# Consolidated Operations Group Limited
# and its controlled entities

ABN 58 100 854 788

## Appendix 4D & Half year Financial Report

**Results for announcement to the market**
**Half year ended 31 December 2018**

*Comparisons are to the period ended 31 December 2017 (unless specified for 30 June 2018)*

| | 31 December 2018 $'000 | 31 December 2017 (1) $'000 | up/down | % movement |
|---|---|---|---|---|
| Revenue from continuing operations | 105,132 | 75,768 | up | 39% |
| Net profit from continuing operations after tax | 4,523 | 3,940 | up | 15% |
| Net profit from continuing operations after tax, attributable to members | 2,835 | 2,100 | up | 35% |

| | 31 December 2018 cents | 31 December 2017 (1) cents |
|---|---|---|
| Earnings per share, attributable to members | 0.22 | 0.16 |

| | 31 December 2018 $'000 | 30 June 2018 (1) $'000 |
|---|---|---|
| **Net assets** | **195,508** | **189,879** |
| *Less:* Intangible assets and goodwill | (157,891) | (145,407) |
| Non-controlling interests | (16,209) | (15,206) |
| **Net tangible assets** | **21,408** | **29,266** |
| **NTA per share (cents)** | **1.60** | **2.26** |

**Commentary and explanations of the results**
Please see the review of operations in the Directors' Report.

**Dividends**
There were no dividends paid, declared or proposed during the period (2017: nil).

**Cameron McCullagh**
Executive Director
Date: 27 February 2019

**Notes**

1. The Group has initially applied AASB 15 Revenue from contracts with customers and AASB 9 Financial Instruments at 1 July 2018.
   - Note 4 outlines the impact of adopting AASB 15 using the cumulative effect method, under which the comparative information is not restated.
   - Note 5 outlines the impact of implementing AASB 9 to the Group's existing financial performance and position; including restatement of the prior period comparative information presented above. Note 5 also includes additional information as at 30 June 2017 to aid the users of the financial report to understand the impact on prior comparative periods.
2. This report is based on the financial report which has been the subject of review by the auditors and their review report is attached as part of the financial report.
3. All the documents comprise the information required by listing rule 4.2A. The information should be read in conjunction with the audited 30 June 2018 annual financial report and all ASX announcements made by the Company during the interim reporting period.

# Consolidated Operations Group Limited
# and its controlled entities

ABN 58 100 854 788

Financial Report

For the period ended 31 December 2018

## Contents

Directors' Report ........ 4
Auditor's independence declaration ........ 7
Statement of Comprehensive Income ........ 8
Statement of Financial Position ........ 9
Statement of Changes in Equity ........ 10
Statement of Cash Flows ........ 11
Notes to the Financial Statements ........ 12
Directors' Declaration ........ 26
Independent Auditor's Review Report ........ 27

## Directors' Report

The Directors of Consolidated Operations Group Limited (COG or the Company) and its controlled entities (the Group), present their report together with the financial statements of the Group, for the period ended 31 December 2018.

**Directors' details**

The following persons were Directors of the Company during or since the end of the period:
Patrick Tuttle - Chairman effective 31 January 2019 (appointed as Non-executive Director 3 October 2018)
Steve White - Non-executive Director
Bruce Hatchman - Non-executive Director (Chairman until 30 January 2019)
Cameron McCullagh - Executive Director
Rohan Ford - Executive Director
David Gray - Non-executive Director (retired 16 November 2018)

**Principal activities**

The Company is an Australian Securities Exchange (ASX) listed company whose principal activities are in the equipment finance sector. The investment objective of the Company is to grow its earnings per share from investing in complementary entities and growing existing businesses that specialise in equipment finance broking, finance aggregation and commercial leases for essential business assets.

**Review of operations and financial results**

***Review of operations***

In December 2015, Consolidated Operations Group Limited commenced its strategic plan to become a key trusted advisor to the small to medium enterprise (SME) sector via the acquisition of interests in asset finance brokers and aggregation platforms. Since commencement, COG has established a nationwide distribution capability with critical mass. In 2018, COG settled $3.4 billion of net asset finance (NAF) through its finance broking aggregation platforms. At the 2018 AGM, COG advised that its annualised net asset finance settlements were running at approximately $4.3 billion, reflecting the contribution of acquisitions made in half year 2019. COG estimates it now accounts for around 17% of annual net asset finance settled by finance brokers in Australia, representing the largest finance broker aggregation platform in Australia.

With a view to further leveraging its strong distribution network, COG is increasing its focus on expanding its own manufactured financial product portfolio into this owned and partner distribution network. The Group continues to provide operating lease finance to SMEs and in the future will offer auto loans, commercial finance leases and invoice financing. To facilitate this expanded product offering, the Group continues to focus on establishing a warehouse facility with a major Australian Bank. The Group will also necessarily incur some future capital expenditure to develop a system to capture and manage all loan applications and settled loan data from all users of its distribution network.

The Group's focus during the period continued to be on the first step of its strategy which is the consolidation of the asset finance brokers and made the following acquisitions during the period:

- 100% of the share capital of Centrepoint Finance Pty Limited for $8,338k net consideration,
- 50% of the share capital of Heritage Group for $4,851k net consideration, and
- 50% of the share capital of Sovereign Tasmania Pty Limited for $2,227k consideration.

In addition, during the period, the Group acquired a 32% interest in Westlawn Finance Limited a debenture funder based in the NSW Northern Rivers Region. Consideration paid was $10,000k in cash and $4,306k in COG shares. Westlawn provides funding to the Group's Commercial Equipment Leasing segment and is expected to be instrumental in the Group's future growth.

With these key strategic asset finance broker acquisitions having been completed the Group is embarking on the second phase of its strategic plan, to provide new finance product to its asset finance broker network.

## Directors' Report (continued)

**Review of operations and financial results (continued)**

***Review of operations (continued)***

The Group has recruited two people with substantial skills and experience in the non-bank finance and securitisation sector. Patrick Tuttle initially joined the Group as a Non-executive Director and has now moved to Chairman and Andrew Bennett who initially joined the Group as an Executive Director and has now moved to Group Chief Executive Officer. These two key appointments provide the Group with the necessary experience and depth to execute the next step of its plan. The Group intends to continue to acquire asset finance brokers, however this will be on an opportunistic basis, as the main focus of the business over the next 12 months will be the delivery of an expanded financial product offering.

