



I N T E R N A T I O N A L

ABN 14 050 287 431



APPENDIX 4D

Half Year Financial Report to 31 December 2019

26th February 2020

ASX Appendix 4D

Half Year Result for announcements to the market

Saunders International Limited – ABN 14 050 287 431

1. REPORTING PERIOD

Financial half year ended (‘current period’)	Financial half year ended (‘previous corresponding period’)
31 December 2019	31 December 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information	December 2019 \$'000	December 2018 \$'000	Change \$'000	Change %
Revenue from Ordinary activities	29,641	28,086	1,555	5.54%
Net (Loss)/Profit after Tax	520	(144)	664	461.11
Net (Loss)/Profit After Tax Attributable to Members	520	(144)	664	461.11

A description of the figures reported above is contained in the attached Saunders International Ltd HY20 Financial Report.

3. DIVIDENDS

Dividend	Period	Payment Date	Amount per security cents	Franked amount per security at 30% tax
Interim Dividend	31 December 2019	N/A	-	-
Final Dividend	30 June 2019	N/A	-	-
Interim Dividend	31 December 2018	N/A	-	-

4. NET TANGIBLE ASSETS BACKING

Net Tangible Assets per share	Current Period cents	30 June 2019 cents	Previous Corresponding period cents
Net Tangible Assets per share	\$0.19	\$0.20	\$0.20

This Half Year Report should be read in conjunction with the Annual Report of Saunders International Limited as at 30 June 2019 together with any public announcements made by Saunders International Limited during the half year ended 31 December 2019 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

5. REVIEW STATUS

The HY20 results are based on accounts which have been subject to a review by Deloitte Touche Tohmatsu and the Auditors' Review Report contains no qualifications.

6. CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

No material control over any entity was gained or lost during the six months ended 31 December 2019.



ABN 14 050 287 431

INTERIM CONSOLIDATED FINANCIAL REPORT

for the half-year ended
31 December 2019

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DIRECTORS' REPORT

The directors of Saunders International Limited submit herewith the half-year financial report for the six months ended 31 December 2019.

In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the Company during or since the end of the half-year are:

- Timothy Burnett
- Mark Benson
- Gregory Fletcher

REVIEW OF OPERATIONS

During the financial year, the principal activities of Saunders were the design, fabrication, construction and maintenance of bulk liquid storage facilities, tanks, road and rail bridges. The Group also manufactures precast concrete products for transport infrastructure projects and provides a range of specialised services for the maintenance of commercial, industrial and marine infrastructure assets.

Key highlights include:

- Awarded a contract with Rio Tinto, to be delivered over the next two years valued at over \$30m
- Awarded major contract for Sydney Water valued at circa \$15 million
- Completion and commissioning of Saunders' first project in the Defence sector
- Awarded two further contracts in the Defence sector valued at over \$12 million with a healthy pipeline of opportunities in this sector
- Expansion into the Industrial sector through completion of two shut down maintenance contracts
- Awarded over \$15m in Civil Infrastructure works in the half year
- Record orderbook \$97 million (Feb 2020) with a further \$107 million of preferred contractor status projects
- Secured new bonding facility, which has doubled Saunders capacity to provide security up to a new \$10 million limit
- Realised overhead savings with operating model and organisational structure, including cost avoidance of fixed workshop overheads.

The net profit after tax was \$0.52 million which was 461.11% higher than the previous corresponding period (FY2019 H1: loss \$0.14 million). Earnings per share for the period were 0.51 cents (FY2019 H1: 0.00 cents).

The half-year revenue was \$29.64 million which was 5.54% higher than the previous corresponding period (FY2019 H1: \$28.09 million).

The financial position as at 31 December 2019 remains strong with a cash balance of \$9.42 million or 9.16 cents per share and net assets of \$21.81 million (\$21.20 million FY2019). The cash inflow from operating activities was \$1.58 million.

OUTLOOK

Saunders has secured over \$70 million in new contracts over the past several months and has an orderbook of \$97 million as of February 2020. The value of live tenders is approximately \$376 million and the pipeline (yet to be tendered) is approximately \$287 million.

