



CLINICAL LABORATORIES PTY LTD

ABN 62 006 823 089

SPECIAL PURPOSE  
CONSOLIDATED  
ANNUAL REPORT

For the year ended 30 June 2020

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# CLINICAL LABORATORIES PTY LTD

## DIRECTORS' REPORT

### Overview

The Directors present their report for the financial year ended 30 June 2020 accompanied by the financial report of Clinical Laboratories Pty Ltd (ABN: 62 006 823 089, 'the Company') and the entities it controlled during the year ('the Group').

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

### Directors

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

Mr. M. Alscher  
Ms. M. McGrath  
Mr. M. Lukin  
Mr. J. Mahemoff  
Dr. M. Stanford (resigned 31 October 2019)  
Mr. N. Thomson  
Dr. S. Kelly

The above named Directors held office from the start of the year to the date of this report unless otherwise indicated.

### Principal activities

The principal activity of the Group during the year ended 30 June 2020 was the provision of pathology diagnostic services.

### Review of operations

The consolidated profit for the year amounted to \$41,255,000 (2019: \$10,524,000 loss).

Refer to the state of affairs section below for an overview of developments arising during the financial year.

### Dividends

Dividends paid or declared since the start of the financial year as are follows:

- (a) There were no dividends paid during the year (2019: Nil).
- (b) A fully franked dividend has been declared for payment to members subsequent to year-end totalling \$21,000,000.

### State of Affairs

During the financial year, the Group acquired shares in Geneseq Pty Ltd and has significant influence over the entity holding 20% of their share capital. As such, the Group has equity accounted for this investment.

In the second half of March 2020 and continuing through April, the Group experienced a weekly decline in volume of up to 44% against prior year associated with Covid-19 as elective surgery was suspended, states went into lockdown and the community generally didn't visit their doctors. As a result, Clinical Laboratories Pty Ltd and Clinical Laboratories (WA) Pty Ltd qualified for JobKeeper with a decline in turnover using their actual April 2020 results compared to April 2019 of greater than 30%.

Initially both the State and Federal Governments planned to do the Covid testing within the public infrastructure and an MBS item for private pathology was not added to the schedule until 13 March 2020. Once the item was added we commenced work-up, validation and NATA accreditation of the testing methodology. During May and June increased Covid-19 testing helped in offsetting the decline in routine testing volumes. Routine testing volumes have continued to recover and have largely returned to pre Covid-19 levels in the non-locked down states.

On 1 August 2018, the Directors resolved to undertake a capital reduction reducing the Company's other contributed equity by \$128,989,000.

On 31 October 2018, the Company acquired 100% of the shares in CLWA under a common control acquisition. As part of the acquisition the shareholders of CLWA acquired 58,665,144 shares in the company.

On 7 November 2018, the Company undertook capital raising activities issuing 37,672,123 shares.

On 7 November 2018, the Company cancelled 547,175 shares that were forfeited.

On 23 November 2018, the Company acquired the Genome.One business from Genome.One Pty Ltd and the Garvan Institute of Medical Research.

## CLINICAL LABORATORIES PTY LTD

# DIRECTORS' REPORT

### State of Affairs (con't)

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

Refer to the subsequent events section below for an overview of developments arising subsequent to 30 June 2020.

### Subsequent events

On 29 September 2020, the Company declared and paid a fully franked dividend of \$21,000,000.

On 29 September 2020, the Group repaid in full the related party loans and associated accrued interest totalling \$61,116,000.

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

There were no other significant changes in the Group's state of affairs that occurred subsequent to the financial year and up to the date of this report, other than those referred to elsewhere in this report.

### Future developments

In the opinion of the Directors, the Group is expected to continue to provide pathology diagnostic services within Australia on a commercial basis.

### Environmental regulations

The Group's operations are not subject to any significant environmental regulations under a law of the Commonwealth or of a State or Territory.

### Indemnification and insurance of officers and auditors

During the year, the Group paid a premium in respect of a contract insuring each of the Directors of the Group, and the Company Secretary against liabilities that are permitted to be covered by the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium are not to be disclosed.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group against liability incurred as such an officer or auditor.

### Proceedings on behalf of Group

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

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

### Rounding off of amounts

The Group is a group of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Non-audit services

Auditor's remuneration is disclosed in Note 25.

CLINICAL LABORATORIES PTY LTD

**DIRECTORS' REPORT**

**Auditor independence**

The auditor's independence declaration is included on page 4 of the report.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to be 'M. McGrath', written in a cursive style.

**M. McGrath**  
**Director**

Melbourne, 12 October 2020

**CLINICAL LABORATORIES PTY LTD**  
**AUDITOR'S INDEPENDENCE DECLARATION**  
**TO THE DIRECTORS OF CLINICAL LABORATORIES PTY LTD**

In relation to the independent audit for the year ended 30 June 2020, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Clinical Laboratories Pty Ltd and the entities it controlled during the year.



