

Fuzenet Pty Ltd

Special Purpose Consolidated Financial Report
For the years ended 30 June 2018 and 30 June 2017

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Directors' Report

Your Directors present their report on Fuzenet Pty Ltd ("Company") and its controlled entities ("Group") for the financial years ended 30 June 2018 and 30 June 2017.

Directors

The names of the Directors in office at any time during or since the end of the year are:

- Stephen Frank Picton (resigned on 30/07/2018)
- Benjamin Edward Seaman

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

The principal activities of the Group during the financial year were to provide retail telecommunication services including internet and phone services to residents and businesses.

There have been no significant changes in the nature of these activities during the year.

Review of operations and financial results

A review of the operations of the Group during the 2018 financial year has seen an increase in sales of 15% to \$14,667,199. The profit of the Group for the 2018 financial year after providing for income tax amounted to \$2,497,488 (2017:\$1,740,966).

Significant changes in state of affairs

No significant changes in the Group's state of affairs occurred during the financial year.

Events arising since the end of the reporting period

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future development, prospects and business strategies

Information about the likely development in the operations of the Group and the expected results of those operations in future years has not been included in this report because, in the opinion of the Directors, their inclusion would prejudice the interests of the Group.

Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

Options

No options over issued shares or interests in the Group were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnities given to, and insurance premiums paid for, auditors and officers

No indemnities have been given or insurance premiums paid, during or since the end of the financials year, for any person who is or has been and officer or auditor of the Group.

Proceedings on behalf of Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors.



Benjamin Edward Seaman
Director

Sydney, 28 October 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|--|-------|------------------|------------------|
| Revenue | 3 | 14,667,199 | 12,748,999 |
| Wholesale and other direct costs | | (8,871,104) | (7,955,280) |
| Gross profit | | 5,796,095 | 4,793,719 |
| Interest income | | 115,247 | 147,550 |
| Finance costs | | (4,572) | (907) |
| Employee benefits expense | | (1,581,640) | (1,759,497) |
| Depreciation and amortisation expense | | (251,983) | (169,942) |
| Other operating expenses | | (671,693) | (448,635) |
| Profit before income tax | 4 | 3,401,454 | 2,562,288 |
| Income tax expense | 5 | (903,966) | (821,322) |
| Profit for the year | | 2,497,488 | 1,740,966 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 2,497,488 | 1,740,966 |

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|----------------------------------|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 8 | 3,948,845 | 873,736 |
| Trade and other receivables | 9 | 1,915,742 | 3,506,177 |
| Inventories | 10 | 247,209 | 57,778 |
| Total current assets | | 6,111,796 | 4,437,691 |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 271,362 | 257,614 |
| Intangible assets | 12 | 536,034 | 398,068 |
| Total non-current assets | | 807,396 | 655,682 |
| Total assets | | 6,919,192 | 5,093,373 |
| Current liabilities | | | |
| Trade and other payables | 13 | 1,800,861 | 1,245,239 |
| Current income tax provision | 14 | 877,855 | 821,322 |
| Finance lease | | 5,672 | 9,693 |
| Employee benefits | 15 | 90,104 | 115,671 |
| Total current liabilities | | 2,774,492 | 2,191,925 |
| Total liabilities | | 2,774,492 | 2,191,925 |
| Net assets | | 4,144,700 | 2,901,448 |
| Equity | | | |
| Issued capital | 16 | 283,800 | 140,417 |
| Options reserve | 17 | - | 62,383 |
| Retained earnings | | 3,860,900 | 2,698,648 |
| Total equity | | 4,144,700 | 2,901,448 |

