FOS Group

Annual Report
for the year ended 30 June 2020

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Directors' Report

The directors present their report together with the financial report of FOS Capital Ltd (the company) and its subsidiaries for the year ended 30 June 2020 (the Group). The financial report includes the combined results of FOS Lighting Group Pty Ltd and its controlled entity FOS Lighting Pty Ltd from 1 July 2019 (and its comparatives), and following the formation (in 31 October 2019) and share purchase by FOS Capital Ltd of FOS Group Pty Ltd on 31 December 2019, the combined results of all three entities thereafter.

Directors

The names of the company's directors in office during the half-year and until the date of this report are set out below. Each of the directors was in office for this entire period, unless otherwise stated.

Con Scrinis, Managing Director since 31 October 2019

Con has been involved in the electrical and lighting industry for over 35 years. He founded commercial lighting manufacturer Moonlighting in 1991. Moonlighting employed 150 staff with revenues of +$30M. Moonlighting was sold to Gerard Lighting in 2004.

He then founded and was Managing Director of ASX listed Traffic Technologies which developed the first Australian Standard approved LED traffic light. Traffic Technologies had +$100M in revenues across 3 divisions, Traffic lights, Traffic management and Traffic Signs. Con was a major shareholder and Director of ASX listed Enevis Ltd formerly Stokes Ltd which transformed from an appliance parts manufacturer and distributor to a lighting and audio visual business.

Michael Koutsakis, Director since 31 October 2019

Michael completed his Degree in Electrical and Computing Engineering at Monash University and has been involved in the electrical / lighting industry for over 28 years. Michael has held senior sales & marketing positions Sunlighting/Holophane, Moonlighting, Zumtobel / Bega, and WE-EF lighting. Michael then joined the ASX listed Enevis Limited formerly Stokes Limited as Executive General Manager Lighting in order to further develop and grow the companies lighting division.

Michael Monsonego, Director since 31 October 2019

After graduating the IDF as field medic in 1999 Michael attended Hadassah College in Jerusalem to study computers engineering. He joined Israeli TV broadcast company TELAD as a software engineer working on digital broadcasting systems. After 2 years he was promoted to lead the software team of TELAD. In 2004 Michael took up a new position as software engineer at Optibase in Israel, leading provider of video over IP solutions. In 2009 he joined Forma lighting in the R&D team responsible for developing LED lighting solutions. Michael then moved through the ranks and now holds the position of General manger of Forma Lighting Hong Kong.

Mr Alexander (Sandy) Beard, (appointed as director on 31 October 2019 and resigned on 17 April 2020)

Sandy was CEO and MD of CVC Limited since 2001, having started in 1991 initially as Financial Controller following 3 years with Ernst & Young. He has extensive experience working with investee businesses, both in providing advice and in direct management roles, especially bringing management expertise to early-stage businesses and in turning around financial performance to deliver substantial shareholder returns for sustained periods.

Sandy's key focus is extracting and overseeing the creation of shareholder value from the companies with which he is involved.

Sandy is currently a director of ASX listed Eildon Capital (ASX: EDC), Probiotec Ltd (ASX: PBP), Tas Foods Ltd (ASX: TFL), US Residential and Lantern Hotel Group (ASX: LTN).

Directors' Report (Cont'd)

PRINCIPAL ACTIVITIES

The principal activity of the combined entity includes manufacturing a full range of commercial luminaires, outdoor fittings and linear extruded lighting as well as distributing a complete range of commercial and architectural lighting.

REVIEW AND RESULTS OF OPERATIONS

The Directors of FOS Capital Ltd take great pleasure in reporting to you the substantial work and progress that has been achieved during the year ended 30 June 2020.

FOS Capital Ltd was established on 31 October 2019 and it acquired 100% equity interest in FOS Lighting Group Pty Ltd (FLG) on 30 December 2019.

The Company acquired the business assets of FLG effective from 1 July 2019. FLG began operation in April 2019 as a commercial lighting distributor of the Forma Lighting product range.

In June 2019 FLG acquired 100% of Frend Lighting Industries Pty Ltd from the Gerard Lighting Group. Frend has now been renamed FOS Lighting Pty Ltd and is the main operating entity of the lighting business.

The Frend business was established in 1996 and manufactures a complete range of commercial lighting products. Since the acquisition FOS has expanded the product range to include linear lighting under the brand name VEKTA, added sales representatives in Brisbane, Melbourne and Adelaide and introduced a design and development team in order to aggressively expand the product range for the Australian market. FOS has also changed the distribution of the Megabay product range bringing it in house for the states of Qld, Vic and SA and have been appointed a distributor to the UAE.