***Financial results***

*Group financial performance*

Profit after tax, attributable to members of the Group for the period ended 31 December 2018 was $2,835k, 35% greater than the pcp (2017: $2,100k). Earnings per share, attributable to members from continuing operations was 0.22 cents per share for the period, 38 % greater than the pcp (2017: 0.16 cents per share).

The Group's net asset position as at the end of the period was $195,508k (30 June 2018: $189,879k).

During the financial period the Group implemented the requirements of two new accounting standards; AASB 15 *Revenue from contracts with customers* and AASB 9 *Financial Instruments*, details of the impact of the above are outlined in Notes 4 and 5 respectively.

*Finance Broker & Aggregation*

Revenue in the Finance Broker and Aggregation (FB&A) segment for period ended 31 December 2018 was $86,924k (up 35% from $64,548k in pcp). The $22,376k increase included $5,015k from new acquisitions made during the period. EBITDA before minority interests was up 7% to $8,347k ($7,818k in pcp).

The Australian credit markets experienced some tightening in the December 2018 quarter as a result of reduced credit appetite by lending institutions. This tightening was most notable in the prime residential mortgage market and also affected consumer auto loans. The Group does have exposure to the consumer auto loan sector and volumes were lower than forecast for the period, however performance in other sectors was stronger than expected and on an aggregated basis the FB&A sector broadly performed in line with expectations. The Group's strategy of diversification by asset class and geography protects it from being too highly exposed to a particular segment of the economy.

The Group's total NAF through its FB&A operations for the period ended 31 December 2018 was $2.0bn and is an increase of 25% over the prior corresponding period. The Group estimates that it now represents approximately 17% of the total intermediated asset finance market.

*Commercial Equipment Leasing*

This segment has performed well during the period, with revenue of $13,399k, up 70% on the pcp (2017: $7,895k) and NPBT up 135% to $3,044k ($1,297k in pcp). However, origination volumes of $24.8m for the half were less than the $26.3m in the pcp. This lower origination number is a function of slightly tighter credit criteria being applied together with some temporary shortage of sales personnel. Additional sales resources have been recruited and the Group is confident the second half will deliver an improved result, given the current pipeline of opportunities. The Group is also confident this growth in originations will extend into the 2020 financial year. Approximately 17% of the CEL segment's origination volumes are referred from members of the FB&A segment and it is expected that this will continue to grow.

**Dividends**

No dividends were paid or declared during the year.

## Directors' Report (continued)

**Events subsequent to reporting date**
On 11 February 2019, the Group, through its 50% owned subsidiary Linx Group Holdings Pty Limited (Linx), completed the 50% acquisition of equipment finance broker Sovereign Tasmania Pty Limited (Sovereign). The acquisition was concluded for total consideration of $2,227k comprised of $557k of COG's shares and $1,670k of cash. Initial accounting is still to be completed as the fair value of identifiable net assets acquired is yet to be determined.

Apart from the above, there have been no events subsequent to reporting date which could have a material impact on the Group's financial report.

**Rounding of amounts**
In accordance with *ASIC Corporations (Rounding in Financial/Director Reports) Instrument 2016/191*, the amounts in the Directors' Report have been rounded to the nearest thousand Australian dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors on 27 February 2019.

**Patrick Tuttle**
Chairman

**Cameron McCullagh**
Executive Director

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

**DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF CONSOLIDATED OPERATIONS GROUP LIMITED**

As lead auditor for the review of Consolidated Operations Group Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Consolidated Operations Group Limited and the entities it controlled during the period.

Gareth Few
Partner

**BDO East Coast Partnership**

Sydney, 27 February 2019

## Statement of Comprehensive Income
For the period ended 31 December 2018

| | Notes | 31 December 2018 $'000 | 31 December 2017 [1] $'000 |
|---|---|---|---|
| Revenue from continuing operations | 4 | 105,132 | 75,768 |
| Cost of sales | | (28,973) | (21,592) |
| Commissions paid | | (34,300) | (22,328) |
| Employee benefits expense | | (16,707) | (13,317) |
| Administration expenses | | (8,956) | (5,008) |
| Occupancy expenses | | (1,444) | (1,143) |
| Finance costs | | (4,950) | (3,589) |
| Depreciation and amortisation | | (2,712) | (2,956) |
| Acquisition-related expenses | | (411) | (269) |
| Other expenses | | (155) | (372) |
| Share of results from associates | | (395) | 163 |
| **Profit before income tax** | | **6,129** | **5,357** |
| Income tax expense | | (1,606) | (1,417) |
| **Profit after tax for the period** | | **4,523** | **3,940** |
| | | | |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to the statement of profit or loss* | | | |
| Foreign currency translation differences | | (5) | (17) |
| **Total comprehensive income for the period** | | **4,518** | **3,923** |
| | | | |
| **Profit after tax attributable to:** | | | |
| Members of Consolidated Operations Group Limited | | 2,835 | 2,100 |
| Non-controlling interests | | 1,688 | 1,840 |
| **Total profit after tax for the period** | | **4,523** | **3,940** |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Members of Consolidated Operations Group Limited | | 2,830 | 2,083 |
| Non-controlling interests | | 1,688 | 1,840 |
| **Total comprehensive income for the period** | | **4,518** | **3,923** |
| | | | |
| **Basic and diluted earnings per share from continuing operations, attributable to members (cents):** | | 0.22 | 0.16 |

1. The Group has initially applied AASB 15 and AASB 9 at 1 July 2018.
    - Note 4 outlines the impact of adopting AASB 15 using the cumulative effect method, under which the comparative information is not restated.
    - Note 5 outlines the impact of implementing AASB 9 to the Group's existing financial performance and position; including restatement of the prior period comparative information presented above. Note 5 also includes additional information as at 30 June 2017 to aid the users of the financial report to understand the impact on prior comparative periods.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Statement of Financial Position