B POWERS  
Partner

Date: 12 October 2020



PITCHER PARTNERS  
Melbourne

## CLINICAL LABORATORIES PTY LTD

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$'000	2019 \$'000
Revenue	4	490,570	448,455
Other income	5	28,952	-
Employee benefits expense	6	(237,547)	(222,974)
Consumables expense		(87,040)	(79,413)
Occupancy costs		(20,191)	(92,326)
Other expenses	6	(49,423)	(48,038)
<b>Profit before depreciation, finance costs, equity investments and income tax</b>		<b>125,321</b>	<b>5,704</b>
Depreciation	6	(77,902)	(11,506)
<b>Gain / (Loss) before finance costs, equity investments and income tax</b>		<b>47,419</b>	<b>(5,802)</b>
Net finance costs	7	(16,528)	(3,902)
Share of losses from equity accounted investments		(61)	-
<b>Gain / (Loss) before income tax</b>		<b>30,830</b>	<b>(9,704)</b>
Income tax benefit / (expense)	14	10,425	(820)
<b>Profit / (Loss) for the year</b>		<b>41,255</b>	<b>(10,524)</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange differences on translation of foreign operations		(10)	92
<b>Other comprehensive income for the year, net of tax</b>		<b>(10)</b>	<b>92</b>
<b>Total comprehensive profit / (loss) for the year</b>		<b>41,245</b>	<b>(10,432)</b>

The accompanying notes numbered 1 to 28 form part of this financial report.

## CLINICAL LABORATORIES PTY LTD

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2020

	Note	2020 \$'000	2019 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	21 (a)	34,849	4,131
Trade and other receivables	8	63,298	46,495
Inventories	9	10,498	9,670
Other financial assets	10	3,443	4,456
Current tax assets	12	12	53
<b>TOTAL CURRENT ASSETS</b>		<b>112,100</b>	<b>64,805</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	11	38,590	41,801
Right-of-use assets	12	155,463	-
Goodwill	13	35,748	35,748
Other financial assets	10	988	362
Deferred tax assets	14	23,164	10,894
<b>TOTAL NON-CURRENT ASSETS</b>		<b>253,953</b>	<b>88,805</b>
<b>TOTAL ASSETS</b>		<b>366,053</b>	<b>153,610</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	32,762	28,232
Lease liabilities	12	63,440	-
Provisions	17	37,465	38,163
Current tax liabilities		1,799	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>135,466</b>	<b>66,395</b>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	12	97,695	-
Borrowings	16	60,070	55,999
Provisions	17	3,816	3,788
Deferred tax liabilities	14	18	8
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>161,599</b>	<b>59,795</b>
<b>TOTAL LIABILITIES</b>		<b>297,065</b>	<b>126,190</b>
<b>NET ASSETS</b>		<b>68,988</b>	<b>27,420</b>
<b>EQUITY</b>			
Issued capital	18 (a)	146,505	146,505
Reserves		42,771	1,203
Accumulated losses		(120,288)	(120,288)
<b>TOTAL EQUITY</b>		<b>68,988</b>	<b>27,420</b>

The accompanying notes numbered 1 to 28 form part of this financial report.



## CLINICAL LABORATORIES PTY LTD

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2020

		2020	2019
	Note	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		507,863	448,067
Payment to suppliers and employees		(393,809)	(446,409)
<b>Cash provided by operations</b>		<b>114,054</b>	<b>1,658</b>
Interest received		37	38
Interest and costs of finance paid		(12,494)	(560)
Income tax received/(paid)		139	(24)
<b>Net cash provided by operating activities</b>	21 (d)	<b>101,736</b>	<b>1,112</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of plant and equipment		110	153
Proceeds from disposal of investments		-	150
Purchase of plant and equipment		(9,381)	(14,362)
Purchase of shares		(687)	(527)
Cash acquired upon acquisition of subsidiary		-	1,212
<b>Net cash used in investing activities</b>		<b>(9,958)</b>	<b>(13,374)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal portion of lease payments		(60,916)	(20)
Proceeds from new shares issued		-	14,410
Repayment of borrowings		-	(7,251)
Intercompany borrowings		-	2,383
<b>Net cash provided/(used) by financing activities</b>		<b>(60,916)</b>	<b>9,522</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>30,862</b>	<b>(2,740)</b>
Foreign exchange differences on cash holdings		(144)	4
Cash and cash equivalents at the beginning of the year		4,131	6,867
<b>Cash and cash equivalents at the end of the year</b>	21 (a)	<b>34,849</b>	<b>4,131</b>

The accompanying notes numbered 1 to 28 form part of this financial report.

## CLINICAL LABORATORIES PTY LTD

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE PERIOD ENDED 30 JUNE 2020

	Issued capital \$'000	Other contributed equity \$'000	Share based payment reserve \$'000	Other reserves \$'000	Profit reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>2019</b>							
<b>Opening balance at 1 July 2018</b>	109,515	128,989	730	60	-	(233,836)	5,458
Loss for the year	-	-	-	-	-	(10,524)	(10,524)
Exchange differences on translation of foreign operations <sup>(i)</sup>	-	-	-	92	-	-	92
Other comprehensive income for the year net of tax	-	-	-	92	-	-	92
<b>Total comprehensive income for the year</b>	-	-	-	92	-	(10,524)	(10,432)
<b>Transactions with owners in their capacity as owners</b>							
New shares issued <sup>(ii)</sup>	36,990	-	-	-	-	-	36,990
Return of capital <sup>(iii)</sup>	-	(128,989)	-	-	-	128,989	-
Deemed distribution <sup>(iv)</sup>	-	-	-	-	-	(4,917)	(4,917)
Management share scheme <sup>(v)</sup>	-	-	321	-	-	-	321
<b>Closing balance at 30 June 2019</b>	<b>146,505</b>	<b>-</b>	<b>1,051</b>	<b>152</b>	<b>-</b>	<b>(120,288)</b>	<b>27,420</b>
<b>2020</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Opening balance at 1 July 2019</b>	146,505	-	1,051	152	-	(120,288)	27,420
Profit for the year	-	-	-	-	41,255	-	41,255
Exchange differences on translation of foreign operations <sup>(i)</sup>	-	-	-	(10)	-	-	(10)
Other comprehensive income for the year net of tax	-	-	-	(10)	-	-	(10)
<b>Total comprehensive income for the year</b>	-	-	-	(10)	41,255	-	41,245
Management share scheme <sup>(v)</sup>	-	-	323	-	-	-	323
<b>Closing balance at 30 June 2020</b>	<b>146,505</b>	<b>-</b>	<b>1,374</b>	<b>142</b>	<b>41,255</b>	<b>(120,288)</b>	<b>68,988</b>

