



Annual Report 2019



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2019 Highlights



REVENUE

\$65.4m

Increased by 26%



NPAT

\$14.2m

Increased by 29%



EARNINGS PER SHARE

14.2c

Increased by 29%



DIVIDEND

11.5cps

Increased by 57%



GLOBAL TEAM

291

Australia, Europe
and USA

Chairman's Review

Teresa Handicott

I am delighted to present to you PWR's 2019 annual report.



The solid performance of the Group has been made possible by investments made in people and equipment over the past 18 months. Despite a high capital investment program, our return on equity has improved to 26.8%, up from 23.7% in the prior comparative period.

The Group delivered a 29% increase in statutory net profit after tax (NPAT) and a 17% increase in underlying NPAT to \$14.2m which was another record for PWR.

Improved working capital management has resulted in an EBITDA to cash conversion ratio of 102.9% and a strong cash balance at 30 June 2019 of over \$20.2m with overall net cash.

Considering these results and improved balance sheet position, the Board has declared:

- a final dividend of 6.9 cents per share which is an increase of over 11% on the prior year final dividend of 6.2 cents per share; and
- a special dividend of 3.0 cents per share.

The full year dividend for FY19 increased to 11.5 cents per share, up from 7.3 cents per share in the prior year, an increase of 58%.

Managing growth efficiently is a central pillar for the next two years as management execute the strategic plan. This includes further investment in leading edge manufacturing equipment and technologies including an additive manufacturing machine, a 3D CT scanner and a vacuum furnace.

Capitalising on this growth requires solid foundations and an efficient corporate support structure. The Group has already started investing in cyber security, IT infrastructure and systems and processes to ensure ongoing growth is both executed and managed effectively and efficiently.

Diversification has been a key focus of your Board and this strategy appears to be coming to fruition with solid progress being made in categories outside of motorsport. Deliveries under our OEM contracts have commenced with deliveries for the Ford GT500 program of 8,000 vehicles under way. Micro matrix and cold plate technologies are also showing encouraging sales in the emerging technologies category.

The successes of the past year has been rewarding for staff, management and directors and I take this opportunity to thank all employees at PWR.

On behalf of your Board, I would like to thank all shareholders for their continued support of PWR.

Teresa Handicott

Chairman

Managing Director's Review

Kees Weel

The 2019 financial year has been another record year for PWR.

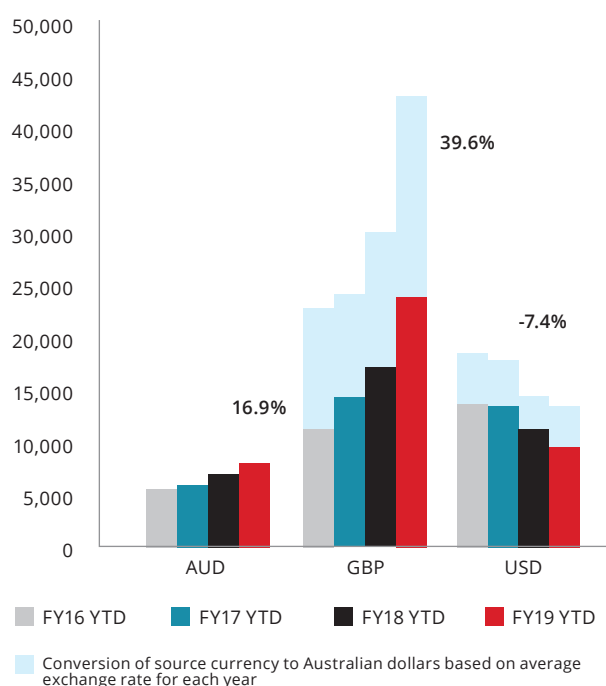


REVENUE

Group revenue for FY19 was up significantly at 26% with Europe being the stand out performer whose growth was over 40%. This significant increase was offset by the reduction in revenue at C&R resulting from the exit from non-cooling related operations whose revenue was included in the prior year comparative period.

Favourable foreign currency movements during FY19 accounted for 5% of the revenue growth.

THIRD PARTY REVENUE BY CURRENCY



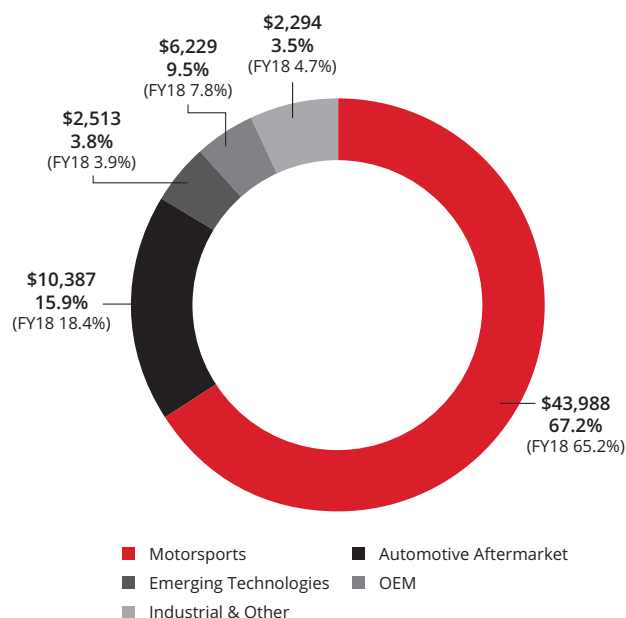
C&R is now a fully operational manufacturing facility which successfully completed a significantly higher volume of production throughput for the Group with inter segment sales increasing from \$0.38m in FY18 to \$4.0m in FY19. Leveraging this production capability and capacity for the Group will be a key focus area in FY20 and beyond.

Motorsport has been a major driver of the higher revenue in FY19 and further growth is expected albeit at a lower rate of growth than that achieved in FY19. The OEM and emerging technology segments are expected to see continued sales increases in FY20.

Growth Rates	FY19	FY18	Change
Motorsports	\$43,988	\$33,850	30%
Automotive Market	\$10,387	\$9,530	9%
Emerging Technologies	\$2,513	\$2,023	24%
OEM	\$6,229	\$4,027	55%
Industrial & Other	\$2,294	\$2,459	-7%
	\$65,411	\$51,889	26%

Managing Directors' Report

continued



PWR AUSTRALIA AND EUROPE

PWR continues to supply the majority of motorsport categories with cooling technology and this continues to be our primary category as noted in the graphical analysis above. The Australian and European operations have performed exceptionally well in FY19 in this category.

OEM PROGRAMMES

The previously announced OEM programmes have commenced production at C&R which has the capacity to deliver current programs and future OEM growth. OEM programmes are expected to be an important source of growth for PWR.

CASHFLOW

Our working capital management has improved at 30 June 2019 which, combined with higher revenues, has resulted in a cash balance of over \$20m at 30 June 2019. Your directors are conscious of the need to balance returning funds to shareholders and retaining funds to finance future growth plans and opportunities. We believe we have achieved a balanced outcome for both shareholders and expected future business requirements by declaring a special dividend of 3.0 cents per share.

Our EBITDA to cash conversion ratio was 102.9% which is a significant improvement over FY18.

TECHNOLOGY DEVELOPMENTS

The introduction of advanced technologies into our manufacturing processes will ensure we remain at the forefront of manufacturing capability and complexity for both existing customers as well as potential new customers and industries.

Our new products have been extensively tested and have recently been commercialised with initial sales commencing. These new products provide compelling solutions to new industries and initial sales have been made to customers in both aerospace and military segments.

THE FUTURE

Visibility of our growth potential for the next two to three years is now better than what we have previously had which allows us to invest with confidence.

PWR now has over 300 team members globally. Staff numbers are expected to increase further, although at a lower rate given our focus on productivity and efficiency.

Exchange rates will continue to affect results and this is inherent in the nature of our business. Our treasury policy has been further revised and, as at 30 June 2019, GBP forward cover of £10.65m is in place through to June 2020, thereby reducing the risk of foreign exchange fluctuations materially impacting our FY20 financial results.

Staff go beyond what is expected of them on a regular basis and I thank them for the dedication and commitment which is so often demonstrated.

Thank you to shareholders, customers and staff for your continued support and I am looking forward to working with PWR and C&R staff this year with the objective of making FY20 another record year on all fronts.

Kees Weel
Managing Director

Directors' Report

For the year ended 30 June 2019

The Directors present their report together with the financial report of PWR Holdings Limited (the "Company") and its controlled entities (the "Group") for the year ended 30 June 2019 ("Reporting Period") and the auditor's report thereon.

1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Director	Experience
Teresa Handicott <i>Independent Chairman, Non-Executive Director</i> <i>Chairman of Nomination and Remuneration Committee</i> <i>Member of Audit and Risk Committee</i>	<p>Teresa is a former corporate lawyer, with over 30 years experience in mergers and acquisitions, capital markets and corporate governance. She was a partner of national law firm Corrs Chambers Westgarth for 22 years, serving as a member of its National Board for seven years including four years as National Chairman.</p> <p>Teresa is a director of ASX listed company Downer EDI Limited and of Peak Services Holdings Pty Ltd, a subsidiary of The Local Government Association of Queensland (LGAQ), which is responsible for the LGAQ's commercial operations. She is also a director of Bangarra Dance Theatre Limited.</p> <p>Teresa is a Divisional Councillor of the Queensland Division of the Australian Institute of Company Directors (AICD) and a member of the AICD's National Law Committee. She is a Member of Chief Executive Women (CEW), is a Senior Fellow of Finsia and a Fellow of the AICD.</p> <p>Teresa was previously a Member of the Queensland University of Technology Council, the Takeovers Panel, Associate Member of the Australian Competition and Consumer Commission (ACCC), member of the Finsia Queensland Regional Council, Director of CS Energy Limited, Principal Law Lecturer for the Securities Institute of Australia (now Finsia) and Tutor in Corporate Governance for the AICD Directors Course.</p>
Year of next scheduled re-election	2020
Current directorships of listed entities	Downer EDI Limited
Directorships of listed entities over last 3 years	Nil

Directors' Report

For the year ended 30 June 2019

1. DIRECTORS (continued)

Director	Experience
<p>Jeffrey Forbes <i>Independent, Non-Executive Director</i> <i>Chairman of Audit and Risk Committee</i> <i>Member of Nomination and Remuneration Committee</i></p>	<p>Jeff has over 30 years' experience in senior finance and management roles with extensive mergers and acquisitions experience. Jeff retired in March 2013 as Chief Financial Officer, Executive Director and Company Secretary of Cardno, an ASX-listed engineering consultancy company. Prior to joining Cardno, Jeff was Chief Financial Officer and Executive Director at Highlands Pacific and has previously held senior finance roles in the resources sector.</p> <p>Jeff holds a Bachelor of Commerce from the University of Newcastle and is a Graduate of the Australian Institute of Company Directors.</p> <p>Jeff is a Non-Executive Director of Cardno and Chairman of Herron Todd White Australia and Herron Todd White Consolidated. Jeff also sits on the board of not-for-profit Community Housing Ltd, and its subsidiaries Horizon Housing Group and Australian Affordable Housing.</p>
Year of next scheduled re-election	2021
Current directorships of listed entities	Cardno Limited
Directorships of listed entities over last 3 years	CMI Limited
<p>Kees Weel <i>Managing Director and Chief Executive Officer</i></p>	<p>Kees has in excess of 30 years of experience in the automotive cooling industry. He is a key relationship and business development manager for top tier local and overseas customers. Kees also actively leads the product development management team.</p> <p>Kees was a team principal of PWR Racing V8 Super Car Team 1998-2007 and was a board member for Tega V8 Supercars in 2007.</p>
Year of next scheduled re-election	Not applicable
Current directorships of listed entities	Nil
Directorships of listed entities over last 3 years	Nil
<p>Roland Dane <i>Independent, Non-Executive Director</i> <i>Member of Audit and Risk Committee</i> <i>Member of Nomination and Remuneration Committee</i></p>	<p>Roland has extensive automotive business experience in the UK, Asia and Australia. Roland was the founder of, and remains the principle shareholder in, the Park Lane (UK) vehicle acquisition business in the UK some 33 years ago. He is also the Managing Director of the successful Triple Eight Race Engineering team, winners of 8 out of the last 11 V8 Supercar championships.</p>
Year of next scheduled re-election	2019
Current directorships of listed entities	Nil
Directorships of listed entities over last 3 years	Nil

Directors' Report

For the year ended 30 June 2019

2. COMPANY SECRETARY

Lisa Dalton (B.App. Sc., M.App. Sc., LLB (Hons), FAICD, FCIS) was appointed as Company Secretary on 7 August 2015. Lisa is an experienced governance professional having been company secretary of a number of listed and unlisted companies over the past 18 years.

3. DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Attended	Held	Attended	Held	Attended	Held
Kees Weel	10	10	–	–	–	–
Jeffrey Forbes	10	10	4	4	3	3
Teresa Handicott	10	10	4	4	3	3
Roland Dane	10	10	4	4	3	3

4. PRINCIPAL ACTIVITIES

The Company's registered office and principal place of business is 103 Lahrs Road, Ormeau, Queensland 4208.

The principal activities of the Group during the year were the design, prototyping, production, testing, validation and sales of advanced cooling products and solutions to the motorsports, automotive original equipment manufacturing ("OEM"), automotive aftermarket and emerging technologies sectors for domestic and international markets.

Other than items outlined in the Operating and Financial review, there were no significant changes in the nature of the activities of the Group during the year.

5. OPERATING AND FINANCIAL REVIEW

Summary of financial results

Statutory Profit and Loss Summary	FY19 A\$'000	FY18 A\$'000	FY18 to FY19 %
Revenue	65,411	51,889	+26.1%
EBITDA ¹	21,763	16,336	+ 33.2%
EBITDA ¹ margin	33.3%	31.5%	
Net profit after tax (NPAT)	14,206	11,001	+ 29.1%
Operating cash flow	22,397	16,639	+ 34.6%
Earnings per share	14.21 cents	11.00 cents	+ 29.1%

¹ Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") is a non-IFRS term which has not been subject to audit or review but has been determined using information presented in the annual financial report.

Directors' Report

For the year ended 30 June 2019

5. OPERATING AND FINANCIAL REVIEW (continued)

Underlying Profit and Loss Summary

A reconciliation of underlying EBITDA¹ to the reported profit before tax in the consolidated statement of profit or loss and other comprehensive income is as follows:

	FY19 A\$'000	FY18 A\$'000
Profit for the period before tax	19,836	14,688
Add: loss on sale and write down of assets held for sale	-	856
Add: settlement of distribution agreement dispute	-	413
Add: net finance costs	(543)	(18)
Add: depreciation & amortisation	2,470	1,666
Underlying EBITDA ¹	21,763	17,605

¹ Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") is a non-IFRS term which has not been subject to audit or review but has been determined using information presented in the annual financial report.

The prior year (FY18) statutory profit and loss includes the C&R deferred tax adjustment and several items arising from the restructuring and repositioning of the operations at C&R in the USA none of which are expected to reoccur. These items are as follows:

- \$0.85 million (\$0.63m after tax) for the loss on sale and write down in the carrying value of assets held for sale in the USA the majority of which were disposed of in April 2018.
- \$0.41 million (\$0.3m after tax) for the termination of a distribution agreement
- \$0.18 million charge to income tax expense for the decrease in the net deferred tax balance in the USA following their reduction in their federal corporate tax rate from 35% to 21%.

Incorporating the above items, underlying results are as follows:

Underlying Profit and Loss Summary

	FY19 A\$'000	FY18 A\$'000	FY18 to FY19
Underlying revenue	65,411	51,889	26.1%
Underlying EBITDA	21,763	17,605	23.6%
Underlying EBITDA margin	33.3%	33.9%	(1.8%)
Underlying net profit after tax	14,206	12,115	17.3%
Underlying operating cash flow	22,397	16,639	34.6%
Underlying earnings per share	14.21 cents	12.11 cents	17.3%

Revenue

The Group achieved overall revenue growth of 26.1% compared to the prior corresponding period. Organic revenue growth of 21.5% was supplemented by exchange rate movements of 4.6%.

The above growth was primarily driven out of Europe where sales increased by 40%. Sales in the Australian and American markets were static although activity at both these manufacturing operations increased significantly to support the increased sales in Europe.

With reporting in Australian dollars, exchange rate fluctuations have seen the GB pound being 1.7% stronger at 30 June 2019 and the US dollar being 4.7% stronger compared to the prior period. In addition, average rates during the financial year saw a US dollar being 7.7% stronger and the pound 4.2% stronger.

The net impact of exchange rate movements had a favourable impact on revenue for the year of \$2,345,523 (2018: \$615,395).

Directors' Report

For the year ended 30 June 2019

5. OPERATING AND FINANCIAL REVIEW (continued)

EBITDA

In addition to the positive impact on revenue of foreign exchange rates mentioned above, the higher EBITDA in FY19 compared to the prior corresponding period was mainly due to:

- Overall revenue growth at consistent margins;
- Production and overhead costs increasing consistently with sales volume increases; and
- Administration and overhead costs increasing at a lower rate than sales and EBITDA increases supporting the higher revenue and margins generated.

Net profit after tax

Net profit after tax of the Group for the year ended 30 June 2019 was \$14.21 million. The 2018 NPAT of \$11.00 million, included the recognition of \$1.1 million (after tax) of one-off expenses in relation to the changes to Federal corporate tax rates in the USA, the loss on sale and write down of the C&R non core non cooling business and costs associated with the termination of a distribution agreement at C&R.

Operating cash flow

The Group continued its strong cash conversion rate with FY19 operating cash flow of \$22.4 million, a conversion of 102.9% from EBITDA. This high EBITDA to cash conversion rate is due primarily to improved working capital management.

Foreign currency

The Group is exposed to movements in foreign exchange rates, with consolidated revenue generated in various currencies (using average exchange rates through the reporting period) as outlined below:

	FY19	FY18
British pounds (GBP)	66.7%	57.6%
US dollars (USD)	20.7%	25.4%
Australian dollars (AUD)	12.6%	17.0%

Balance sheet management

The balance sheet remains strong with cash of \$20.2 million (2018: \$12.1 million).

Working capital utilisation has improved with the working capital cycle reducing from 122 days at 30 June 2018 to 86 days at 30 June 2019 contributing to a higher year end cash balance.

Capital expenditure for the year was \$5.9 million (FY18: \$5.2 million) which completed the majority of the capital investment program announced in April 2018.

Our strong balance sheet can support ongoing expected capital expenditure for potential future growth opportunities whilst still having access to available financing facilities. With the improved working capital position, expected future capital investment requirements and the ongoing strong contribution of EBITDA to operating cash flows, the Board has declared a Special 2019 dividend of 3.00 cents per share in addition to the Final 2019 dividend of 6.90 cents per share.

Review of operating segments

The Group has two operating segments, PWR Performance Products which comprises its Australian and European operations, and C&R which comprises its USA operations.

The PWR Performance Products segment generated external revenue of \$52.50 million (2018: \$39.07 million), primarily arising from increased market penetration in the motorsports sector in the United Kingdom and Europe.

The C&R segment generated external revenue of \$12.91 million (2018: \$12.81 million). This is a positive development considering FY18 revenue included \$1.29 million of revenue for the now exited non-core, non cooling components of C&R's business.

Review of principal businesses

During the year ended 30 June 2019, in addition to the items outlined above, the Group:

- Continued to be appointed cooling assembly supplier for additional OEM programs;
- Released our new Micro Matrix and cold plate technology products;
- Completed the majority of its capital program of works providing additional capacity;
- Was awarded a grant from the State Government of over \$1m from the Made in Queensland program;
- Commenced prototype supplies into new industries including aerospace and the military.

Directors' Report

For the year ended 30 June 2019

5. OPERATING AND FINANCIAL REVIEW (continued)

Business risks

PWR recognises the importance of, and is committed to, the identification, monitoring and management of material risks associated with its activities. The following information sets out the material risks of PWR which are kept under review and actively managed within PWR's risk management framework. These are not in any particular order.

Strategic	<ul style="list-style-type: none">- Loss of key management personnel- Damage to or dilution of PWR brand- Consequences of BREXIT
Operational	<ul style="list-style-type: none">- Loss of critical supply inputs or infrastructure- Threats from cyber security breaches- Loss of intellectual property protection- Reduction in product quality standards- Loss of data security and integrity
Financial	<ul style="list-style-type: none">- Currency volatility

Significant changes in the state of affairs

Other than as outlined in the operating and financial review, there were no significant changes in the state of affairs of the Group during the year.

6. DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the year	Cents per share	Total amount \$	Date of payment
Final 2018 ordinary	6.20	6,200,000	14 September 2018
Interim 2019 ordinary	1.60	1,600,000	5 April 2019
Total amount		7,800,000	

Declared after end of year

The following dividend was declared by the Directors since the end of the financial year:

	Cents per share	Total amount \$	Date of payment
Final 2019 ordinary dividend	6.90	6,900,000	19 September 2019
Special 2019 dividend	3.00	3,000,000	19 September 2019
Total amount		9,900,000	

The financial effect of these dividends have not been brought to account in the consolidated financial statements for the year end 30 June 2019 and will be recognised in subsequent financial reports. There is no dividend re-investment plan in operation.

7. LIKELY DEVELOPMENTS

The Group will continue its strategy of increasing profitability and market share within existing markets and pursue opportunities in emerging markets during the next financial year.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

8. EVENTS SUBSEQUENT TO REPORTING DATE

The Board declared a fully franked final 2019 ordinary dividend of 6.90 cents per share and a special fully franked 2019 dividend of 3.00 cents per share. The financial effect of these dividends have not been brought to account in the consolidated financial statements for the year ended 30 June 2019.

Directors' Report

For the year ended 30 June 2019

8. EVENTS SUBSEQUENT TO REPORTING DATE (continued)

Other than the matter noted above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

9. ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars unless otherwise stated.

10. ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulations.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS

The Group has indemnified the Directors and Executives for costs incurred, in their capacity as a Director or Executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid insurance premiums in respect of a contract to insure the Directors and Executives of the Group against a liability to the extent permitted by the *Corporations Act 2001*. The insurance contract prohibits disclosure of the nature of liability and the amount of the premium.

12. PROCEEDINGS ON BEHALF OF THE COMPANY

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

13. NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below.

In dollars	2019
Services other than audit and review of financial statements:	
IT advisory services	39,607
Audit and review of financial statements	147,500
Total paid to KPMG	187,107

14. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the financial year ended 30 June 2019.

15. DIRECTORS' INTERESTS

Details of the Directors' interests in the securities of the Company are disclosed in the remuneration report. At the date of this report their holdings do not differ from the amount held at 30 June 2019.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED

The information provided in this Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001 (Cth)*.

A. Key Management Personnel

The remuneration report outlines remuneration for those people considered to be Key Management Personnel (KMP) of the Group during the Reporting Period. KMP are persons having authority and responsibility for planning, directing and controlling the activities of the Group.

KMP consist of:

- Non-Executive Directors; and
- Executive Directors and certain senior executives.

The table below summarises details of KMP of the Group that were KMP on 30 June 2019 or who were KMP during the financial year ended 30 June 2019, their roles and appointment/cessation dates.

Key Management Personnel during the Reporting Period

Name	Role	Appointment Date
Non-Executive Directors		
Teresa Handicott	Non-Executive Director and Chairman	1 October 2015 19 October 2017
Jeff Forbes	Non-Executive Director	7 August 2015
Roland Dane	Non-Executive Director	1 March 2017
Executive Director and Senior Executives		
Kees Weel	Managing Director	30 June 2003
Stuart Smith	Chief Financial Officer	13 November 2017
Matthew Bryson	General Manager, Engineering	11 April 2006
Jim Ryder ¹	General Manager, USA	10 January 2017
Andy Burton ¹	General Manager, Europe	1 July 2017

¹ Jim Ryder, General Manager USA and Andy Burton, General Manager Europe became KMP effective 1 January 2018 following an organisational restructure. Mr Burton was a consultant to PWR Europe Ltd prior to his appointment date.

B. Remuneration Governance

The following shows the Board's framework to establish and review remuneration for KMP and employees of the Group:

Board	Approves the overall remuneration framework and policy, ensuring it is fair, transparent and aligned with long term outcomes
Nomination and Remuneration Committee ("NRC")	NRC is delegated to review and make recommendations to the Board on remuneration policies for non-executive directors, senior executives and all employees including incentive arrangements and awards. The NRC can appoint remuneration consultants and other external advisors to provide independent advice
Managing Director	Provides all relevant information to the NRC to facilitate the NRC making recommendations to the Board on remuneration decisions

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

C. Non-Executive Director Remuneration

C1. Policy

A copy of the remuneration policy for Non-Executive Directors is available on the Group's website. The Board's Non-Executive Director remuneration policy is to:

- Provide a clear fee arrangement that avoids potential conflicts of interest associated with performance incentives,
- Remunerate Directors at market rates for their commitment and responsibilities, and
- Obtain independent external remuneration advice when required.

Non-Executive Directors receive remuneration for undertaking their role. They do not participate in the Group's incentive plans or receive any variable remuneration. Non-Executive Directors are not entitled to retirement payments.

The aggregate Non-Executive Director remuneration cap approved by shareholders in 2016 is \$750,000 per annum (inclusive of superannuation contributions). The Board determines the distribution of Non-Executive Director fees within the approved remuneration cap.

C2. Remuneration of Non-Executive Directors during Reporting Period

The following table sets out the annual Board and Committee fees (inclusive of superannuation) for Non-Executive Directors during the reporting period.

Role	Timeframe	Director Fees per annum
Chairman	Reporting Period	\$150,000
Non-Executive Director	Reporting Period	\$95,000
Audit and Risk Committee Chairman	Reporting Period	\$20,000
Nomination and Remuneration Committee Chairman	Reporting Period	\$20,000

D. Executive Director and Senior Executive Remuneration

D1. Remuneration policy for senior executives

The Board's policy for determining the nature and amount of remuneration for the Managing Director and other senior executives is:

- Provide for both fixed and performance based remuneration,
- Provide a remuneration package based on an annual review of employment market conditions, the Group's performance and individual performance, and
- Obtain independent external remuneration advice when required.

The remuneration framework for senior executives comprises two elements:

1. Fixed remuneration; and
2. "At risk" or performance linked remuneration.

D1.1 Fixed remuneration

Fixed remuneration is a function of size and complexity of the role, individual responsibilities, experience, skills and market pay levels. This consists of cash salary, salary sacrifice items, employer superannuation, annual leave provisions and any fringe benefits tax charges related to employee benefits. Superannuation is paid at the relevant statutory rate. The opportunity to salary sacrifice superannuation benefits on a tax-compliant basis is available upon request.

The Board determines an appropriate level of fixed remuneration for the senior executives with recommendations from the Nomination and Remuneration Committee.

Fixed remuneration is reviewed annually following performance reviews at the end of the financial year and takes into account the role and accountabilities, relevant market benchmarks and attraction, retention and motivation of executives in the context of the talent market.

The Managing Director and senior executives did not receive increases to their fixed remuneration during the Reporting Period.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

D1.2 Performance linked remuneration

Short-term incentive plan

The Managing Director and senior executives are eligible to participate in the Group's short-term incentive plan.

Under the plan, participants have an opportunity to receive an annual cash bonus calculated as a percentage of their total fixed remuneration ("TFR") and conditional on the achievement of short-term financial and non-financial performance measures at a corporate and individual level. For the year ended 30 June 2019, the operation of the short term-incentive plan had a NPAT target, established by the Board at the commencement of the Reporting Period, to trigger its operation, which was achieved by PWR but not at C&R. Individual and corporate key performance measures (KPI's), established at the beginning of the reporting period, are then measured against actual performance for the period. The corporate KPI's include measures on revenue, profitability, safety and quality all of which are key metrics for the Group's collective success. Short-term incentives were awarded to the Managing Director and senior executives of PWR (but not C&R) as outlined below.

Analysis of cash bonuses included in remuneration

The Board awarded the Managing Director and senior executives the following cash bonuses for the Reporting Period:

Employed at 30 June 2018	Position	Max Potential Bonus % TFR	Actual Bonus % TFR	Bonuses included in FY19 remuneration
Kees Weel	Managing Director	50%	44%	\$168,630
Stuart Smith	Chief Financial Officer	30%	26%	\$72,270
Matthew Bryson	General Manager, Engineering	30%	26%	\$72,270
Jim Ryder ⁽ⁱ⁾	General Manager, USA	30%	–	–
Andrew Burton ⁽ⁱⁱ⁾	General Manager, Europe	20%	16%	\$40,000

(i) Employed by C&R Racing Inc and remunerated in USD. The AUD equivalent is shown above.

(ii) Employed by PWR Europe and remunerated in GBP. The AUD equivalent is shown above.

Long-term incentive plan

Shareholders approved the implementation of a long-term incentive plan ("LTIP") at the 2016 Annual General Meeting ("AGM").

The LTIP is an equity-based incentive designed to provide participants with the incentive to deliver growth in shareholder value. Senior Executives receive performance rights ("Rights") on an annual basis under the Performance Rights Plan, subject to the approval of the Board. The Managing Director is entitled to receive Performance Rights on an annual basis under the Performance Rights Plan, subject to approval of shareholders. A grant of Rights was made to Senior Executives in the 2019 financial year. No Rights were issued to the Managing Director in the current or prior year.

Rights convert to ordinary shares in the Company on a one-for-one basis at the end of the three-year performance period depending on the extent to which performance hurdles are achieved and service conditions met.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

The performance hurdles are the achievement of Total Shareholder Return (“TSR”) ranking criteria relative to the TSR of constituents of the S&P/ASX300 (excluding mining and exploration entities) and growth in annual Earnings Per Share (“EPS”) relative to a target set by the Board. Participants must remain continually employed with the Company until the date of vesting. Vesting on each tranche is as follows:

TSR Ranking (50%)		EPS Growth (50%)	
The percentage of Performance Rights linked to TSR will be 50%. TSR is calculated by an independent third party, comparing the TSR percentile rank that the Company holds relative to all S&P ASX 300 constituent companies (excluding Energy sector (oil, gas and coal)) for the relevant 3-year Performance Period.		The percentage of the Performance Rights linked to the EPS hurdle will be 50%. Vesting is determined by the growth in EPS from the financial year immediately prior to the start of the Performance Period (base year) to the end of the third year of the Performance Period, measured against specific EPS targets outlined below.	
TSR Ranking	Vesting outcome	EPS	Vesting outcome
TSR is 50% or less	Nil vesting	EPS growth is 4% or less	Nil vesting
TSR is more than 50% but less than 75%	Rateable vesting between 20% and 99%	EPS growth is more than 4% but less than 12%	Rateable vesting between 50% and 99%
TSR is 75% or more	100% vesting	EPS growth is 12% or more	100% vesting

Rights that do not vest at the end of the three-year period lapse, unless the Board in its discretion determines otherwise. Upon cessation of employment prior to the vesting date, Rights will be forfeited and lapse. Rights do not entitle holders to dividends that are declared during the vesting period. The Board believes that performance hurdles, in combination, serve to align the interests of the individual senior executives with the interests of the Company's shareholders.

E. Company performance and remuneration outcomes

The various components of the way the Group remunerates key management personnel have been structured to support the Group's strategy and business objectives which in turn are designed to generate shareholder wealth.

When setting targets and determining the quantum of the remuneration increases and the proportion of fixed and performance linked remuneration components, the Board refers to remuneration benchmarking reports provided by independent sources and remuneration consultants from time to time.

The at risk component (short-term incentive plan and long-term incentive plan) of the remuneration structure intends to reward achievement against Group and individual performance measures over one year and three-year timeframes, respectively.

The table below summarises the Group's performance in recent financial years ending 30 June:

	Note	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
EBITDA (2016 excludes IPO costs)		\$21,763	\$16,336	\$14,727	\$16,903
Net profit after tax (2016 excludes IPO costs)		\$14,206	\$11,001	\$9,280	\$8,735
Total dividends per share		11.50 cents	7.30 cents	5.60 cents	4.40 cents
Change in share price		1.41	0.36	(0.43)	1.28
Earnings per share	B5	14.21 cents	11.00 cents	9.28 cents	9.31 cents

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

F. Contract duration and termination requirements

The Company has contracts of employment with no fixed tenure requirements with the Managing Director and senior executives. The notice period for each is outlined in the table below. Termination with notice may be initiated by either party. The contracts contain customary clauses dealing with immediate termination for gross misconduct, confidentiality and post-employment restraint of trade provisions.

Name	Position	Notice Period
Executive Director		
Kees Weel	Managing Director	6 months
Senior Executives		
Stuart Smith	Chief Financial Officer	3 months
Matthew Bryson	General Manager, Engineering	3 months
Andrew Burton	General Manager, Europe	3 months
Jim Ryder	General Manager, USA	3 months

G. Services from remuneration consultants

The Nomination and Remuneration Committee (NRC) engaged Godfrey & Associates (Godfrey) as remuneration consultant to the board to review the amount and elements of the key management personnel remuneration and provide recommendations in relation thereto.