As at 31 December 2018

| | Notes | 31 December 2018 $'000 | 30 June 2018 [1] $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash and cash equivalents | | 16,698 | 36,246 |
| Trade and other receivables | | 10,595 | 14,040 |
| Contract assets | | 2,079 | 1,697 |
| Financial assets – lease receivables | | 35,199 | 32,855 |
| Inventories | | 624 | 191 |
| Other financial assets | | 2,209 | 1,205 |
| **Total current assets** | | **67,404** | **86,234** |
| **Non-current** | | | |
| Contract assets | | 4,845 | 4,336 |
| Financial assets – lease receivables | | 71,205 | 67,740 |
| Other financial assets | | 5,693 | 6,533 |
| Equity accounted associates | | 15,524 | 1,487 |
| Property, plant and equipment | | 1,344 | 1,383 |
| Intangible assets and goodwill | | 157,891 | 145,407 |
| **Total non-current assets** | | **256,502** | **226,886** |
| **Total assets** | | **323,906** | **313,120** |
| **Liabilities** | | | |
| **Current** | | | |
| Trade and other payables | | 9,079 | 12,352 |
| Unearned income | | 5,267 | 5,796 |
| Interest bearing liabilities | | 42,708 | 37,511 |
| Current tax liabilities | | 1,709 | 1,935 |
| Provisions | | 2,603 | 2,105 |
| **Total current liabilities** | | **61,366** | **59,699** |
| **Non-current** | | | |
| Provisions | | 731 | 496 |
| Interest bearing liabilities | | 57,101 | 55,077 |
| Deferred tax liabilities | | 6,913 | 7,543 |
| Trade and other payables | | 2,287 | 426 |
| **Total non-current liabilities** | | **67,032** | **63,542** |
| **Total liabilities** | | **128,398** | **123,241** |
| **Net assets** | | **195,508** | **189,879** |
| **Equity** | | | |
| Share capital | 6 | 220,674 | 215,670 |
| Accumulated losses | | (81,369) | (81,369) |
| Reserves | | 39,994 | 40,372 |
| Non-controlling interests | | 16,209 | 15,206 |
| **Total equity** | | **195,508** | **189,879** |

1. The Group has initially applied AASB 15 and AASB 9 at 1 July 2018.
   - Note 4 outlines the impact of adopting AASB 15 using the cumulative effect method, under which the comparative information is not restated.
   - Note 5 outlines the impact of implementing AASB 9 to the Group's existing financial performance and position; including restatement of the prior period comparative information presented above. Note 5 also includes additional information as at 30 June 2017 to aid the users of the financial report to understand the impact on prior comparative periods.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

For the period ended 31 December 2018

| | Share Capital $'000 | Accumulated losses [1] $'000 | Reserves [1] $'000 | Non-controlling interests $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | **215,670** | **(81,369)** | **40,372** | **15,206** | **189,879** |
| Adjustment on initial application of AASB 15 (net of tax) | - | - | 321 | - | **321** |
| **Adjusted balance at 1 July 2018** | **215,670** | **(81,369)** | **40,693** | **15,206** | **190,200** |
| Net profit for the period, after tax | - | 2,835 | - | 1,688 | **4,523** |
| Movement in reserves | - | - | (5) | - | **(5)** |
| **Total comprehensive income for period** | **-** | **2,835** | **(5)** | **1,688** | **4,518** |
| **Transactions with owners:** | | | | | |
| Non-controlling interests acquired | 22 | - | (3,529) | (1,174) | **(4,681)** |
| Dividends | - | - | - | (2,121) | **(2,121)** |
| Issue of share capital | 5,075 | - | - | - | **5,075** |
| Non-controlling interest acquisition contribution | - | - | - | 2,610 | **2,610** |
| Costs of raising capital, net of tax | (93) | - | - | - | **(93)** |
| Transfer to reserves | - | (2,835) | 2,835 | - | **-** |
| **Balance at 31 December 2018** | **220,674** | **(81,369)** | **39,994** | **16,209** | **195,508** |
| **Balance at 1 July 2017** | **216,216** | **(81,369)** | **36,437** | **14,493** | **185,777** |
| Net profit for the period, after tax | - | 2,100 | - | 1,840 | **3,940** |
| Movement in reserves | - | - | (17) | - | **(17)** |
| **Total comprehensive income for period** | **-** | **2,100** | **(17)** | **1,840** | **3,923** |
| **Transactions with owners:** | | | | | |
| Non-controlling interests acquired | - | - | - | (8) | **(8)** |
| Dividends | - | - | - | (1,888) | **(1,888)** |
| Issue of share capital | 787 | - | - | - | **787** |
| Non-controlling interest acquisition contribution | - | - | - | 777 | **777** |
| Costs of raising capital, net of tax | (97) | - | - | - | **(97)** |
| Transfer to reserves | - | (2,100) | 2,100 | - | **-** |
| **Balance at 31 December 2017** | **216,906** | **(81,369)** | **38,520** | **15,214** | **189,271** |

1. The Group has initially applied AASB 15 and AASB 9 at 1 July 2018.
   - Note 4 outlines the impact of adopting AASB 15 using the cumulative effect method, under which the comparative information is not restated.
   - Note 5 outlines the impact of implementing AASB 9 to the Group's existing financial performance and position; including restatement of the prior period comparative information presented above. Note 5 also includes additional information as at 30 June 2017 to aid the users of the financial report to understand the impact on prior comparative periods.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Statement of Cash Flows

For the period ended 31 December 2018

| | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | 132,972 | 93,938 |
| Payments to suppliers and employees | (108,730) | (73,719) |
| Dividends received | - | 82 |
| Finance costs paid | (4,735) | (3,589) |
| Income taxes paid | (2,315) | (3,009) |
| **Net cash inflow from operating activities** | **17,192** | **13,703** |
| | | |
| **Cash flows from investing activities** | | |
| Net cash outflow on acquisitions | (25,184) | (695) |
| Payments for deferred consideration | - | (402) |
| Payments for equipment – finance leases | (24,845) | (26,264) |
| Payments for property, plant and equipment | (200) | (113) |
| Payment for Intangible assets | (542) | (433) |
| Proceeds from sale of property, plant and equipment | 1 | 63 |
| Loan repayments received | 33 | - |
| **Net cash (outflow) from investing activities** | **(50,737)** | **(27,844)** |
| | | |
| **Cash flows from financing activities** | | |
| Non-controlling interest acquisition contribution | 2,610 | 777 |
| Costs of raising capital and share buy back | (93) | (17) |
| Proceeds from interest bearing liabilities | 32,271 | 27,329 |
| Repayments of interest bearing liabilities | (18,670) | (11,339) |
| Dividends paid by subsidiaries to non-controlling interests | (2,121) | (1,888) |
| **Net cash inflow from financing activities** | **13,997** | **14,862** |
| | | |
| **Net (decrease)/ increase in cash and cash equivalents** | **(19,548)** | **721** |
| Cash and cash equivalents, beginning of the financial year | 36,246 | 39,837 |
| **Cash and cash equivalents, end of the period** | **16,698** | **40,558** |
| | | |
| **Non-cash investing and financing activities:** | | |
| Scrip consideration issued for acquisitions of investments | 5,097 | 787 |

The above Statement of Cashflows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

**NOTE 1. GENERAL INFORMATION**

Consolidated Operations Group Limited (COG or the Company) and its controlled entities (the Group) is an Australian Securities Exchange (ASX) listed Company whose principal activities are primarily focused on the equipment finance sector. The investment objective of the Group is to grow its earnings per share from investing in complementary entities and growing existing businesses that specialise in equipment finance broking, finance aggregation and commercial leases for essential business assets.