(i) Foreign currency translation reserve associated with the translation of Malvern Pathology Laboratories Sdn Bhd into AUD presentation currency.

(ii) New shares issued.

(iii) On 1 August 2018, the Directors resolved to undertake a capital reduction, reducing the Company's other contributed equity by \$12,989,000.

(iv) Deemed distribution as a result of a common control acquisition.

(v) Shares were issued to management of the Company under the Company's Management Share Plan during the period 1 February 2016 to 7 November 2018. For accounting purposes these shares are treated as options and the expense associated with the current year is reflected in a share based payment reserve.

The accompanying notes numbered 1 to 28 form part of this financial report

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 1: GENERAL INFORMATION

Clinical Laboratories Pty Ltd is a proprietary company, incorporated and domiciled in Australia.

The registered office and principal place of business is:  
1868 Dandenong Road  
Clayton VIC 3168

The principal activity of the Group during the year ended 30 June 2020 was the provision of pathology diagnostic services.

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Accounting Standards and Interpretations in Australia, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1054 'Australian Additional Disclosures' and AASB 1048 'Interpretation of Standards'. They have been prepared under the assumption that the Group operates on a Going Concern basis.

The financial statements comprise the consolidated financial statements of the Company and the entities it controlled during the year. For the purposes of preparing the consolidated financial statements, the Group is a for profit entity.

The financial statements were authorised for issue by the Directors on 12 October 2020.

#### Basis of preparation

The Group is not a reporting entity because in the opinion of the Directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the Directors' reporting requirements under the Corporations Act 2001.

The financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Group is a group of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Clinical Laboratories Pty Ltd and all of its controlled entities (the 'Group' or 'Consolidated Entity'). The Group controls an entity when it is exposed, 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. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

When control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

#### Comparative figures

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Foreign currency translation and balances

##### *Functional and presentation currency*

The financial statements for each entity within the Group are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the Consolidated Entity's functional currency.

##### *Transactions and balances*

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. All resulting exchange arising on settlement or restatement are recognised as revenue or expenses for the financial year.

##### *Foreign subsidiaries*

Subsidiaries that have a functional currency different to the presentation currency of the consolidated Group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

*The following significant accounting policies have been adopted in the preparation and presentation of the financial report.*

#### **Going concern**

As at 30 June 2020 the Group had a deficiency in current assets of \$23,366,000 resulting from the current portion of lease liabilities required to be recognised as part of AASB 16 Leases, while the Right-of-Use asset remains as non-current asset. Excluding the current portion of the lease liability, the Group has a current asset surplus of \$9,396,000, in addition to \$34,849,000 of Cash and Cash Equivalents.

The Directors have concluded that the Group will be able to pay its debts as and when they fall due given the above factors and therefore the accounts have been prepared on a going concern basis.

#### **(a) Income tax**

Income tax expense or benefit represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

##### *Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(a) Income tax (cont'd)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the year*

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss. In the case of a business combination, the tax effect is included in the accounting for the business combination.

*Tax consolidation*

The parent entity and ACL Specialist Investments Pty Ltd have implemented the tax consolidation legislation and have formed a tax-consolidated group from 15 December 2017. Clinical Laboratories (WA) Pty Ltd and Perth Medical Laboratories Pty Ltd joined this Group on 1 November 2018. The parent entity and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries in the tax consolidated group recognise current or deferred tax amounts arising in respect of their own transactions, events and balances;
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiaries in the tax consolidated group to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

**(b) Inventories**

Inventories represent medical and laboratory supplies. They are measured at the lower of cost and net realisable value.

**(c) Plant and equipment**

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and accumulated impairment losses.

- Plant and equipment is measured on the cost basis.
- Leasehold improvements are measured on the cost basis.

*Depreciation*

The depreciable amount of all fixed assets, including buildings and capitalised lease assets, but excluding freehold land is depreciated over their useful lives to the Group, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual accounting period, with the effect of any changes recognised on a prospective basis.

The ranges of depreciation rates used for each class of depreciable assets are:

<b>Class of property, plant and equipment</b>	<b>Depreciation rate</b>
Leasehold improvements	2% to 100%
Plant & equipment	5% to 50%
Leased assets	14% to 20%

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in operating profit before income tax of the Group in the year of disposal.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(d) Intangible assets***Intangible assets acquired separately*

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

**(e) Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives such as goodwill and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit other than goodwill) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a re-valued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

**(f) Leases***Accounting policy applied to the information presented for the current period under AASB 16 Leases:*

At the commencement date of a lease (other than leases of 12 months or less and leases of low value assets), the Group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

*Lease assets*

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Group, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any re-measurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

*Lease liabilities*

Lease liabilities are initially recognised at the present value of the future lease payments. These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group's incremental borrowing rate.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(f) Leases (cont'd)**

*Lease liabilities (cont'd)*

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments reduced by rental accruals for missed lease payments. Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments (once confirmed) and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

*Leases of 12 months or less and leases of low value assets*

Lease payments made in relation to leases of 12 months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense as incurred.

