Foundation Technology Holdings Pty Ltd

ACN 132 368 104

Annual report for the year ended 30 June 2019

Foundation Technology Holdings Pty Ltd ACN 132 368 104
Annual report - 30 June 2019

Contents

Directors' report

Your directors present their report on the consolidated entity consisting of Foundation Technology Holdings Pty Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the Group.

Directors

The following persons were directors of Foundation Technology Holdings Pty Ltd during the financial year and up to the date of this report:

Shan Shamsher Kanji
Hasan Kanji
Stephen Kowal (appointed 7 January 2019)

Principal activities

The Group represents a federated group of IT services businesses. The Group facilitates organic and collaborative growth through the provision of strategic and operational advice, access to capital and the provision of shared services capabilities. Each company within the Group pursues its own area of expertise ranging from change management, training and integration, through to bespoke software development and project management services.

Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year (2018: $nil).

Review of operations

The loss from ordinary activities after income tax amounted to $374 (2018: profit $2,063,117).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year.

Event since the end of the financial year

(a) Transfer of surplus assets out of the Group

In the period since the end of the reporting period, a number of assets which are surplus to the requirements of the business have been sold or otherwise transferred out of the Group. These include the following:

(i) All the shares in Smart Integration Pty Limited were sold by FTS Nominees Pty Limited for a consideration of $1. FTS Nominees has an investment carrying value of $330,388 in Smart Integration Pty Limited as at 30 June 2019. As the shares in Smart Integration Pty Limited have no value, the disposal of the company should give rise to a loss of $330,388 in the 2020 financial year;

(ii) All the shares in Veritec Performance Holdings Pty Limited were sold by FTS VHC Pty Limited for a consideration of $1;

(iii) Certain loan receivables amounting to $918,000 (including accrued interest), which relate to legacy businesses of the Group, have been sold to a third party for a consideration of $918,000. One of the receivables amounting to $768,000 had been fully provided for in the financial statements to 30 June 2019. Accordingly, the sale of the loan receivables out of the Group has given rise to a profit of $768,000 in the 2020 financial year.

(b) Acquisition of further shares in non-wholly owned subsidiaries

In the period since the end of the reporting period, a member of the Group has acquired further shares in a non-wholly owned subsidiary. Details are as follows:

(i) FTS VHC Pty Limited acquired 11,898 shares in Veritec Pty Limited for a consideration of $177,744.

Event since the end of the financial year (continued)

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not affected by any significant environmental regulation in respect of its operations.

Insurance of officers and indemnities

Insurance of officers

During the financial year, Foundation Technology Holdings Pty Ltd did not pay any premium (2018: $nil) to insure the directors and secretaries of the Company and its Australian-based controlled entities.

Proceedings on behalf of the company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

This report is made in accordance with a resolution of directors.

Shan Shamsher Kanji
Director

Sydney
7 November 2019

Auditor's Independence Declaration

As lead auditor for the audit of Foundation Technology Holdings Pty Ltd for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Foundation Technology Holdings Pty Ltd and the entities it controlled during the period.

K. L. Woombell - Perry

Kerryn Woombell-Perry
Partner
PricewaterhouseCoopers

Sydney
7 November 2019

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Foundation Technology Holdings Pty Ltd ACN 132 368 104
Annual report - 30 June 2019

Contents

These financial statements are consolidated financial statements for the group consisting of Foundation Technology Holdings Pty Ltd and its subsidiaries. A list of subsidiaries is included in note 25.

The consolidated financial statements are presented in Australian dollars ($).

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 1, which is not part of these consolidated financial statements.

The consolidated financial statements were authorised for issue by the directors on 7 November 2019. The directors have the power to amend and reissue the consolidated financial statements.