COG is the ultimate parent of the Group and is a for-profit listed Company limited by shares, incorporated and domiciled in Australia.

The financial statements have been approved and authorised for issue by the Board of Directors on 27 February 2019.

<u>The registered office is:</u>
C/O David Franks
Level 5, 126 Phillip Street,
Sydney, NSW 2000
Phone 1300 288 664

<u>Principal place of business:</u>
Level 1, 72 Archer Street,
Chatswood, NSW 2067
Phone 1300 137 146

**NOTE 2. OPERATING SEGMENTS**

The Group has three operating segments based upon the product and services offered by business units within each segment. The Group presents the below financial information to the Chief Operating Decision Makers (being the Board of Directors), on a monthly basis.

The Group's reportable segments are as follows:

- *Finance Broking & Aggregation* activities comprise business units focused on aggregation of broker volumes to encourage profitability through scale and finance broking focused on motor and equipment finance,
- *Commercial Equipment Leasing* activities are focused on providing bespoke financing arrangements for essential business assets for commercial customers,
- *All Other / Intersegment* activities include:
  - Hal Group, who provide IT services, and
  - Consolidated Operations Group who provides head office functions for the Group.

| **Period ended 31 December 2018** | **Finance Broking & Aggregation $'000** | **Commercial Equipment Leasing (1) $'000** | **All Other / Intersegment $'000** | **Total $'000** |
|---|---|---|---|---|
| Revenue | 86,924 | 13,399 | 4,571 | 104,894 |
| **EBITDA from core operations** | **8,347** | **7,559** | **(1,547)** | **14,359** |
| Interest income | | | | 238 |
| Finance costs | | | | (4,950) |
| Depreciation and amortisation | | | | (2,712) |
| Acquisition and integration | | | | (411) |
| Share of results from associates | | | | (395) |
| **Profit before tax** | | | | **6,129** |
| Income tax expense | | | | (1,606) |
| **Profit after tax** | | | | **4,523** |
| Non-controlling interests | | | | (1,688) |
| **Profit after tax, attributable to members** | | | | **2,835** |

(1) Commercial Equipment Leasing segment EBITDA from core operations includes interest income from leasing activities as these are core to segment activities.

# Notes to the Financial Statements (continued)

## NOTE 2. OPERATING SEGMENTS (CONTINUED)

| Period ended 31 December 2017 | Finance Broking & Aggregation $'000 | Commercial Equipment Leasing (1) $'000 | All Other / Intersegment $'000 | Total $'000 |
|---|---|---|---|---|
| Revenue | 64,548 | 7,895 | 2,811 | 75,254 |
| **EBITDA from core operations** | **7,818** | **5,057** | **(1,381)** | **11,494** |
| Dividend income | | | | 82 |
| Interest income | | | | 432 |
| Finance costs | | | | (3,589) |
| Depreciation and amortisation | | | | (2,956) |
| Acquisition and integration | | | | (269) |
| Share of results from associates | | | | 163 |
| **Profit before tax** | | | | **5,357** |
| Income tax expense | | | | (1,417) |
| **Profit after tax** | | | | **3,940** |
| Non-controlling interests | | | | (1,840) |
| **Profit after tax, attributable to members** | | | | **2,100** |

(1) Commercial Equipment Leasing segment EBITDA from core operations includes interest income from leasing activities as these are core to segment activities.

## NOTE 3. BUSINESS COMBINATIONS

***Centrepoint Finance***

Effective 1 September 2018, COG acquired 100% of Centrepoint Finance Pty Limited (Centrepoint) for $8,338k net consideration which includes contingent consideration of between $nil and $1,900k lower and upper band limits payable within 3 months subsequent to the end of the financial year ending 30 June 2020. The contingent consideration is based on EBITDA performance over the next two financial years. Centrepoint operates as an equipment finance broker within an established corporate model providing compliance and support services to its employee brokers and Business Partner Brokers in New South Wales, Queensland, Victoria and Western Australia including the use of a common proprietary Equipment Finance software system – BROOS.

The acquired business contributed revenues of $4,491k and net profit after tax of $100k to the Group for the period from 1 September 2018 to 31 December 2018; if Centrepoint had been held for the entire period it would have contributed revenue and net profit after tax of $7,000k and $149k respectively. Total expenses of $60k were included in acquisition-related costs in relation to the Centrepoint business combination.

***Heritage Group***

On 2 November 2018, the Group acquired 50% of the Heritage Group through its 50% owned subsidiary Linx Group Holdings Pty Limited (Linx) for $4,851k net consideration. The Heritage Group has two primary business operations:

- Heritage Finance is an equipment finance broker specialising in arranging asset finance for commercial clients particularly in the transport services sector and forestry and infrastructure services sectors.
- Heritage Corporate specialises in advising private companies on the sale of their business or acquisition of competitors (primarily in the transport services sector).

## Notes to the Financial Statements (continued)

### NOTE 3. BUSINESS COMBINATIONS (CONTINUED)

***Heritage Group (continued)***

The Heritage Group comprises two operating partnerships (Heritage Finance Partnership and Heritage Corporate Partnership) which are managed by related management companies (Heritage Finance Management Pty Limited and Heritage Corporate Management Pty Limited), collectively referred to as the 'Heritage Group'. Linx has an option between 1 July and 31 July each year into perpetuity to acquire the remaining 50% of the Heritage Group for five-times the average of the preceding three years normalised EBITDA, additional rights of first refusal are available to Linx should any of the non-controlling shareholders transition out of the business.

The acquired business contributed revenues of $524k and net profit after tax of $175k to the Group for the period from 2 November 2018 to 31 December 2018. Total expenses of $148k were included in acquisition-related costs in relation to the Heritage Group business combination.

***Geelong Financial Group***

On 10 August 2018, Vehicle & Equipment Finance Pty Limited (VEF) a subsidiary with 33% effective ownership by COG acquired 50% of Geelong Financial Group for $258k cash consideration. Geelong Financial Group is comprised of the GFG V&E Unit Trust and Geelong Financial Group Vehicle & Equipment Pty Limited as trustee for the unit trust. Geelong Financial Group is an equipment finance broker primarily operating in Victoria.