The investment made in people, products and equipment has not only paid off in FY20 but has established a platform for growth in coming years. Order intake was up 63% to $6.3M, quote book has increased by 129% over the year to $17.6M and back orders up 118% to $1.45M.

The company commenced preparation for an IPO and reached the stage of completing a prospectus which was due to be lodged with ASIC and ASX in March 2020. The listing process was put on pause due to COVID-19, and it is anticipated that the Company will be listed on ASX over the coming months.

The company has also managed its way through COVID-19 relatively unscathed. All operations have remained open although we have experienced supply chain issues in February and March which resulted in lower sales in those months. The company has qualified for various government incentives including the job keeper scheme and received rent relief from its landlords.

The coming year is looking extremely promising with a healthy project pipeline.

The business has performed extremely well over the full year increasing sales by over 30% to $5.8M and producing pre-tax profits of $400K.

Dividends

No dividends have been paid, declared or recommended but not paid by the company in respect of the year ended 30 June 2020.

Directors' Report (Cont'd)

Options and contingent equity instruments

For the year ended 30 June 2020 and up to the date of this report, no options or any other contingent equity instruments have been granted or issued by the company or any of its Group entities.

Environmental Regulation and Performance

The company's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. However, the Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the economic entity.

Proceedings on Behalf of the company

No proceedings have been brought on behalf of the company or its controlled entities.

Events Subsequent to Balance Date

The Company is in the process of getting listed on ASX over comings months.

Apart from the matter described above, the directors are not aware of any matters or circumstances not otherwise dealt with in this report that has significantly or may significantly affect the operations or the state of affair of the Combined entity in future financial periods.

Directors' meetings

The number of Directors' meetings held during the financial year and the number of meetings attended by each director (while they were a director) are as follows:

Director	Directors Meetings	
	Eligible to attend	Attended
Con Scrinis	4	4
Michael Koutsakis	4	4
Michael Monsonego	4	4
Mr Alexander (Sandy) Beard	3	3

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit is provided with this report.

Non-Audit Services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors.

No non-audit services were provided by the auditors of entities in the Combined group during the year.

Directors' Report (continued)

Staff

The Board appreciates the support it continues to have from the company's staff, and acknowledges, with thanks, the efforts they are all making to assist the company through this transition period.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in the Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

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

Con Scrinis
Director

Melbourne

Date: 8 September 2020

Combined Statement of Comprehensive Income for the year ended 30 June 2020

	Notes	30 Jun 2020	30 Jun 2019
		$	**$**
Revenue and Other Income			
Revenue	5	5,803,208	4,250,564
Cost of sales		(3,228,165)	(2,596,307)
Gross Profit		**2,575,043**	**1,654,257**
Expenses			
Selling expense		(485,030)	(197,016)
Admin and corporate expenses		(1,251,858)	(994,757)
Amortisation of lease assets in use		(361,162)	-
Total Operating Expenses		**(2,098,050)**	**(1,191,773)**
Operating Profit		**476,993**	**462,484**
Less: Pre IPO expenses		(191,500)	-
Less: Depreciation		(43,039)	(42,089)
Less: Finance costs		(30,808)	-
Profit before income tax expense		**211,646**	**420,395**
Income tax expense	6	(88,579)	(115,608)
Profit after tax		**123,067**	**304,787**
Other comprehensive income for half-year		-	-
Total comprehensive income for half-year		**123,067**	**304,787**

	Notes	30 Jun 2020	30 Jun 2019
Earnings per share for profit attributable to the equity holders of the entity:			
Basic and diluted earnings per share (cents per share)	18	0.41	1.02

The accompanying notes forms part of these Financial Statements

Combined Statement of Financial Position as at 30 June 2020

	Notes	30 Jun 2020 $	30 Jun 2019 $
Current assets			
Cash and cash equivalents		648,608	599,077
Trade and other receivables	7	1,362,331	1,487,945
Inventories	8	1,784,712	1,520,878
Other current assets	9	27,936	59,590
Total current assets		**3,823,587**	**3,667,490**
Non-current assets			
Plant and equipment	11	230,498	198,506
Other current assets	10	45,000	-
Lease assets in use	12	697,949	-
Deferred tax assets		85,735	94,438
Total Non-current assets		**1,059,182**	**292,944**
Total assets		**4,882,769**	**3,960,434**
Current liabilities			
Trade and other payables	13	803,288	902,218
Lease Liabilities	12	462,058	-
Provision – Employee entitlement	14	262,450	204,521
Provision – Tax		93,559	13,683
Provision – Warranty	15	42,278	50,666
Total current liabilities		**1,663,633**	**1,171,088**
Non-current liabilities			
Lease Liabilities	12	320,018	-
Provision – Employee entitlement	14	7,034	20,429
Total non-current liabilities		**327,052**	**20,429**
Total Liabilities		**1,990,685**	**1,191,517**
Net assets		**2,892,084**	**2,768,917**
Equity			
Contributed capital	16	400,100	400,000
Retained earnings		2,491,984	2,368,917
Total equity		**2,892,084**	**2,768,917**