Foundation Technology Holdings Pty Ltd
Consolidated statement of comprehensive income
For the year ended 30 June 2019

	Notes	**2019** **$**	2018 $
Revenue from contracts with customers	5	**64,802,877**	95,620,905
Cost of providing services		**(48,561,966)**	(80,727,124)
Gross profit		**16,240,911**	14,893,781
Sales and marketing expenses		**(452,034)**	(899,120)
Occupancy expenses		**(1,213,463)**	(879,943)
General and administrative expenses	6	**(14,377,350)**	(10,207,780)
Operating profit		**198,064**	2,906,938
Finance income	7	**9,859**	43,256
Finance costs	7	**(62,020)**	(32,957)
Finance (costs)/income - net		**(52,161)**	10,299
Share of net profit of associates accounted for using equity method		**-**	38,835
Profit before income tax		**145,903**	2,956,072
Income tax expense	8	**(146,277)**	(892,955)
(Loss)/profit for the year		**(374)**	2,063,117
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive (loss)/income for the year		**(374)**	2,063,117
(Loss)/profit is attributable to:			
Owners of Foundation Technology Holdings Pty Ltd		**(154,648)**	1,363,895
Non-controlling interests		**154,274**	699,222
		(374)	2,063,117
Total comprehensive (loss)/income for the year is attributable to:			
Owners of Foundation Technology Holdings Pty Ltd		**(154,648)**	1,363,895
Non-controlling interests		**154,274**	699,222
		(374)	2,063,117

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Foundation Technology Holdings Pty Ltd
Consolidated statement of financial position
As at 30 June 2019

	Notes	2019 $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**4,169,599**	5,747,774
Trade and other receivables	10	**15,621,808**	19,901,105
Contract assets	5(b)	**623,344**	-
Work in progress		**-**	1,021,737
Other current assets	11	**156,095**	206,635
Total current assets		**20,570,846**	26,877,251
Non-current assets			
Receivables	10	**111,635**	112,850
Investments accounted for using the equity method	25(b)	**49,809**	645,569
Property, plant and equipment	12	**387,364**	391,249
Intangible assets	13	**1,099,033**	1,206,904
Deferred tax assets	14	**1,512,208**	835,410
Total non-current assets		**3,160,049**	3,191,982
Total assets		**23,730,895**	30,069,233
LIABILITIES			
Current liabilities			
Trade and other payables	15	**10,336,949**	17,309,495
Contract liabilities	5(b)	**1,729,118**	-
Borrowings	16	**309,029**	748,263
Current tax liabilities		**94,122**	509,514
Employee benefit obligations	17	**2,792,323**	2,358,751
Other current liabilities	18	**-**	1,366,415
Total current liabilities		**15,261,541**	22,292,438
Non-current liabilities			
Borrowings	16	**16,112,421**	15,394,392
Employee benefit obligations	17	**89,288**	122,026
Total non-current liabilities		**16,201,709**	15,516,418
Total liabilities		**31,463,250**	37,808,856
Net liabilities		**(7,732,355)**	(7,739,623)
EQUITY			
Contributed equity	19	**4**	4
Other reserves	20(a)	**(964,663)**	(964,663)
Accumulated losses	20(b)	**(7,227,547)**	(7,072,899)
Non-controlling interests		**459,851**	297,935
Total deficiency in equity		**(7,732,355)**	(7,739,623)

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

	Attributable to owners of Foundation Technology Holdings Pty Ltd					
	Contributed equity $	**Other reserves $**	**Accumulated losses $**	**Total $**	**Non-controlling interests $**	**Total deficiency in equity $**
Balance at 1 July 2017	4	(50,081)	(8,316,794)	(8,366,871)	(253,420)	(8,620,291)
Profit for the year	-	-	1,363,895	1,363,895	699,222	2,063,117
Total comprehensive income for the year	**-**	**-**	**1,363,895**	**1,363,895**	**699,222**	**2,063,117**
Transactions with owners in their capacity as owners:						
Transactions with non-controlling interests	-	(914,582)	(120,000)	(1,034,582)	(147,867)	(1,182,449)
Balance at 30 June 2018	**4**	**(964,663)**	**(7,072,899)**	**(8,037,558)**	**297,935**	**(7,739,623)**
Balance at 1 July 2018	4	(964,663)	(7,072,899)	(8,037,558)	297,935	(7,739,623)
(Loss)/profit for the year	-	-	(154,648)	(154,648)	154,274	(374)
Total comprehensive (loss)/income for the year	**-**	**-**	**(154,648)**	**(154,648)**	**154,274**	**(374)**
Transactions with owners in their capacity as owners:						
Transactions with non-controlling interests	-	-	-	-	7,642	7,642
Balance at 30 June 2019	**4**	**(964,663)**	**(7,227,547)**	**(8,192,206)**	**459,851**	**(7,732,355)**