***Acquisition values***

For the acquisitions outlined above:

- goodwill associated with the acquisitions primarily relates to synergies due to scale and operational efficiencies through the sharing of operational expertise throughout the Group and is not expected to be tax deductible,
- acquired receivables are recorded at their contractual cashflow amounts which are consistent with their fair values at acquisition date,
- non-controlling interests are measured at their proportion of ownership of the fair value of net assets at acquisition date, and
- acquisition accounting remains provisional.

The values identified for the above acquisitions as at 31 December 2018 are as follows:

| | Centrepoint $'000 | Heritage Group $'000 | Geelong Financial Group $'000 |
|---|---|---|---|
| **Purchase consideration** | | | |
| Shares in Consolidated Operations Group Limited | 769 | - | - |
| Cash consideration | 7,544 | 4,962 | 258 |
| Deferred consideration | 1,704 | - | - |
| Less: Cash and cash equivalents acquired | (1,679) | (111) | - |
| | **8,338** | **4,851** | **258** |
| **Net assets acquired** | | | |
| Trade and other receivables | 443 | - | - |
| Other financial assets | 981 | 78 | - |
| Property, plant and equipment | 63 | 169 | - |
| Intangible assets | 1,171 | 2 | - |
| Deferred tax assets | 105 | 42 | - |
| Goodwill recognised on acquisition by the Group | 8,163 | 4,843 | 258 |
| Trade and other payables | (1,997) | - | - |
| Interest bearing liabilities | (108) | - | - |
| Provisions | (483) | (165) | - |
| Non-controlling interests | - | (118) | - |
| **Net assets, at acquisition date fair value** | **8,338** | **4,851** | **258** |

## Notes to the Financial Statements (continued)

### NOTE 3. BUSINESS COMBINATIONS (CONTINUED)

***Consolidated Finance Group***

In October 2016 COG acquired an 80% equity interest in Consolidated Finance Group Pty Limited (CFG) for consideration of $14,703k settled via 60% cash and 40% COG shares. The shareholders' agreement included put and call options over the outstanding 20% exercisable in July 2018 based on a price of 8 times normalised Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the financial year ending 30 June 2018. COG exercised call options it held with minority holders of CFG thus moved to 100% ownership effective 1 July 2018. The consideration for the outstanding 20% interest was $4,210k cash and the issue of $22k of new COG shares.

As COG already controls CFG the additional 20% acquisition is treated as a transaction between owners and does not generate any additional goodwill or other acquisition adjustments.

***Westlawn Finance***

On 28 September 2018 COG acquired a 31.82% investment in Westlawn Finance Limited (Westlawn). The acquisition which totalled $14,306k comprised $10,000k of cash and $4,306k of COG shares as consideration.

This initial acquisition and subsequent changes in COG's share of Westlawn's financial position and performance are included in *Equity accounted associates* in the Statement of Financial Position and *Share of results from associates* in the Statement of Comprehensive Income respectively.

Westlawn is an investment entity primarily based in Northern NSW which utilises funds from debenture holders and its own equity and investments primarily in fixed interest securities. Westlawn has a well diversified portfolio with exposure to property development representing less than 3% of total assets and no material exposure to any single borrower or industry.

### NOTE 4. REVENUE FROM CONTINUING OPERATIONS

| | 31 December 2018 $'000 | 31 December 2017 $'000 |
|---|---|---|
| Commission, trail, fee and volume bonus income | 58,725 | 43,444 |
| Sale of goods | 31,900 | 23,672 |
| Finance lease income | 13,399 | 7,895 |
| Interest income | 238 | 432 |
| Other operating revenue | 870 | 243 |
| Dividend income | - | 82 |
| **Total** | **105,132** | **75,768** |

# Notes to the Financial Statements (continued)

## NOTE 4. REVENUE FROM CONTINUING OPERATIONS (CONTINUED)

***AASB 15 Revenue from Contracts with Customers***

This standard is applicable to annual reporting periods beginning on or after 1 July 2018. It supersedes existing guidance included in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and other revenue related accounting interpretations. The core principle of AASB 15 is to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the Group expects to be entitled in exchange for those goods or services. AASB 15 includes the following:

- Outlines a five-step revenue recognition model which determines the timing and amount of revenue recognised. The five-step mode requires:
    1. contracts (either written, verbal or implied) to be identified,
    2. together with the separate performance obligations within the contract,
    3. determination of the transaction price, adjusted for the time value of money excluding credit risk,
    4. allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist, and
    5. recognition of revenue when each performance obligation is satisfied.
- Provides new and more detailed guidance on specific topics e.g. multiple element arrangements, variable consideration, rights of return etc.
- Increases the volume of disclosure around types of revenue and the amounts recognised.

The impact of applying the new requirements of AASB 15 is revenue recognition and disclosures related to commission, trail, fee and volume bonus income. This revenue stream relates to the Finance Broking & Aggregation segment and is a result of the Group's arrangements with financiers. As per their individual arrangements financiers can clawback commission, fee and volume bonus income at a later date. Under AASB 15 potential clawbacks are provided for when revenue is initially recognised. At the same time the amount of clawbacks which are expected to be recouped from external brokers is also recorded. As a result, the impact is:

- $321k reduction to profit after tax, and
- $48k reduction to profit after tax for the current period.

Amounts due from financiers for trail commissions are now classified as a contract asset under the requirements of AASB 15 as opposed to being disclosed as a receivable in previous periods. Contract assets are recognised when the Group has transferred the promised service as at the reporting date, but the financier has not yet paid and the entity's right to payment is conditional on something other than the passage of time.

Finance lease income revenue relates to the Commercial Equipment Leasing segment and most transactions within this segment are outside the scope of AASB 15.

The Group has applied AASB 15 using the cumulative effect method without practical expedients on the date of initial application (1 July 2018). This application results in an adjustment to retained earnings and other comprehensive income as at 1 July 2018 and no adjustments to the comparative period presented.

## Notes to the Financial Statements (continued)

### NOTE 5. FINANCIAL INSTRUMENTS

***Adoption of AASB 9: Initial application of AASB 9 requirements***

The Group has adopted AASB 9 *Financial Instruments* as at 1 July 2018 (the start of the current financial period) under the transitional requirements outlined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

***Revised accounting policies***

*Initial recognition*

AASB 9 largely retains the existing requirements in AASB 139 *Financial Instruments: Recognition and Measurement* for the classification and measurement of financial liabilities. However, it eliminates the previous categories for financial assets of held to maturity, loans and receivables and available for sale.

