	116,141	91,566
Short-term loan receivables	8	5,478,000	2,752,500
Other financial assets	7	421,507	421,507
Assets held for sale	9	-	2,384,525
Other current assets		81,491	54,650
Total current assets		<u>9,353,141</u>	<u>6,907,865</u>
Non-current assets			
Contract assets	6	181,948	121,273
Investments in associate and joint venture	10	150	40
Other investments	11	172,048	-
Property, plant and equipment	12	2,024,254	293,354
Deferred tax assets		163,185	839,775
Intangible assets	13	1,340,100	1,591,185
Other non-current assets		247,357	236,783
Total non-current assets		<u>4,129,042</u>	<u>3,082,410</u>
Total assets		<u>13,482,183</u>	<u>9,990,275</u>
Liabilities			
Current liabilities			
Trade and other payables		499,173	409,764
Contract liabilities		6,196	216,248
Loan and borrowings	14	6,439,930	3,770,103
Lease liabilities	15	332,254	-
Deferred income		67,618	172,845
Provisions		121,970	150,697
Total current liabilities		<u>7,467,141</u>	<u>4,719,657</u>
Non-current liabilities			
Contract liabilities		9,706	53,483
Loan and borrowings	14	5,965,853	4,091,681
Lease liabilities	15	1,410,984	-
Deferred tax liabilities		163,185	839,775
Provisions		82,511	52,159
Total non-current liabilities		<u>7,632,239</u>	<u>5,037,098</u>
Total liabilities		<u>15,099,380</u>	<u>9,756,755</u>
Net assets/(liabilities)		<u>(1,617,197)</u>	<u>233,520</u>
Equity			
Issued capital		5,654,061	5,688,093
Reserves	16	206,524	206,524
Retained earnings		(7,477,782)	(5,661,097)
Total equity/(deficiency)		<u>(1,617,197)</u>	<u>233,520</u>

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

N1 Holdings Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

Consolidated	Issued capital \$	Reserves \$	Retained profits \$	Total equity \$
Balance at 1 July 2018	5,722,125	206,884	(3,666,371)	2,262,638
Impact of adoption of AASB 15	-	-	576,614	576,614
Balance at 1 July 2018 - restated	5,722,125	206,884	(3,089,757)	2,839,252
Loss after income tax benefit for the year	-	-	(2,571,340)	(2,571,340)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,571,340)	(2,571,340)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	(360)	-	(360)
Recovery of deferred tax on IPO cost	(34,032)	-	-	(34,032)
Balance at 30 June 2019	<u>5,688,093</u>	<u>206,524</u>	<u>(5,661,097)</u>	<u>233,520</u>
	Issued capital \$	Reserves \$	Retained profits \$	Total deficiency in equity \$
Balance at 1 July 2019	5,688,093	206,524	(5,661,097)	233,520
Loss after income tax benefit for the year	-	-	(1,816,685)	(1,816,685)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,816,685)	(1,816,685)
<i>Transactions with owners in their capacity as owners:</i>				
Recovery of deferred tax on IPO cost	(34,032)	-	-	(34,032)
Balance at 30 June 2020	<u>5,654,061</u>	<u>206,524</u>	<u>(7,477,782)</u>	<u>(1,617,197)</u>

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

N1 Holdings Limited
Consolidated statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		4,237,433	4,437,516
Receipt of government incentive for COVID-19		252,246	-
Interest received from bank deposit		13,880	9,126
Net proceeds from disposal of trail book		1,790,887	-
Payments to suppliers and employees		(4,741,486)	(5,534,531)
Net increase in fund lent as commercial loans		(2,725,500)	(1,058,500)
Net Increase in fund received for commercial loans		5,070,000	2,843,452
Interest and other finance costs paid for commercial loans		(530,397)	(312,043)
Net cash from operating activities		<u>3,367,063</u>	<u>385,020</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(76,526)	(10,524)
Purchase of Intangible assets	13	-	(72,178)
Investment in other financial assets		(113,335)	(421,507)
Investment in associates and joint ventures		(110)	-
Loans to related parties		(1,085)	-
Net cash used in investing activities		<u>(191,056)</u>	<u>(504,209)</u>
Cash flows from financing activities			
Proceeds from borrowings and loans		1,261,262	530,000
Repayment of borrowings and loans		(1,773,762)	(256,410)
Payment of finance cost and interest		(468,592)	(230,801)
Repayment of other financial liability		(15,387)	(12,942)
Repayment of lease liabilities and interest expense		(317,481)	-
Net cash from/(used in) financing activities		<u>(1,313,960)</u>	<u>29,847</u>
Net increase/(decrease) in cash and cash equivalents		1,862,047	(89,342)
Cash and cash equivalents at the beginning of the financial year		<u>919,532</u>	<u>1,008,874</u>
Cash and cash equivalents at the end of the financial year		<u><u>2,781,579</u></u>	<u><u>919,532</u></u>