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

	Notes	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**74,545,200**	101,793,328
Payments to suppliers and employees (inclusive of GST)		**(74,654,127)**	(97,370,035)
		(108,927)	4,423,293
Interest paid		**(62,020)**	(32,957)
Interest received		**9,859**	43,256
Income taxes paid		**(1,238,467)**	(1,551,764)
Net cash (outflow) inflow from operating activities		**(1,399,555)**	2,881,828
Cash flows from investing activities			
Payments for acquisition of subsidiary		**-**	(1,182,450)
Payments for property, plant and equipment		**(278,512)**	(154,141)
Payments for investments		**(76,650)**	-
Payments for intangible assets		**(124,967)**	(345,142)
Proceeds from sale of property, plant and equipment		**15,072**	-
Repayment of loans by related parties		**-**	300,000
Net cash (outflow) from investing activities		**(465,057)**	(1,381,733)
Cash flows from financing activities			
Proceeds from borrowings		**278,795**	-
Repayment of borrowings		**-**	(1,098,173)
Transactions with non-controlling interests		**7,642**	-
Cash on acquisition of Connexxion		**-**	402,479
Net cash inflow (outflow) from financing activities		**286,437**	(695,694)
Net (decrease) increase in cash and cash equivalents		**(1,578,175)**	804,401
Cash and cash equivalents at the beginning of the financial year		**5,747,774**	4,943,373
Cash and cash equivalents at end of the financial year	9	**4,169,599**	5,747,774

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

Contents of the notes to the consolidated financial statements

1 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of Foundation Technology Holdings Pty Ltd and its subsidiaries.

(a) Basis of preparation

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Foundation Technology Holdings Pty Ltd is a for-profit entity for the purpose of preparing the consolidated financial statements.

(i) Compliance with Australian Accounting Standards - Reduced Disclosure Requirements

The consolidated financial statements of the Foundation Technology Holdings Pty Ltd Group comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

(ii) Historical cost convention

These consolidated financial statements have been prepared under the historical cost basis.

(iii) Going concern

As at 30 June 2019 the Group has a deficiency of net assets of $7,732,355 (2018: $7,739,623) and current loans of $309,029 (2018: $748,263) and non-current loans of $16,112,421 (2018: $15,394,392).

The lenders have provided an undertaking to the directors, in the form of a loan agreement, that the loans cannot be called upon without providing a minimum notice period of thirteen months. As at the date of the signing of the consolidated financial statements no request for payment has been received by the directors.

Based on the support provided by the loan providers, the directors have concluded that no material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Accordingly the directors have prepared the financial report on a going concern basis in the belief that the Group will realize its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the financial report.

(iv) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for first time in their annual reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- Interpretation 22 *Foreign Currency Transactions and Advance Consideration.*

The Group had to change its accounting policies following the adoption of AASB 9 and AASB 15. See note 2 for disclosure in changes in accounting policies and details of transition provision applied. The other amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation and equity accounting

(i) Subsidiaries

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see below (iii)), after initially being recognised at cost.

(iii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 1(h).

(iv) Changes in ownership interests

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

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation and equity accounting (continued)

(iv) Changes in ownership interests (continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars ($), which is Foundation Technology Holdings Pty Ltd's functional and presentation currency.

(d) Revenue recognition

Revenue from providing services is recognised in the accounting period in which the services are rendered. In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule If the services rendered exceed the payment, a contract asset is recognised. If the payments exceeds the services rendered, a contract liability is recognised. If the contract includes an hourly fee, revenue is recognised in the amount to which the group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Revenue is recognised for the major business activities using the methods outlined below.

Time and Materials

Where the Group provides services charged on the basis of actual time and materials incurred, the performance obligation is completed as and when the services are rendered, and costs are incurred. Hence revenue recognition is aligned to the costs incurred. Revenue is calculated based on contractual billing rates for the services performed.

Fixed Price

Where Fixed Price contracts are entered into, comprising multiple performance obligations, the services provided are over time and revenue is recognised when milestones are achieved and the respective performance obligation has been completed.

Software licensing

Licences fees are charged in advance for continued maintenance and support of the software. Licence revenue is fully recognised in the month in which the contract to sell the licences is signed. Software Assurance is recognised on a monthly basis for the monthly amount earned for maintenance and support.

Software as a service

Software provided as a service is billed in advance based on a contractual term. Revenue is recognised on a monthly basis for access to the software.