On initial recognition, a financial asset is classified as measured at: amortised cost; or Fair Value through Profit & Loss (FVTPL). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Financial liabilities under AASB 9 is also based on the business model and are classified and measured either at amortised cost or FVTPL.

*Subsequent measurement*

| | |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Lease assets | Lease assets are recognised, measured and presented in accordance with AASB 117 *Leases*, there has been no change in the accounting policies associated with these since the 30 June 2018 financial report. Lease asset derecognition and impairment requirements are addressed under the requirements of AASB 9. |
| Financial liabilities at amortised cost | These liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss with any gain or loss on derecognition is recognised in profit or loss. |

*Impairment*

AASB 9 replaces the 'incurred loss' model under previous accounting requirements with an 'expected credit loss' (ECL) model under which credit losses are recognised earlier. The new impairment model applies to financial assets measured at amortised cost, contract assets and lease assets where the Group acts as lessor.

Under AASB 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date, and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs for all applicable assets. The Group considers amortised cost financial assets with the counterparty being an 'investment grade' to have low credit risk when its credit risk rating is equivalent to be BBB or higher per Standard & Poor's.

## Notes to the Financial Statements (continued)

**NOTE 5. FINANCIAL INSTRUMENTS (CONTINUED)**

***Revised accounting policies(continued)***

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses with the key exposure being in relation to lease assets. ECLs for lease assets are determined using a modified static loss pool basis, taking historical static loss pool data and modifying it for lease duration, changes in credit risk assessed at the commencement of each lease and macro-economic factors which may impact future collectability. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses, if material, are presented separately in the statement of comprehensive income.

Impact of the new impairment model

The impact of the application of ECL requirements is outlined in the Measurement of financial instruments section.

*Derecognition*

AASB 9 requires derecognition of a financial asset or lease asset where the Group is acting as a lessor when one of the following criteria has been met:

- the asset has been modified to the extent that it does not meet modification criteria and as such needs to be derecognised and recognised as a new financial asset,
- the rights to the cashflows associated with the asset have expired, or
- the Group has transferred its rights to receive the cashflows from the asset and has transferred substantially all risks and rewards.

Financial liabilities are derecognised when the liability is extinguished, which can include:

- the liability has been modified to the extent that it does not meet modification criteria and as such needs to be derecognised and recognised as a new financial liability,
- repurchase of existing financial liability, or
- the cashflows associated with the liability have been repaid or expired.

Any gain or loss on derecognition (being the difference between the carrying value and the consideration received, if any) is recognised in profit or loss.

## Notes to the Financial Statements (continued)

**NOTE 5. FINANCIAL INSTRUMENTS (CONTINUED)**

***Classification of financial instruments***

The classification of the Group's financial instruments prior to and on adoption of AASB 9 requirements are as follows:

| Financial instrument | Previous classification | Revised AASB 9 classification |
|---|---|---|
| Cash and cash equivalents | Held to maturity | Amortised cost |
| Trade and other receivables | | |
| - Trail income receivable | Loans and receivables | Accounted for under AASB 15 *Revenue* as a contract asset |
| - All other trade and other receivables | Loans and receivables | Amortised cost |
| Financial assets - lease receivables | Accounted for under AASB 117 *Leases* | Accounted for under AASB 117 *Leases* |
| Other financial assets | Loans and receivables | Amortised cost |
| Trade and other payables | Amortised cost | Amortised cost |
| Interest bearing liabilities | Amortised cost | Amortised cost |

***Measurement of financial instruments***

The changes to financial performance and position identified during the adoption of AASB 9 are as follows:

(a) ***Derecognition:*** The Group's funding arrangements within the Commercial Equipment Leasing segment which were previously accounted for as a Sale of receivables (derecognition of the finance lease asset upon funding), have been reviewed under the requirements of AASB 9. When applying the requirements of AASB 9 it was noted they do not qualify for derecognition and nor would they have under AASB 139, as a result:
- additional Financial assets – lease receivables and related interest bearing liabilities have been recognised on the Statement of Financial Position as the funding of these lease assets do not meet the derecognition criteria of AASB 9,
- Sale of receivables income (previously within Finance lease income in Revenue from continuing operations) is no longer recognised in the Statement of Comprehensive Income as the funding of the related Financial assets – lease receivables does not meet the derecognition criteria of AASB 9. Instead the Sale of receivables income is replaced by Interest income (included within Finance lease income in Revenue from continuing operations) and Finance costs as the Financial assets – lease receivables and related interest bearing liabilities remain recognised on the Statement of Financial Position, and
- the taxation consequences of the above changes in recognition, measurement and presentation as a result of the application of AASB 9.

(b) ***ECL impairment:*** AASB 9 replaces the 'incurred loss' model under previous accounting requirements with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and lease assets. Under AASB 9, credit losses are recognised earlier than under previous accounting standards. The Group recognises as a provision the expected credit losses (ECLs) for the entire lifetime of financial assets measured at amortised cost, contract assets and lease assets where the Group acts as lessor which are outlined in the *Classification of financial instruments* section above.

The above changes in measurement have been adopted retrospectively with the following prior period comparative information provided to aid users in understanding the changes implemented when transitioning from existing accounting to the requirements of AASB 9.