*COVID-19 related rent concessions*

The Group has elected to apply the practical expedient (as permitted by Australian Accounting Standards) not to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications, and to account for any changes in lease payments resulting from the rent concessions as if the changes were not lease modifications. Any gains arising from COVID-19 related rent concessions are recognised in profit or loss.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

*Accounting policy applied to the information presented for the prior period under AASB 117 Leases:*

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

Lease incentives under operating leases are recognised as deferred income. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(g) Business combinations**

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the amount of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the acquisition date amount of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss. Acquisition related costs are expensed as incurred.

**(h) Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal value, using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Consolidated Entity operates share-based payment employee share and option schemes for accounting purposes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is measured at the market bid price at grant date. In respect of share-based payments that are dependent on the satisfaction of performance conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and on demand deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(j) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

***Onerous contracts***

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### **(k) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or other similar allowances.

##### *Rendering of services*

Revenue from the provision of services is recognised when the related services are completed. Revenue is accrued at balance date for services which are completed but yet to be invoiced.

##### *Rental income*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### **(l) Other income**

Government grant income is only recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them, and the grant will be received. Specifically, JobKeeper income has been recognised for all completed JobKeeper fortnights.

#### **(m) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### **(n) Financial instruments**

##### *Classification*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

##### *Classification of financial assets*

Financial assets recognised by the Group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the Group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

- (a) the Group's business model for managing the financial assets; and
- (b) the contractual cash flow characteristics of the financial asset.

##### *Classification of financial liabilities*

Financial liabilities classified as held-for-trading, contingent consideration payable by the Group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the Group are subsequently measured at amortised cost.

##### *Trade and other receivables*

Trade and other receivables arise from the Group's transactions with its customers.

Consistent with both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(n) Financial instruments (cont'd)***Loans to related parties*

Loans to related parties are debt instruments, and are classified (and measured) at amortised cost on the basis that:

- (a) they are held within a business model whose objective is achieved by the Group holding the financial asset to collect contractual cash flows; and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

*Impairment of financial assets*

Receivables from customers are tested for impairment by applying the 'expected credit loss' impairment model.

The Group applies the simplified approach under AASB 9 to measuring the allowance for credit losses for both receivables from contracts with customers and contract assets. Under the AASB 9 simplified approach, the Group determines the allowance for credit losses for receivables from contracts with customers and contract assets on the basis of the lifetime expected credit losses of the financial asset. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the financial asset.

The Group consider a range of information when assessing whether the credit risk has increased significantly since initial recognition. This includes such factors as the identification of significant changes in external market indicators of credit risk, significant adverse changes in the financial performance or financial position of the counterparty, significant changes in the value of collateral, and past due information.

The Group assumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 120 days past due.

The Group determines expected credit losses using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses. There has been no change in the estimation techniques or significant assumptions made during the reporting period.

The gross carrying amount of a financial asset is written off (i.e., reduced directly) when the counterparty is in severe financial difficulty and the Group has no realistic expectation of recovery of the financial asset. Financial assets written off remain subject to enforcement action by the Group. Recoveries, if any, are recognised in profit or loss.

**(o) Investments in associates**

An associate is an entity over which the Group is able to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's interests in associates are accounted for using the equity method after initially being recognised at cost. Under the equity method, the Group's share of the profit or losses of the associate is recognised in the Group's profit or loss and the Group's share of other comprehensive income items is recognised in the Group's other comprehensive income.

Unrealised gains and losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

**(p) Adoption of new and revised Accounting Standards**

The Group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 *Leases*.

AASB 16 replaces AASB 117 *Leases* and introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- (a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for on a cost basis unless the underlying asset is accounted for on a revaluation basis, which case if the underlying asset is:
  - i. investment property, the lessee applies the fair value model in AASB 140 *Investment Property* to the right-of-use asset; or
  - ii. property, plant or equipment, the lessee applies the revaluation model in AASB 116 *Property, Plant and Equipment* to all of the right-of-use assets that relate to that class of property, plant and equipment; and

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(o) Adoption of new and revised Accounting Standards (cont'd)**

- (b) lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of the lease payments paid/payable.

AASB 16 substantially carries forward the lessor accounting requirements of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the Group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (i.e., at 1 July 2019). Accordingly, comparative information has not been restated.

The Group has also elected to apply for the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value;
- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of \$179,969,000 (referred to in these financial statements as "Right of Use assets" or "lease assets") and corresponding lease liabilities with an aggregate carrying amount of \$179,969,000. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 7%.

The following is a reconciliation of non-cancellable operating lease commitments disclosed at the end of the prior reporting period (i.e., at 30 June 2019) to the aggregate carrying amount of lease liabilities recognised at the date of the initial application (i.e., at 1 July 2019):

	<b>\$'000</b>
Aggregate non-cancellable operating lease commitments at 30 June 2019	222,849
Less: lease payments previously included in non-cancellable lease commitments for leases with remaining terms of less than 12 months and leases of low value assets	(12,023)
Less: impact of discounting lease payments to their present value at 1 July 2019	<u>(30,857)</u>
Carrying amount of lease liabilities recognised at 1 July 2019	<u>179,969</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (p) Adoption of new and revised Accounting Standards (cont'd)

Further details of the Group's accounting policy in relation to accounting for leases under AASB 16 are contained in note 2 (f).