The accompanying notes forms part of these Financial Statements

Combined Statement of Changes in Equity

Year ended 30 June 2019

Combined	Contributed equity $	Retained earnings $	Total equity $
At 1 July 2018	4	-	4
Issue of shares	399,996	-	399,996
Profit for the year	-	2,368,917	2,368,917
At 30 June 2019	**400,000**	**2,368,917**	**2,768,917**

Year ended 30 June 2020

Combined	Contributed equity $	Retained earnings $	Total equity $
At 1 July 2019	400,000	2,368,917	2,768,917
Issue of shares	100	-	100
Profit for the year	-	123,067	123,067
At 30 June 2020	**400,100**	**2,491,984**	**2,892,084**

The accompanying notes forms part of these Financial Statements

Combined Statement of Cash Flows for the year ended 30 June 2020

	Note	30 Jun 2020 $	30 Jun 2019 $
Cash flows from operating activities			
Receipts from customers		6,135,587	4,562,413
Payments to suppliers and employees		(6,029,729)	(4,305,799)
Payment of Interest		(30,808)	
Net cash flows from operating activities	20	**75,050**	**256,614**
Cash flows from investing activities			
Payments for plant and equipment		(75,031)	(22,200)
Net cash flows used in investing activities		**(75,031)**	**(22,200)**
Cash flows from financing activities			
Receipt of share capital		326,547	73,549
Payment of lease liabilities		(277,035)	-
Net proceeds from / (payment to) related parties		-	(584,442)
Net cash flows from / (used in) financing activities		**49,512**	**(510,891)**
Net increase / (decrease) in cash and cash equivalents		**49,531**	**(276,479)**
Cash and cash equivalents at beginning of the year		599,077	875,556
Cash and cash equivalents at end of the year	20	**648,608**	**599,077**

The accompanying notes forms part of these Financial Statements

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

The following is a summary of significant accounting policies adopted by the Combined entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

This financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act* 2001 and Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board (AASB).

The financial report includes the combined results of FOS Lighting Group Pty Ltd and its controlled entity FOS Lighting Pty Ltd from 1 July 2019 (and its comparatives), and following the formation (in 31 October 2019) and share purchase by FOS Capital Ltd of FOS Group Pty Ltd on 31 December 2019, the combined results of all three entities thereafter.

FOS Capital Limited and controlled entities are for-profit entities for the purpose of preparing the financial statements for the year ended 30 June 2020.

The financial report of FOS Capital Limited for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 20 August 2020.

Compliance with IFRS
The Combined financial statements of FOS Capital Limited also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
The financial report has been prepared under the historical cost convention as described in the accounting policies.

Significant accounting estimates
The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Principles of consolidation

The Combined financial statements reflect the combined results of all entities considered to be part of the FOS Group due to their underlying common shareholding interest. These entities include FOS Capital Ltd (the company), FOS Lighting Group Pty Ltd and FOS Lighting Pty Ltd (the subsidiaries, altogether, the Group).

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

(c) Financial Instruments

Classification

The Combined entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the entity 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. Thereafter, all financial instruments are measured at amortised cost, less any impairment charges.

(d) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation is calculated on a straight-line basis or diminishing value over the estimated useful life of the asset as follows:

Plant and equipment	– over 3 to 10 years
Leased assets	– over 3 to 10 years

The assets residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

(e) Borrowing costs

Borrowing costs can include interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

(f) Inventories

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

Costs are accounted for as follows:

Raw materials – average purchase cost. The cost of purchase comprises the purchase price, import duties and other taxes, transport, handling and other costs directly attributable to the acquisition of raw materials.

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

Inventories (cont'd)

Finished goods and work-in-progress – average cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Provision has been made for any obsolescence of inventory for an inability to utilise the material for any products sold by the Group, for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits (other than termination benefits) expected to be settled wholly before twelve months after the end of the annual reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave and accumulated sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the statement of financial position.

(ii) Other long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

Other long-term employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the statement of financial position.