# Notes to the Financial Statements (continued)

## NOTE 5. FINANCIAL INSTRUMENTS (CONTINUED)

### *Measurement of financial instruments (continued)*

| | 30 June 2018 Reported $'000 | (a) Derecognition $'000 | (b) ECL Impairment $'000 | 30 June 2018 Restated $'000 | 31 December 2017 Reported $'000 | (a) Derecognition $'000 | (b) ECL Impairment $'000 | 31 December 2017 Restated $'000 |
|---|---|---|---|---|---|---|---|---|
| Revenue from continuing operations | 161,047 | 3,902 | - | 164,949 | 74,382 | 1,386 | - | 75,768 |
| Administration expenses | (11,255) | - | (882) | (12,137) | (4,739) | - | (269) | (5,008) |
| Finance costs | (4,119) | (4,354) | - | (8,473) | (1,776) | (1,813) | - | (3,589) |
| Depreciation and amortisation | (5,630) | (48) | - | (5,678) | (2,908) | (48) | - | (2,956) |
| Income tax expense | (3,119) | 149 | 264 | (2,706) | (1,641) | 143 | 81 | (1,417) |
| **Profit after tax attributable to:** | | | | | | | | |
| Members of Consolidated Operations Group Limited | 4,802 | (351) | (618) | 3,833 | 2,620 | (332) | (188) | 2,100 |
| Non-controlling interests | 3,656 | - | - | 3,656 | 1,840 | - | - | 1,840 |
| | **8,458** | **(351)** | **(618)** | **7,489** | **4,460** | **(332)** | **(188)** | **3,940** |
| **Total comprehensive income attributable to:** | | | | | | | | |
| Members of Consolidated Operations Group Limited | 4,840 | (351) | (618) | 3,871 | 2,603 | (332) | (188) | 2,083 |
| Non-controlling interests | 3,656 | - | - | 3,656 | 1,840 | - | - | 1,840 |
| | **8,496** | **(351)** | **(618)** | **7,527** | **4,443** | **(332)** | **(188)** | **3,923** |
| **Basic and diluted earnings per share from continuing operations, attributable to members (cents):** | 0.40 | | | 0.29 | 0.20 | | | 0.16 |

# Notes to the Financial Statements (continued)

## NOTE 5. FINANCIAL INSTRUMENTS (CONTINUED)

### *Measurement of financial instruments (continued)*

| Assets | 30 June 2018 Reported $'000 | (a) Derecognition $'000 | (b) ECL Impairment $'000 | 30 June 2018 Restated $'000 | 30 June 2017 Reported $'000 | (a) Derecognition $'000 | (b) ECL Impairment $'000 | 30 June 2017 Restated $'000 |
|---|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | | |
| Cash and cash equivalents | 36,246 | - | - | 36,246 | 39,837 | - | - | 39,837 |
| Trade and other receivables | 14,040 | - | - | 14,040 | 11,651 | - | - | 11,651 |
| Contract assets | 1,697 | - | - | 1,697 | 1,209 | - | - | 1,209 |
| Financial assets – lease receivables | 21,794 | 13,942 | (2,881) | 32,855 | 11,296 | 12,534 | (1,999) | 21,831 |
| Other financial assets | 1,205 | - | - | 1,205 | 732 | - | - | 732 |
| **Non-current** | | | | | | | | |
| Contract assets | 4,336 | - | - | 4,336 | 3,628 | - | - | 3,628 |
| Financial assets – lease receivables | 51,898 | 15,842 | - | 67,740 | 31,103 | 16,092 | - | 47,195 |
| Property, plant and equipment | 1,383 | - | - | 1,383 | 2,337 | 48 | - | 2,385 |
| Other financial assets | 6,533 | - | - | 6,533 | 4,227 | - | - | 4,227 |
| **Total assets** | **286,217** | **29,784** | **(2,881)** | **313,120** | **250,395** | **28,674** | **(1,999)** | **277,070** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| **Current** | | | | | | | | |
| Trade and other payables | 12,352 | - | - | 12,352 | 10,514 | - | - | 10,514 |
| Interest bearing liabilities | 22,771 | 14,740 | - | 37,511 | 16,658 | 13,315 | - | 29,973 |
| **Non-current** | | | - | | | | | |
| Interest bearing liabilities | 36,866 | 18,211 | - | 55,077 | 12,557 | 18,026 | - | 30,583 |
| Deferred tax liabilities | 9,356 | (949) | (864) | 7,543 | 10,577 | (800) | (600) | 9,177 |
| Trade and other payables | 426 | - | - | 426 | - | - | - | - |
| **Total liabilities** | **92,103** | **32,002** | **-** | **123,241** | **61,352** | **30,541** | **(600)** | **91,293** |
| **Net assets** | **194,114** | **(2,218)** | **(2,017)** | **189,879** | **189,043** | **(1,867)** | **(1,399)** | **185,777** |
| | | | | | | | | |
| **Equity** | | | | | | | | |
| Reserves | 41,341 | (351) | (618) | 40,372 | 36,437 | - | - | 36,437 |
| Accumulated loses | (78,103) | (1,867) | (1,399) | (81,369) | (78,103) | (1,867) | (1,399) | (81,369) |
| **Equity** | **194,114** | **(2,218)** | **(2,017)** | **189,879** | **189,043** | **(1,867)** | **(1,399)** | **185,777** |

# Notes to the Financial Statements (continued)

**NOTE 6. SHARE CAPITAL**

**(a) Ordinary shares**

| | 31 December 2018 $'000 | 30 June 2018 $'000 | 31 December 2018 No. of Shares '000 | 30 June 2018 No. of Shares '000 |
|---|---|---|---|---|
| *Shares issued and fully paid* | | | | |
| Balance at the beginning of the period | 215,670 | 216,216 | 1,295,967 | 1,301,219 |
| Shares issued in business combination (1) | 5,097 | 787 | 42,487 | 6,292 |
| On market share buyback and share cancellation | - | (1,149) | - | (11,544) |
| Costs of raising capital, net of tax | (93) | (184) | - | - |
| **Closing balance at the end of the period** | **220,674** | **215,670** | **1,338,454** | **1,295,967** |

(1) See note 3 for further details

**(b) Options - Share based payments**

On 25 July 2018 the Group issued share options to Andrew Bennett who commenced as a member of key management personnel in the current financial period. These share options issued as part of Mr Bennett's remuneration package, entitle him to acquire one share in COG at the option strike price any time between grant date the date of lapsing and have the following characteristics:

| | |
|---|---|
| Grant date | 25 July 2018 |
| Number of options issued | 6,857,143 |
| Option exercise price | $0.105 per option |
| Option valuation | $0.035 per option |
| Option valuation - method | Black-Scholes |
| Option valuation - grant date share price | $0.10 per share |
| Option valuation - grant date risk free rate | 2.1% |
| Option valuation - historical volatility | 58.0% for the same duration as the option term |
| Option valuation - historical dividend yield | nil% |
| Option valuation - early exercise | Assumes early exercise at 2x option exercise price |
| Market conditions | None |
| Service conditions | None |
| Lapse date | Earlier of cessation of employment and 30 June 2021 |
| Nature of settlement | Equity settled |

All of the above options have vested and are exercisable at 31 December 2018. The above options do not have an impact on diluted earnings per share at 31 December 2018. Apart from the options issued above the Group did not have any options or share based payments issued during the current financial period or prior comparative financial periods.