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

Note 1. Earnings per share

	Consolidated	Consolidated
	2020	2019
	\$	\$
Loss after income tax	<u>(1,816,685)</u>	<u>(2,571,340)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>81,555,573</u>	<u>81,555,573</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,555,573</u>	<u>81,555,573</u>
	Cents	Cents
Basic earnings per share	(2.2)	(3.2)
Diluted earnings per share	(2.2)	(3.2)

Note 2. Operating segments

Identification of reportable operating segments

The Group is organised into four operating segments: financial services, real estate services, migration services and other. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Financial services

This segment refers to the operating activities in the area of financial service business mainly including:

- Mortgage broking
- Commercial loan lending
- Fund trustee and management services

The Group acts as a mortgage broker that provides its customer with advice and support and receives commission payments on residential loans originated through its network of customers.

The Group lends privately raised funds and capital available on its balance sheet to commercial borrowers and earns in return loan fees and interest from those lending activities.

The Group acts as a commercial loan broker and receives commission payments on commercial loans that it originates.

Real estate services

The Group conducts real estate services through N1 Realty Pty Ltd and Sydney Boutique Properties Pty Ltd. The services currently are focused on rental property management and property sales agent service.

Migration services

The Group provides migration services to its customers through N1 Migration Pty Ltd which holds a migration agent licence.

Other segments represent the services provided by the Group other than the above three categories, like revenue from investment activities.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Note 2. Operating segments (continued)

Operating segment information

	<i>Financial services</i>	<i>Real estate services</i>	<i>Migration services</i>	<i>Other</i>	<i>Total</i>
Consolidated - 2020	\$	\$	\$	\$	\$
Revenue					
Revenue	3,539,465	443,073	57,880	99,051	4,139,469
Interest	11,434	1,212	30	1,204	13,880
Other income	233,579	11,615	19,000	69,386	333,580
Total revenue	<u>3,784,478</u>	<u>455,900</u>	<u>76,910</u>	<u>169,641</u>	<u>4,486,929</u>
Segment operating profit/(loss) before income tax	(413,924)	(76,502)	(51,524)	(1,308,768)	(1,850,718)
Loss before income tax benefit	<u>(413,924)</u>	<u>(76,502)</u>	<u>(51,524)</u>	<u>(1,308,768)</u>	<u>(1,850,718)</u>
Income tax benefit					34,033
Loss after income tax benefit					<u>(1,816,685)</u>
<i>Material items include:</i>					
Depreciation and amortisation expense	260,895	232,751	-	139,269	632,915
Interest expense	700,866	46,977	139	292,099	1,040,081
Assets					
Segment assets	10,765,150	2,481,283	29,945	205,805	13,482,183
Total assets					<u>13,482,183</u>
Liabilities					
Segment liabilities	13,166,042	4,510,506	98,246	(2,675,414)	15,099,380
Total liabilities					<u>15,099,380</u>

Note 2. Operating segments (continued)

	<i>Financial services</i>	<i>Real estate services</i>	<i>Migration services</i>	<i>Other</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Consolidated - 2019					
Revenue					
Revenue	3,380,665	531,524	145,117	4,169	4,061,475
Interest	6,457	-	148	2,520	9,125
Other income	11,766	21	-	10,630	22,417
Total revenue	3,398,888	531,545	145,265	17,319	4,093,017
Loss for assets classified as held for sale	(592,432)	-	-	-	(592,432)
Segment operating profit/(loss) before income tax	(357,736)	(834,438)	12,643	(833,409)	(2,012,940)
Profit/(loss) before income tax benefit	(950,168)	(834,438)	12,643	(833,409)	(2,605,372)
Income tax benefit					34,032
Loss after income tax benefit					(2,571,340)
<i>Material items include:</i>					
Depreciation and amortisation expense	42,575	664,261	-	67,404	774,240
Interest expense	108,568	56,566	78	398,881	564,093
Assets					
Segment assets	6,995,506	1,044,737	53,208	1,896,824	9,990,275
Total assets					9,990,275
Liabilities					
Segment liabilities	9,249,051	2,997,457	69,986	(2,559,739)	9,756,755
Total liabilities					9,756,755