The outlook across Saunders is positive with a strong pipeline of opportunities emerging across the majority of the markets the Group operates within.

DIVIDEND

The Board has declared that there will not be an interim dividend payable for HY2020 (FY2019 Nil dividend paid).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 5 of the half-year financial report.

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Report Instrument 2016/191*, dated 24 March 2016, and in accordance with the Corporations Instrument amount in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s306(3) of the *Corporations Act 2001*.

On behalf of the directors



Mark Benson
Managing Director



Timothy Burnett
Chairman

Sydney
26 February 2020

The Board of Directors
Saunders International Limited
271 Edgar Street,
Condell Park NSW 2200

26 February 2020

Dear Board Members

Saunders International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Saunders International Limited.

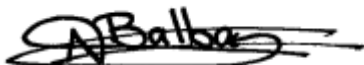
As lead audit partner for the review of the financial statements of Saunders International Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Nathan Balban
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SAUNDERS INTERNATIONAL LIMITED

We have reviewed the accompanying half-year financial report of Saunders International Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 26.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Saunders International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

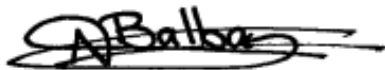
Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'N Balban', with a horizontal line extending to the right.

Nathan Balban
Partner
Chartered Accountants
Parramatta, 26 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing Operations			
Revenue	3	29,641	28,086
Other income	4	55	97
Materials and third-party costs charged to projects		(16,333)	(14,887)
Employee benefits expense		(10,459)	(11,137)
Depreciation expense	4	(680)	(546)
Finance costs	4	(38)	-
Motor vehicle expenses		(94)	(136)
Occupancy and operating lease expense		(121)	(435)
Other expenses		(1,202)	(1,189)
Profit/(Loss) before tax		769	(147)
Income tax (expense)/benefit	6	(249)	3
Profit/(Loss) for the period		520	(144)
Other comprehensive income		-	-
Total comprehensive income/(Loss) for the period		520	(144)
Attributable to:			
Equity holders of the parent		520	(144)
Earnings per share			
Basic (cents per share)	15	0.51 cents	0.00 cents
Diluted (cents per share)	15	0.50 cents	0.00 cents

Notes to the financial statements are included on pages 12 to 25

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Current Assets			
Cash and cash equivalents		9,421	8,030
Trade and other receivables		6,416	8,475
Contract Assets		3,331	2,681
Inventories		287	169
Other		761	286
Total Current Assets		20,216	19,641
Non-Current Assets			
Property, plant and equipment		9,534	10,352
Right-of-use assets	5	1,845	-
Deferred tax assets		2,439	2,825
Total Non-Current Assets		13,818	13,177
Total Assets		34,034	32,818
Current Liabilities			
Trade and other payables		6,296	7,105
Contract Liabilities		1,722	1,785
Lease Liabilities	5	481	-
Provisions		1,926	1,801
Current tax liability		25	160
Borrowings	2	261	122
Lease incentives	2	-	35
Total Current Liabilities		10,711	11,008
Non-Current Liabilities			
Provisions		132	94
Borrowings	2	-	381
Lease Liabilities	5	1,381	-
Lease incentives	2	-	138
Total Non-Current Liabilities		1,513	613
Total Liabilities		12,224	11,621
Net Assets		21,810	21,197
Equity			
Issued capital	12	19,701	19,701
Shares buy-back reserve	13	(351)	(351)
Share based payments reserve		674	581
Retained earnings		1,786	1,266
Total Equity		21,810	21,197

