SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2020

Lodged with the ASX under Listing Rule 4.3A

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SomnoMed Limited
Year ended 30 June 2020
Results for Announcement to the Market

				2020	2019
Revenue from ordinary activities	Decreased by ($1,595,740)	Decreased by (3%)	to	$57,296,293	$58,892,033
Revenue from ordinary activities, interest revenue and other income	Increased by $665,709	Increased by 1%	to	$59,586,197	$58,920,488
Loss from ordinary activities after tax attributable to members	Decreased by ($15,319,123)	Decreased by (93%)	to	($1,118,544)	($16,437,667)
Profit from ordinary activities before tax attributable to members	Increased by $15,835,816	Increased by 100%	to	$71,280	($15,764,537)

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2020 are as follows:

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

The Board has resolved that no dividend will be paid for the year ended 30 June 2020.

Record date for determining entitlements to the dividend | N/A

Review of the financial year 2020

SomnoMed Limited's full year total group revenues were $57 million, which was 3% less than in 2019. The EBITDA* for the year is $4.7 million, which equates to a 5% decrease over the prior year's underlying EBITDA*.

SomnoMed's business was making good progress to March 2020, where revenues and EBITDA* were on track to achieve guidance. Since then and into Q4, the impact of COVID-19 has meant that the final year end results were severely affected. At the outset of the COVID-19 pandemic, quick and decisive steps were taken to ensure the survival of the company. Staff safety was also prioritized with strong and consistent communication throughout the organization as to the ongoing health of the company and its implications.

Revenue growth for March YTD, Q4 and then FY20 is shown below:

Revenue Growth %	Q3 YTD	Q4	Total FY20
North America	24%	-51%	3%
Europe	9%	-45%	-6%
APAC	2%	-29%	-6%
SomnoMed Core	**13%**	**-46%**	**-3%**

North America's growth to March 2020 was outstanding. The acceptance of the digital SomnoDent Avant™ was beyond expectations within a broader and growing customer base due to its design, profile, comfort and efficacy. The effect of COVID-19 during Q4 was profound overall but had a diminished impact in June.

Europe showed reasonable growth to March 2020, with a slowdown already felt in that month, as some European countries went into earlier lockdown. Q4 was heavily impacted by the COVID-19 pandemic, with June revenues showing the least downturn in that quarter.

APAC struggled through Q3 resulting in a lower than expected growth to March 2020, which became worse in Q4 through the COVID-19 experience in Australia, Japan and South Korea.

The FY20 EBITDA* included COVID-19 government assistance during Q4 totalling $2.2m. This assistance related mainly to the payment or part payment of staff salaries in all three regions, as well as rent and utilities payments in the US for May and June. Cash held at 30 June 2020 was $30 million, which includes short-term bank debt of $4.9m. and long term, unsecured low interest government loans of $2.6m. The core business generated a positive operating cashflow of $5.6 million for the year compared to $2.6 million in the prior year.

SomnoMed's digital manufacturing platform was further enhanced during the COVID-19 time, with the design and development of the digital Herbst Advance Elite™ product. This quickly follows on last year's launch of the fully digital SomnoDent Avant™ product, which was well accepted and adopted by our customers. The Herbst Advance Elite™ is currently being launched and will add to the digital range that delivers improved comfort, compliance, and clinical effectiveness. This new product also has PDAC approval (Medicare insurance) and for the first time, combines the renowned Herbst Advance™ strength and precision with SomnoMed's proprietary soft inner lining, adding to greater retention and patient comfort.

Review of the financial year 2020 (continued)

The SomnoMed mantra “treatment focused, technology driven” ensures that the organisation achieves its strategic objective:

- *treatment*:
  - further improvements in the SomnoDent® product range,
  - a growing digital supply chain,
  - effective service and “time to treatment” delivery,
  - re-imbursement efforts in currently non-reimbursed countries,
  - an expansion of the sales and marketing capability and resources globally.

- *technology*:
  - various innovative investments that will elevate the oral appliance sector through connected care opportunities.

In doing both of these, SomnoMed will expand the acceptance and adoption of the SomnoDent® product range throughout the industry as the message of treatment effectiveness (combination of both efficacy and compliance) is delivered.

SomnoMed’s underlying business remains intact following the COVID-19 event. The revenues posted were just below that of the prior year and considering how difficult and disruptive Q4 was, is a pleasing result. Trading in the first half FY21 is expected to be difficult and largely inconsistent across the 28 countries we operate in, with forecasting accuracy likely to remain affected by ongoing COVID-19 related restrictions and their implications. The second half, however, should show stronger signs of growth and continued margin expansion. The long-term opportunity for SomnoMed remains encouraging with solid underlying market fundamentals. SomnoMed is well capitalised, has a united and even more determined management team, is dedicated to its customers, and will continue to invest in strategic projects that will enhance its competitive advantage.

No guidance is provided at this time.