In addition, the Group has elected to early AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions* in the current reporting period, with effect from 1 July 2019 (the beginning of the current reporting period).

AASB 2020-4 amends AASB 16 *Leases* to provide an optional practical expedient to lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

In accordance with AASB 2020-4, the Group has elected to apply the practical expedient not to assess whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications, and to account for any changes in lease payments resulting from the rent concessions as if the changes were not lease modifications. Any gains arising from Covid-19 related rent concessions are recognised in profit or loss.

#### (q) Standards and interpretations issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of these new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

- (i) *AASB 1060: General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (applicable for annual reporting periods commencing on or after 1 July 2021)*

AASB 1060 sets out a new, separate disclosure standard to be applied by all entities that are preparing general purpose financial statements and elect to apply the Tier 2 reporting requirements under AASB 1053 *Application of Tiers of Australian Accounting Standards*. This standard will replace the current Reduced Disclosure Regime framework and will only impact disclosures and not recognition and measurement requirements of the entity.

AASB 1060 mandatorily applies to annual reporting periods commencing on or after 1 July 2021 and will be first applied by the Group in the financial year commencing 1 July 2021.

The likely impact of the initial application of this standard on its financial statements has not yet been determined.

- (ii) *AASB 2020-2: Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (applicable for annual reporting periods commencing on or after 1 July 2021)*

AASB 2020-2 removes the reporting entity concept from a number of standards for certain for-profit private sector entities. Such entities are therefore not able to prepare special purpose financial statements and must prepare general purpose financial statements. The amending standard principally amends AASB 1057 *Application of Australian Accounting Standards and the Conceptual Framework for Financial Reporting* so that they apply explicitly to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standard or accounting standards (with the previous limitation to entities with public accountability removed) and
- (b) other for-profit private sector entities that are required only by constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021.

AASB 2020-2 mandatorily applies to annual reporting periods commencing on or after 1 July 2021 and will be first applied by the group in the financial year commencing 1 July 2021.

The likely impact of the initial application of this standard on its financial statements has not yet been determined.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

#### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **(a) Critical estimates in applying the entity's accounting policies**

The following are the critical estimates that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

##### ***Employee entitlements***

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in salaries and wages;
- Future on-cost rates;
- Experience of employee departures and period of service; and
- Appropriate discount rate to reflect long term liabilities at present value.

#### **(b) Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### ***Impairment of tangible and intangible assets***

Determining whether assets are impaired requires an estimation of recoverable amount for the cash-generating units to which these assets have been allocated. The recoverable amount of each cash-generating unit is the greater of its value in use or fair value less costs to sell.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form. Value in use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

The carrying amount of intangible assets at the end of the reporting period was \$35,748,000 (2019: \$35,748,000).

##### ***Share based payments***

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the day on which they are granted. The fair value is determined using a Black-Scholes model and is recognised as an expense over the vesting period, with a corresponding increase to an equity account.

##### ***Deferred tax balances***

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 4: REVENUE

	2020 \$'000	2019 \$'000
An analysis of the Group's revenue for the year is as follows:		
Revenue from rendering services	487,530	445,890
Rental revenue	662	917
Other revenue	2,378	1,648
<b>Total revenue</b>	<b>490,570</b>	<b>448,455</b>

### NOTE 5: OTHER INCOME

	2020 \$'000	2019 \$'000
JobKeeper income	28,900	-
Gain on disposal of plant and equipment	52	-
<b>Total other income</b>	<b>28,952</b>	<b>-</b>

### NOTE 6: PROFIT FOR THE YEAR BEFORE TAX

	2020 \$'000	2019 \$'000
<b>(a) Other expenses</b>		
Courier and vehicle costs	8,996	7,233
Loss on disposal of plant and equipment	-	715
Foreign exchange	105	74
Other costs	40,322	40,016
	<b>49,423</b>	<b>48,038</b>
<b>(b) Employee benefits expense</b>		
Post-employment - defined contribution superannuation expense	17,182	16,648
Termination benefits	1,551	1,695
Other employee benefits including share based payments	218,814	204,631
	<b>237,547</b>	<b>222,974</b>
<b>(c) Depreciation expense</b>		
Leasehold improvements	4,143	4,307
Plant and equipment	7,151	7,093
Leased plant and equipment	20	106
Right-of-use assets	66,588	-
	<b>77,902</b>	<b>11,506</b>
<b>(d) Lease rental expense</b>		
Short term / low value lease payments (2019: Minimum lease payments)	<b>16,186</b>	<b>88,202</b>

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 7: FINANCE INCOME AND EXPENSE**

	2020 \$'000	2019 \$'000
<b>Finance income</b>		
Bank deposits	38	38
<b>Finance expenses</b>		
Interest on related party loans	(4,072)	(3,844)
Interest expense for leasing arrangements	(12,494)	(96)
	(16,566)	(3,940)
<b>Net finance costs</b>	<b>(16,528)</b>	<b>(3,902)</b>