(iii) Termination benefits

The group recognises an obligation and expense for termination benefits at the earlier of: (a) the date when the group can no longer withdraw the offer for termination benefits; and (b) when the group recognises costs for restructuring and the costs include termination benefits. In either case, the obligation and expense for termination benefits is measured on the basis of the best estimate of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before twelve months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

Employee benefits (cont'd)

(iv) Retirement benefit obligations

Defined contribution superannuation plan

The Combined entity makes superannuation contributions (currently 9.50% of the employee's average ordinary salary) to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the statement of financial position.

(i) Provisions

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

(j) Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

Revenue from rendering of services to customers is recognised upon delivery of the service to the customer.

Government grants are recognised at fair value when there is reasonable certainty that the grant will be received and all grant conditions are met.

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

(k) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax balances

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

Income tax (cont'd)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(l) Goods and services tax (GST)

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

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

(m) Comparatives

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

(n) Rounding of amounts

The parent entity and the Combined entity have applied the relief available under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the Combined financial statements and in the directors' report have been rounded to the nearest dollar.

(o) New or amended Accounting Standards and Interpretations adopted

The Combined entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The following Accounting Standards and Interpretations are most relevant to the Combined entity:

AASB 16 Leases

The Combined entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Notes to Combined Financial Statements for the year ended 30 June 2020

1. Summary of significant accounting policies

New or amended Accounting Standards and Interpretations adopted (cont'd)

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Combined entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Combined entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Combined entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

Value for right-of-use assets of $724,878 were recognised (discounted based on the weighted average incremental borrowing rate of 4%) as on 1 July 2019 for lease of premises in Brisbane, additional value for right-of-use assets of $334,233 were recognised (discounted based on the weighted average incremental borrowing rate of 4% as on 30 November 2019 for lease of premises in Richmond Victoria.

Finance lease liabilities of $462,058 (current) and $320,018 (non-current) were recorded as lease liabilities

Notes to Combined Financial Statements for the year ended 30 June 2020

2. Critical Accounting Estimates and judgements

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future event that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for leased equipment and premises). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 10.

3. Related Party Disclosures

The following is a summary of transactions with directors and other related parties entered into throughout the financial year:

KMS Property's Pty Ltd, an entity related to director leased the premises to the Company, on an arm's length commercial premises leasing terms starting from 30 November 2019 for an initial term of 6 years. During the year ended 30 June 2020, the Combined entity paid $18,000 in rent to KMS Property's Pty Ltd. KMS Property also waived the rent charge for 3 months period April 2020 to June 2020 due to COVID19 pandemic.

4. OPERATING SEGMENTS

The Chief Operating Decision Maker has determined that the Group's sole business segment is the manufacture of a full range of commercial luminaires, outdoor fittings and linear extruded lighting and the distribution of a complete range of commercial and architectural lighting solutions. Its sole geographic segment is Australia.

5. INCOME AND EXPENSES

	30 June 2020	30 June 2019
	$	$
a) Sales revenue		
Sales revenue	5,543,208	4,250,564
b) Other revenue		
COVID-19 assistance from the Government	260,000	-
Total revenue and other income	**5,803,208**	**4,250,564**

Notes to Combined Financial Statements for the year ended 30 June 2020

6. INCOME TAX

(a) Prima facie tax benefit/expense on profit/(loss) before income tax is reconciled to the income tax expense as follows:

	30 June 2020	30 June 2019
	$	$
Profit before income tax	**211,646**	**420,395**
Prima facie income tax payable		
Income tax at 27.5% (2019: 27.5%)	58,203	115,608
Tax effect of amount which are not assessable or not deductible in calculating taxable income		
Cash flow boost payment receipt	(13,750)	-
Other non-deductible expenses	44,126	-
Income tax expense	**88,579**	**115,608**

7. TRADE AND OTHER RECEIVABLE

Trade debtors	1,362,331	1,161,498
Receivable from directors	-	326,447
	1,362,331	**1,487,945**

There were no receivable past due not impaired for the year ended 30 June 2020 (2019:nil).