* EBITDA as adjusted does not include share option expense, gain on contingent consideration payable, impairment of goodwill, effects of AASB16 and discontinued operations

SomnoMed Limited
Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

	Note	2020 $	2019 $
Continuing operations			
Revenue from sale of goods and services, net of discounts	9	57,296,293	58,892,033
Cost of sales		(24,196,599)	(24,319,902)
Gross margin		33,099,694	34,572,131
Sales and marketing expenses		(15,437,062)	(14,966,700)
Administrative expenses		(10,047,941)	(11,195,846)
Operating profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		7,614,691	8,409,585
Corporate, research and business development expenses		(5,054,661)	(5,017,724)
Interest income	9	12,803	28,455
Share based payments		(415,756)	(1,024,557)
Depreciation and amortisation		(3,085,258)	(1,448,846)
Impairment of goodwill	14	-	(135,000)
Government Grants and other income	9	2,277,101	-
Interest expense	21	(473,093)	(205,270)
Unrealised foreign exchange (loss)/gain		(128,834)	590
Profit before income tax		**746,993**	**607,233**
Income tax expense attributable to operating profit	19	(1,185,303)	(646,619)
Loss after income tax for the year from continuing operations		**(438,310)**	**(39,386)**
Discontinued operation			
Loss from discontinued operation	18	(680,234)	(16,398,281)
Net loss for the Group		**(1,118,544)**	**(16,437,667)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation difference for foreign operations		456,601	498,030
Other comprehensive income for the year, net of tax		456,601	498,030
Total comprehensive loss for the year attributable to the owners of SomnoMed Limited		**(661,943)**	**(15,939,637)**

SomnoMed Limited
Preliminary Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020 (continued)

	Note	2020 $	2019 $
Earnings per share			
Basic earnings per share (cents)	10	(1.77)	(28.28)
Diluted earnings per share (cents)	10	(1.77)	(28.28)
Earnings per share – continuing operations			
Basic earnings per share (cents)	10	(0.69)	(0.07)
Diluted earnings per share (cents)	10	(0.69)	(0.07)
Earnings per share – discontinued operation			
Basic earnings per share (cents)	10	(1.08)	(28.21)
Diluted earnings per share (cents)	10	(1.08)	(28.21)

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

SomnoMed Limited
Preliminary Consolidated Statement of Financial Position
as at 30 June 2020

ASSETS	Note	2020 $	2019 $
Current Assets			
Cash and cash equivalents		30,174,240	7,697,054
Trade and other receivables		7,608,559	10,557,582
Inventory		2,242,182	1,903,341
Lease receivables		209,984	-
Total Current Assets		40,234,965	20,157,977
Non-Current Assets			
Trade and other receivables		86,081	141,208
Property, plant and equipment	13	3,921,688	3,248,077
Intangible assets	14	7,928,576	7,773,666
Deferred tax asset	19	3,086,232	3,429,858
Right-of-use assets	20	6,317,333	-
Lease receivables		117,937	-
Total Non-Current Assets		21,457,847	14,592,809
Total Assets		61,692,812	34,750,786
LIABILITIES			
Current Liabilities			
Trade and other payables		8,568,890	8,105,273
Borrowings	15	4,953,328	3,008,016
Lease liabilities	16	2,330,198	228,280
Provisions		2,293,612	3,751,888
Current tax liabilities		634,430	952,727
Total Current Liabilities		18,780,458	16,046,184
Non-Current Liabilities			
Trade and other payables		97,199	56,111
Borrowings	15	2,508,534	-
Lease liabilities	16	5,737,818	359,081
Provisions		733,718	469,485
Total Non-Current Liabilities		9,077,269	884,677
Total Liabilities		27,857,727	16,930,861
Net Assets		**33,835,085**	**17,819,925**
EQUITY			
Issued capital	17	73,943,294	57,681,947
Reserves		8,557,703	7,685,346
Accumulated losses		(48,665,912)	(47,547,368)
Total Equity		**33,835,085**	**17,819,925**

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

SomnoMed Limited
Preliminary Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2019	57,681,947	7,685,346	(47,547,368)	17,819,925	-	17,819,925
Losses after income tax expense for the year	-	-	(1,118,544)	(1,118,544)	-	(1,118,544)
Other comprehensive income for the year, net of tax	-	456,601	-	456,601	-	456,601
Total comprehensive income/(loss) for the year	-	456,601	(1,118,544)	(661,943)	-	(661,943)
Transactions with owners in their capacity as owners:						
Shares issued during the period	16,878,546	-	-	16,878,546	-	16,878,546
Share option reserve on recognition of remuneration options	-	415,756	-	415,756	-	415,756
Share issuance costs	(617,199)	-	-	(617,199)	-	(617,199)
Balance at 30 June 2020	73,943,294	8,557,703	(48,665,912)	33,835,085	-	33,835,085

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 July 2018	57,743,645	6,134,830	(27,759,081)	36,119,394	(3,350,620)	32,768,774
Loss after income tax expense for the year	-	-	(16,437,667)	(16,437,667)	-	(16,437,667)
Other comprehensive income for the year, net of tax	-	498,030	-	498,030	-	498,030
Total comprehensive income/(loss) for the year	-	498,030	(16,437,667)	(15,939,637)	-	(15,939,637)
Transactions with owners in their capacity as owners:						
Shares issued during the period	11,800	-	-	11,800	-	11,800
Share issuance costs	(73,498)	-	-	(73,498)	-	(73,498)
Acquisition of NCI	-	-	(3,350,620)	(3,350,620)	3,350,620	-
Capital reserve adjustment	-	27,929	-	27,929	-	27,929
Share option reserve on recognition of remuneration options	-	1,024,557	-	1,024,557	-	1,024,557
Balance at 30 June 2019	57,681,947	7,685,346	(47,547,368)	17,819,925	-	17,819,925