Note 3. Revenue

Disaggregation of revenue

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

	Consolidated	
	2020	2019
	\$	\$
Mortgage brokering origination commission	998,020	915,793
Mortgage brokering trail commission	155,256	1,297,972
Net movement in trail commission asset valuation	72,740	-
Commercial lending fee and interest	2,288,449	1,041,900
Real estate service	443,074	531,524
Migration service	57,880	145,117
Other service	124,051	129,169
	4,139,470	4,061,475
<i>Geographical regions</i>		
Australia	4,139,470	4,061,475
International	-	-
	4,139,470	4,061,475

Note 3. Revenue (continued)

Timing of revenue recognition

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The analysis of the revenue recognition point is as below:

	2020 <i>At point in time</i> \$	2020 <i>Over time</i> \$	2019 <i>At point in time</i> \$	2019 <i>Over time</i> \$
Mortgage origination commission	998,020	-	915,793	-
Trail commission	227,996	-	1,297,972	-
Commercial lending fee and interest	1,504,595	783,854	512,618	529,282
Real Estate service	62,629	380,445	132,018	399,506
Migration service	57,880	-	145,117	-
Other service	124,051	-	129,169	-
	<u>2,975,171</u>	<u>1,164,299</u>	<u>3,132,687</u>	<u>928,788</u>

AASB 15 Revenue from Contracts with Customers

Mortgage broking

The Group provides a service of introducing applicants to lenders as part of the process to originate a loan and receive commissions for the service provided. The service activities that form part of this process are interrelated and interdependent of each other and form a single performance obligation. The Group recognise commission as revenue upon the settlement of loans when the performance obligation is completed.

The deferral of some of the commission as a trailing commission is a mechanism by which the lender is incentivising the broker to introduce quality applicants that will not refinance their loans and therefore maximise the life of the loan. This mechanism affects the transaction price, but it does not give rise to a separate performance obligation. As a result, trailing commission is also recognised as revenue upon settlement of loans and at the same time, the right to trailing commission is now recognised as a contract asset on balance sheet (where it was classified under trade and other receivable in prior period report). The contract asset will only become a financial asset (i.e. a receivable) when the right to the consideration is unconditional. This is expected to be as each month's entitlement to the trailing commission is established when an invoice is raised to the aggregator.

The Group recognises trailing commission as revenue only if it is highly probable that a change in the estimate of the variable consideration would not result in a significant reversal of the cumulative revenue already recognised.

The upfront origination commission was recognised at its transactions price and the trailing commission is recognised by using expected value approach constrained by avoiding possible future downward revenue adjustments (i.e., revenue reversals).

The Group is a principal because it controls its service activities during the loan application process and entitled to gross commissions from lenders/aggregators. As a result the revenue for commission earned is presented on a gross basis. The portion payable to commission-based brokers is recorded separately and recognised as trail commission liabilities at reporting date.

Commercial loan lending service

The Group enters into contracts with investors to lend privately raised funds to commercial borrowers. Under these contracts, the Group provides loan services and earns commercial lending fees and interest from those lending activities. Commercial lending fees are recognised in revenue upon completion of establishment of a loan with a customer. Interest income generated from the commercial lending is recognised when it is earned from the loan lent to customers.

The Group is a principal because it controls its service activities during the lending process and entitled to gross commissions from borrowers. Therefore, the revenue for lending fee and interest earned is presented on a gross basis.

Note 3. Revenue (continued)

Real estate service

The Group enters into contracts with its customers to manage and/or sell, on their behalf, of properties. Under these contracts, the Group provides rental management and/or selling agent services (i.e., coordinating the selection of suitable tenants/purchasers and managing the rental and selling of the properties).

As a result, the Group receives property management fees which are based on a percentage of rental collected on behalf the landlords. Income is recognised in the period the service has been rendered. In terms of the real estate selling agent services, the Group receives commissions and fees derived from real estate sales. They are recognised at the time of unconditional exchange of contracts between vendors and purchasers.

The Group is a principal because it controls its service activities during the property management and real estate sales process and entitled to gross commissions from landlords/sellers. Therefore, the revenue for commissions earned are presented on a gross basis.

Render of other service (including migration service)

Revenue from the rendering of services is recognised in the accounting period in which the services are rendered. For fixed-price services, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

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

The Group controls its services during the service rendering process and is a principal. It is entitled to gross commissions from applicants. Therefore, the revenue for commission earned is presented on a gross basis.

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.