Godfrey was paid \$10,000 for the remuneration recommendations in respect of reviewing the amount and elements of remuneration. Godfrey did not provide any other services.

The engagement of Godfrey by the NRC was based on a documented set of protocols that would be followed by Godfrey, members of the NRC, and members of the key management personnel for the way in which remuneration recommendations would be developed by Godfrey and provided to the board.

The protocols included the prohibition of Godfrey providing advice or recommendations to key management personnel before the advice or before Godfrey's recommendations were given to members of the NRC and not unless Godfrey had approval to do so from members of the NRC.

These arrangements were implemented to ensure that Godfrey would be able to carry out its work, including information capture and the formation of its recommendations, free from undue influence by members of the key management personnel about whom the recommendations may relate.

The board is satisfied that the remuneration recommendations were made by Godfrey free from undue influence by members of the key management personnel about whom the recommendations may relate.

The board undertook its own inquiries and review of the processes and procedures followed by Godfrey during the course of its assignment and is satisfied that its remuneration recommendations were made free from undue influence.

These inquiries included arrangements under which Godfrey was required to provide the board with a summary of the way in which it carried out its work, details of its interaction with key management personnel in relation to the assignment and other services and respond to questioning by members of the board after the completion of the assignment.

The results of this review have been implemented in the financial year beginning 1 July 2019 (FY20) and there is no impact on the reported results for the Reporting Period.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

H. Key Management Personnel Remuneration

Details of the nature and amount of each major element of remuneration of each Director and senior executive of the Group for the Reporting Period are:

Year	Short-term benefits			Total	Post Employment Benefits		Termination benefits	Long-term benefits	Share-based payments	Total
	Cash salary & fees	Cash Bonus	Non-cash benefits		Super benefits	Long service leave				
Non-executive Directors										
Current										
2019	156,986	-	-	156,986	13,014	-	-	-	-	170,000
2018	156,986	-	-	156,986	13,014	-	-	-	-	170,000
<i>Chairman Non-Executive Director</i>										
2019	105,023	-	-	105,023	9,977	-	-	-	-	115,000
2018	105,023	-	-	105,023	9,977	-	-	-	-	115,000
<i>Non-Executive Director</i>										
2019	95,000	-	-	95,000	-	-	-	-	-	95,000
2018	95,000	-	-	95,000	-	-	-	-	-	95,000
<i>Non-Executive Director</i>										
Total - Non-Executive Directors' Remuneration										
2019	357,009	-	-	357,009	22,991	-	-	-	-	380,000
2018	357,009	-	-	357,009	22,991	-	-	-	-	380,000

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

Year	Short-term benefits			Post Employment Benefits		Long-term benefits		Share-based payments		Proportion of remuneration performance related %
	Cash salary & fees \$	Cash Bonus \$	Non-cash benefits \$	Total \$	Super benefits \$	Termination benefits \$	Long service leave \$	Performance rights \$	Total \$	
Executive Directors and senior executives										
Current										
2019	350,000	168,630	18,846	537,476	49,353	-	5,536	36,660	629,025	32.6
2018	350,000	175,816	20,192	546,008	33,250	-	5,536	36,358	621,152	34.2
2019	250,000	72,270	5,263	327,533	28,522	-	-	34,781	390,836	27.4
2018	153,846	50,233	9,912	213,991	14,615	-	-	8,863	237,469	24.9
2019	250,000	72,270	11,725	333,995	30,908	-	3,954	58,637	427,494	30.6
2018	250,000	75,350	23,063	348,413	23,750	-	3,954	29,731	405,848	25.9
2019	244,255	40,000	-	284,255	-	-	-	-	284,255	14.1
2018	111,584	22,842	-	134,426	6,519	-	-	-	140,945	16.2
2019	209,102	-	17,007	226,109	-	-	-	25,035	251,144	10.0
2018	96,451	21,834	-	118,285	-	-	-	9,228	127,513	24.3
Former										
2019	-	-	-	-	-	-	-	-	-	-
2018	76,923	-	-	76,923	7,308	59,944	-	-	144,175	-
2019	-	-	-	-	-	-	-	-	-	-
2018	159,520	-	-	159,520	16,362	69,060	-	-	244,942	-
2019	1,303,357	353,170	52,841	1,709,368	108,783	-	9,490	155,113	1,982,754	25.6
2018	1,198,324	346,075	53,167	1,597,566	101,804	129,004	9,490	84,180	1,922,044	22.3
2019	1,660,711	353,170	52,841	2,066,377	131,774	-	9,490	155,113	2,362,754	21.5
2018	1,555,333	346,075	53,167	1,954,575	124,795	129,004	9,490	84,180	2,302,044	18.8
Total - Executive Directors' and senior executives' Remuneration										
Total - KMP Remuneration										

(i) Appointed 13 November 2017.

(ii) Executives became KMP effective 1 January 2018 following an organisational restructure.

(iii) Resigned 12 November 2017.

(iv) Resigned 4 February 2018.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

I. Share holdings of Key Management Personnel

The movement during the year in the number of ordinary shares in PWR Holdings Limited held, directly, indirectly or beneficially, by each member of the Key Management Personnel, including their related parties, is as follows:

Name	Shareholdings of KMP				Closing Balance 30 June 2019
	Opening Balance 1 July 2018	Shares acquired during the year	Shares disposed of during the year	Other	
Non-executive Directors					
Current					
Jeff Forbes	20,000	–	–	–	20,000
Teresa Handicott	25,500	–	–	–	25,500
Roland Dane	174,159	–	(39,685)	–	134,474
Executive Directors and Senior Executives					
Current					
Kees Weel	38,368,500 ⁽ⁱ⁾	–	(8,500,000)	–	29,868,500 ⁽ⁱ⁾
Matthew Bryson	3,773,308	–	(273,308)	–	3,500,000
Stuart Smith	10,000	–	–	–	10,000
Jim Ryder	–	–	–	–	–
Andy Burton	92,739	–	–	–	92,739

(i) 19,868,500 shares held by KPW Property Holdings Pty Ltd as trustee for the KPW Holdings Trust. At 30 June 2019 Kees Weel is a director of the trustee and beneficiary of the trust.

10,000,000 shares held by Wagon Weel Pty Ltd as trustee for the Wagon Weel Trust. At 30 June 2019 Kees Weel is a director of the trustee and beneficiary of the trust.

J. Voting and comments made as the Company's 2018 Annual General Meeting

The Company received more than 75% of "yes" votes on its remuneration report for the 2018 financial year. The Company did not receive any specific feedback at the 2018 AGM on its remuneration report.

Directors' Report

For the year ended 30 June 2019

16. REMUNERATION REPORT – AUDITED (continued)

K. Rights over equity instruments granted as remuneration

Details of performance rights over ordinary shares in the Company that were granted as remuneration to members of KMP during the Reporting Period are included in the KMP remuneration report. There were no alterations to the terms and conditions of performance rights granted as remuneration to KMP since their grant date.

No performance rights vested during the Reporting Period. Total Performance Rights issued at 30 June 2019 are as follows:

	Description of Rights	Number of Rights granted	Fair Value per Right at Grant Date		Grant Date	Vesting Date	Expiry Date
			TSR Component \$	EPS Component \$			
Kees Weel <i>Managing Director</i>	FY17 LTIP	64,958	0.86	2.37	21/10/16	1/9/19	1/3/20
Matthew Bryson <i>General Manager, Engineering</i>	FY17 LTIP	27,839	0.86	2.37	6/12/16	1/9/19	1/3/20
	FY18 LTIP	37,330	0.87	2.43	24/11/17	1/9/20	1/3/21
	FY19 LTIP	31,417	1.82	2.68	22/8/18	1/9/21	1/3/22
Stuart Smith <i>Chief Financial Officer</i>	FY18 LTIP	24,886	0.87	2.43	24/11/17	1/9/20	1/3/21
	FY19 LTIP	31,417	1.82	2.68	22/8/18	1/9/21	1/3/22
Jim Ryder <i>General Manager, USA</i>	FY18 LTIP	25,909	0.87	2.43	24/11/17	1/9/20	1/3/21
	FY19 LTIP	15,101	1.82	2.68	22/8/18	1/9/21	1/3/22
Total on issue to KMP		258,857					
Non KMP		114,185					
Total on issue at 30 June 2019		373,042					

L. Key management personnel transactions

KMP, or their related parties, may hold positions in other entities that result in them having control, or joint control, over the financial or operating policies of those entities.

These entities may transact with the Group. The terms and conditions of the transactions with KMP and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

From time to time, directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

This report is made with a resolution of the directors:



Teresa Handicott
Chairman
Brisbane
29th August 2019



Kees Weel
Managing Director
Brisbane
29th August 2019

Lead Auditors Independence Declaration Under Section 307C of the Corporations Act 2001

For the year ended 30 June 2019



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of PWR Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A stylized signature of the KPMG logo in blue ink.

KPMG

A handwritten signature in blue ink that reads 'Jason Adams'.

Jason Adams
Partner

Brisbane
29 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Revenue	B2	65,411	51,889
Other income	B2	600	665
Raw materials and consumables used		(13,928)	(9,934)
Employee expenses		(24,942)	(20,746)
Occupancy expenses		(2,084)	(1,885)
Other expenses		(3,294)	(2,937)
Loss on disposal of assets held for sale	B3	-	(716)
Profit before depreciation, net finance costs and income tax		21,763	16,336
Depreciation and amortisation		(2,470)	(1,666)
Profit before net finance costs and income tax		19,293	14,670
Finance income		614	45
Finance costs		(71)	(27)
Net finance income/(costs)	B4	543	18
Profit before income tax		19,836	14,688
Income tax expense	E1	(5,630)	(3,687)
Profit for the year attributable to equity holders of the parent		14,206	11,001
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(103)	237
Total comprehensive income for the year		14,103	11,238
Basic and diluted earnings per share	B5	14.21 cents	11.00 cents

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

At 30 June 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	C1	20,223	12,110
Trade and other receivables	C2	4,689	4,054
Inventories	C3	7,194	6,785
Other assets	C4	1,563	1,734
Total current assets		33,669	24,683
Non-current assets			
Property, plant and equipment	C5	15,350	11,573
Intangible assets	C6	14,237	14,102
Deferred tax assets	E2	1,721	2,114
Total non-current assets		31,308	27,789
Total assets		64,977	52,472
LIABILITIES			
Current liabilities			
Trade and other payables	C7	4,812	3,397
Loans and borrowings	F1	119	155
Employee benefits	D1	1,907	1,624
Current tax liabilities	E2	1,293	278
Provisions		139	115
Total current liabilities		8,270	5,569
Non-current liabilities			
Loans and borrowings	F1	3,523	328
Employee benefits	D1	187	100
Total non-current liabilities		3,710	428
Total liabilities		11,980	5,997
Net assets		52,997	46,475
EQUITY			
Issued capital	F2	25,921	25,921
Reserves		581	465
Retained earnings		26,495	20,089
Total equity		52,997	46,475