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity

For year ended 30 June 2018

| | Notes | Issued capital \$ | Retained earnings \$ | Options reserve \$ | Total \$ |
|--|-------|----------------------|-------------------------|-----------------------|--------------------|
| Balance at 1 July 2016 | | 50,232 | 957,682 | 98,568 | 1,106,482 |
| Profit for the year | | - | 1,740,966 | - | 1,740,966 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income for the year | | - | 1,740,966 | - | 1,740,966 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| • options exercised | 17 | 90,185 | | (36,185) | 54,000 |
| • dividends paid or provided for | 7 | - | - | - | - |
| Sub-total | | 90,185 | | (36,185) | 54,000 |
| Balance at 30 June 2017 | | 140,417 | 2,698,648 | 62,383 | 2,901,448 |
| Profit for the year | | | 2,497,488 | | 2,497,488 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income for the year | | - | 2,497,488 | - | 2,497,488 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| • options exercised | 17 | 143,383 | | (62,383) | 81,000 |
| • dividends paid or provided for | 7 | | (1,335,236) | | (1,335,236) |
| Sub-total | | 143,383 | (1,335,236) | (62,383) | (1,254,236) |
| Balance at 30 June 2018 | | 283,800 | 3,860,900 | - | 4,144,700 |

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

For year ended 30 June 2018

| | Notes | 2018 \$ | 2017 \$ |
|---|-------|--------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 16,648,956 | 13,946,138 |
| Payments to suppliers and employees | | (11,074,746) | (12,478,481) |
| Interest received | | 10,277 | - |
| Income tax paid | | (847,424) | (332,150) |
| Net cash provided by operating activities | 20 | 4,737,063 | 1,135,507 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | | |
| Purchase of property, plant and equipment and intangible assets | | (403,697) | (338,536) |
| Net cash (used in) investing activities | | (403,697) | (338,536) |
| Cash flows from financing activities | | | |
| Proceeds from exercise of options | | 81,000 | 54,000 |
| Payments for lease facilities | | (4,021) | (4,021) |
| Dividends paid | | (1,335,236) | - |
| Net cash (used in) financing activities | | (1,258,257) | 49,979 |
| Net change in cash and cash equivalents held | | 3,075,109 | 846,950 |
| Cash and cash equivalents at beginning of financial year | | 873,736 | 26,786 |
| Cash and cash equivalents at end of financial year | 8 | 3,948,845 | 873,736 |

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1 Statement of significant accounting policies

The Directors' have prepared the financial statements on the basis that the Group is a non-reporting entity because there are no users dependent on a general purpose financial report. The financial report is therefore a special purpose financial report.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations and the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1054 *Australian Additional Disclosures*.

Fuzenet Pty Ltd is a Group limited by shares, incorporated and domiciled in Australia. Fuzenet Pty Ltd is a for-profit entity for the purpose of preparing financial statements under Australian Accounting Standards.

1.1 Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

1.2 New and amended standards adopted by the Group

The Group has adopted all the amendments to Australian Accounting Standards issued by the Australian Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2017.

AASB 15 Revenue from Contracts with Customers (December 2014) (Effective from 1 January 2018)

In establishing its revenue recognition policy the company considered the requirements of existing and future accountings standards and has adopted the principles of AASB 15 Revenue from Contracts with Customers. This involves:

- Identifying contracts with customers
- Identifying separate performance obligations
- Determining transaction price
- Allocating transaction price
- Recognising revenue when a performance obligation is satisfied.

The financial statements, including comparative information, reflect the requirements of AASB 15 Revenue from Contracts with Customers.

None of the other amendments have had a significant impact on the Group.

1 Statement of significant accounting policies (continued)

1.3 Accounting standards issued but not yet effective and not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, amendments, and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments, and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

AASB 9 Financial Instruments (December 2014) (Effective from 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
 - the remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies all financial instruments that are subject to impairment accounting.

The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

1 Statement of significant accounting policies (continued)

AASB 16 Leases (Effective from 1 January 2019)

AASB 16 replaces AASB 117 Leases and some lease-related interpretations. AASB 16:

- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The Group has yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

1.1 Significant accounting policies

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Revenue recognition

In establishing its revenue recognition policy the company has considered the requirements of existing and future accountings standards and has adopted the principles of AASB 15 Revenue from Contracts with Customers. This involves:

- Identifying contracts with customers
- Identifying separate performance obligations
- Determining transaction price
- Allocating transaction price
- Recognising revenue when a performance obligation is satisfied.