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

SomnoMed Limited
Preliminary Consolidated Statement of Cash Flows
for the year ended 30 June 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		61,211,946	65,270,060
Payments to suppliers and employees (inclusive of GST)		(54,653,969)	(70,871,855)
Interest received		10,656	42,195
Interest paid	22	(419,688)	(298,390)
Income tax paid		(959,669)	(689,150)
Net cash inflow/(outflow) from operating activities	11	5,189,276	(6,547,140)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(47,829)
Proceeds from disposal of assets		48,266	76,031
Proceeds from term deposits		309,000	-
Payments for intangible assets		(422,987)	(323,469)
Payments for property, plant and equipment		(1,762,289)	(1,339,203)
Net cash outflow from investing activities		(1,828,010)	(1,634,470)
Cash flows from financing activities			
Proceeds from borrowings		4,451,130	4,958,947
Repayments of borrowings		-	(2,000,000)
Proceeds from issue of shares	17	16,878,546	11,800
Share issuance costs	17	(617,199)	(73,498)
Payment of finance leases	22	(1,847,251)	(518,201)
Net cash inflow from financing activities		18,865,226	2,379,048
Net increase/(decrease) in cash and cash equivalents		22,226,492	(5,802,562)
Cash at beginning of the financial year		7,697,054	13,383,389
Exchange rate adjustment		250,694	116,227
Cash at the end of the financial year		30,174,240	7,697,054

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

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

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2020

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The preliminary financial report has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Standards Board and the Corporations Act 2001 as appropriate for-profit oriented entities. The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public pronouncements made by the consolidated entity during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001. Unless otherwise detailed in this note, accounting policies have been consistency applied by the entities in the group and are consistent with those applied in the 30 June 2020 annual report.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated, and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidation (continued)

Business combinations (continued)

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

b. Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

Revenue derived from the sale of devices for the treatment of sleep related disorders and related products is recognised at the point in time when the performance obligations are satisfied, which usually occurs after final quality control is passed and goods are ready for pick up by customers. Warranties are not considered as separate performance obligations.

Government Grants

Government Grants are recognised on the Consolidated Statement of Profit or Loss and Other Comprehensive Income when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grant will be received (AASB120, paragraph 7). Such grants are presented on a Gross Basis under Government Grants on the Statement of Profit or Loss and Other Comprehensive Income.

Other income

Other income is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed.

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

e. Financial Instruments

Derivative financial instruments

The Consolidated Entity does not currently hold derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives are not hedge accounted and are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the statement of profit or loss and other comprehensive income.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Accounting for finance income is discussed in accounting policy (m).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Financial Instruments (continued)

Trade and other receivables

Trade receivables are recognized when the control of ownership of the underlying sales transactions have passed to the customer in the ordinary course of business. Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components when they are recognised at fair value. The Consolidated Entity holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Other receivables arise principally from financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition on issue and are subsequently recognised at amortised cost using the effective interest rate method, less provision for impairment (see accounting policy (g)).

Trade and other payables

Trade and other payables are stated at amortised cost.

Trade and other payables represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial period that are unpaid when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of those goods and services. The amounts are unsecured and are usually paid within 30 to 60 days of purchase. They are recognised initially at the fair value and subsequently measured at amortised cost using the effective interest method.

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based upon government bonds.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any expected credit losses.

f. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

Make good lease costs

The Consolidated Entity has an operating lease over its premises that require the premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the Consolidated Statement of Profit or Loss and Other Comprehensive Income over the life of the lease.

Onerous Contracts

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy 3(i)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

The Consolidated Entity’s trade and other receivables at year end are assessed under the impairment requirements which use an expected credit loss (ECL) model to recognise an allowance. Impairment is measured using a 12 month ECL model unless the credit risk on a financial asset has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

h. Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the statement of profit or loss as incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only. The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years

i. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Intangibles

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

Other intangible assets

Intellectual property acquired is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (g)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Patents and trademarks	10 years
Product development expenditure capitalised	5 years

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

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 2-5 years.

k. Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

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 recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee benefits (continued)

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market-based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

l. Taxation

Income tax expense in the statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

m. Finance income and expense

Interest income is recognised as it accrues in the statement of profit or loss using the effective interest method.

n. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Segment Reporting - Determination and presentation of operating segments

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity’s other components if separately reported and monitored. An operating segment’s operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

p. Accounting judgment and estimates

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

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.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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 3 (g). 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting judgment and estimates (continued)

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.

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.

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.

Employee benefits provision

As discussed, 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.

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.

Recoverability of Receivables

The Consolidated Entity assesses at the end of each reporting period whether there is objective evidence that the receivables are impaired. The recoverable amount of the receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. A provision for expected credit losses of receivables is based on the historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

r. New, revised or amending Accounting Standards and Interpretations adopted

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

Any new, revised or amending 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 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. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity has adopted AASB 16 'Leases' from 1 July 2019, using the Modified Retrospective Method #1, for which a restatement of comparatives for the statement of financial position as at 30 June 2019 is not applicable.