Other revenue

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

Note 4. Other income

	Consolidated	
	2020	2019
	\$	\$
Gain from revaluation of financial asset	58,713	-
Receipt of government incentive for COVID-19	252,246	-
Other income	22,620	22,417
Interest	13,880	9,125
	<u>347,459</u>	<u>31,542</u>
Other income	<u>347,459</u>	<u>31,542</u>

Note 5. Trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Commission receivables	453,433	231,015
Agent commission clawback receivable	20,990	52,570
	<u>474,423</u>	<u>283,585</u>

Trade and other receivables are initially recognised at their transaction price (as defined in AASB 15) and subsequently measured at amortised cost (on the basis that the Group's business model is to hold and collect contractual cash flow and solely for payments of trade and other receivables).

The impairment assessment required by AASB 9 for financial assets are based on a forward-looking expected credit loss ('ECL') model.

Simplified approach is adopted to assess the impairment of trade and other receivables. Under simplified approach, life time expected credit loss estimated based on historical incurred and forward expected credit loss will both be examined and assessed to determine the amount of impairment as at reporting date. Specifically, the Group will apply credit loss factors determined from estimation of customer default probability and loss percentage on current observable data which may include:

- forecasts of economic conditions such as unemployment, interest rates, gross domestic product and inflation;
- financial difficulties of a counterparty or probability that a counterparty will enter bankruptcy; and
- conditions specific to the asset to which the receivable relates.

Debts that are known to be uncollectable are written off when identified.

Credit risk

The group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. On a geographic basis, the group has significant credit risk exposures in Australia only.

The group has assessed that there are no trade and other receivables that are impaired at year end (30 June 2019: nil). As at 30 June 2020, the amount of all trade and other receivables past due is \$208,420 (2019: \$39,654).

Note 6. Contract assets

	Consolidated	
	2020	2019
	\$	\$
Contract assets - current	<u>116,141</u>	<u>91,566</u>
	<u>181,948</u>	<u>121,273</u>

The contract asset relates to future trailing income. It is recognised and measured by using expected value approach. The contract asset will only become a financial asset (i.e. a receivable) when the right to the consideration is unconditional. This is expected to be as each month's entitlement to the trailing commission is established when an invoice is raised to the aggregator.

Note 6. Contract assets (continued)

	2020 \$
Reconciliation of the contract assets at the beginning and end of the current financial year are set out below:	
Opening balance	212,839
Expected trail commission from new loans since 1 July 2019 and commissions step up	313,246
Trail commission received	<u>(227,996)</u>
	<u>298,089</u>
	2019
Opening balance	3,387,542
Expected trail commission from new loans since 1 July 2018 and commissions step up	1,276,386
Trail commission received	(1,297,972)
Trail commission assets classified as held for sale	(2,384,525)
Loss for assets classified as held for sale	<u>(768,592)</u>
	<u>212,839</u>

Note 7. Other financial assets

	Consolidated	
	2020	2019
	\$	\$
Short-term financial assets investment	<u>421,507</u>	<u>421,507</u>

Other financial assets represents investment loan receivable and they are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the loan (as defined in para 5.1.1 in AASB 9) and subsequently measured at amortised cost (on the basis that the Group's business model is to hold and collect contractual cash flow and solely for payments of principals and interest on principal amount outstanding (as defined in para 4.1.2 in AASB 9).

Note 8. Short-term loan receivables

	Consolidated	
	2020	2019
	\$	\$
Short-term loan receivables	<u>5,478,000</u>	<u>2,752,500</u>

The Group raised funds to lend money to commercial entities on a short-term basis and earns the interest as income.

The short-term loan balance represented the outstanding amounts owed from commercial borrowing customers.

Loan receivables are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the loan (as defined in para 5.1.1 in AASB 9) and subsequently measured at amortised cost (on the basis that the Group's business model is to hold and collect contractual cash flow and solely for payments of principals and interest on principal amount outstanding (as defined in para 4.1.2 in AASB 9).

The impairment assessment required by AASB 9 for financial assets are based on a forward-looking expected credit loss ('ECL') model.

Note 8. Short-term loan receivables (continued)

The general approach is adopted to assess the impairment of loan receivables.

Under the general approach, 12 month's credit losses or life time credit losses are estimated based on whether the credit risk on that financial instrument (loan receivables) has increased significantly since initial recognition to determine the amount of impairment as at reporting date. Specifically, if the credit risk has not increased significantly since initial recognition, then a loss allowance equal to 12 month's credit losses should be measured and recognised otherwise life time expected credit losses should be measured and recognised. The group will apply credit loss factors determined from estimation of customer default probability and loss percentage.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Group recognises loss allowances at an amount equal to lifetime (normally less than 12 months) ECL on loan receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the loan receivable and are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Consolidated Entity expects to receive).