Interest income

Interest revenue is recognised as it accrues, taking into account the interest rates applicable to the financial assets.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

Previous revenue recognition accounting policy

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities using the method outlined below.

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and other assets.

Revenue from services

Revenue from Time and Material Projects is recognised on a billing entitlement basis and is matched against related costs incurred. Where Fixed Price contracts are entered into, revenue recognition is based on stage of completion. The stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours per the detailed project plan adjusted for remaining effort to complete the project.

Interest income

Interest revenue is recognised as it accrued, taking into account the interest rates applicable to the financial assets.

(e) Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1 Summary of significant accounting policies (continued)

(e) Income tax (continued)

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(g) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1 Summary of significant accounting policies (continued)

(g) Business combinations (continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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

Non-controlling interests in an acquired entity are recognised at fair value or at the non-controlling interest's proportionate share of the acquired entities net identifiable assets. This decision is made on an acquisition by acquisition basis.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

(i) Cash and cash equivalents

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

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group 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.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

1 Summary of significant accounting policies (continued)

(j) Trade receivables (continued)

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

(k) Investments and other financial assets

(i) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

1 Summary of significant accounting policies (continued)

(k) Investments and other financial assets (continued)

(iii) Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

(v) Accounting policies applied until 30 June 2018

The Group has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

Until 30 June 2018, the Group classified its financial assets in the following categories:

- loans and receivables,

Subsequent measurement

The measurement at initial recognition did not change on adoption of AASB 9, see description above.

Impairment

The Group assessed at the end of each reporting year whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

1 Summary of significant accounting policies (continued)

(k) Investments and other financial assets (continued)

(v) Accounting policies applied until 30 June 2018 (continued)

Assets carried at amortised cost (continued)

If, in a subsequent year, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

(l) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Furniture — 4 - 6 years
- Office equipment — 3 - 5 years
- Software — 5 years
- Leased equipment — 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An item of equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. 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, unless the asset's value in use can be estimated to be close to its fair value. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment exists when the carrying value of an asset or cash- generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount.

(m) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(g). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1 Summary of significant accounting policies (continued)

(m) Intangible assets (continued)

(ii) Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

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

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(iii) Amortisation methods and useful lives

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

- Software 5 years

(n) Trade and other payables

Trade payables and other payables are carried at amortised costs due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days. Payables to related parties are carried at the principal amount.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the year of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting year.

1 Summary of significant accounting policies (continued)

(p) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the year for the time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the year in which they are incurred.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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 end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(r) Contributed equity

Ordinary shares are classified as equity.

(s) Goods and Services Tax (GST)

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

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

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

(t) Parent entity financial information

The financial information for the parent entity, Foundation Technology Holdings Pty Ltd, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

1 Summary of significant accounting policies (continued)

(t) Parent entity financial information (continued)

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the separate financial statements of Foundation Technology Holdings Pty Ltd. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

2 Changes in accounting policies

(a) AASB 9 Financial Instruments

The Group has adopted AASB 9: Financial instruments with an initial application date of 1 January 2018. AASB 9 requires retrospective application with some exception (eg: hedge accounting in term of the Standard). There were no financial assets/liabilities which the company had previously designated as fair value through profit and loss under AASB 139 that were subject to reclassification upon the application of AASB9: *Financial instruments* : Recognition and Measurement. There were no financial assets/liabilities which the Company has elected to designate as at fair value through profit and loss at the date of initial application of AASB 9.

Impairment

As per AASB 9, an expected credit loss model is applied, not an incurred credit loss model as per AASB 139. To reflect the changes in credit risk, this expected credit loss model requires the company to account for expected credit loss since initial recognition. A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss. The application of the expected credit loss model had no impact on the impairment of trade receivables.

(b) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018 using the cumulative effect method. As a result the comparative information has not been restated and continues to be reported under AASB 118. AASB 15 introduced a 5 steps approach to revenue recognition. The Group 's accounting policies for its revenue streams are disclosed in detail in note 1(d). Apart from providing more extensive disclosures for the company's revenue transactions, the application of AASB 15 has not had a significant impact on the financial position and/or financial performance of the Group.

(i) Presentation of assets and liabilities related to contracts with customers

Foundation Technology Holdings Pty Ltd has also changed the presentation of certain amounts in the consolidated statement of financial position to reflect the terminology of AASB 15.