In terms of practical expedients, the company has elected to apply practical expedients #1 (‘apply a single discount rate to a portfolio of leases with reasonably similar characteristics’), #3 (‘not recognise leases whose terms end within 12 months of the date of initial application (use short-term lease accounting)) and #5 (‘use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease’). In addition, the company has also elected the practical expedient to make no adjustment on transition for leases for which the underlying asset is of low value (a low value item includes assets whose value, when new, is less than an amount determined by management to equate to USD $5,000 (approximately $ 7,000 - $ 7,500) or where management concluded that the item is a small item, such as office furniture, telephones and other low-value equipment).

As at 1st July 2019, the impact of the application of AASB 16 can be detailed below:

	01.07.2019
	$
Lease receivables	532,882
Movement in provisions	1,150,674
Right-of-use assets	5,442,858
Lease liabilities	7,126,414

As the company adopted the Modified Retrospective Method #1, right of use asset for the discontinued business (RSS) has been adjusted at the initial application on 1st July 2019 by $1,150,674 (practical expedient AASB 16.C10(b)). The amount of $1,150,674 had been previously recognised at 30th June 2019 as provisions for onerous leases for the discontinued operation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

r. New, revised or amending Accounting Standards and Interpretations adopted (continued)

As of 30th June 2020, an additional depreciation expense has been recognised on the Consolidated Statement of Profit or Loss of $1,433,099 for the continuing operations as a consequence of implementation of AASB 16. In terms of interest expense, as of 30th June 2020 an additional expense of $306,179 has been recognised for the continuing operations and $85,482 for the discontinued operation (RSS) as a consequence of implementation of AASB 16.

Discount rates

As described above, the company has decided to adopt the practical expedient #1 ('apply a single discount rate to a portfolio of leases with reasonably similar characteristics').

The approach to determine the incremental borrowing rate has been to consider the risk-free borrowing rate on each of the different regions which we operate and consider additional factors such as lease guarantees, existing financing facility, and refinancing rates. In addition, an additional risk-factor of 0.5% was considered for vehicles and for equipment. Discount rates are detailed below:

Europe: Land and buildings between 3.00% and 4.00%; Equipment and vehicles between 3.50% and 4.50%.

North America: Land and buildings between 4.50% and 6.00%; Equipment and vehicles between 5.00% and 6.50%.

Asia-Pacific: Land and buildings between 4.00% and 8.25%; Equipment and vehicles between 4.50% and 8.75%.

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s. 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 current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve 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 twelve months after the reporting period. All other assets are classified as non-current.

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

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

t. 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 principle 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 interest. 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 each reporting date and transfers between levels are determined based on a reassessment of the lowest level 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.

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.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates. The Audit Committee oversees adequacy of the Company's risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of expected losses in respect of trade and other receivables based on the ECL model.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

4. FINANCIAL RISK MANAGEMENT (continued)

Overview (continued)

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Canadian dollars (CAD), Singapore dollars (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, CAD, EUR, CHF, SGD, JPY and Philippine Peso (PHP) and South Korean Won (KRW).

Over 93% (2019-93%) of the Consolidated Entity's revenues and over 85% (2019-92%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of Directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

5. Events occurring after reporting date

Since the end of the financial year, the directors have not become aware of any matter that has significantly affected or may significantly affect the operations of the Consolidated Entity in subsequent financial years.

6. Other significant information

N/A.

7. Foreign Accounting standards

N/A.

8. NTA Backing

	2020	**2019**
Net tangible asset backing per ordinary share	19.94 cents*	10.53 cents

*30 June 2020 based on AASB16 implementation. 29.26 cents excluding impact of AASB16.

9. Revenue and other income

	2020	**2019**
	$	**$**
Operating activities		
Revenue from sale of goods and services, net of discounts	57,296,293	58,892,033
Interest income	12,803	28,455
Government Grants	2,171,986	-
Other income	105,115	-
Total revenue and other income	59,586,197	58,920,488

Government Grants – North America	1,190,470	-
Government Grants – Europe	821,994	-
Government Grants – Asia Pacific	159,522	-
Total Government Grants	2,171,986	-

SomnoMed has been granted diverse government grants which were awarded as government incentives due to COVID-19. In North America, we have been granted the PPP Loan (Cares ACT), for which $1,190,470 has been recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. In Europe, SomnoMed was granted a total of $821,994 across 8 different entities, notably in The Netherlands, France, Switzerland and Sweden. In the Asia Pacific region, we have recognised a total of $132,000 in Australia (JobKeeper program) and $27,522 in Japan. There are no unfulfilled conditions or other contingencies attached to the above-mentioned government grants.

10. Earnings per share

The following reflects the loss share data used in the calculations of basic and diluted loss-per share.