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Share Capital \$'000	Foreign currency translation reserve \$'000	Share based payments reserve	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2018		25,921	340	125	20,089	46,475
Total comprehensive income for the year						
Profit for the year		-	-	-	14,206	14,206
Other comprehensive income		-	(103)	-	-	(103)
Total comprehensive income		-	(103)	-	14,206	14,103
Transactions with owners, recorded directly in equity						
Employee share-based payments	D3	-	-	219	-	219
Dividends paid	F3	-	-	-	(7,800)	(7,800)
Total transactions with owners		-	-	219	(7,800)	(7,581)
Balance at 30 June 2019		25,921	237	344	26,495	52,997
Balance at 1 July 2017		25,921	103	49	14,888	40,961
Total comprehensive income for the year						
Profit for the year		-	-	-	11,001	11,001
Other comprehensive income		-	237	-	-	237
Total comprehensive income		-	237	-	11,001	11,238
Transactions with owners, recorded directly in equity						
Employee share-based payments		-	-	76	-	76
Dividends paid	F3	-	-	-	(5,800)	(5,800)
Total transactions with owners		-	-	76	(5,800)	(5,724)
Balance at 30 June 2018		25,921	340	125	20,089	46,475

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Cash receipts from customers		65,295	51,243
Cash paid to suppliers and employees		(42,898)	(34,604)
Cash generated from operating activities		22,397	16,639
Interest paid		(71)	(27)
Income tax refund – prior year over payment		–	1,258
Income tax paid		(3,675)	(3,858)
Net cash from operating activities	C1	18,651	14,012
Cash flows from investing activities			
Government grant income received		–	65
Interest received		49	33
Proceeds from sale of property, plant and equipment		11	225
Payments for property, plant and equipment		(5,985)	(5,199)
Net cash used in investing activities		(5,925)	(4,876)
Cash flows from financing activities			
Dividends paid		(7,800)	(5,800)
Proceeds from borrowings		3,503	–
Payment of finance lease liabilities		(257)	(281)
Net cash used in financing activities		(4,554)	(6,081)
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 July		12,110	9,064
Effect of exchange rate fluctuations on cash held		(59)	(9)
Cash and cash equivalents at 30 June	C1	20,223	12,110

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION A ABOUT THIS REPORT

A1 Reporting entity

PWR Holdings Limited (the "Company") is a Company domiciled in Australia.

The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities").

The Group is involved in the design, engineering, testing, production, validation and sale of customised cooling products and solutions to the motorsports, automotive original equipment manufacturing, automotive aftermarket and emerging technologies sectors for domestic and international markets.

The Company's registered office and principal place of business is 103 Lahrs Road, Ormeau, Queensland 4208.

The Group is a for-profit entity for the purposes of preparing these financial statements.

A2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The financial statements were approved by the Board of Directors on 29 August 2019.

(b) Functional and presentation currency

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

(c) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of the entities within the Group. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgements, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the Notes C3 (Inventories) and C6 (Intangible assets).

A3 Significant accounting policies

Apart from the first time adoption of AASB 9 and AASB 15 as described in Note H5, the accounting policies set out in Section I to the consolidated financial statements have been applied consistently to all periods presented in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION B BUSINESS PERFORMANCE

B1 Operating segments

The Group determines its operating segments based on information presented to the Managing Director being the chief operating decision maker, with operating segments based on the Group's operating divisions. Intersegment pricing is determined based on cost plus a margin.

	PWR Performance Products		C&R		Total	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Revenue from sale of manufactured products	52,070	38,678	12,691	12,679	64,761	51,357
Revenue from services	433	396	217	136	650	532
External revenues	52,503	39,074	12,908	12,815	65,411	51,889
Inter-segment revenues	1,676	2,856	3,994	379	5,670	3,235
Segment revenue	54,179	41,930	16,902	13,194	71,081	55,124
Operating EBITDA ¹	20,399	17,856	1,487	(630)	21,886	17,226
Significant Items (refer to Note B3)	-	-	-	(1,269)	-	(1,269)
Depreciation and amortisation	(1,433)	(993)	(1,037)	(673)	(2,470)	(1,666)
Segment profit/(loss) before interest and tax	18,966	16,863	450	(2,572)	19,416	14,291
Capital expenditure	5,038	1,841	941	2,965	5,979	4,806

¹ Operating EBITDA is the segment's profit from operations before interest, taxation, depreciation and amortisation.

	2019 \$'000	2018 \$'000
Reconciliation of reportable segment profit or loss		
Revenues		
Total revenue for reportable segments	71,081	55,124
Elimination of inter-segment revenue	(5,670)	(3,235)
Consolidated revenue	65,411	51,889
Profit before tax		
Profit before tax for reportable segments	19,416	14,291
Elimination of inter-segment (profit)/loss	(123)	379
Net finance income/(costs)	543	18
Consolidated profit before tax	19,836	14,688

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION B BUSINESS PERFORMANCE (continued)

Geographic information

The Group operates manufacturing facilities and/or sales offices in Australia, the UK and the USA, and sells its products to customers in various countries throughout the world. Three customers in the PWR Performance segment comprise 27% of Group's revenue for the year ended 30 June 2019.

The information below is an analysis of the Group's revenue on the basis of the location of the Group's customers.

	2019		2018	
	Revenue \$'000	Non-current assets ⁽ⁱ⁾ \$'000	Revenue \$'000	Non-current assets ⁽ⁱ⁾ \$'000
Australia	6,836	20,511	6,286	16,700
USA	13,268	9,294	14,622	8,959
UK	22,703	11	16,081	16
Italy	8,827	-	7,091	-
Germany	7,044	-	3,217	-
Other Countries	6,733	-	4,592	-
	65,411	29,816	51,889	25,675

(i) Excluding deferred tax assets.

B2 Revenue and other income

	2019 \$'000	2018 \$'000
Revenue from contracts with customers		
Sales of goods	64,761	51,309
Rendering of services	650	580
	65,411	51,889
Other income		
R&D tax incentive	600	600
Government grant	-	65
	600	665

B3 Expenses

Significant items

During the prior year, the Group disposed of non-core, non cooling components of the business at C&R in the USA. This disposal and write down comprised:

	\$'000	\$'000
Loss on sale of assets disposed	-	716
Write down of other assets	-	140
Impact on profit before tax	-	856
Income tax benefit	-	(223)
Impact on profit after tax	-	633

In addition, during the prior year, C&R settled a dispute with a distributor resulting in an expense of \$412,693 being recognised in 2018 profit before tax (\$305,393 after tax).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION B BUSINESS PERFORMANCE (continued)

Research and Development

The Group recognised \$8,985,006 (2018: \$8,127,787) as an expense in relation to its research and development activities. This is included in employee expenses, raw materials, consumables and overheads in the income statement.

B4 Finance income and finance costs

	2019 \$'000	2018 \$'000
Interest income	49	33
Net foreign exchange gain	565	12
Finance income	614	45
Interest expense	(71)	(27)
Finance costs	(71)	(27)
Net finance income/(costs)	543	18

B5 Earnings per share

	2019	2018
Basic and diluted earnings per share	14.21 cents	11.00 cents

Profit attributable to ordinary shareholders

The calculation of both basic and diluted earnings per share was based on profit attributable to equity holders of the Company of \$14,205,702 (2018: \$11,001,600).

Weighted average number of ordinary shares	2019 No.	2018 No.
Issued ordinary shares at 1 July	100,000,000	100,000,000
Weighted number of ordinary shares at 30 June	100,000,000	100,000,000

The impact of the performance rights issued by the Group during the year and in prior years was not material to the calculation of the Group's diluted earnings per share.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION C OPERATING ASSETS AND LIABILITIES

C1 Cash and cash equivalents

	2019 \$'000	2018 \$'000
Bank balances	20,223	12,107
Cash on hand	–	3
Cash and cash equivalents in the statement of cash flows	20,223	12,110

Reconciliation of cash flows from operating activities

Cash flows from operating activities		
Profit for the year	14,206	11,001
Adjustments for:		
Depreciation and amortisation	2,470	1,666
Research & development tax credit	600	601
Unrealised foreign exchange loss/(gain)	(342)	(12)
Share based remuneration	(219)	(76)
Loss on disposal of assets held for sale	–	716
(Profit)/Loss on sale of property, plant and equipment	(4)	(11)
Changes in:		
Trade and other receivables	(635)	(609)
Inventories	(406)	495
Trade and other payables	920	476
Other assets	297	(1,233)
Employee benefits	370	215
Other	(14)	76
Tax balances	1,408	707
Net cash from operating activities	18,651	14,012

C2 Trade and other receivables

Trade receivables	4,688	4,051
Trade receivables due from related parties (refer Note H2)	1	3
	4,689	4,054

C3 Inventories

Raw materials	2,721	3,330
Work in progress	683	812
Finished goods	4,283	3,658
Consumables	320	42
Allowance for inventory obsolescence	(813)	(1,057)
	7,194	6,785

The cost of inventories sold and recognised as an expense during the year end 30 June 2019 was \$31,147,358 (2018: \$24,021,000).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION C OPERATING ASSETS AND LIABILITIES (continued)

C4 Other assets

	2019 \$'000	2018 \$'000
Prepayments	1,252	1,241
Deposits	311	444
Other assets	-	49
	1,563	1,734

C5 Property, plant and equipment

Plant and equipment – at cost	24,844	18,640
Accumulated depreciation	(10,125)	(7,656)
	14,719	10,984
Motor vehicles – at cost	349	375
Accumulated depreciation	(292)	(286)
	57	89
Under construction	574	500
	15,350	11,573

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

2019	Plant and equipment \$'000	Motor vehicles \$'000	Under construction \$'000	Total \$'000
Cost				
Opening balance	18,640	375	500	19,515
Additions	28	-	5,951	5,979
Transfers	5,886	-	(5,886)	-
Disposals	(54)	(31)	-	(85)
Effect of movements in exchange rates	344	5	9	358
Closing balance	24,844	349	574	25,767
Accumulated depreciation				
Opening balance	7,656	286	-	7,942
Disposals	(54)	(25)	-	(79)
Depreciation	2,446	26	-	2,472
Effect of movements in exchange rates	77	5	-	82
Closing balance	10,125	292	-	10,417
Net carrying amount	14,719	57	574	15,350

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION C OPERATING ASSETS AND LIABILITIES (continued)

2018	Plant and equipment \$'000	Motor vehicles \$'000	Under construction \$'000	Total \$'000
Cost				
Opening balance	11,651	378	2,085	14,114
Additions	4,769	37	–	4,806
Transfers	1,585	–	(1,585)	–
Disposals	(55)	(44)	–	(99)
Effect of movements in exchange rates	690	4	–	694
Closing balance	18,640	375	500	19,515
Accumulated depreciation				
Opening balance	5,981	243	–	6,224
Disposals	(33)	(4)	–	(37)
Depreciation	1,623	43	–	1,666
Effect of movements in exchange rates	85	4	–	89
Closing balance	7,656	286	–	7,942
Net carrying amount	10,984	89	500	11,573

The plant and equipment balance as at 30 June 2019 includes assets with carrying amounts of \$226,635 under finance lease (2018: \$483,516). During the year, the Group did not acquire any assets under finance lease (2018: NIL).