- Contract assets recognised in relation to IT consulting contracts were previously presented as part of work in progress ($623,344 as at 30 June 2019).
- Other payables relating to refund liabilities were previously presented as unearned revenue ($1,729,118 as at 30 June 2019).

3 Financial risk management

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Amounts recognised in profit or loss

During the year, the following foreign-exchange related amounts were recognised in profit or loss:

	2019 **$**	2018 $
Amounts recognised in profit or loss		
Net foreign exchange gain included in general and administrative expenses	**4,075**	795
Total net foreign exchange gains recognised in profit before income tax for the period	**4,075**	795

(ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk.arises predominantly from assets bearing variable interest interest rates. As income does not make up the main source of revenue, the management expects no significant interest rate risk on these balances.

Amounts payable to related parties, trade and sundry payables and trade and other receivables are not impacted by movements in interest rates.

Management believes that the group's overall exposure to interest rate movements is not material.

4 Critical estimates, judgements and errors

The preparation of consolidated financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

(a) Significant estimates and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(b) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Principal versus agent considerations

Management has determined that in the current year SME Gateway Pty Limited is the agent in respect of transactions with its customers. This determination has been made on the basis that SME Gateway Pty Limited does not bear full responsibility for service quality with the customer and also does not have latitude in regards to how pricing is determined.

5 Revenue from contracts with customers

	2019	2018
	$	$
Revenue from contracts with customers		
Time and materials	**53,709,381**	45,386,401
Fixed price	**8,674,637**	47,502,351
Software licensing	**1,053,095**	1,170,535
Software as service	**1,044,979**	955,820
Other income	**320,785**	605,798
	64,802,877	95,620,905

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following:

2019	**Time and materials**	**Fixed price**	**Software licensing**	**Software as service**	**Others**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Timing of revenue recognition						
Over time	**53,709,381**	**8,674,637**	**1,053,095**	**1,044,979**	**320,785**	**64,802,877**
	53,709,381	**8,674,637**	**1,053,095**	**1,044,979**	**320,785**	**64,802,877**

2018	Time and materials	Fixed price	Software licensing	Software as service	Others	Total
	$	$	$	$	$	$
Timing of revenue recognition						
Over time	45,386,401	47,502,351	1,170,535	955,820	605,798	95,620,905
	45,386,401	47,502,351	1,170,535	955,820	605,798	95,620,905

(b) Assets and liabilities related to contracts with customers

	2019
	$
Contract assets	**623,344**
Total contract assets	**623,344**
Contract liabilities	**(1,729,118)**
Total current contract liabilities	**(1,729,118)**

6 Expenses

	2019	2018
	$	$
Employee benefits expenses	**9,712,484**	7,350,352
Depreciation and amortisation	**427,916**	391,311
Impairment of investment in Protegic	**672,410**	145,242

7 Finance income and costs

	2019 **$**	2018 $
Finance income		
Interest income	**9,859**	43,256
Finance income	**9,859**	43,256
Finance costs		
Interest and finance charges paid/payable	**(62,020)**	(32,957)
Finance costs expensed	**(62,020)**	(32,957)

8 Income tax expense

(a) Income tax expense

	2019 **$**	2018 $
Current tax	**823,075**	1,204,547
Deferred tax	**(676,798)**	(311,592)
Income tax expense	**146,277**	892,955

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 **$**	2018 $
Profit from continuing operations before income tax expense	**145,903**	2,956,072
Tax at the Australian tax rate of 30.0% (2018 - 30.0%)	**43,771**	886,822
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of investments	**201,191**	-
Entertainment	**36,556**	50,496
Sundry items	**12,765**	(9,118)
Subtotal	**294,283**	928,200
Tax losses not recognised as deferred tax assets	**232,489**	187,663
Previously unrecognised tax losses now recouped to reduce current tax expense	**(380,495)**	(222,908)
Income tax expense	**146,277**	892,955

(c) Tax losses

	2019 **$**	2018 $
Unused tax losses for which no deferred tax asset has been recognised	**5,397,162**	5,745,607
Potential tax benefit @ 30.0%	**1,619,149**	1,723,682

See note 1(e) for information about recognised tax losses and significant judgements made in relation to them.