	2020	**2019**
Earnings per share		
Net loss used in calculating basic and diluted earnings per share	($1,118,544)	($16,437,667)
Basic earnings per share (cents)	(1.77)	(28.28)
Diluted earnings per share (cents)	(1.77)	(28.28)
Earnings per share – continuing operations		
Net loss used in calculating basic and diluted earnings per share	($438,310)	($39,386)
Basic earnings per share (cents)	(0.69)	(0.07)
Diluted earnings per share (cents)	(0.69)	(0.07)
Earnings per share – discontinued operation		
Net loss used in calculating basic and diluted earnings per share	($680,234)	($16,398,281)
Basic earnings per share (cents)	(1.08)	(28.21)
Diluted earnings per share (cents)	(1.08)	(28.21)
Weighted average number of shares used in the calculation of basic earnings per share	63,135,771	58,115,149
Weighted average number of shares used in the calculation of diluted earnings per share	67,496,771	63,452,293
Shares on issue at year end per accounts	78,398,315	58,121,834
Number of options on issue at year end – each option is exercisable at between $3.78 and $4.00 per share and converts to one ordinary share	Nil	575,000

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for the options on issue that have an exercise price below the average market price for the year.

	2020	**2019**
Shares on issue at end of year	82,759,315	62,804,168
Less: Share issued but not recorded in accounts (being shares issued to executives to acquire shares in the Company utilising funds advanced by the Company)	(4,361,000)	(4,682,334)
Number of shares recorded as issued capital in Company's accounts	78,398,315	58,121,834

11. Cash flow reconciliation

Reconciliation of operating loss after income tax to net cash inflow/(outflow) from operating activities	**2020 $**	**2019 $**
Operating loss after income tax	(1,118,544)	(16,437,667)
Share and option expense	415,755	1,024,557
Impairment of goodwill	-	135,000
Asset impairment (see note 13)	-	1,905,613
Losses on disposal of assets	-	81,977
Depreciation and amortisation	1,652,159	2,310,061
Depreciation and amortisation (AASB16)	1,433,099	-
Net exchange differences	128,834	(4,123)
Change in operating assets and liabilities		
(Increase)/decrease in inventories	(338,841)	245,688
Decrease in receivables	2,676,229	2,635,122
Increase in trade & other payables	340,291	762,818
(Decrease)/increase in provisions*	(343,332)	1,246,189
Decrease/(increase) in deferred tax assets	343,626	(452,375)
Net cash inflow/(outflow) from operating activities	5,189,276	(6,547,140)

* As part of the implementation of AASB16 for RSS as a discontinued business (practical expedient AASB 16.C10(b)), a total of A$850,712 in provisions were offset against the closing balance at 30 June 2020 of right-of-use assets for RSS.

12. Segment operations

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, the United States and Europe.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

*Unallocated item*s

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives and foreign exchange gains and losses; and
- corporate, research and development expenses.

Information about reportable segments

Geographical location: **2020**	**North America** **$**	**Europe** **$**	**Asia Pacific** **$**	**CORE** **$**	**RSS** **$**	**GROUP** **$**
External sales revenue	**20,348,110**	**32,354,051**	**4,594,132**	**57,296,293**	**-**	**57,296,293**
Segment net profit before tax	**1,840,137**	**5,410,767**	**234,953**	**7,485,857**	**-**	**7,485,857**
Unallocated expense items	-	-	(5,470,417)	(5,470,417)	(595,692)	(6,066,109)
Depreciation and amortisation	(542,876)	(996,061)	(1,546,321)	(3,085,258)	-	(3,085,258)
Other income	1,190,469	853,855	232,777	2,277,101	-	2,277,101
Interest income	-	7,672	5,131	12,803	5,461	18,264
Interest expense	(162,291)	(198,051)	(112,751)	(473,093)	(85,482)	(558,575)
(Loss)/profit before tax	**2,325,439**	**5,078,182**	**(6,656,628)**	**746,993**	**(675,713)**	**71,280**
Income tax expense	149,589	(1,311,938)	(22,954)	(1,185,303)	(4,521)	(1,189,824)
(Loss)/profit after tax	**2,475,028**	**3,766,244**	**(6,679,582)**	**(438,310)**	**(680,234)**	**(1,118,544)**

12. Segment operations (continued)

Geographical location: 2019	North America $	Europe $	Asia Pacific $	CORE $	RSS $	GROUP $
External sales revenue	**19,752,847**	**34,262,308**	**4,876,878**	**58,892,033**	**3,950,076**	**62,842,109**
Segment net (loss)/profit before tax	**1,720,647**	**6,131,236**	**557,702**	**8,409,585**	**(9,452,334)**	**(1,042,749)**
Unallocated expense items	-	-	(6,041,691)	(6,041,691)	(4,057,582)	(10,099,273)
Depreciation and amortisation	(210,145)	(234,737)	(1,003,964)	(1,448,846)	(861,214)	(2,310,060)
Asset impairment	-	-	-	-	(1,905,613)	(1,905,613)
Impairment of goodwill	-	-	(135,000)	(135,000)	-	(135,000)
Interest income	-	-	28,455	28,455	5,601	34,056
Interest expense	(5,040)	(2,058)	(198,172)	(205,270)	(100,628)	(305,898)
(Loss)/profit before tax	**1,505,462**	**5,894,441**	**(6,792,670)**	**607,233**	**(16,371,770)**	**(15,764,537)**
Income tax expense	(143,963)	(477,099)	(25,557)	(646,619)	(26,511)	(673,130)
Loss after tax	**1,361,499**	**5,417,342**	**(6,818,227)**	**(39,386)**	**(16,398,281)**	**(16,437,667)**