Notes to the financial statements are included on pages 12 to 25

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Issued Capital	Treasury Shares issued under employee share plan	Share Based Payments Reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2018	19,652	(351)	623	3,566	23,490
Opening balance adjustment on application of AASB15	-	-	-	(690)	(690)
Balance at 1 July 2018(restated)	19,652	(351)	623	2,876	22,800
Loss for the period				(144)	(144)
<i>Transactions with owners in their capacity as owners</i>					
Dividend paid	-	-	-	-	-
Share based payments expense	-	-	67	-	67
Balance at 31 December 2018	19,652	(351)	690	2,732	22,723
Balance at 30 June 2019 (as previously reported)	19,701	(351)	581	1,266	21,197
Opening balance adjustment on application of AASB16	-	-	-	-	-
Balance at 1 July 2019(restated)	19,701	(351)	581	1,266	21,197
Profit for the period	-	-	-	520	520
<i>Transactions with owners in their capacity as owners</i>					
Dividend paid	-	-	-	-	-
Rights & share issues net of costs and income tax expense	-	-	-	-	-
Share based payments expense	-	-	93	-	93
Balance at 31 December 2019	19,701	(351)	674	1,786	21,810

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities		
Receipts from customers	32,577	34,078
Payments to suppliers and employees	(30,995)	(34,086)
Interest received	-	62
Income taxes refunded / (paid)	-	424
Net cash generated by / (used in) operating activities	1,582	478
Cash flows from investing activities		
Payments for property, plant and equipment	(205)	(240)
Proceeds received in sale of assets	2	-
Purchase of investments	-	19
Net cash used in investing activities	(203)	(221)
Cash flows from financing activities		
Proceeds from Borrowings	522	-
Repayment of borrowings	(261)	(19)
Repayment of lease liabilities	(242)	-
Net cash (used in) / generated by financing activities	19	(19)
Net increase / (decrease) in cash and cash equivalents	1,398	238
Cash and cash equivalents at the beginning of the period	8,030	12,377
Effects of exchange rate fluctuations on cash held	(7)	-
Cash and cash equivalents at the end of the financial period	9,421	12,667

Notes to the financial statements are included on pages 12 to 25

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The condensed consolidated interim financial report for the half-year reporting period ended 31 December 2019 is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting (AASB 134). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The interim financial statements have been prepared on the basis of historical cost. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new accounting standard AASB 16 Leases (AASB 16) as set out below.

All amounts are presented in Australian dollars.

Rounding of amounts

The Group is of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Report Instrument 2016/191, dated 24 March 2016, and in accordance with the Corporations Instrument amounts in the directors' report and the half-year report are rounded off to the nearest thousand dollars, unless otherwise indicated.

AASB 15 Revenue from Contracts with Customers

In the prior year, the Group applied AASB 15 Revenue from Contracts with Customers which has come into effect from 1 July 2018. Details of the new requirements of AASB 15 as well as their impact on the Group's consolidated financial statements in the 2019 annual report. AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. The core principle of AASB 15 is that an entity shall recognise revenue when control of a good or service transfers to a customer. Significant judgements and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of customer approval of variations and acceptance of claims, estimation of project completion date and assumed levels of project productivity.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Saunders International is an engineering construction company that is engaged in the design, construction and maintenance of bulk storage facilities, tanks and road and rail bridges. The Group also fabricates precast concrete products for transport infrastructure projects and provides a range of specialised services for the maintenance of commercial, industrial and marine infrastructure and assets.

From these activities, Saunders International generates the following streams of revenue:

- Engineering & Construction
- Services
- Fabrication & Construction

Each of the above services delivered to customers are considered separate performance obligations, even though for practical expedience may be governed by a single legal contract with the customer.

Under AABS 15, revenue recognition for each of the above is as follows:

Revenue stream	Performance obligation	Timing of recognition
Engineering and Construction Revenue	1. The design and provision of plans for the construction of tanks. 2. The construction, site establishment, erection, commissioning and testing of tanks.	1. Over the time of the design being created. 2. Over the time of the contract with the customer.
Services Revenue	1. The maintenance, repair, rectification and minor capital works, of tanks and bridges.	1. Over the time of the contract with the customer.
Fabrication and Construction Revenue	1. The design and provision of plans for the construction of bridges. 2. The fabrication, construction, site establishment, erection, commissioning and testing of bridges.	1. Over the time of the design being created. 2. Over the time of the contract with the customer.

Contracts where revenue is recognised over time is based on the actual progress of the construction provided over time to the end of the reporting period. This is determined using the input cost method by considering the percentage completed of the project in relation to the costs incurred over total expected costs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting AASB 16 Leases.