Rendering of goods and services

Revenue for telecommunication services including telephone, internet and data are recognised as revenue when services are performed. Revenue from services provided, but unbilled, are accrued at the end of each period and unearned revenue (revenue billed in advance) for services to be provided in future periods is deferred.

Revenue from bundled offers is recognised when two or more activities or deliverables are sold under one single arrangement. The total consideration is allocated to distinct performance obligations based on standalone selling prices and is recognised as performance obligations are satisfied.

Revenue for equipment sales is recognised when the device is delivered to the end customer and the sale is considered complete.

Interest

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

Deferred revenue

Deferred revenue is revenue received in advance and is recognised as revenue over the period the services are provided.

Other revenue

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

Income tax

The income tax expense / (revenue) for the year comprises current income tax expense / (income) and deferred tax expense / (income). Current and deferred income tax expense / (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities / (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Deferred tax

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Current and non-current classification

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

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Plant and equipment

Each class of property, plant and equipment is carried at historical cost less, where applicable, any accumulated depreciation and impairment losses. 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. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

| <i>Class of fixed asset</i> | <i>Useful life</i> |
|-----------------------------|--------------------|
| Motor vehicle: | 4 years |
| Office equipment: | 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are 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.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instrument classified as at fair value

through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. 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 for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from derecognition of an intangible asset is measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

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 ten years.

Research and development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and
- The ability to use the intangible asset generated

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Product development costs are amortised over the period of expected future benefit being ten years.

Goodwill

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored and not larger than an operating segment.

Trade and other payables

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

Employee benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's liabilities for annual leave and long service leave are included in other long-term benefits as they 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 measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows.

Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, irrespective of when the actual settlement is expected to take place.

Defined contribution superannuation plans

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

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

Cash and cash equivalents

Cash and cash equivalents comprises 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.

Issued capital

Ordinary shares are classified as equity.

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

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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

2 Significant management judgement in applying accounting policies

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

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors' financial position.

Provision for impairment of inventories

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

Estimation of useful lives of assets

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

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

The Group 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 Group 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.

Employee benefits provision

As discussed in Note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made

in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

3 Revenue from rendering of services

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| Operating activities | | |
| Revenue from rendering of services & sale of goods | 14,667,199 | 12,748,999 |
| Total revenue | 14,667,199 | 12,748,999 |

4 Result for the year

The result for the year has been arrived at after crediting / (charging) the following items:

| | 2018 \$ | 2017 \$ |
|---|--------------|------------|
| a Expenses | | |
| Cost of sales | 8,871,104 | 7,955,280 |
| Rental expense on operating leases: | | |
| • minimum lease payments | 58,344 | 113,036 |
| Amortisation | 124,318 | 101,382 |
| Depreciation | 127,665 | 68,560 |
| Defined contribution superannuation expense | 132,118 | 135,334 |
| b Finance costs | | |
| Interest expense for financial liabilities: | | |
| • interest and finance charges | 4,572 | 907 |
| Total finance costs | 4,572 | 907 |

5 Income tax expense

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| a The components of income tax expense comprise: | | |
| • current tax | 903,966 | 821,322 |
| | 903,966 | 831,322 |

6 Auditor's remuneration

| | 2018 \$ | 2017 \$ |
|---|---------------|---------------|
| Remuneration of the auditor of Group, Grant Thornton Audit Pty Ltd for: | | |
| • auditing the financial statements | 25,000 | 25,000 |
| • taxation services | - | - |
| Total auditor's remuneration | 25,000 | 25,000 |

7 Dividends

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Distributions paid | | |
| <ul style="list-style-type: none"> Declared fully franked ordinary dividend of \$86.80 per share (2017: nil) franked at the tax rate of 27.5% (2017: nil) | 1,335,236 | - |
| The amount of the franking credits available for subsequent reporting periods are: | | |
| <ul style="list-style-type: none"> balance at the end of the reporting period | 750,593 | 475,413 |

8 Cash and cash equivalents

| | 2018 \$ | 2017 \$ |
|-------------------|------------------|----------------|
| Cash on hand | 482 | 232 |
| Cash at bank | 3,948,363 | 873,504 |
| Total cash | 3,948,845 | 873,736 |