13. Property, plant and equipment

	2020 $	2019 $
Plant and equipment		
Plant and equipment - at cost	10,699,837	8,877,379
Accumulated depreciation	(6,993,045)	(5,882,745)
	3,706,792	**2,994,634**
Leasehold Improvements		
Leasehold improvement - at cost	651,964	555,283
Accumulated amortisation	(437,068)	(301,840)
	214,896	253,443
Total property, plant and equipment	**3,921,668**	**3,248,077**

13. Property, plant and equipment (continued)

Movements in the carrying amounts of property, plant and equipment during the current financial year:

	Plant and equipment	Leasehold improvements	Total
	$	$	$
Balance at 30 June 2018	**5,453,247**	**237,219**	**5,690,466**
Additions	1,187,304	49,493	1,236,797
Disposals	(238,505)	-	(238,505)
Asset impairment	(1,905,613)	-	(1,905,613)
Depreciation expense	(1,752,069)	(54,860)	(1,806,929)
FX impact	250,270	21,591	271,861
Balance at 30 June 2019	**2,994,634**	**253,443**	**3,248,077**
Additions	1,646,149	17,905	1,664,054
Disposals	-	-	-
Asset impairment	-	-	-
Depreciation expense	(1,026,084)	(69,077)	(1,095,161)
FX impact	92,093	12,625	104,718
Balance at 30 June 2020	**3,706,792**	**214,896**	**3,921,688**

14. Intangibles

	2020 $	2019 $
Patents and trademarks – at cost	1,724,982	1,485,825
Accumulated amortisation	(1,071,133)	(912,105)
	653,849	573,720
Product development expenditure capitalised	791,403	571,649
Accumulated amortisation	(492,212)	(461,623)
	299,191	110,026
Software	1,235,715	1,024,688
Accumulated amortisation	(729,232)	(341,563)
	506,483	683,125
Goodwill	6,469,053	6,406,795
	7,928,576	**7,773,666**

	2020 $	2019 $
Movements in patents and trademarks		
Balance at beginning of year	573,720	447,665
Additions	225,788	237,682
Amortisation expense	(148,013)	(119,945)
Foreign currency translation difference	2,354	8,318
Balance at end of year	653,849	573,720
Movements in product development expenditure capitalised		
Balance at beginning of year	110,026	37,306
Additions	219,754	108,705
Amortisation expense	(30,589)	(35,985)
Balance at end of year	299,191	110,026
Movements in software		
Balance at beginning of year	683,125	919,691
Additions	201,514	104,997
Amortisation expense	(378,396)	(341,563)
Foreign currency translation difference	240	-
Balance at end of year	506,483	683,125

14. Intangibles (continued)

	2020	2019
	$	$
Movements in goodwill		
Balance at beginning of year	6,406,795	6,375,297
Impairment of goodwill SomnoMed Korea (refer below)	-	(135,000)
Foreign currency translation difference	62,258	166,498
Balance at end of year	6,469,053	6,406,795

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

During FY19, management undertook a review for indicators of impairment and determined that the goodwill (A$135,000) in relation to South Korea should be fully impaired.

Goodwill is allocated to cash generating units, which are the separate legal entities.

15. Borrowings

	2020	2019
	$	$
Current borrowings	4,953,328	3,008,016
Non-current borrowings	2,508,534	-
	7,461,862	3,008,016

HSBC credit facility (Commercial Borrowing)

- In June 2019, SomnoMed Netherlands B.V. established a €3.0 million (A$4.9 million) unsecured credit facility with HSBC, of which €3.0 million (A$4.9 million) was utilised as at 30 June 2020. The interest rate payable under this facility is equivalent to the Main Refinancing Operations rate published by the European Central Bank ("ECB") (provided that, if such interest rate is less than zero, it shall be deemed to be zero), increased with the applicable margin of 2.75% per annum. The Main Refinancing Operations Rate is currently at 0% per annum. This facility has been guaranteed by SomnoMed Limited, SomnoMed Inc. and Goedegebuure Slaaptechniek B.V. The facility has no fixed term but under certain conditions the facility must be repaid within 30 business banking days. It is a condition of the facility that the consolidated net leverage ratio may not exceed 2.5, of which 2.5 is to be measured on the parental consolidated level.

15. Borrowings (continued)

Unsecured loan facilities (Government Borrowings)

- In March 2020, SomnoMed AG (Switzerland) secured a CHF 0.5 million (A$0.766 million) Government-backed unsecured loan facility with Credit Suisse (maturity of 5 years). The interest payable is currently 0% per annum. This loan expires on 26 March 2025;
- In April 2020, SomnoMed, Inc. (United States of America) secured a US $0.919 million (A$1.341 million) Government-backed unsecured loan facility with JPMorgan Chase Bank under the CARES ACT (maturity of 2 years). The interest payable is at 0.98% per annum. This Government Loan will be converted into a Loan Forgiveness upon successful demonstration and acceptance by the Government that the majority of such monies has been utilised during a period of 24 weeks to cover Payroll and other selective Administration expenses. From a total of US $0.919 million (A$1.341 million) received under this facility, US $0.817 million (A$1.192 million) has been classed as Other Income on the 'Statement of Profit or Loss and Other Comprehensive Income', whilst the remaining US $0.102 million (A$0.149 million) has been classed as a Borrowing on the 'Statement of Financial Position'. This loan expires on 13 March 2022;
- In May 2020, SomnoMed France SAS (France) secured a EUR 0.515 million (A$0.844 million Government-backed unsecured loan facility with Société Générale. The interest payable is at 0.5% per annum in the first year (after a grace period of 12 months. Maturity of 5 years). This loan expires on 20 May 2025;
- In June 2020, SomnoMed Germany GmbH (Germany) secured a EUR 0.5 million (A$0.819 million) Government-backed unsecured loan facility with Commerzbank (maturity of up to 10 years). The interest payable is 3% per annum. This loan expires on 30 June 2030.