**NOTE 8: TRADE AND OTHER RECEIVABLES**

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
Trade receivables	63,774	47,126
Provision for expected credit loss	(1,969)	(2,509)
	61,805	44,617
Goods and services tax receivable	1,493	1,878
	<b>63,298</b>	<b>46,495</b>

**NOTE 9: INVENTORIES**

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
Consumable supplies at cost	10,498	9,670

**NOTE 10: OTHER FINANCIAL ASSETS**

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
Prepayments	3,008	3,455
Bonds and securities	435	1,001
	<b>3,443</b>	<b>4,456</b>
<b>NON-CURRENT</b>		
Equity accounted other investments	988	362

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

### NOTE 11: PLANT AND EQUIPMENT

	Leasehold Improvements \$'000	Plant & Equipment \$'000	Leased Plant & Equipment \$'000	Capital Work in Progress \$'000	Total \$'000
<b>2020</b>					
Gross carrying amount	42,194	78,637	2,560	482	123,873
Accumulated depreciation	(28,845)	(53,878)	(2,560)	-	(85,283)
<b>Total property, plant and equipment as at 30 June 2020</b>	<b>13,349</b>	<b>24,759</b>	<b>-</b>	<b>482</b>	<b>38,590</b>
<b>2019</b>					
Gross carrying amount	40,479	73,127	2,560	211	116,377
Accumulated depreciation	(24,784)	(47,252)	(2,540)	-	(74,576)
<b>Total property, plant and equipment as at 30 June 2019</b>	<b>15,695</b>	<b>25,875</b>	<b>20</b>	<b>211</b>	<b>41,801</b>

### NOTE 12: RIGHT-OF-USE ASSET AND LEASE LIABILITIES

#### Lease arrangements (30 June 2020)

The following information relates to the current reporting period only, and is presented in accordance with AASB 16 *Leases* (which was applied by the Group for the first time in the current reporting period).

Leases relate to properties leased by the Group with lease terms between 1 and 15 years. Leases can contain market review / fixed increments / CPI increment within the lease period and can contain additional clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

<b>Lease assets</b>	<b>2020 \$'000</b>
<b>Carrying amount of lease assets, by class of underlying asset:</b>	
<i>Buildings under lease arrangements</i>	
At cost	222,051
Accumulated depreciation	(66,588)
<b>Total carrying amount of lease assets</b>	<b>155,463</b>
<b>Lease liabilities</b>	<b>2020 \$'000</b>
Current lease liabilities	63,440
Non-current lease liabilities	97,695
<b>Total carrying amount of lease liabilities</b>	<b>161,135</b>



**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 12: RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Cont'd)****Lease arrangements (30 June 2020) (Cont'd)**

	<b>2020</b>
	<b>\$'000</b>
<b>Lease expenses and cashflows</b>	
Interest expense on lease liabilities	12,494
Expense relating to leases of low value and 12-months or less (for which a lease asset and lease liability has not been recognised)	16,186
Depreciation expense on lease assets	66,588
Gains recognised in profit or loss to reflect changes in lease payments arising from rent concessions occurring as a direct consequence of the Covid-19 pandemic	1,062
Total cash outflow in relation to lease liabilities and associated interest	73,410

**Non-cancellable operating lease arrangements (30 June 2019)**

The following information relates to non-cancellable operating lease arrangements of the prior reporting period only, and is presented in accordance with the predecessor accounting standard AASB 117 *Leases*.

Operating leases relate to properties leased by the Group with lease terms between 1 and 15 years. Leases can contain market review / fixed increments / CPI increment within the lease period and can contain additional clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

	<b>2019</b>
	<b>\$'000</b>
Non-cancellable operating leases contracted for but not capitalised in the financial report	
Payable:	
- Not later than 1 year	77,751
- Later than 1 year but no later than 5 years	116,766
- Later than 5 years	28,332
	<b>222,849</b>

**NOTE 13: GOODWILL**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill from acquisitions	35,748	35,748

**(a) Impairment tests for goodwill**

Goodwill is allocated to a cash generating unit or units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value-in-use calculations. These calculations use cash projections based on financial budgets/forecasts approved by management for covering a minimum period of one year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future. The present value of future cash flows has been calculated using an average growth rate of 1.5% (2019: 3%) for cash flows in year two to five which is based on historic growth rate and industry trends and a terminal value growth rate of 1.5% (2019: 3%) a discount rate of 8.5% (2019: 8.5%) to determine value-in-use.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 14: INCOME TAX**

	2020 \$'000	2019 \$'000
<b>(a) Components of tax expense</b>		
Current tax	1,799	-
Recognition of tax loss carried forward	(19,742)	-
Utilisation of tax losses carried forward	6,891	-
Deferred tax	627	820
	<b>(10,425)</b>	<b>820</b>
<b>(b) Income tax reconciliation</b>		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Profit before tax	30,830	(9,704)
Domestic tax rate	30%	30%
<b>Expected tax expense</b>	<b>9,249</b>	<b>(2,911)</b>
Adjustments for non-deductible expenses:		
- Other non-deductible expenses	68	3,731
Tax losses recognised	(19,742)	-
<b>Actual tax expense</b>	<b>(10,425)</b>	<b>820</b>
<b>(c) Deferred tax</b>		
Deferred tax assets – temporary differences	10,313	10,894
Deferred tax assets – carried forward tax losses	12,851	-
	<b>23,164</b>	<b>10,894</b>
Deferred tax liabilities – temporary differences	<b>18</b>	<b>8</b>

Deferred tax assets are recognised for deductible temporary differences and carried forward tax losses, as management considers that it is probable that future taxable profits will be available to utilise those temporary differences and losses.