The Group analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate ECL. Other current observable data may include:

- forecasts of economic conditions such as unemployment, interest rates, gross domestic product and inflation;
- financial difficulties of a counterparty or probability that a counterparty will enter bankruptcy; and
- conditions specific to the asset to which the receivable relates.

Debts that are known to be uncollectable are written off when identified.

Note 9. Assets held for sale

	Consolidated	
	2020	2019
	\$	\$
Assets held for sale	-	<u>2,384,525</u>

Assets held for sale relate to contract assets that generate trail commission for the Group. The Group sold the trail book in August 2019 to focus more on their long-term strategic developments such as the commercial loan lending business.

The total net loss on sale of the trail book is \$936,680. This includes the loss of \$592,432 on assets classified as held for sale which was recognised in 2019 financial year, as well as \$344,248 loss on receivable write-off for the 15% retention on sales of trail book which is recognised in current year.

Note 10. Investments in associate and joint venture

	Consolidated	
	2020	2019
	\$	\$
Investment in associate 1573 Pty Ltd	10	-
Investment in associate N1X Capital Pty. Ltd.	40	40
Investment in joint venture Loan 77 Pty Ltd	50	-
Investment in joint venture RN2 Pty Ltd	50	-
	<u>150</u>	<u>40</u>

Investment in associates and joint ventures are accounted for using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition. The Group's share of the investee's profit or loss is recognised in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The Group's share of those changes is recognised in other comprehensive income.

Note 11. Other investments

	Consolidated	
	2020	2019
	\$	\$
Investment in Stropro Technologies Pty Ltd	158,713	-
Investment in Vaikuntha Pty Ltd	13,335	-
	<u>172,048</u>	<u>-</u>

Other investments are financial assets at fair value through profit or loss which are equity interests owned by the Group. They are initially measured at fair value with subsequent changes in fair value recognised in profit or loss.

Note 12. Property, plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Office equipment	94,879	74,283
Less: Accumulated depreciation	<u>(71,431)</u>	<u>(55,027)</u>
	<u>23,448</u>	<u>19,256</u>
Motor vehicles	74,329	74,329
Less: Accumulated depreciation	<u>(52,417)</u>	<u>(45,113)</u>
	<u>21,912</u>	<u>29,216</u>
Furniture & fittings	586,041	530,109
Less: Accumulated depreciation	<u>(335,820)</u>	<u>(285,227)</u>
	<u>250,221</u>	<u>244,882</u>
Office - right-of-use	2,036,204	-
Less: Accumulated depreciation	<u>(307,531)</u>	<u>-</u>
	<u>1,728,673</u>	<u>-</u>
	<u><u>2,024,254</u></u>	<u><u>293,354</u></u>

Plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment. In the event that the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount. Impairment losses are recognised in profit or loss.

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.

Depreciation

The depreciable amount of all plant and equipment and is depreciated on a diminishing basis over the asset's useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Currently the depreciation rate is in the range of 10% to 20%.

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 Group 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.

Movements in Carrying amounts

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

Note 12. 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	<i>Office Equipment</i> \$	<i>Motor Vehicles</i> \$	<i>Furniture & Fittings</i> \$	<i>Office - right- of-use</i> \$	<i>Total</i> \$
Balance at 1 July 2018	19,211	38,954	307,879	-	366,044
Additions	10,524	-	-	-	10,524
Depreciation expense	<u>(10,479)</u>	<u>(9,738)</u>	<u>(62,997)</u>	-	<u>(83,214)</u>
Balance at 30 June 2019	19,256	29,216	244,882	-	293,354
Additions by application of AASB16	-	-	-	657,552	657,552
Additions	20,596	-	55,931	1,378,652	1,455,179
Depreciation expense	<u>(16,404)</u>	<u>(7,304)</u>	<u>(50,592)</u>	<u>(307,531)</u>	<u>(381,831)</u>
Balance at 30 June 2020	<u>23,448</u>	<u>21,912</u>	<u>250,221</u>	<u>1,728,673</u>	<u>2,024,254</u>

The motor vehicles were acquired via finance lease.

The Group entered into a new 5 year office lease with WHL Pty Limited starting from 15 September 2020. The rental premises is at 77 King Street, Sydney, 2000.