16. Lease Liabilities

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	30 June 2020 $	30 June 2019 $	30 June 2020 $	30 June 2019 $	30 June 2020 $	30 June 2019 $
Less than one year	2,716,448	260,300	386,250	32,020	2,330,198	228,280
Between one year and five years	5,738,978	382,731	638,270	23,650	5,100,708	359,081
More than five years	678,510	-	41,400	-	637,110	-
	9,133,936	643,031	1,065,920	55,670	8,068,016	587,361

17. Issued Capital	**2020**	**2019**
Issued and fully paid ordinary shares		
82,759,315 (2019: 62,804,168) ordinary shares		
Balance of issued capital at the beginning of year	68,444,806	67,439,109
Shares issued during period:		
- 200,000 pursuant to issue of shares at $1.67 on 19 November 2018	-	334,000
- 398,500 pursuant to issue of shares at $1.87 on 19 November 2018	-	745,195
- 12,087,319 pursuant to issue of shares at $0.80 on 1 April 2020	9,669,855	-
- 7,297,330 pursuant to issue of shares at $0.80 on 22 April 2020	5,837,864	-
- 570,498 pursuant to issue of shares at $1.17 on 29 June 2020	667,483	-
Less issue costs	(617,199)	(73,498)
Balance of issued capital at end of year	84,002,809	68,444,806
Less shares issued but not recorded in accounts		
- 1,842,500 shares (2019: 0) issued at $1.17	(2,155,725)	-
- 150,000 shares (2019: 880,334) issued at $1.18	(177,000)	(1,038,794)
- 0 shares (2019: 15,000) issued at $1.37	-	(20,550)
- 20,000 shares (2019: 0) re-issued at $1.64	(32,800)	-
- 200,000 shares issued at $1.67	(334,000)	(334,000)
- 20,000 shares (2019: 0) re-issued at $1.79	(35,800)	-
- 456,000 shares (2019: 398,500) re-issued at $1.87	(852,720)	(745,195)
- 500,000 shares (2019: 1,119,000) issued at $2.09	(1,045,000)	(2,338,710)
- 664,000 shares (2019: 0) re-issued at $2.184	(1,450,176)	-
- 493,000 shares (2019: 868,000) issued at $2.40	(1,183,200)	(2,083,200)
- 0 shares (2019: 50,000) issued at $2.70	-	(135,000)
- 12,500 shares (2019: 526,500) issued at $3.44	(43,000)	(1,811,160)
- 3,000 shares (2019: 625,000) issued at $3.61	(10,830)	(2,256,250)
Total advances to executives to acquire shares in the Company	(7,320,251)	(10,762,859)
Cancellation and re-issue of units within Employee Share Trust*	(2,739,264)	-
Issued share capital recorded in the Company accounts	73,943,294	57,681,947

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At 30 June 2020 there were 4,361,000 (2019: 5,257,334) unissued ordinary shares for which options were outstanding (including 4,361,000 (2019: 4,682,334) issued ordinary shares which are treated as options in these accounts).

*In prior years ordinary shares were issued to the Company's Employee Share Trust on behalf of management of the Company at issue prices up to $3.61 per share. These shares were financed by non-recourse loans and have been treated as options in the Company's accounts. In June 2020 share units issued by the EST in 2016 at $3.44 and in 2017 at $3.61 to existing employees were cancelled and an identical number of units were reissued at $1.17 to those employees with extended vesting conditions. The amount payable by the EST to the Company as non-recourse loans relating to those prior issues at $3.44 and $3.61 per share was recorded as being non recoverable and a new loan at the lesser amount of $1.17 per share is reflected in these accounts. The additional share option expense incurred in relation to the issue of units at $1.17 will be bought to account over the revised vesting periods and no further share option expense will be brought to account for the issues at $3.44 and $3.61 per share.

18. Discontinued operation

Renew Sleep Solutions, Inc. ("RSS") ceased operations and all centres were closed by 31st December 2018.

The net loss after tax of $680,234 from RSS was recognised as one single amount on the face of the statement of profit or loss and other comprehensive income with the following costs fully recognised and provided for in the accounts for the 2020 financial year:

- Revenue and expenses from normal business operations from 1 July 2019 to 30 June 2020;
- Increase in the allowance for expected credit losses; and
- Expected loss from sale of equipment.

The comparative statement of profit or loss and other comprehensive income has been represented to show the discontinued operation separately from continued operations.