C6 Intangible assets

	Note	Goodwill \$'000	Trademarks \$'000	Total \$'000
2019				
Cost		3,252	10,985	14,237
Accumulated amortisation		–	–	–
		3,252	10,985	14,237
2018				
Cost		3,117	10,985	14,102
Accumulated amortisation		–	–	–
		3,117	10,985	14,102
Reconciliations				
2019				
Carrying amount at beginning of year		3,117	10,985	14,102
Amortisation		–	–	–
Effect of movements in exchange rates		135	–	135
Balance at the end of the year		3,252	10,985	14,237
2018				
Carrying amount at beginning of year		3,144	10,985	14,129
Amortisation		–	–	–
Effect of movements in exchange rates		(27)	–	(27)
Balance at the end of the year		3,117	10,985	14,102

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION C OPERATING ASSETS AND LIABILITIES (continued)

Impairment

For the purpose of impairment testing, goodwill and trademarks are allocated to the Group's cash generating units (CGUs) as follows:

	PWR Performance Products		C&R	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Goodwill	1,904	1,904	1,348	1,213
Trademarks	8,432	8,432	2,553	2,553
	10,336	10,336	3,901	3,766

For the purpose of impairment testing, the recoverable amount of each CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of each CGU. The carrying amount of each CGU was determined to be less than its recoverable amount and accordingly, no impairment loss was recognised.

Value in use is calculated based on the present value of the cash flow projections over a five year period and include a terminal value at the end of year five. The cash flow projections over the five year period are based on the Group's budget for 2020 and growth over the forecast periods based on the Group's business plans and management's assessment of the impacts of underlying economic conditions, past performance and other factors on each CGU's financial performance. For the C&R CGU, the cashflow projections include management's estimate of the expected growth from C&R's involvement in OEM programs as a cooling assembly supplier as well as growth into the automotive aftermarket. The long term growth rate used in calculating the terminal value is based on long term inflation estimates for the country and industry in which each CGU operates.

The cash flows are discounted to their present value using a pre-tax discount rate based on a weighted average cost of capital adjusted for country and industry specific risks associated with each CGU.

Key assumptions used in the estimation of value in use were:

	2019 %	2018 %
PWR Performance Products		
Discount rate – pre tax	14.6%	16.4%
Terminal value growth rate	2.0%	2.0%
Revenue – compound annual growth rate	2.0%	2.0%
Average EBITDA margin	35.7%	35.7%
C&R		
Discount rate – pre tax	13.5%	13.7%
Terminal value growth rate	2.0%	2.0%
Revenue – compound annual growth rate	5.5%	5.6%
Average EBITDA margin	15.1%	17.3%

C7 Trade and other payables

Trade and other payables are carried at amortised cost.

	2019 \$'000	2018 \$'000
Trade payables	2,383	1,324
Other payables	2,429	2,073
	4,812	3,397

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION D EMPLOYEE BENEFITS

D1 Employee benefits

	2019 \$'000	2018 \$'000
Current		
Annual leave liability	1,487	1,269
Long service leave liability	420	355
	1,907	1,624
Non-current		
Long service leave liability	187	100

During the year ended 30 June 2019, the Group contributed \$1,151,394 (2018: \$932,853) to defined contribution plans. These contributions are included in employee expenses in the statement of profit or loss and other comprehensive income.

D2 Key management personnel compensation

Key management personnel compensation comprised the following:

	2019 \$'000	2018 \$'000
Short-term employee benefits	2,067	1,955
Termination benefits	–	129
Post-employment benefits	132	125
Share based payments	155	84
Other long term benefits	9	9
	2,363	2,302

D3 Share based payments

During the year the Board granted performance rights to employees under the terms of the Performance Rights Plan (the Plan) approved at the Company's Annual General Meeting on 21 October 2016.

Under the Plan, the Board may issue employees conditional performance rights for no consideration. Subject to the achievement of vesting conditions, the performance rights entitle the employee to receive ordinary shares in the Company at no cost.

Vesting of the performance rights approved during the year is subject to meeting a 3 year service condition and achievement of performance hurdles (based on either an EPS growth target or total shareholder return (TSR) ranking). The performance period for the rights issued is from 1 July 2018 to 30 June 2021.

162,790 (2018: 158,364) performance rights were issued to key management personnel during the year with 50% subject to the EPS performance hurdle and 50% subject to the TSR performance hurdle. At 30 June 2019, all of these performance rights remain on issue.

In accordance with the Group's accounting policy, the grant date fair values of the rights issued will be recognised as an expense over the vesting period. An expense of \$219,000 (2018: \$75,518) was recognised during the year and included in "employee expenses" in the statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION D EMPLOYEE BENEFITS (continued)

Measurement of fair values

The fair value of the TSR component of the performance rights has been measured using a Monte Carlo simulation. The fair value of the EPS component of the performance rights has been measured using the Black Scholes formula.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payments were as follows:

	2019		2018	
	TSR component	EPS component	TSR component	EPS component
Fair value at grant date	\$1.82	\$2.68	\$0.87	\$2.43
Share price at grant date	\$2.90	\$2.90	\$2.20	\$2.20
Exercise price	Nil	N/A	Nil	N/A
Expected volatility	34%	N/A	40%	N/A
Risk free rate	2.03%	N/A	1.90%	N/A
Expected life	3 years	3 years	2.77 years	2.77 years
Expected dividends	2.66%	2.66%	2.20%	2.20%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price prior to the grant date.

SECTION E TAXATION

E1 Income tax expense

	2019 \$'000	2018 \$'000
Current tax expense		
Current period	5,238	3,923
(Over)/under provision in prior period	(1)	(145)
	5,237	3,778
Deferred tax expense		
Origination and reversal of temporary differences	393	(91)
Total income tax expense	5,630	3,687
Numerical reconciliation between tax expense and pre-tax accounting profit		
Profit for the period	14,206	11,001
Total income tax expense	5,630	3,687
Profit excluding income tax	19,836	14,688
Income tax using the Company's domestic tax rate of 30%	5,951	4,406
Tax effect of R&D benefit	(180)	(180)
Effect of tax rates in foreign jurisdictions	(212)	(216)
Other	71	(323)
	5,630	3,687

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION E TAXATION (continued)

E2 Tax assets and liabilities

Current tax assets and liabilities

The current tax liability of \$1,293,174 (2018: \$278,242) represents the amount of income tax payable in respect of current and prior periods to the relevant tax authority.

Movement in deferred tax balances

	Net balance at 1 July \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	Net \$'000	Deferred tax assets \$'000	Deferred tax liabilities \$'000
2019						
Property, plant and equipment	(312)	(748)	-	(1,060)	-	(1,060)
Employee benefits	595	86	-	681	681	-
Accruals	24	(24)	-	-	-	-
Inventories	418	(14)	-	404	555	(151)
Unrealised foreign exchange	(211)	(273)	-	(484)	1	(485)
Tax losses	1,200	998	-	2,198	2,198	-
Capital raising costs	454	(227)	-	227	227	-
Other items	(54)	(191)	-	(245)	182	(427)
Net tax assets/(liabilities)	2,114	(393)	-	1,721	3,844	(2,123)
2018						
Property, plant and equipment	(450)	138	-	(312)	-	(312)
Employee benefits	662	(67)	-	595	595	-
Accruals	63	(39)	-	24	24	-
Inventories	770	(352)	-	418	499	(81)
Unrealised foreign exchange	-	(211)	-	(211)	-	(211)
Tax losses	362	838	-	1,200	1,200	-
Capital raising costs	681	(227)	-	454	454	-
Other items	(65)	(50)	-	(54)	177	(231)
Net tax assets/(liabilities)	2,084	30	-	2,114	2,949	(835)

The Group's tax losses recognised as a deferred tax asset arise from its US operations. Management considers that based on the Group's plans for this business, it is probable that future taxable profits will be generated against which the tax losses can be recovered.

SECTION F CAPITAL STRUCTURE AND BORROWINGS

F1 Loans and borrowings

	2019 \$'000	2018 \$'000
Current		
Finance lease liability	119	155
Non-current		
Finance lease liability	108	328
Foreign currency loan	3,415	-
	3,523	328

The foreign currency loan is denominated in GBP and interest is based on GBP 3 month LIBOR rates plus a margin.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION F CAPITAL STRUCTURE AND BORROWINGS (continued)

Reconciliation of movements in liabilities to cash flows arising from financing activities

	2018 Carrying Value \$'000	Cash flows \$'000	Non cash changes Foreign exchange movements \$'000	2019 Carrying Value \$'000
Long term borrowings	–	3,503	(88)	3,415
Lease liabilities	483	(257)	1	227
Total liabilities from financing facilities	483	3,246	(87)	3,642

Finance facilities

The terms and conditions of the Group's finance facilities at 30 June 2019 were as follows:

Facility	Currency	Nominal interest rate	Maturity	2019		2018	
				Facility limit \$'000	Carrying amount \$'000	Facility limit \$'000	Carrying amount \$'000
Trade finance	AUD	Variable	2023	750	–	500	–
Corporate credit card	AUD	Variable	2023	100	–	100	2
	USD	Variable	–	100	–	100	38
Finance lease	AUD	5.4%–8.2%	2023	7,500	227	5,000	483
Multi currency facility	AUD	Varies	2023	10,000	3,415	–	–
Foreign currency advance facility	USD	N/A	N/A	–	–	4,000	–

Finance facilities are secured by charges over the Group's assets. Under the terms of the agreements, the Company and several of its wholly owned subsidiaries jointly and severally guarantee and indemnify the lender in relation to the borrower's obligations.

Finance leases

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Less than one year	131	172	12	17	119	155
Between one and five years	110	344	2	16	108	328
	241	516	14	33	227	483

The Group leases operating equipment used in the manufacturing process under finance leases.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION F CAPITAL STRUCTURE AND BORROWINGS (continued)

F2 Capital and reserves

Share capital	2019		2018	
	No. of shares	\$'000	No. of shares	\$'000
Ordinary shares				
Balance at beginning of year	100,000,000	25,921	100,000,000	25,921
Balance at end of year	100,000,000	25,921	100,000,000	25,921

Capital management

The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the capital base as well as the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

F3 Dividends

Dividends recognised by the Company are:

	Cents per share \$	Total amount \$	Franked/unfranked	Date of payment
2019				
Interim 2019 ordinary	1.60	1,600,000	Franked	5 April 2019
Final 2018 ordinary	6.20	6,200,000	Franked	14 September 2018
Total amount		7,800,000		
2018				
Interim 2018 ordinary	1.10	1,100,000	Franked	6 April 2018
Final 2017 ordinary	4.70	4,700,000	Franked	18 September 2017
Total amount		5,800,000		

Franked dividends declared or paid during the year were fully franked at the tax rate of 30 percent.

Dividend franking account

	2019	2018
30 percent franking credits available to shareholders of PWR Holdings Limited	1,483,687	1,132,457

At 30 June 2019, the franking credits of the Group were 5,172,544 (2018: 5,280,419).