AASB 16 Lease - Adoption of new accounting standards

The Group has adopted AASB 16 from 1 July 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.

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 was \$nil. A reconciliation from lease commitments as reported in prior year financial report to balances of lease liabilities and right of use assets as at 1 July 2019 upon initial application of AASB 16 is as below:

	<i>1 July 2019</i>
Operating lease commitments as at 1 July 2019 (AASB 117)	635,669
True-up of variable lease payment in relation with indexation	72,554
Discount (based on the incremental borrowing rate)	<u>(50,671)</u>
Right-of-use assets (AASB 16)	<u>657,552</u>
Lease liabilities - current (AASB 16)	292,965
Lease liabilities - non-current (AASB 16)	<u>364,587</u>
	<u>657,552</u>

Note 12. Property, plant and equipment (continued)

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is 4.765%. The rate is determined by referring to the interest rate of the group's existing loan and for similar terms. Lease terms are based on signed agreement.

Note 13. Intangible assets

	Consolidated	
	2020	2019
	\$	\$
Goodwill	536,216	536,216
Rent roll	2,217,048	2,217,048
Less: Accumulated amortisation	(1,460,142)	(1,240,377)
	<u>756,906</u>	<u>976,671</u>
Website and IT system	328,957	328,957
Less: Accumulated amortisation	(281,979)	(250,659)
	<u>46,978</u>	<u>78,298</u>
	<u><u>1,340,100</u></u>	<u><u>1,591,185</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	<i>Goodwill (a)</i>	<i>Rent Roll (b)</i>	<i>Website and IT system (c)</i>	<i>Total</i>
	\$	\$	\$	\$
Balance at 1 July 2018	536,216	1,557,675	116,141	2,210,032
Additions	-	61,678	10,500	72,178
Amortisation/written-down	-	(642,682)	(48,343)	(691,025)
Balance at 30 June 2019	536,216	976,671	78,298	1,591,185
Amortisation/written-down	-	(219,765)	(31,320)	(251,085)
Balance at 30 June 2020	<u><u>536,216</u></u>	<u><u>756,906</u></u>	<u><u>46,978</u></u>	<u><u>1,340,100</u></u>

a) Goodwill

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

Critical accounting estimates and judgements – Key assumptions used for value-in-use calculations

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ("CGU") is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period and extrapolated to five years. The following table sets out the key assumptions for the impairment testing of the goodwill. The goodwill balance at the reporting date only relates the real estate services segment.

Note 13. Intangible assets (continued)

Growth rate: 3% Growth rate is based on management's estimated inflation rate.
Pre-tax discount rate: 8% Pre-tax discount rate reflects the specific risks relating to the real estate agency industry in Australia.
Terminal value: Terminal value is based on the third year budgeted net cash flow, the pre-tax discount rate of 8% and the growth rate of 3%.

b) Rent Roll Assets

	Consolidated	
	2020	2019
	\$	\$
Rent Roll – Cost	2,217,048	2,217,048
Rent Roll – Written-down	<u>(1,460,142)</u>	<u>(1,240,377)</u>
Rent Roll – Net	<u>756,906</u>	<u>976,671</u>

Rent rolls are accounted for as an intangible asset with a finite life in accordance with AASB 138 (Intangible Assets). They are initially recognised at cost and subsequently written down to their recoverable value at each reporting period, with reference to the reduction in rent under management times industry resale multiple being 2-5 times.

c) Website and IT System

	Consolidated	
	2020	2019
	\$	\$
Website and IT system – Cost	328,957	328,957
Website and IT system – Accumulated amortisation	<u>(281,979)</u>	<u>(250,659)</u>
Website and IT system – Net	<u>46,978</u>	<u>78,298</u>

Acquired website and computer software licences are capitalised on the basis of costs incurred to acquire them.

These costs are amortised over their estimated useful lives. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is recognised in the profit and loss statement on a diminishing basis over the estimated useful life of the intangible assets from the date that they are considered suitable for use. The estimated useful life of website and IT system is 5 years. The current amortisation charges for website and IT system are included under depreciation and amortisation expenses.