	2020	2019
Results of discontinued operation	**$**	**$**
Revenue	5,461	3,950,076
Expenses	(681,174)	(14,440,628)
Results from operating activities	(675,713)	(10,490,552)
Income tax expense	(4,521)	(26,511)
Results from operating activities, net of tax	(680,234)	(10,517,063)
Asset impairment	-	(1,905,613)
Costs for lease settlement	-	(2,793,734)
Severance payments, legal and other costs	-	(1,181,871)
Loss for the year	**(680,234)**	**(16,398,281)**
Cash flows from discontinued operation		
Net cash outflow from operating activities	(428,144)	(8,884,119)
Net cash outflow from investing activities	48,266	(133,917)
Net cash outflow from financing activities	(334,256)	(184,479)
Net cash outflow for the year	**(714,134)**	**(9,202,515)**
Carrying amount of assets and liabilities		
Total Assets	111,628	1,446,332
Total Liabilities	2,474,393	3,178,458
Net Assets	**(2,362,765)**	**(1,732,126)**

19. Income tax expense

Significant Accounting Policies

Income tax expense in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit nor differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

	2020 $	2019 $
a. The components of tax expense comprise:		
Current tax	787,289	1,189,480
Deferred tax	398,014	(542,861)
	1,185,303	646,619
b. The prima facie tax on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax expense calculated using the Australian tax rate of 30% (2019: 30%)	21,384	(4,729,361)
Decrease in income tax expense due to non-(deductible)/assessable and other items	1,163,919	5,375,980
Income tax expense	1,185,303	646,619
c. Deferred tax assets		
Recognised deferred tax assets		
Plant and equipment	(44,618)	(37,139)
Accruals	588,620	491,403
Provisions	268,762	297,306
Deferred revenue	53,764	52,885
Future royalty deduction	843,855	
PPP Cares Act	(250,247)	
Tax losses carried forward	1,626,096	2,625,403
Deferred tax assets	3,086,232	3,429,858

19. Income tax expense (continued)	**2020 $**	**2019 $**
d. Movement in temporary differences and tax losses during the year		
Carrying amount at beginning of financial year	3,429,858	2,780,670
Recognised in the statement of profit or loss and other comprehensive income	(398,014)	542,861
Foreign exchange adjustment	54,388	106,327
Carrying amount at end of financial year	3,086,232	3,429,858

e. Deferred tax assets not brought to account		
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 3(l) occur		
Tax losses	1,603,929	848,802
Temporary differences	2,705,908	2,395,077

20. Right-of-use assets

Right-of-use assets - non-current	6,317,333	-
	6,317,333	-
Land and buildings - right-of-use	6,835,242	-
Less: Accumulated Amortisation	(1,121,693)	-
	5,713,549	-
Plant and equipment - right-of-use	114,516	-
Less: Accumulated Amortisation	(44,720)	-
	69,796	-
Vehicles - right-of-use	800,674	-
Less: Accumulated Amortisation	(266,686)	-
	533,988	-

‘Land and buildings’ include offices utilised as administration offices, laboratories and also the lease for the global manufacturing site. ‘Plant and equipment’ are comprised mostly of leased printers and, to a smaller extent, intra-oral scanners. ‘Vehicles’ relate to leased cars to sales and administration staff.

20. Right-of-use assets (continued)

	2020 $	2019 $
Balance at the beginning of the year	5,442,858	-
Additions	2,307,574	-
Amortisation expense (AASB 16)	(1,433,099)	-
Balance at end of the year	6,317,333	-
Amortisation expense - land and buildings	(1,121,693)	-
Amortisation expense - plant and equipment	(44,720)	
Amortisation expense - vehicles	(266,686)	-
Total Amortisation expense (AASB16)	(1,433,099)	-

The consolidated entity leases land and buildings for its offices and laboratories under agreements of between one to eleven 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 leases office equipment under agreements of three and five years and vehicles under agreements of two and eight years whilst vehicle lease agreements have a duration between 2 and 5 years.

21. Interest expense - leases

Interest expense due to Borrowings and Capital Leases	(166,914)	(205,270)
Interest expense due to AASB16 implementation	(306,179)	-
	(473,093)	(205,270)

22. Cash outflows - leases

Total Cash outflows - leases	(2,266,939)	(816,591)
	(2,266,939)	(816,591)
Interest payment due to Borrowings and Capital Leases	(33,167)	(298,390)
Interest payment due to AASB16 implementation	(386,521)	-
Total interest paid - leases (cash outflow from operating activities)	(419,688)	(298,390)
Principal payment of Capital Leases	(217,158)	(518,201)
Principal payment due to AASB16 implementation	(1,835,054)	-
Proceeds from leases as lessor (RSS)	204,961	
Total cash outflows - leases (cash outflow from financing activities)	(1,847,251)	(518,201)

23. Committed and not yet commenced leases

There were no leases committed at the end of June 2020 which had not initiated before 30 June 2020 and which are not represented on the Statement of Financial Position.

24. Short-term and low value leases

The table below outlines leases which were elected not to apply AASB16 paragraphs 22 to 49 and, as such, are recognised directly as an expense on the Statement of Profit or Loss and Other Comprehensive Income.

	2020 $	2019 $
Expenses with short-term leases (10 agreements)	(90,885)	-
Expenses with low-value assets (2 agreements)	(2,192)	-
	(93,077)	-

Audit

This report is based on accounts which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review – Nil.

Description of dispute or qualification if the accounts have been audited or subjected to review – Nil.

Sign here: .... Date: 24th August 2020
(Director)

Print name: P Neustadt