The ability to utilise the franking credits is dependent upon the ability to declare dividends.

Recognition and measurement

Dividends are recognised as a liability in the period in which they are declared.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION F CAPITAL STRUCTURE AND BORROWINGS (continued)

F4 Commitments

Operating leases

	2019 \$'000	2018 \$'000
Non-cancellable operating leases are payable as follows:		
Less than one year	2,038	1,805
Between one and five years	7,609	7,002
More than five years	2,124	3,383
	11,771	12,190

The Group leases its office and factory facilities under operating leases. During the financial year ended 30 June 2019 an amount of \$2,084,474 was recognised as an expense in the income statement in respect of operating leases (2018: \$1,885,328).

Other commitments

At 30 June 2019, the Group had agreed to purchase plant and equipment for \$2.0 million (2018: \$2.5 million) within 12 months.

SECTION G GROUP STRUCTURE

G1 Parent entity information

As at and throughout the financial year ended 30 June 2019, the parent and ultimate parent entity of the Group was PWR Holdings Limited.

	2019 \$'000	2018 \$'000
Statement of profit or loss and other comprehensive income		
Profit/(Loss) after income tax	11,244	5,445
Total comprehensive income	11,244	5,445
Statement of financial position		
Total current assets	23	21
Total non-current assets	31,137	27,678
Total assets	31,160	27,699
Total current liabilities	163	203
Total non-current liabilities	-	-
Total liabilities	163	203
Net assets	30,997	27,496
Equity		
Issued capital	25,921	25,921
Reserves	344	124
Retained earnings	4,732	1,451
Total equity	30,997	27,496

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION G GROUP STRUCTURE (continued)

Contingent liabilities

The parent entity is party to a cross guarantee and indemnity in relation to the Group's borrowing arrangements, refer Note F1. The parent had no other contingent liabilities at 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in the notes.

G2 Controlled entities

The following entities are subsidiaries of the parent entity, the results of which are included in the consolidated financial statements of the Group.

	Country of incorporation	Ownership interest	
		2019 %	2018 %
PWR Performance Products Pty Ltd	Australia	100	100
PWR IP Pty Ltd	Australia	100	100
PWR Europe Limited	UK	100	100
C&R Racing Inc	USA	100	100
PWR EU B.V.	Netherlands	100	-

G3 Deed of cross guarantee

Pursuant to ASIC Corporations (wholly-owned companies) Instrument 2016/785, the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

PWR Performance Products Pty Ltd

PWR IP Pty Ltd

Both subsidiaries became a party to the Deed on 18 May 2017.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION G GROUP STRUCTURE (continued)

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, for the year ended 30 June 2019 is set out below.

Statement of profit or loss and other comprehensive income	2019 \$'000	2018 \$'000
Revenue	46,659	36,955
Other income	600	876
Raw materials and consumables used	(7,012)	(5,997)
Employee expenses	(17,574)	(14,280)
Occupancy expenses	(1,459)	(1,212)
Other expenses	(2,153)	(1,529)
Profit before depreciation, net finance costs and income tax	19,061	14,813
Depreciation and amortisation	(1,423)	(980)
Profit before net finance costs and income tax	17,638	13,833
Finance income	2,955	810
Finance costs	(1,536)	(29)
Net finance income/(costs)	1,419	781
Profit before income tax	19,057	14,614
Income tax expense	(5,609)	(3,902)
Profit for the year attributable to equity holders of the parent	13,448	10,712
Total comprehensive income for the year	13,448	10,712

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION G GROUP STRUCTURE (continued)

Statement of financial position	2019 \$'000	2018 \$'000
Assets		
Current assets		
Cash and cash equivalents	14,571	10,380
Trade and other receivables	11,191	5,812
Inventories	4,120	4,363
Other assets	–	1,195
Total current assets	29,882	21,750
Non-current assets		
Property, plant and equipment	9,526	5,917
Intangible assets	10,985	10,985
Related party loans	9,471	7,687
Investments in subsidiaries	1,944	1,944
Deferred tax assets	1,362	1,425
Total non-current assets	33,288	27,958
Total assets	63,170	49,708
Liabilities		
Current liabilities		
Trade and other payables	1,876	1,942
Loans and borrowings	119	155
Employee benefits	1,790	1,549
Tax liabilities	800	467
Provisions	99	81
Total current liabilities	4,684	4,194
Non-current liabilities		
Loans and borrowings	3,523	328
Deferred tax liabilities	1,511	–
Employee benefits	187	100
Total non-current liabilities	5,221	428
Total liabilities	9,905	4,622
Net assets	53,265	45,086
Equity		
Issued capital	25,921	25,921
Reserves	382	394
Retained earnings	26,962	18,771
Total equity	53,265	45,086

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION

H1 Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

The note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management activities are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management activities are reviewed to reflect changes in market conditions and the Group's operations. The Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

Management assesses each new customer for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

		Carrying amount	
	Note	2019 \$'000	2018 \$'000
Cash and cash equivalents	C1	20,223	12,110
Trade and other receivables	C2	4,689	4,054
		24,912	16,164

Cash and cash equivalents

The Group held cash and cash equivalents of \$20,223,016 at 30 June 2019 (2018: \$12,110,095), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A to AA-, based on independent rating agency ratings.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the country in which customers operate, as these factors may have an influence on credit risk.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION (continued)

Exposure to credit risk

The maximum exposure to credit risk for trade and other receivables at the end of the reporting period by geographic region was as follows:

	Carrying amount	
	2019 \$'000	2018 \$'000
Australia	647	1,084
UK	2,574	2,091
USA	1,468	879
	4,689	4,054

The ageing of the Group's trade and other receivables at the end of the reporting date was as follows:

Not past due	3,487	3,228
Past due 1-30 days	1,148	801
Past due 31-60 days	34	22
Past due > 61 days	20	3
	4,689	4,054
Provision for impairment	-	-
	4,689	4,054

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk.

No impairment losses were recognised in respect of trade and other receivables during the year (2018: Nil).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

In addition, the Group maintains the following lines of credit: (refer Note F1)

- A\$10,000,000 foreign currency advance facility (multicurrency);
- A\$7,500,000 asset finance facility;
- A\$750,000 trade finance facility;
- A\$100,000 corporate credit card facility; and
- USD\$100,000 corporate credit card facility.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION (continued)

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments.

	Note	Carrying amount \$'000	Total \$'000	Contractual cash flows	
				12 months \$'000	1-5 years \$'000
2019					
Trade and other payables	C7	4,812	(4,812)	(4,812)	-
Foreign currency loan	F1	3,415	(3,756)	(68)	(3,688)
Finance lease liabilities	F1	227	(241)	(131)	(110)
		8,454	(8,809)	(5,011)	(3,798)
2018					
Trade and other payables	C7	3,397	(3,397)	(3,397)	-
Finance lease liabilities	F1	483	(516)	(172)	(344)
		3,880	(3,913)	(3,569)	(344)

Market risk

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

Currency risk

The Group is exposed to currency risk on its financial assets and liabilities arising from sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, being the Australian dollar (AUD), Pound Sterling (GBP) and US dollar (USD). The currencies in which these transactions are denominated are primarily AUD, GBP and USD.

Under the Group's financial risk management policies, the Group may use derivative financial instruments to manage its foreign currency risks. At 30 June 2019, the Group had entered into participating forward contracts to manage its exposure to sales denominated in GBP. These contracts, which settle monthly until 30 June 2020, have a total notional amount of £10.65m and have been accounted for at fair value through the profit and loss. The fair value at year end was an asset of \$258,036 (2018: NIL).

During the year ended 30 June 2019, the Group recognised \$218,960 in realised gains and \$341,904 in unrealised gains on derivatives (2018: \$236,000 loss). This has been included in finance income or costs in the income statement.

Exposure to currency risk

A summary of quantitative data about the Group's exposure to currency risk on financial assets and liabilities at year end is as follows:

	Note	30 June 2019			30 June 2018		
		AUD \$'000	GBP £'000	USD \$'000	AUD \$'000	GBP £'000	USD \$'000
Trade receivables	C2	324	1,757	829	470	1,230	1,076
Trade payables	C7	(433)	(812)	(306)	(684)	(280)	(201)
Foreign currency loan	F1	-	(2,000)	-	-	-	-
Net statement of financial position exposure		(109)	(1,055)	523	(214)	950	875
Notional amount of foreign currency derivatives		-	10,650	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION (continued)

Sensitivity analysis

A strengthening (weakening) of the GBP or USD against the AUD at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and increased or (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The analysis is performed on the same basis for 2018, using consistent foreign exchange rate variances, as indicated below.

	Profit or loss (net of tax)		Equity (net of tax)	
	Strengthening \$'000	Weakening \$'000	Strengthening \$'000	Weakening \$'000
30 June 2019				
GBP (10% movement)	133	(29)	133	(29)
USD (10% movement)	(52)	47	(52)	47
30 June 2018				
GBP (10% movement)	108	(118)	108	(118)
USD (10% movement)	76	(83)	76	(83)

Interest rate risk

At the end of the reporting period the interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group was as follows:

	Nominal amount	
	2019 \$'000	2018 \$'000
Fixed rate instruments		
Financial liabilities	(227)	(483)
	(227)	(483)
Variable rate instruments		
Financial assets	20,223	12,110
Financial liabilities	(3,415)	-
	16,808	12,110

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of reporting period would have increased or (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss (net of tax)		Equity (net of tax)	
	100bp increase \$'000	100bp decrease \$'000	100bp increase \$'000	100bp decrease \$'000
30 June 2019				
Variable rate instruments	117	(117)	117	(117)
Cash flow sensitivity (net)	117	(117)	117	(117)
30 June 2018				
Variable rate instruments	84	(84)	84	(84)
Cash flow sensitivity (net)	84	(84)	84	(84)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION (continued)

Fair values

The fair values of the Group's financial assets and liabilities approximate their carrying amounts recognised in the statement of financial position.

H2 Related party information

Certain key management personnel, or their related parties, hold positions in other entities that result in them having control, joint control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control, joint control or significant influence were as follows:

Entity	Transaction	Transaction values during the year		Balance outstanding Receivable/(Payable)	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Bayswater Road Radiators Pty Ltd ⁽ⁱ⁾	Sales of goods	30	36	1	3
Triple Eight Race Engineering Pty Ltd ⁽ⁱⁱ⁾	Sales of goods	4	13	-	-

(i) Bayswater Road Radiators Pty Ltd is an entity associated with Kees Weel, which purchases goods from the Group.

(ii) Triple Eight Race Engineering Pty Ltd is an entity associated with Roland Dane, which purchases goods from the Group.

H3 Auditor Remuneration

	2019 \$	2018 \$
Audit services		
Auditors of the Group		
KPMG		
Audit of financial reports	147,500	142,500
Accountability GB		
Audit of financial reports	14,000	14,157
Other services		
Auditors of the Group		
KPMG		
IT Advisory services	39,607	-
Accountability GB		
Taxation services	2,407	1,598

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION H OTHER INFORMATION (continued)

H4 Subsequent events

The Board declared a fully franked final ordinary dividend of 6.90 cents per share and a special FY19 dividend of 3.00 cents per share. The financial effect of the 2019 declared final and special dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2019.