Note 14. Loan and borrowings

	<i>Consolidated</i>	<i>Consolidated</i>
	<i>2020</i>	<i>2019</i>
	<i>\$</i>	<i>\$</i>
Current		
Bank loan (i)	52,390	56,410
Loan received for commercial lending (ii)	5,450,000	2,820,192
Convertible debt (iii)	370,000	-
Loan from other lenders (iv)	530,000	880,000
Finance lease payable - current	<u>37,540</u>	<u>13,501</u>
	<u>6,439,930</u>	<u>3,770,103</u>

Note 14. Loan and borrowings (continued)

	<i>Consolidated</i> 2020 \$	<i>Consolidated</i> 2019 \$
Non-current		
Bank loan (i)	785,853	824,141
Loan received for commercial lending (ii)	3,400,000	1,630,000
Convertible debt (iii)	1,000,000	1,370,000
Loan from other lenders (iv)	780,000	230,000
Finance lease payable - non-current	-	37,540
	<u>5,965,853</u>	<u>4,091,681</u>

i) The bank loan borrowed from National Australia Bank was renewed in May 2020. The repayment term of the loan is 3 years expiring 31 March 2023. Due to COVID-19, the repayment has been stopped and is to re-commence from February 2021. The interest is 3.8% per annum with principal and interest repayments in accordance with the amended loan agreement. The loan is secured by the Sydney Boutique Property rent roll. The outstanding loan balance as at 30 June 2020 is \$838,243 (30 June 2019: \$880,551).

ii) Loan received for commercial lending is the funds being raised for commercial loan lending to customers. They are unsecured. Key information of these loans are detailed in the table below.

	<i>Repayment term</i>	<i>Drawdown amount</i>	<i>Drawdown date</i>	<i>Balance at 30/06/2020</i>	<i>Interest rate (per annum)</i>
Private loan batch#1	1 year **	100,000	21/10/2019	100,000	8.00%
Private loan batch#2	6 months rolling **	2,000,000	01/10/2019	2,000,000	6.00%
Private loan batch#3	6 months rolling **	1,000,000	15/11/2019	1,000,000	6.00%
Private loan batch#4	3 months rolling **	500,000	01/11/2019	500,000	10.00%
Private loan batch#5	2 years and 4 months **	300,000	01/11/2018	300,000	10.00%
Private loan batch#6	2 years **	100,000	01/04/2019	100,000	10.00%
Private loan batch#7	4 months**	800,000	27/03/2020	800,000	10.00%
Private loan batch#8	6 months**	250,000	04/06/2020	250,000	6.00%
Private loan batch#9	4 years **	200,000	01/08/2018	200,000	10.00%
Private loan batch#10	4 years **	300,000	01/08/2018	300,000	10.00%
Private loan batch#11	3 years **	300,000	23/11/2018	300,000	10.00%
Private loan batch#12	2 years **	300,000	09/05/2019	300,000	10.00%
Private loan batch#13	2 years **	100,000	09/05/2019	100,000	10.00%
Private loan batch#14	3 years **	1,100,000	01/11/2018	1,100,000	10.00%
Private loan batch#15	2 years **	200,000	22/11/2019	200,000	10.00%
Private loan batch#16	2 years **	300,000	03/12/2019	300,000	10.00%
Private loan batch#17	2 years **	600,000	01/12/2019	600,000	10.00%
Private loan batch#18	1.5 years **	100,000	16/03/2020	100,000	8.00%
Private loan batch#19	2 years **	300,000	01/04/2020	300,000	8.00%
		<u>8,850,000</u>		<u>8,850,000</u>	

** Interest only

iii) Convertible debt

	<i>Consolidated</i> 2020 \$	<i>Consolidated</i> 2019 \$
As at the beginning of the period	1,370,000	1,370,000
As at end of the period	<u>1,370,000</u>	<u>1,370,000</u>

Note 14. Loan and borrowings (continued)

In FY17, the Company issued 1.85 million unlisted convertible notes in exchange for a cost fund of \$370,000. The holders of the convertible notes may choose to convert the notes to shares in the Company at \$0.20 per share at any time before the maturity date, which was extended to 12 May 2021.

The Company and the relevant holders of the Convertible Bonds have agreed to extend the maturity date for the Convertible Bonds by 24 months to 11 May 2021. In addition, the interest rate has been amended from 7% to 10% pa which will take effect on and from the original maturity date, being 12 May 2019.