The impact of the adoption of AASB 16 and the new accounting policy is disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Accounting Standard in issue but not yet effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the half-year ended 31 December 2019. There will be no material impact of these new standards or amendments to the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income of the Group.

Impact of initial application of AASB 16 adoption

In the current year, the Group has applied AASB 16 Leases that is effective for annual periods that begin on or after 1 January 2019.

AASB16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described further in this note. The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

The date of initial application of AASB 16 for the Group is 1 July 2019. The Group adopted the modified retrospective approach.

Under this approach the Group has recognised the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application. This approach does not permit the restatement of comparatives, which continue to be presented under the AASB 117 and Interpretation 4.

(a) Impact of new definition of a lease

The Group has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and Interpretation 4 will continue to be applied to those contracts entered or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in AASB 117 and Interpretation 4.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

The Group applies the definition of a lease and related guidance set out in AASB 16 to all contracts entered into or changed on or after 1 July 2019.

(b) Impact on Lessee Accounting

i. Former operating leases

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

- a. Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b. Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT)

- c. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within the financing activities) in the consolidation statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'other expenses' in profit or loss.

ii. Former finance leases

The main differences between AASB 16 and AASB 117 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. This change did not have a material effect on the Group's consolidated financial statements.

(c) Impact on Lessor Accounting

AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, AASB 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under AASB 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).

There were no changes to the Group's accounting for assets held as a lessor under operating leases as a result of the adoption of AASB 16.

(d) Impact on Lessee Accounting

(i) Practical expedient applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- relief from requirement to separate non-lease components from lease components;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases; and
- accounting for operating lease for which the underlying assets are valued less than \$5,000 over the entire lease term as at 1 July 2019 as of low-value leases.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT)

(ii) Measurement of lease liabilities

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 3.5% to 4%.

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application:

	\$'000
Operating lease commitments disclosed as at 30 June 2019	1,487
Add lease fit out incentive	173
Impact of discounting	(96)
Impact of the adoption of AASB 16	1,564
Add: finance lease liabilities recognised as at 30 June 2019	503
Lease liabilities recognised as at 1 July 2019	2,067
Of which are included in	
Current lease liabilities	471
Non-current lease liabilities	1,596
	2,067

(iii) Adjustments recognised in the consolidated statement of financial position on 1 July 2019

	As reported at 30 June 2019 (\$'000)	AASB 16 transition adjustments (\$'000)	Opening balance 1 July 2019 (\$'000)
Impact on Total Assets			
ROU asset	-	1,993	1,993
Property, Plant & Equipment	10,352	(602)	9,750
Net Impact on Total Assets		1,391	
Impact on Total Liabilities			
Lease liability – current	-	471	471
Lease liability – non-current	-	1,596	1,596
Borrowings – current	122	(122)	-
Borrowings – non-current	381	(381)	-
Lease incentives	173	(173)	-
Net Impact on Total Liabilities		1,391	
Net Impact on Retained Earnings		-	

The Group has recognised \$1,993,000 of right of use assets and \$2,067,000 of lease liabilities upon transition to AASB 16 net of other liabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT)

Equipment under finance lease arrangements previously presented within 'Property, plant and equipment' is now presented within the line item 'Right-of-use assets'. There has been no change in the amount recognised.

Lease incentives liability previously recognised with respect to operating leases have been derecognised and the amount was factored into the measurement of the right-of-use assets and lease liabilities.