**NOTE 15: TRADE AND OTHER PAYABLES**

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
Trade creditors	12,890	11,975
Sundry creditors and accruals	19,872	16,257
	<b>32,762</b>	<b>28,232</b>

**NOTE 16: BORROWINGS**

	2020 \$'000	2019 \$'000
<b>NON-CURRENT</b>		
<b>Unsecured</b>		
Related party loans <sup>(i)</sup>	<b>60,070</b>	<b>55,999</b>

(i) Related party loans are at arm's length and are interest bearing. Related party loans have been repaid in full on 29 September 2020.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 17: PROVISIONS**

	2020 \$'000	2019 \$'000
<b>CURRENT</b>		
Employee benefits <sup>(i)</sup>	36,557	37,226
Other	908	937
	<b>37,465</b>	<b>38,163</b>
<b>NON-CURRENT</b>		
Employee benefits <sup>(i)</sup>	<b>3,816</b>	<b>3,788</b>

<sup>(i)</sup> The current provision for employee entitlements is calculated using probability models of employees reaching vesting dates. The calculations are based on pattern of leave taken and are grossed up for future rates, discounted to present value at appropriate discount rates. They are inclusive of on-costs.

**NOTE 18: ISSUED CAPITAL**

	2020 \$'000	2019 \$'000
<b>Issued and paid up capital</b>		
<b>Fully paid ordinary shares</b>		
At the start of the financial year	146,505	109,515
Equity contribution <sup>(i)</sup>	-	36,990
At the end of the financial year	<b>146,505</b>	<b>146,505</b>
<b>Fully paid ordinary shares</b>	<b>2020 Number of Shares</b>	<b>2019 Number of Shares</b>
At the start of the financial year	337,909,852	242,119,760
Equity contribution <sup>(i)</sup>	-	96,337,267
Share cancellation <sup>(ii)</sup>	-	(547,175)
At the end of the financial year	<b>337,909,852</b>	<b>337,909,852</b>

<sup>(i)</sup> New shares issued in 2019 include management shares recognised at \$0 for accounting purposes in accordance with AASB 2.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

**NOTE 19: DIVIDENDS**

During the year the Company did not make any dividend payments (2019: Nil).

On 29 September 2020 the Company declared and paid a fully franked dividend of \$21,000,000.

CLINICAL LABORATORIES PTY LTD

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 20: CHANGES TO THE COMPOSITION OF THE GROUP**

During the 2020 financial year, the Company acquired shares in Geneseq Pty Ltd ("Geneseq") in addition to those held at the end of the 2019 financial year, resulting in the Company holding a 20% share in Geneseq. Consequently, the investment has been treated using the equity method this year as the Company is deemed to have significant influence over Geneseq.

There were no other changes to the composition of the Group in the 2020 financial year.

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

During the 2019 financial year, the Company acquired 100% of the shares of Clinical Laboratories (WA) Pty Ltd as part of a common control acquisition. As part of the acquisition, the shareholders of Clinical Laboratories (WA) Pty Ltd acquired 58,665,144 shares in the Company. As a result, Perth Medical Laboratories Pty Ltd, a subsidiary of Clinical Laboratories (WA) Pty Ltd also became a member of the Group.

During the 2019 financial year, the Company also acquired the Genome.One business from Genome.One Pty Ltd and the Garvan Institute of Medical Research.

**NOTE 21: NOTES TO THE STATEMENT OF CASH FLOWS**

**(a) Reconciliation of cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	34,849	4,131

**(b) Disposals**

There were nil disposals in the current or prior financial year.

**(c) Acquisitions**

There were no acquisitions in the current financial year.

In the prior financial year, on 1 November 2018 the Company acquired Clinical Laboratories (WA) Pty Ltd. The inflow from the acquisition was \$1,212,000.

Furthermore, on 23 November 2018 the Company acquired the Genome.One business, however there were no cash inflows as part of the acquisition.

## CLINICAL LABORATORIES PTY LTD

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

## NOTE 21: NOTES TO THE STATEMENT OF CASH FLOWS (cont'd)

## (d) Reconciliation of net loss for the year to net cash flows from operating activities

	2020 \$'000	2019 \$'000
Profit / (Loss) for the year before taxation	30,830	(9,704)
<b>Non-cash flows in operating profit</b>		
Depreciation	77,902	11,506
(Profit) / loss on sale of assets	(52)	715
Share of losses from equity accounted investments	61	-
Income tax paid / (refunded)	139	(24)
Share based payments expense	323	321
Accrued interest expense on borrowings	4,072	3,377
	<b>113,275</b>	<b>6,191</b>
<b>Changes in assets and liabilities</b>		
Increase in trade and other receivables	(16,803)	(3,767)
Decrease in other assets	1,013	2,568
Increase in inventories	(828)	(423)
Increase / (decrease) to trade and other payables	5,749	(2,917)
Decrease to provisions	(670)	(540)
<b>Net cash provided by operating activities</b>	<b>101,736</b>	<b>1,112</b>

## (e) Bank facilities and guarantees

At 30 June 2020, the Group had a bank overdraft available of \$6,000,000 which had not been utilised at year end (2019: \$6,000,000, nil utilised).