On 27 September 2017, the Company issued 5 million unlisted unsecured convertible notes with a total value of \$1,000,000. The holders of the convertible notes may choose to convert the notes to shares in the Company at \$0.20 per share at any time before the maturity date, which was extended to 27 September 2021.

iv) Loan from other lenders

	<i>Repayment term</i>	<i>Drawdown amount</i>	<i>Drawdown date</i>	<i>Balance at 30/06/2020</i>	<i>Interest rate (per annum) %</i>
Private loan batch#1	6 months**	200,000	01/06/2020	200,000	6.00%
Private loan batch#2	2 years**	100,000	10/06/2019	100,000	8.00%
Private loan batch#3	2 years**	130,000	01/06/2019	130,000	10.00%
Private loan batch#4	2 years**	100,000	10/06/2019	100,000	10.00%
Private loan batch#5	4 years**	200,000	01/01/2018	200,000	10.00%
Private loan batch#6	2 years**	200,000	01/05/2020	200,000	8.00%
Private loan batch#7	4 years**	200,000	01/09/2017	200,000	10.00%
Private loan batch#8	5 years**	180,000	26/05/2017	180,000	10.00%
		<u>1,310,000</u>		<u>1,310,000</u>	

** Interest only

Note 15. Lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability - current portion	<u>332,254</u>	<u>-</u>
	Consolidated	
	2020	2019
	\$	\$
Lease liability - non-current portion	<u>1,410,984</u>	<u>-</u>

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 Group'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.

Note 15. Lease liabilities (continued)

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.

Note 16. Reserves

	Consolidated	Consolidated
	2020	2019
	\$	\$
Options reserve	206,524	206,524
	<u>206,524</u>	<u>206,524</u>
	Consolidated	Consolidated
	2020	2019
	\$	\$
As at beginning of the year	206,524	206,884
(Reversal of expired share options) / Share based payment	-	(360)
	<u>206,524</u>	<u>206,524</u>

Details in relation to the options are disclosed below.

3.2 Share-based payments reserve

The Group operates an employee share and option plan.

Share-based payments to employees are remeasured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are remeasured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date that the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the binomial approximation and Black Scholes valuation methodology. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

(a) Employee Option Plan

The establishment of the Employee Option Plan was approved by the Board of directors in February 2017. The Employee Option Plan is designed to provide long-term incentives for employees (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted Options which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Once Options are vested, the Options remain exercisable for a period of two years.

Options are granted under the plan for no consideration and carry no dividend or voting rights. When exercised, each Option is convertible into one ordinary Share.

(b) Options granted under the Employee Option Plan:

Note 16. Reserves (continued)

	2020 Average exercise price per Option \$	2020 Number of Options	2019 Average exercise price per Option \$	2019 Number of Options
As at beginning of the year	0.20	5,403,750	0.20	5,991,250
Forfeited during the year	0.20	-	0.20	(587,500)
As at end of the year	<u>0.20</u>	<u>5,403,750</u>	<u>0.20</u>	<u>5,403,750</u>

Options outstanding under the Employee Option Plan at the end of the year have the following expiry dates and exercise prices:

<i>Grant Date</i>	<i>Expiry Date</i>	<i>Exercise price</i> \$	<i>Fair value at</i> <i>grant date</i> \$	<i>Options 30</i> <i>June 20</i>	<i>Options 30</i> <i>June 19</i>
14/12/2015	14/12/2020	\$0.20	0.0540	3,710,000	3,710,000
18/03/2016	18/03/2018	\$0.20	0.0385	-	-
01/03/2017	14/12/2020	\$0.20	0.0475	1,693,750	1,693,750

Average remaining contractual life of options outstanding at end of period 0.46 years

(c) Fair value of the options granted

The fair value of the options granted is considered to represent the value of the services received over the vesting period. The value was calculated using the Black Scholes valuation methodology applying the following inputs:

Weighted average exercise price :	\$0.20
Weighted average life of the Option:	2.79 years
Expected share price volatility:	43.19%
Risk-free interest rate:	1.99%

Historical share price volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future volatility. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Note 17. Events after the reporting period

COVID-19, which is a respiratory illness was declared a world-wide pandemic by the World Health Organisation in March 2020 and it has had a significant impact on the global and Australian economies. The dynamic and evolving nature of COVID-19 has also placed significant uncertainty to the broader economy including the financial market. The impact of COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government.

On 1 July 2020, the associate owned by the Group N1X Capital Pty Ltd has been put under voluntary deregistration due to consolidation of business.

On 31 July 2020, the Group acquired 100% of share of Vaikuntha Pty Ltd (ACN 114 847 291) with consideration of \$100,000. The company holds an ACL with both broking and lending authorisation.

On 13 August 2020, the joint venture owned by the Group RN2 Pty Ltd has been put under voluntary deregistration due to consolidation of business.

Note 17. Events after the reporting period (continued)

Paul Jensen has resigned as Non-Executive Director of Group effective 31 August 2020. Frank Ganis will be appointed as Non-Executive Director of the Group effective 1 September 2020.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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