9 Trade and other receivables

| | 2018 \$ | 2017 \$ |
|--|------------------|------------------|
| Current | | |
| Trade receivables | 1,024,533 | 796,906 |
| Provision for impairment of receivables | (153,507) | (195,393) |
| Other receivables | 675,040 | 557,259 |
| LBN Co loan | 369,676 | 2,347,405 |
| Total current trade and other receivables | 1,915,742 | 3,506,177 |

10 Inventories

| | 2018 \$ | 2017 \$ |
|--|------------|------------|
| Current | | |
| At cost: | | |
| <ul style="list-style-type: none"> raw materials and stores | 111,249 | 57,778 |
| <ul style="list-style-type: none"> stock in transit | 135,960 | - |
| | 247,209 | 57,778 |

11 Property, plant and equipment

| | 2018 \$ | 2017 \$ |
|---------------------------------------|----------------|----------------|
| Office equipment/routers | | |
| At cost | 452,234 | 310,821 |
| Accumulated depreciation | (182,446) | (59,174) |
| Total office equipment/routers | 269,788 | 251,647 |
| Motor vehicles | | |
| At cost | 17,570 | 17,570 |
| Accumulated depreciation | (15,996) | (11,603) |
| Total motor vehicles | 1,574 | 5,967 |
| Total plant and equipment | 271,362 | 257,614 |

12 Intangible assets

| | 2018 \$ | 2017 \$ |
|--------------------------------|----------------|----------------|
| Software | | |
| Cost | 839,772 | 577,488 |
| Accumulated amortisation | (336,677) | (223,339) |
| Total software | 503,095 | 354,149 |
| Goodwill | | |
| Goodwill | 32,939 | 43,919 |
| Total intangible assets | 536,034 | 398,068 |

13 Trade and other payables

| | 2018 \$ | 2017 \$ |
|---------------------------------------|------------------|------------------|
| Current | | |
| Trade payables | 876,253 | 483,315 |
| Accruals | 196,459 | 14,178 |
| Net GST payable | 100,259 | 108,143 |
| Other payables | 627,890 | 639,603 |
| Total trade and other payables | 1,800,861 | 1,245,239 |

14 Taxation

| | 2018 \$ | 2017 \$ |
|---------------------------|----------------|----------------|
| Current | | |
| Income tax payable | 877,855 | 821,322 |

15 Employee benefits

| | 2018 \$ | 2017 \$ |
|--------------------|---------------|----------------|
| Current | | |
| Annual leave | 87,404 | 92,467 |
| Long service leave | 2,700 | 23,204 |
| | 90,104 | 115,671 |

The current portion of these liabilities represents FuzeNet Pty Ltd.'s obligations to which the employee has a current legal entitlement. These liabilities arise mainly from accrued annual leave entitlement at reporting date.

16 Issued capital

| | 2018 Shares | 2017 Shares | 2018 \$ | 2017 \$ |
|--|----------------|----------------|------------|------------|
| 15,383 (2017: 14,614) fully paid ordinary shares | 15,383 | 14,614 | 283,800 | 140,417 |

The Group does not have a limited amount of authorised capital and issued shares do not have a par value.

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

17 Options reserve

| | Number | Total \$ |
|-------------------------|--------|-------------|
| Balance at 1 July 2016 | 1,538 | 98,568 |
| Options exercised | (769) | (36,185) |
| Balance at 30 June 2017 | 769 | 62,383 |
| Options exercised | (769) | (62,383) |
| Balance at 30 June 2018 | - | - |

18 Leases

| | 2018 \$ | 2017 \$ |
|---|------------|------------|
| a Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements – minimum lease payments: | | |
| • not later than 12 months | 58,344 | 58,344 |
| • between 12 months and five years | - | 58,344 |
| • greater than 5 five years | - | - |
| | 58,344 | 116,688 |

19 Contingent assets and contingent liabilities

In the normal course of business, the Group may be exposed to potential claims and contingencies. The Directors have assessed all current and potential future claims and deemed no claims exist not provided elsewhere in these financial statements to be significant.