Financial guarantees also existed in relation to rental properties. The Group has utilised \$5,427,314 (2019: \$6,162,167) of its \$7,000,000 (2019: \$7,000,000) facility with the Commonwealth Bank at 30 June 2020.

## NOTE 22: CONTROLLED ENTITIES

(a) The consolidated financial statements include the financial statements of Clinical Laboratories Pty Ltd and its controlled entities as listed below:

	Country of incorporation	Percentage owned (%)	
<i>Parent Entity:</i>		2020	2019
Clinical Laboratories Pty Ltd	Australia		
<i>Subsidiaries of Clinical Laboratories Pty Ltd:</i>			
Malvern Pathology Laboratories Sdn Bhd.	Malaysia	100	100
ACL Specialist Investments Pty Ltd	Australia	100	100
Clinical Laboratories (WA) Pty Ltd	Australia	100	100
Perth Medical Laboratories Pty Ltd	Australia	100	100

Malvern Pathology Laboratories Sdn Bhd. recharges its costs plus a mark-up to Clinical Laboratories Pty Ltd which is eliminated upon consolidation.

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 23: INTERESTS IN ASSOCIATES AND JOINT ARRANGEMENTS**

	Nature of relationship	Ownership interest		Measurement basis
		2020 %	2019 %	
<b>Associate</b>				
Geneseq Pty Ltd	Ordinary Shares	20	8	Equity accounted

**NOTE 24: PARENT ENTITY INFORMATION**

	2020 \$'000	2019 \$'000
<b>Assets</b>		
Current assets	95,519	60,876
Non-current assets	227,593	83,494
<b>Total assets</b>	<b>323,112</b>	<b>144,370</b>
<b>Liabilities</b>		
Current liabilities	119,113	54,801
Non-current liabilities	146,356	59,381
<b>Total liabilities</b>	<b>265,469</b>	<b>114,182</b>
<b>Equity</b>		
Issued capital	146,505	146,505
Reserves	28,506	1,051
Retained earnings	(117,368)	(117,368)
<b>Total equity</b>	<b>57,643</b>	<b>30,188</b>
	<b>2020 \$'000</b>	<b>2019 \$'000</b>
<b>Financial performance</b>		
Profit/(loss) for the year	27,132	(12,514)
<b>Total comprehensive income / (loss)</b>	<b>27,132</b>	<b>(12,514)</b>

**NOTE 25: AUDITORS' REMUNERATION**

	2020 \$'000	2019 \$'000
Auditor of Clinical Laboratories Pty Ltd - Audit Services		
Audit of the financial report	129	125

The auditor of Clinical Laboratories Pty Ltd for the financial year ended 30 June 2020 is Pitcher Partners (Melbourne).

CLINICAL LABORATORIES PTY LTD

**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2020

**NOTE 26: CONTINGENT LIABILITY**

	2020 \$'000	2019 \$'000
The Company has issued a promissory note to Advanced Medical Technology Pty Ltd payable on sale of the Company's shares whereby the return on investment exceeds a predetermined amount. The maximum amount payable by the Group is:	12,500	-

**NOTE 27: DEED OF CROSS GUARANTEE**

The following companies are parties to a deed of cross guarantee under which each company guarantees the debts of the others:

- Clinical Laboratories Pty Ltd
- Clinical Laboratories (WA) Pty Ltd

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiaries listed above are relieved from the Corporations Act requirement to prepare a financial report and director's report.

The entities covered by the deed of cross guarantee are the same as the economic entities otherwise disclosed in these financial statements. As such no additional disclosure is required.

**NOTE 28: SUBSEQUENT EVENTS**

On 29 September 2020, the Company declared and paid a fully franked dividend of \$21,000,000.

On 29 September 2020, the Group repaid in full the loans and associated accrued interest totalling \$61,116,000.

On 5 August 2020, ACL Specialist Investments Pty Ltd was voluntarily deregistered.

There were no other significant changes in the Group's state of affairs that occurred following the end of the financial year and up to the date of the financial report, other than those referred to elsewhere in this report.

CLINICAL LABORATORIES PTY LTD

**DIRECTORS' DECLARATION**

As detailed in Note 2 to the financial statements, the Group is not a reporting entity because in the opinion of the Directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the Directors' reporting requirements under the Corporations Act 2001.

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Group 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 to the extent described in Note 2 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 s.295 (5) of the Corporations Act 2001.

On behalf of the Directors



**M. McGrath**  
**Director**  
Melbourne, 12 October 2020



CLINICAL LABORATORIES PTY LTD AND CONTROLLED ENTITIES  
ABN: 62 006 823 089

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF CLINICAL LABORATORIES PTY LTD

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report, being a special purpose financial report of Clinical Laboratories Pty Ltd "the company" and its subsidiaries, "the Group", which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards to the extent described in Note 2 and the *Corporations Regulations 2001*.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

*Emphasis of Matter - Basis of Accounting*

We draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared to assist Clinical Laboratories Pty Ltd to meet the requirements of *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's director's report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

**CLINICAL LABORATORIES PTY LTD AND CONTROLLED ENTITIES**  
**ABN: 62006823089**

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF CLINICAL LABORATORIES PTY LTD**

*Responsibilities of the Directors for the Financial Report*

The directors of the Group are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

*Auditor's Responsibilities for the Audit of the Financial Report*

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**B POWERS**  
Partner

Date: 12 October 2020.



**PITCHER PARTNERS**  
Melbourne