9 Cash and cash equivalents

	2019 $	2018 $
Current assets		
Cash at bank and in hand	**4,169,599**	5,747,774

10 Trade and other receivables

	2019 **Current** $	**2019** **Non-current** $	**2019** **Total** $	2018 Current $	2018 Non-current $	2018 Total $
Trade receivables	**15,029,678**	**-**	**15,029,678**	19,195,115	-	19,195,115
Loans to third parties	**-**	**111,635**	**111,635**	-	112,850	112,850
Other receivables	**401,414**	**-**	**401,414**	466,034	-	466,034
Prepayments	**190,716**	**-**	**190,716**	239,956	-	239,956
	15,621,808	**111,635**	**15,733,443**	19,901,105	112,850	20,013,955

11 Other current assets

	2019 $	2018 $
Current assets		
Deposit	**156,095**	206,635

12 Property, plant and equipment

	Plant and equipment $	**Furniture, fittings and equipment** $	**Leasehold improvements** $	**Leased plant and equipment** $	**Total** $
At 30 June 2018					
Cost	1,141,822	209,174	611,655	278,214	2,240,865
Accumulated depreciation	(863,519)	(150,738)	(557,145)	(278,214)	(1,849,616)
Net book amount	278,303	58,436	54,510	-	391,249
Year ended 30 June 2019					
Opening net book amount	278,303	58,436	54,510	-	391,249
Additions	218,475	60,037	-	-	278,512
Disposals	(83,047)	(4,272)	-	-	(87,319)
Depreciation charge	(136,801)	(39,571)	(18,706)	-	(195,078)
Closing net book amount	276,930	74,630	35,804	-	387,364
At 30 June 2019					
Cost	690,697	347,582	56,120	278,214	1,372,613
Accumulated depreciation	(413,767)	(272,952)	(20,316)	(278,214)	(985,249)
Net book amount	276,930	74,630	35,804	-	387,364

13 Intangible assets

	Goodwill $	Software $	Total $
At 30 June 2018			
Cost	775,121	1,392,265	2,167,386
Accumulated amortisation and impairment	-	(960,482)	(960,482)
Net book amount	775,121	431,783	1,206,904
Year ended 30 June 2019			
Opening net book amount	775,121	431,783	1,206,904
Additions	-	124,967	124,967
Amortisation charge	-	(232,838)	(232,838)
Closing net book amount	775,121	323,912	1,099,033
At 30 June 2019			
Cost	775,121	1,555,918	2,331,039
Accumulated amortisation and impairment	-	(1,232,006)	(1,232,006)
Net book amount	775,121	323,912	1,099,033

14 Deferred tax assets

(a) Deferred tax assets

	2019 $	2018 $
The balance comprises temporary differences attributable to:		
Tax losses	**153,992**	60,964
Employee benefits	**1,096,269**	938,472
	1,250,261	999,436
Other		
Accrued expenses	**403,694**	177,574
Other	**174,000**	29,027
Sub-total other	**577,694**	206,601
Total deferred tax assets	**1,827,955**	1,206,037
Set-off of deferred tax liabilities pursuant to set-off provisions (see below (b))	**(315,747)**	(370,627)
Net deferred tax assets	**1,512,208**	835,410
Deferred tax assets expected to be recovered within 12 months	**-**	-
Deferred tax assets expected to be recovered after more than 12 months	**1,512,208**	835,410
	1,512,208	835,410

14 Deferred tax assets (continued)

Movements	**Tax losses $**	**Employee benefits $**	**Other $**	**Total $**
At 1 July 2017	-	525,111	166,044	691,155
(Charged)/credited				
- to profit or loss	60,964	413,361	40,557	514,882
At 30 June 2018	60,964	938,472	206,601	1,206,037
(Charged)/credited				
- to profit or loss	93,028	157,797	371,093	621,918
At 30 June 2019	153,992	1,096,269	577,694	1,827,955

(b) Deferred tax liabilities

	2019 $	2018 $
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**-**	31,701
	-	31,701
Other		
Prepayments	**55,449**	13,405
Accrued income	**260,298**	325,521
Sub-total other	**315,747**	338,926
Total deferred tax liabilities	**315,747**	370,627
Set-off of deferred tax assets pursuant to set-off provisions	**(315,747)**	(370,627)
Net deferred tax liabilities	**-**	-