Other than the matter noted above, there has not arisen in the interval since the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

H5 New accounting standards

Changes in accounting policies - new standards and interpretations adopted

Effective from 1 July 2018, AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* have been adopted by the Group. The nature and effect of these standards being adopted are disclosed below.

AASB 9 *Financial Instruments*

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' ("ECL") model for calculating impairment on financial assets and new general hedge accounting requirements.

As the Group does not hold complex financial instruments or long dated receivables, there was no material impact of adopting AASB 9 on the Group's financial statements in the current or comparative period.

New standards and interpretations adopted

AASB 15 *Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue* (AASB 118). AASB 15 is a significant change from the revenue recognition requirements under AASB 118 and will involve more judgements and estimates as it requires revenue to be recognised when control of a good or service transfers to a customer, or on satisfaction of performance obligations, which replaced the previous recognition concept of transfer of risks and rewards.

The application of AASB 15 has not had a material impact on the Group in the current or comparative period including the timing of recognition of the Group's key revenue streams. For the sale of manufactured products, revenue will be recognised at the point in time that the performance obligation is satisfied which is generally on shipment of the goods to the customer from the Group's warehouse. For services, including wind tunnel testing and freight, revenue is recognised over time as those services are provided.

New standards and interpretations not yet adopted

AASB 16 *Leases*

The Group has not early adopted AASB 16 *Leases*. The Group will apply AASB 16 initially in its financial statements for the year ending 30 June 2020.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

The Group has started an initial assessment of the potential impact on its consolidated financial statements, with the most significant impact identified so far being that the Group will recognise new assets and liabilities for its operating leases of factory and office facilities. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Group's finance leases.

Although the Group has not yet fully quantified the impact on its reported assets and liabilities of adoption of AASB 16, based on an initial assessment the impact on the net profit after tax is not expected to be significant. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES

1. Basis of consolidation
2. Foreign currency
3. Revenue
4. Employee benefits
5. Finance income and finance costs
6. Income tax
7. Inventories
8. Property, plant and equipment
9. Intangible assets and goodwill
10. Share capital
11. Impairment
12. Provisions
13. Leases
14. Financial instruments
15. Fair value measurement

1 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Groups' entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences are generally recognised in profit or loss.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency translation differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

3 Revenue

Sale of goods

For the sale of manufactured products, revenue is recognised at the point in time that the performance obligation is satisfied which is generally on shipment of the goods to the customer from the Group's warehouse.

Rendering of services

For services, including wind tunnel testing and freight, revenue is recognised over time as those services are provided.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES (continued)

4 Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Defined contribution funds

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

5 Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of derivative financial instruments at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and changes in the fair value of derivative financial instruments at fair value through profit or loss. Interest expense is recognised using the effective interest method.

Foreign currency gains and losses on monetary assets and liabilities are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

6 Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustments to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and difference relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES (continued)

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such as changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

7 Inventories

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

The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

8 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line and/or diminishing value basis over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

	2019	2018
Plant and equipment	2-7 years	2-7 years
Motor vehicles	4-6 years	4-6 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES (continued)

9 Intangible assets and goodwill

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Goodwill is not amortised.

Trademarks

Separately acquired trademarks are measured initially at cost of acquisition. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Fair value is determined using the relief from royalty method.

The Group's trademarks are subsequently carried at cost less impairment losses and are not amortised as they are considered to have an indefinite useful life.

Research and development

Research expenditure is recognised as an expense as incurred. Concessional tax benefits and incentives receivable are recognised as other income based on an estimate of the eligible research and development expenditure incurred during the financial year. Costs incurred on development projects are recognised as intangible assets only when it is probable that a project will, after assessment of its commercial and technical feasibility, be completed and generate future economic benefits and can be measured reliably.

Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and trademarks with an indefinite life are tested annually for impairment.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10 Share capital

Ordinary shares

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

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

Share based payments reserve

The share based payments reserve comprises the grant-date fair value of share-based payment awards granted to employees.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES (continued)

11 Provisions

Warranties

A provision for warranties is recognised when the underlying products are sold, based on historical warranty data and a weighting of possible outcomes against their assumed possibilities.

Provision for warranties relates to products sold during the current and prior financial years. The provision is based on estimates made from historical warranty data. The Group expects to settle the majority of the liability over the next year.

12 Leases

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

13 Financial instruments

Non-derivative financial instruments

Trade and other receivables are initially recognised as fair value and subsequently measured at amortised cost less impairment. Trade receivables are due for settlement no more than 30-60 days from the date of recognition.

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at reporting date.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Interest-bearing loans and liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Derivative financial instruments

The Group may use derivative financial instruments to manage its foreign currency exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are recognised initially at fair value, any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

SECTION I SIGNIFICANT ACCOUNTING POLICIES (continued)

14 Fair value measurements

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

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value using the quoted price in an active market for that asset or liability. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When an active market is not available, the Group uses observable market data as far as possible.

Further information about the methods and assumptions made in determining fair values for measurement and/or disclosure purposes is included in the following notes:

- Note I14 – financial instruments
- Note D3 – share based payments.

Directors' Declaration

For the year ended 30 June 2019

DIRECTORS' DECLARATION

1. In the opinion of the directors of PWR Holdings Limited (the "Company"):
 - (a) the consolidated financial statements and notes that are set out on 22 to 54 and the Remuneration report in section 16 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
 - (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.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note G3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2019.
4. The directors draw attention to Note A2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of directors.



Kees Weel

Director

Brisbane

29th August 2019

Independent Auditor's Report to the Members of PWR Holdings Limited

For the year ended 30 June 2019



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of PWR Holdings Limited for the year ended 30 June 2019 complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 12 to 20 of the Directors' Report for the year ended 30 June 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

A handwritten signature of the KPMG representative, appearing as 'kpmg' in a cursive, lowercase font.

KPMG

A handwritten signature of Jason Adams, appearing as 'J Adams' in a cursive, uppercase font.

Jason Adams
Partner

Brisbane
29 August 2019

Independent Auditor's Report to the Members of PWR Holdings Limited

For the year ended 30 June 2019



Other Information

Other Information is financial and non-financial information in PWR Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and ASX Additional Information. The Chairman's Letter and Managing Director's Report are expected to be included in the Annual Report, and made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Independent Auditor's Report to the Members of PWR Holdings Limited

For the year ended 30 June 2019



Valuation of goodwill and intangible assets \$14.2m	
Refer to Note C6 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's annual testing of goodwill and intangible assets for impairment given the size of the balance (being 21.9% of total assets).</p> <p>We focused on the significant forward-looking assumptions the Group applied in its value in use models, including forecast cash flows, growth rates and discount rates.</p> <p>The Group uses complex models in performing its annual impairment testing. These models use forward looking assumptions based on the Group's budgeting and business plans and a range of other internal and external sources as inputs to the assumptions. Complex modelling using forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We considered the appropriateness of the value in use method applied by the Group to perform the annual impairment testing against the requirements of the accounting standards. • We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. • We considered the Group's determination of its CGUs based on our understanding of the Group's operations and how independent cash inflows were generated, against the requirements of the accounting standards. • We compared the forecast cash flows contained in the value in use model to Board approved budgets and the Group's business plans. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures. • We challenged the Group's significant forecast cash flow and growth assumptions using our knowledge of the Group, its past performance and our understanding of factors impacting the business and customers in which the CGUs operate in. • Working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the CGU and the industry it operates in. • We assessed the disclosures in the financial report using our understanding obtained from our testing and the requirements of the accounting standards.

Independent Auditor's Report to the Members of PWR Holdings Limited

For the year ended 30 June 2019



Independent Auditor's Report

To the shareholders of PWR Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of PWR Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *Corporations Act 2001* and 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 fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matter** we identified was the valuation of goodwill and intangible assets.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ASX Additional Information

Shareholdings as at 9 September 2019

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	Number of Ordinary shares	Number of Security Holders
1 – 1,000	459,609	883
1,001 – 5,000	4,918,118	1,720
5,001 – 10,000	4,530,225	606
10,001 – 100,000	8,420,419	392
100,001 and over	81,671,629	28
	100,000,000	3,629

62 shareholders hold less than a marketable parcel of ordinary shares of 120 shares.

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held %
1 KPW Property Holdings Pty Ltd	17,368,500	17.37
2 HSBC Custody Nominees (Australia) Limited	13,757,739	13.76
3 JP Morgan Nominees Australia Pty Ltd	11,124,386	11.12
4 Wagon Weel Co Pty Ltd	10,000,000	10.00
5 Citicorp Nominees Pty Limited	7,999,086	8.00
6 National Nominees Limited	7,053,867	7.05
7 Mamlec Pty Ltd	3,500,000	3.50
8 Accbell Nominees Pty Ltd	2,500,000	2.50
9 BNP Paribas Noms Pty Ltd	1,498,864	1.50
10 Merrill Lynch (Australia) Nominees Pty Limited	1,284,235	1.28
11 BNP Paribas Nominees Pty Ltd	1,274,445	1.27
12 Sandhurst Trustees Ltd	846,853	0.85
13 ECapital Nominees Pty Ltd	631,919	0.63
14 Wask Management Pty Ltd	364,575	0.36
15 UBS Nominees Pty Ltd	363,865	0.36
16 Citicorp Nominees Pty Limited	286,895	0.29
17 Neweconomy Com Au Nominees Pty Ltd	254,992	0.26
18 Invia Custodian Pty Ltd	238,975	0.24
19 Citicorp Nominees Pty Ltd	174,971	0.18
20 UQ Endowment Fund Ltd	160,000	0.16
Top 20 holders of ordinary fully paid shares	80,684,167	80.68
Total remaining holders balance	19,315,833	19.32

ASX Additional Information

Shareholdings as at 9 September 2019

SUBSTANTIAL SHAREHOLDERS

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
KPW Property Holdings Pty Ltd	17,368,500
IOOF Holdings Ltd	11,310,765
Wagon Weel Co Pty Ltd	10,000,000
Tribeca Investment Partners Pty Ltd	7,759,412

RIGHTS

The number of performance rights on issue are set out below:

Number of rights holders	Number of rights on issue
9	373,042

VOTING RIGHTS

Ordinary shares

Refer to Note I 11 in the financial statements

Securities Exchange

The Company is listed on the Australian Securities Exchange. The Home exchange is Sydney.

Other information

PWR Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

On-market buy-back

There is no current on-market buy-back.

Corporate Directory

PWR Holdings Limited

ABN 85 105 326 850

OFFICES AND OFFICERS

Directors

Teresa Handicott
Jeffrey Forbes
Roland Dane
Kees Weel

Company Secretary

Lisa Dalton

Principal Registered Office

PWR Holdings Limited
103 Lahrs Road
Ormeau, 4208
Queensland

Locations of Share Registry

Computershare Investor Services Pty Ltd
Level 1, 200 Mary Street
Brisbane 4000
Queensland



PWR Holdings Limited

103 Lahrs Road, Ormeau, 4208 Queensland

Phone: 07 5547 1600

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