## Notes to the Financial Statements (continued)

**NOTE 7. DIVIDENDS**

There were no dividends paid or declared to be paid during the period ended 31 December 2018 (31 December 2017: nil).

As at the end of the reporting period, $6,651k of franking credits were available for subsequent financial periods based on a tax rate of 30% (30 June 2018: $5,204k).

The above available amounts are based on the balance of the dividend franking account at end of the period adjusted for:

- franking credits that will arise from the payment of the current tax liability,
- franking debits that will arise from the payment of dividends recognised as a liability at period end,
- franking credits that will arise from the receipt of dividends recognised as receivables at period end, and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available net assets to declare dividends, and the payment of dividends not prejudicing COG's ability to pay its creditors.

**NOTE 8. CONTINGENCIES AND COMMITMENTS**

**(a) Deferred consideration**

Centrepoint Finance Pty Limited contingent consideration of between $nil and $1,900k lower and upper band limits payable within 3 months subsequent to the end of the financial year ending 30 June 2020. The contingent consideration is based on EBITDA performance for the years ending 30 June 2019 and 30 June 2020.

The present value of this liability is included in the 31 December 2018 statement of financial position for $1,704k in non-current trade and other payables (30 June 2018: $nil).

**(b) Commitments**

The Group has commitments to acquire share capital of various subsidiaries. The following commitments are based upon multiples of future financial years' normalised EBITDA and include option for a one-year deferral by either party:

- Fleet Network Pty Limited (20% of share capital in the year ending 30 June 2020)
- Linx Group Holdings Pty Limited (5% of share capital in each of the years ending 30 June 2019, 2021 and 2023).
- Platform Consolidated Group Pty Limited (19% of share capital in each of the years ending 30 June 2019 and 2021)
- QPF Holdings Pty Limited (5% of share capital in each of the years ending 30 June 2019, 2021 and 2023)

There are no other material contingencies or commitments at the end of the reporting period.

**NOTE 9. SUBSEQUENT EVENTS**

On 11 February 2019, the Group, through its 50% owned subsidiary Linx Group Holdings Pty Limited (Linx), completed the 50% acquisition of equipment finance broker Sovereign Tasmania Pty Limited (Sovereign). The acquisition was concluded for total consideration of $2,227k comprised of $557k of COG's shares and $1,670k of cash. Initial accounting is still to be completed as the fair value of identifiable net assets acquired is yet to be determined.

Apart from the above, there have been no events subsequent to reporting date which could have material impact on the Group's financial report.

## Notes to the Financial Statements (continued)

**APPENDIX A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. BASIS OF PREPARATION**

These financial statements for the period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001,* as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

The interim financial statements do not include all the information and disclosures required for annual financial statements. Accordingly, these half year financial statements are to be read in conjunction with the Annual Financial Report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

In accordance with *ASIC Corporations (Rounding in Financial/Director Reports) Instrument 2016/191*, the amounts in the consolidated financial report have been rounded to the nearest thousand Australian dollars, which is the Group's functional and presentation currency.

The principal accounting policies adopted and key accounting judgements, estimates and assumptions are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Certain prior year comparative information has been revised in this financial report to conform to the current period's presentation.

**2. NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED**

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The Group has initially applied AASB 15 and AASB 9 at 1 July 2018. Note 4 outlines the impact of adopting AASB 15 using the cumulative effect method, under which the comparative information is not restated. Note 5 outlines the impact of implementing AASB 9 to the Group's existing financial performance and position; including restatement of the prior period comparative information presented above. Note 5 also includes additional information as at 30 June 2017 to aid the users of the financial report to understand the impact on prior comparative periods.

***AASB 16 Leases***

The Group will adopt AASB 16 using the modified retrospective approach on 1 July 2019 consistent with the mandatory adoption date. The cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. The standard replaces AASB 117 *Leases* and will eliminate the classifications of operating leases and finance leases where the Group is a lessee (e.g. office premises and motor vehicles).

Under AASB 16 Leases, the Group's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability in the Statement of Financial Position. The lease liability represents the present value of future lease payments. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. The Group's accounting for leases as a lessor remains largely unchanged under AASB 16.

# Notes to the Financial Statements (continued)

**APPENDIX A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2. NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED (CONTINTUED)**

***AASB 16 Leases (continued)***
*Transition*
Management have completed an initial assessment of the potential impact on the Group's financial statements for the period ended 31 December 2018. The actual impact will depend on future economic conditions, including:

- the Group's borrowing rate
- the Group's borrowing rate at date of initial adoption,
- whether the Group will apply the full retrospective approach or the modified retrospective approach at date of initial application,
- the composition of the Group's lease portfolio, and
- the Group's latest assessment of whether it will exercise any lease renewal options.

The Group has assessed the estimated impact that AASB 16 would have had on its Statement of Financial Position as at the period ended 31 December 2018, using the modified retrospective approach noted below:

- new lease liabilities of $3,400k, and
- new right-of-use assets of $3,000k.

EBITDA will increase as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For the period ended 31 December 2018 the impact on the Statement of Comprehensive Income would be as follows:

- increase in depreciation expense of $800k,
- increase in interest expense of $100k,
- reduction in occupancy expense of $900k.

The above are disclosures of potential impact and are not included in the reported Statement of Comprehensive Income or Statement of Financial Position for the period ended 31 December 2018.

*Non-lease components of property leases*
Under AASB 16, payments for non-lease components (such as property outgoings and taxes), are excluded from the lease liability unless an election is made to combine lease and non-lease components. A small portion of the Group's leased property portfolio has non-lease components embedded within their respective contract.

The Group has not elected to combine lease and non-lease components for its property leases. The expense related to the non-lease component continues to be recognised as an occupancy expense in the Statement of Comprehensive Income.

## Directors' Declaration

1. In the opinion of the Directors of Consolidated Operations Group Limited (the Company):
   a) the consolidated financial statements and notes of the Company and its controlled entities (the Group), are in accordance with the *Corporations Act 2001*, including:

      i. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the period ended on that date; and

      ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

   b) There are reasonable grounds to believe that the Company 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 Directors.

**Patrick Tuttle**
Chairman

**Cameron McCullagh**
Executive Director

27 February 2019

Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret St
Sydney NSW 2000
Australia

# INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Consolidated Operations Group Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the half-year financial report of Consolidated Operations Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

### Directors' responsibility for the Half-Year Financial Report

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

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

**BDO East Coast Partnership**

BDO

Gareth Few

**Gareth Few**
**Partner**

Sydney, 27 February 2019