Movements	**Property, plant and equipment $**	**Other $**	**Total $**
At 1 July 2017	55,146	112,191	167,337
Charged/(credited)			
- profit or loss	(23,445)	226,735	203,290
At 30 June 2018	31,701	338,926	370,627
Charged/(credited)			
- profit or loss	(31,701)	(23,179)	(54,880)
At 30 June 2019	-	315,747	315,747

15 Trade and other payables

	2019			2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Trade payables	**5,191,036**	**-**	**5,191,036**	11,261,046	-	11,261,046
Payroll tax and PAYG	**899,990**	**-**	**899,990**	1,374,147	-	1,374,147
Accrued expenses and other payables	**3,183,048**	**-**	**3,183,048**	3,805,463	-	3,805,463
GST Payable	**1,062,875**	**-**	**1,062,875**	868,839	-	868,839
	10,336,949	**-**	**10,336,949**	17,309,495	-	17,309,495

16 Borrowings

	2019			2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Unsecured						
Loans from third party	**309,029**	**15,450,639**	**15,759,668**	748,263	14,797,459	15,545,722
Loans from shareholders	**-**	**661,782**	**661,782**	-	596,933	596,933
Total unsecured borrowings	**309,029**	**16,112,421**	**16,421,450**	748,263	15,394,392	16,142,655

The total unsecured borrowings from third parties have been classified as non-current liabilities as the Group and the relevant lenders have entered into a formal loan agreement under which the loans cannot be called upon by the lenders for repayment without the lenders providing a minimum notice period of thirteen months. As at the date of the signing of the consolidated financial statements no request for payment has been received by the directors.

The loan agreements have a final repayment date of 30 June 2021.

17 Employee benefit obligations

	2019			2018		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$	**$**	**$**	$	$	$
Leave obligations (a)	**2,792,323**	**89,288**	**2,881,611**	2,358,751	122,026	2,480,777

(a) Leave obligations

The leave obligations cover the Group's liability for long service leave and annual leave.

18 Other current liabilities

	2019	2018
	$	$
Unearned revenue	**-**	1,366,415

19 Contributed equity

(a) Share capital

	2019 Shares	2018 Shares	**2019 $**	2018 $
Ordinary shares				
Fully paid	**4**	4	**4**	4

(b) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

20 Other reserves and accumulated losses

(a) Other reserves

The following table shows a breakdown of the consolidated statement of financial position line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

	Transactions with NCI $
Balance at 1 July 2017	(50,081)
Other comprehensive income	**-**
Transactions with owners in their capacity as owners	
Considerations paid to acquire additional shares	(914,582)
At 30 June 2018	**(964,663)**

	Transactions with NCI $
Balance at 1 July 2018	(964,663)
Other comprehensive income	**-**
At 30 June 2019	**(964,663)**

(i) Nature and purpose of other reserves

Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

20 Other reserves and accumulated losses (continued)

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2019 **$**	2018 $
Balance 1 July	**(7,072,899)**	(8,316,794)
Net profit for the year	**(154,648)**	1,363,895
Other movement	**-**	(120,000)
Balance 30 June	**(7,227,547)**	(7,072,899)

21 Franking credits

	2019 **$**	2018 $
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2018 - 30.0%)	**4,143,966**	2,901,763

The above amounts are calculated from the balance of the franking account as at the end of the reporting year, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

22 Contingent liabilities and contingent assets

Contingent liabilities

The Group had contingent liabilities of $91,099 at 30 June 2019 in respect of a bank guarantee (2018: $83,827).

23 Commitments

(a) Lease commitments: group as lessee

(i) Non-cancellable operating leases

	2019 **$**	2018 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,112,736**	906,459
Later than one year but not later than five years	**2,915,910**	812,125
Later than five years	**447,271**	-
	4,475,917	1,718,584

24 Related party transactions

(a) Parent entities

The Group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2019	2018
Driftwood IT Pty Limited*	Immediate and ultimate Australian parent entity	Australia	**100%**	-
Foundation Technology Holdings Pty Ltd	Immediate and ultimate Australian parent entity	Australia	**-**	100%

* Driftwood IT Pty Limited was established on 30 November 2018.

On 30 November 2018, Driftwood IT Pty Limited acquired all the shares in Foundation Technology Holdings Pty limited and became the immediate and ultimate holding company of the Company.

(b) Subsidiaries

Interests in subsidiaries are set out in note 25(a).