20 Cash flow information

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| a Reconciliation of cash flow from operations with profit after income tax | | |
| Profit after income tax | 2,497,488 | 1,740,966 |
| Non-cash flows in profit: | | |
| • depreciation and amortisation | 251,983 | 169,942 |
| Changes in assets and liabilities: | | |
| • decrease in trade and other receivables | 1,590,435 | (1,712,864) |
| • increase in inventories | (189,431) | 30,556 |
| • (increase) / decrease in trade and other payables | 555,622 | 364,620 |
| • increase / (decrease) in income taxes payable | 56,542 | 489,172 |
| • increase / (decrease) in employee benefits | (25,576) | 53,115 |
| Net cash provided by operating activities | 4,737,063 | 1,135,507 |

21 Interests in subsidiaries

| | Country of Incorporation | Percentage owned* 2018 % | 2017 % |
|---|-----------------------------|--------------------------------|-----------|
| Subsidiaries of FuzeNet Pty Ltd: | | | |
| Fuzeconnect Pty Ltd | Australia | 100% | 100% |
| Fibreworks Pty Ltd | Australia | 100% | 100% |
| L K Internet Pty Ltd | Australia | 100% | 100% |

* Percentage of voting power is in proportion to ownership

22 Parent entity information

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

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Statement of profit or loss and other comprehensive income | | |
| Profit after income tax | 2,476,928 | 1,744,342 |
| Total comprehensive income | 2,476,928 | 1,744,342 |
| Statement of financial position | | |
| Total current assets | 6,091,099 | 4,434,545 |
| Total assets | 6,898,495 | 5,090,227 |
| Total current liabilities | 2,770,979 | 2,185,403 |
| Total liabilities | 2,770,979 | 2,185,403 |
| Equity | | |
| Issued capital | 283,800 | 140,417 |
| Retained earnings | 3,843,716 | 2,702,024 |
| Options reserve | - | 62,383 |
| Total equity | 4,127,516 | 2,904,824 |

Contingent liabilities

The parent entity has no contingent assets or contingent liabilities, as defined by Australian Accounting Standards, other than as disclosed in these financial statements.

Capital commitments – property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

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

- Investments in subsidiaries are accounted for at cost, less any impairment.

23 Events after the reporting date

Subsequent to year end the company paid a dividend of \$4,291,899 to shareholders. No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

24 Company details

The registered office of the Company is:

FuzeNet Pty Ltd
171 Victoria Road
Gladesville NSW 2111

The principal place of business is:

FuzeNet Pty Ltd
171 Victoria Road
Gladesville NSW 2111

Directors' Declaration

The Directors have determined that the Group is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The Directors of the Group declare that:

- 1 The financial statements and notes, as set out on pages 5 to 22:
 - a Comply with Accounting Standards as described in Note 1 to the financial statements, and other mandatory professional reporting requirements; and
 - b Give a true and fair view of the financial position as at 30 June 2018 and 30 June 2017 and of the performance for the years ended on that date of the Group in accordance with the accounting policies described in Note 1 to the financial statements; and
- 2 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 the Board of Directors.



Director
Benjamin Edward Seaman

Dated the 28th day of October 2018

Independent Auditor's Report

To the Members of Fuzenet Pty Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Fuzenet Pty Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018 and as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Fuzenet Pty Ltd:

- a presents fairly, in all material respects, the Group's financial position as at 30 June 2018 and 30 June 2017 and of its performance and cash flows for the years then ended in accordance with the accounting policies in Note 1; and
- b complies with Australian Accounting Standards to the extent described in Note 1.

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 are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

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

Emphasis of matter – basis of accounting

We draw attention to Note 1 of the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Company's financial reporting responsibilities to its Members. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Information other than the financial report and auditor's report thereon

Management is responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018 and 30 June 2017, but does not include the financial report and our auditor's report thereon.

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, 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 management and those charged with governance for the financial report

Management is responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies used and described in Note 1 to the financial report are appropriate to meet the requirements and needs of the Members. This responsibility also includes such internal control as management determines is necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 this 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M D Dewhurst
Partner – Audit & Assurance
Sydney, 28 October 2018