THE GROUP'S LEASING ACTIVITIES AND LEASE ACCOUNTING POLICIES

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONT)

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

3. REVENUE

				Half-year Ended 31 Dec 2019 \$'000	Half-Year Ended 31 Dec 2018 \$'000
Revenue stream	Revenue recognition	Australia \$'000	PNG \$'000		
Engineering & Construction	Over time	1,469	13	1,482	7,459
Services	Over time	15,483	-	15,483	11,732
Fabrication & Construction	Over time	12,676	-	12,676	8,879
Total revenue		29,628	13	29,641	28,070

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT/(LOSS) FOR THE PERIOD

The operating profit before income tax includes the following items of revenue and expense:

	Half-Year Ended 31 Dec 2019 \$'000	Half-Year Ended 31 Dec 2018 \$'000
Revenue		
Sales revenue	29,639	28,070
Interest revenue	2	16
Total revenue	29,641	28,086
Other income		
Miscellaneous	55	97
Expenses		
Cost of sales	24,897	23,664
Depreciation of:		
- Plant and equipment	469	522
- Computer, furniture and fixtures	5	24
- Right of use assets	206	-
Total depreciation expense	680	546
Total Finance on lease liabilities costs	38	9

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. LEASES (GROUP AS LESSEE)

The Group has entered into an office lease and a number of motor vehicle leases. The office lease has fixed annual rent increases. The motor vehicle leases do not reflect any rent increases over the term of the lease. The average lease term is 4.3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than security interests in the leased assets that are held by the lessor. Leased asset may not be used as security for borrowing purposes.

Prior to the application of AASB 16, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right of use and a corresponding liability at the date at which the leased asset is available for use by the Group.

This note provides information for leases where the Group is a lessee.

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

The Consolidated Income Statement includes the following amounts relating to leases:

	Half-Year Ended 31 Dec 2019 \$'000
Depreciation charge for right of use assets	
Property, Plant and Equipment	206
Total Depreciation Charge for Right of Use Assets	206
Other cost relating to leases	
Interest expense on lease liabilities (included in Finance Costs)	38
Expenses relating to leases of low value assets	16
Expenses relating to variable lease payments not included in the measurement of the lease liabilities	30
Total costs relating to leases for half year ended 31 Dec 2019	84

AMOUNTS RECOGNISED IN THE BALANCE SHEET

This Balance Sheet shows the following amounts in relation to leases:

	Half-Year Ended 31 Dec 2019 \$'000
Right of Use Assets	
Opening balance, 1 July 2019	1,993
Additions	58
Depreciation expense	(206)
Closing balance, 31 December 2019	1,845
Lease Liabilities	
Current	481
Non-Current (2-5 years)	1,381
Total Lease Liabilities	1,862

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE

	Half-Year Ended 31 Dec 2019 \$'000	Half-Year Ended 31 Dec 2018 \$'000
Current tax relating to current period	-	(64)
Deferred tax	249	61
Total Income Tax Expense/(Benefit)	249	(3)
Income tax expense (benefit)/expense recognised directly in equity	-	-

7. DIVIDENDS PAID OR PROPOSED

	Half-Year Ended 31 Dec 2019 \$'000	Half-Year Ended 31 Dec 2018 \$'000
Dividends Paid Declared final fully franked ordinary dividend of NIL cents per share (FY19 H1 : NIL cents per share).	-	-
Dividends Declared The directors declared that there will not be an interim dividend paid to shareholders for the half year ended 31 December 2019 (FY19 H1: NIL Dividends paid)	-	-

8. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the ordinary course of business, the Group receives claims against it which may involve litigation. In the event that a claim is successful, it is expected to be adequately covered by the insurance policies held by the Group. Where the outcome is probable and can be reasonably quantified, provision is made in these financial statements.

Proceedings have recently commenced against the group in relation to a legal matter, which the entity intends to defend. In the event the action is successful it is expected that the group's insurance policy will respond accordingly.

Bank guarantees as 31 December 2019 amounted to \$3.91 million. (31 December 2018 :\$2.09 million).

9. EMPLOYEE SHARE PLAN

During the period NIL (FY19 H1 : NIL) Treasury Shares were issued to employees under the existing Employee Share Plan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. PERFORMANCE RIGHTS PLAN

The Managing Director and Key Management Personnel participate in the Saunders International Performance Rights Plan. This plan is part of the long term incentive component of his remuneration package. During the period a total number of 1,181,958 (FY19 H1 : NIL) Performance Rights were issued under the plan.