(c) Key management personnel compensation

	2019 **$**	2018 $
Short-term employee benefits	**539,195**	1,150,400
Long-term benefits	**3,347**	2,173
	542,542	1,152,573

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2019 **$**	2018 $
Sales and purchases of goods and services		
Sale of goods	**84,240**	70,768
Purchase of goods	**8,262**	-

25 Interests in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Principal activities
		2019	2018	
		%	%	
Foundation Technology Services Pty Ltd	Australia	**100**	100	IT consulting
Cubic Consulting Pty Ltd	Australia	**100**	100	IT consulting
FTS Resourcing Pty Ltd	Australia	**100**	100	Recruiting
Anatas Pty Ltd	Australia	**100**	100	IT consulting
FTS Nominees Pty Ltd	Australia	**100**	100	Holding company
FTS VHC Pty Ltd	Australia	**100**	100	Holding company
FTS PHC Pty Ltd	Australia	**100**	100	Holding company
SME Gateway Pty Ltd	Australia	**80**	80	Prime contractor organiser
Kobold Group Pty Ltd	Australia	**66**	66	Technical source company
FTS Data & AI Pty Limited	Australia	**58**	100	IT consulting
Veritec Performance Holdings Pty Limited	Australia	**100**	100	Trustee company
Smart Integration Pty Limited	Australia	**100**	100	Dormant company
SME Gateway Holdings Pty Limited	Australia	**100**	100	Holding company
Veritec Pty Ltd	Australia	**79**	79	IT consulting
FTSG Pty Limited	Australia	**100**	100	Share services
Connexxion Pty Ltd	Australia	**100**	100	IT consulting

(b) Interests in associates

Set out below are the associates and joint ventures of the Group as at 30 June 2019. The entity listed below has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		2019	2018			**2019**	2018
		%	%			**$**	$
Protegic Pty Ltd	Australia	**24.42**	17.10	Associate	Equity method	**49,809**	645,569
Total equity accounted investments						**49,809**	645,569

26 Events occurring after the reporting period

(a) Transfer of surplus assets out of the Group

In the period since the end of the reporting period, a number of assets which are surplus to the requirements of the business have been sold or otherwise transferred out of the Group. These include the following:

(i) All the shares in Smart Integration Pty Limited were sold by FTS Nominees Pty Limited for a consideration of $1. FTS Nominees has an investment carrying value of $330,388 in Smart Integration Pty Limited as at 30 June 2019. As the shares in Smart Integration Pty Limited have no value, the disposal of the company should give rise to a loss of $330,388 in the 2020 financial year;

(ii) All the shares in Veritec Performance Holdings Pty Limited were sold by FTS VHC Pty Limited for a consideration of $1;

(iii) Certain loan receivables amounting to $918,000 (including accrued interest), which relate to legacy businesses of the Group, have been sold to a third party for a consideration of $918,000. One of the receivables amounting to $768,000 had been fully provided for in the financial statements to 30 June 2019. Accordingly, the sale of the loan receivables out of the Group has given rise to a profit of $768,000 in the 2020 financial year.

(b) Acquisition of further shares in non-wholly owned subsidiaries

In the period since the end of the reporting period, a member of the Group has acquired further shares in a non-wholly owned subsidiary. Details are as follows:

(i) FTS VHC Pty Limited acquired 11,898 shares in Veritec Pty Limited for a consideration of $177,744.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

27 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2019 $	2018 $
Balance sheet		
Current assets	**-**	2
Non-current assets	**1,208**	14
Total assets	**1,208**	16
Non-current liabilities	**1,206**	14
Shareholders' equity		
Issued capital	**4**	4
Accumulated losses	**(2)**	(2)
	2	2
Loss for the year	**-**	-
Total comprehensive loss	**-**	-

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial guarantees in respect of bank overdrafts and loans.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2019 and 30 June 2018.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2019, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (2018: $nil).

In the directors' opinion:

(a) the consolidated financial statements and notes set out on pages 4 to 34 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards - Reduced Disclosure Requirements, *the Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

Shan Shamsher Kanji
Director

Sydney
7 November 2019

Independent auditor's report

To the members of Foundation Technology Holdings Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of Foundation Technology Holdings Pty Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

K.L. Woombell-Perry

Kerryn Woombell-Perry
Partner

Sydney
7 November 2019