11. EVENTS SUBSEQUENT TO REPORTING DATE

There has not been any matter or circumstance, not already disclosed, occurring subsequent to the end of the 31 December 2019 that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

12. SHARE CAPITAL

	Number of Ordinary Shares	Half-Year Ended 31 Dec 2019 \$'000	Full-Year Ended 30 June 2019 \$'000
104,653,752 issued ordinary shares (June 2019: 104,653,752)	104,653,752	19,701	19,652
Less: 1,805,625 Treasury shares issued under employee share plan (June 2019: 1,805,625)	(1,805,625)	(351)	(351)
Issued and fully paid ordinary shares (June 2019: 102,848,127)	102,848,127	19,350	19,301

	Number of Ordinary Shares	Half-Year Ended 31 Dec 2019 \$'000
June 2019 – Issued Ordinary Shares	104,653,752	19,701
Less: Employee share plan issues	-	-
December 2019 – Issued Ordinary Shares	104,653,752	19,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TREASURY SHARES AND RESERVES

	Half-Year Ended 31 Dec 2019 \$'000	Full-Year Ended 30 Jun 2019 \$'000
Treasury Shares	(351)	(351)
Share-based payments reserve	674	581
	323	230
Share Based Payments Reserve Movement		
Balance at Beginning of period	581	623
Share based payments expense	93	7
Shares issued	-	(49)
Balance at end of period	674	581
Treasury Shares Under Employee Share Plan		
Balance at Beginning of period	(351)	(351)
Treasury shares issued	-	-
Treasury shares vested	-	-
Balance at end of period	(351)	(351)

Treasury shares are ordinary shares in the company which are offered to employees under the Employee Share Plan and are deducted from equity until the vesting date of the shares.

Share-based Payments reserve

The share-based payments reserve is for the fair value of options and performance rights granted and recognised to date but not yet exercised, and treasury shares purchased and recognised to date which have not yet vested.

14. RESTRUCTURE PROVISION

The restructure provision is inclusive of but not limited to right sizing the business and redundancies, operations improvements and relocation of plant and equipment the Group's Newcastle facility.

Provision	Opening balance	Additions to provision during current period	Credited to profit and loss	Utilisation of provision during current period	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Restructure Provision	140	-	-	140	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. EARNINGS PER SHARE

	Half-Year Ended 31 Dec 2019 Cents per share	Half-Year Ended 31 Dec 2018 Cents per share
Basic earnings per share	0.51	0.00
Diluted earnings per share	0.50	0.00
	2019 \$000	2018 \$000
Net profit/(loss) for the period	520	(144)
Basic earnings per share	Number	Number
Weighted average number of issued and paid ordinary shares for the purpose of basic earnings per share	102,848,127	102,730,469

Diluted earnings per share

Weighted average numbers of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic EPS	102,848,127	102,730,469
Shares deemed to be issued for no consideration in respect of employee options and performance rights (a)	1,785,763	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	104,633,890	102,730,469

(a) During the half year ended 31 December 2019 the potential ordinary shares associated with the employee share option plan as set out in Note 12 are anti-dilutive and therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share. The potential ordinary shares associated with the Performance Rights are dilutive, and have been included in the weighted average number of ordinary shares for the purposes of diluted earnings per share.

16. REVENUE BY BUSINESS SEGMENTS

The Group operates in one reporting segment being the design, construction, and maintenance of steel storage tanks and concrete bridges.

During the period 2 customers made up 28% of the revenue earned (FY2019 H1: 3 customers made up 40% of the revenue earned).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest Dec 2019	Ownership Interest Jun 2019
Parent Entity			
Saunders International Limited	Australia		
Subsidiaries			
Saunders Asset Services Pty Limited	Australia	100%	100%
Saunders Civilbuild Pty Ltd	Australia	100%	100%
Saunders Property (NSW) Pty Ltd	Australia	100%	100%
Saunders PNG Limited	PNG	100%	100%

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models. The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate their fair value

The directors of Saunders International Limited declare that:

- a) in the directors' opinion there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable; and
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors



Mark Benson
Managing Director



Timothy Burnett
Chairman

Sydney
26 February 2020