8. INVENTORIES

Stock on hand - at cost	1,939,712	1,665,878
Less: Provision for impairment	(155,000)	(145,000)
	1,784,712	**1,520,878**

9. OTHER CURRENT ASSETS

Prepaid expenses	27,936	62,272

10. OTHER NON CURRENT ASSETS

Deposit paid	45,000	-

Notes to Combined Financial Statements for the year ended 30 June 2020

11. PROPERTY PLANT AND EQUIPMENT

	30 June 2020	30 June 2019
	$	$
Plant and equipment - at cost	867,524	840,964
Less: Accumulated depreciation	(724,266)	(696,341)
	143,258	**144,623**
IT Equipment - at cost	128,830	124,259
Less: Accumulated depreciation	(106,613)	(100,809)
	22,217	**23,450**
Leasehold Improvement - at cost	77,533	33,633
Less: Accumulated depreciation	(17,212)	(9,112)
	60,321	**24,521**
Motor vehicles - at cost	107,520	107,520
Less: Accumulated depreciation	(102,818)	(101,608)
	4,702	**5,912**
	230,498	**198,506**

Reconciliation of carrying amounts at the beginning and end of the period

Balance as at 30 June 2020	**Plant and Equipment**	**IT Equipment**	**Leasehold Improvements**	**Motor Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 Jul	144,623	23,450	24,521	5,912	198,506
Purchase of new assets	26,560	4,571	43,900	-	75,031
Depreciation charge	(27,925)	(5,804)	(8,100)	(1,210)	(43,039)
Balance at 30 Jun	**143,258**	**22,217**	**60,321**	**4,702**	**230,498**

Balance as at 30 June 2019	**Plant and Equipment**	**IT Equipment**	**Leasehold Improvements**	**Motor Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 Jul	169,987	-	40,995	7,413	218,395
Purchase of new assets	7,511	27,825	(13,136)	-	22,200
Depreciation charge	(32,875)	(4,375)	(3,338)	(1,501)	(42,089)
Balance at 30 Jun	**144,623**	**23,450**	**24,521**	**5,912**	**198,506**

Notes to Combined Financial Statements for the year ended 30 June 2020

12. LEASES

	30 June 2020 $	30 June 2019 $
Lease assets in use		
Capitalised value for right of use assets	1,059,111	-
Less: Accumulated amortisation	(361,162)	-
Value for right of use assets	**697,949**	-
Corresponding lease liabilities		
a) Lease liabilities - current	462,058	-
b) Lease liabilities – non current	320,018	-
	782,076	-

Value for right-of-use assets of $724,878 were recognised (discounted based on the weighted average incremental borrowing rate of 4%) as on 1 July 2019 for premises in Brisbane leased by FOS Lighting Pty Ltd and additional value for right-of-use assets of $334,233 were recognised (discounted based on the weighted average incremental borrowing rate of 4% as on 30 November 2019 for premises in Richmond leased by FOS Lighting Group Pty Ltd.

13. TRADE AND OTHER PAYABLE

Trade payable	466,758	542,655
Other payables	336,530	359,563
	803,288	**902,218**

14. PROVISION FOR EMPLOYEE ENTITLEMENTS

Annual leave	96,581	77,204
Long service leave	172,903	147,746
	269,484	**224,950**
c) Employee entitlements - current	262,450	204,521
d) Employee entitlements – non current	7,034	20,429

15. OTHER PROVISION

Warranties provision	42,278	50,666

16. ISSUED CAPITAL

(a) Issued shares by FOS Lighting Group Pty Ltd

400,000 Ordinary shares - fully paid	400,000	400,000

Notes to Combined Financial Statements for the year ended 30 June 2020

16. ISSUED CAPITAL (CONT'D)

(b) Issued shares by FOS Capital Ltd

	30 June 2020 $	30 June 2019 $
On Incorporation - Issued 100 fully paid shares on 31 October 2019	100	-
On acquisition of FOS Lighting Group Pty Ltd		
Issued 29,999,900 fully paid shares on 31 December 2019	400,000	-
	400,100	**-**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Capital Management

When managing capital, management's objective is to ensure the Combined entity continues to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows.

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share gives entitlement to one vote when a poll is called.

17. CONTROLLED ENTITIES

Name of the Company	Country of Incorporation	Percentage Owned 30 June 2020
Parent Entity		
FOS Capital Ltd	Australia	
Controlled Entity		
FOS Lighting Group Pty Ltd *	Australia	100%
FOS Lighting Pty Ltd **	Australia	100%

* FOS Lighting Group Pty Ltd was acquired on 30 Dec 2019

** FOS Lighting Pty Ltd formerly known as Frend Lighting Industries Pty Ltd, was acquired by FOS Lighting Group Pty Ltd on 21 June 2019

Notes to Combined Financial Statements for the year ended 30 June 2020

18. EARNINGS PER SHARE

Reconciliation of earnings used in calculating earnings per share:

	30 June 2020	30 June 2019**
	$	$
Profit used in the calculation of basic earnings per share	123,067	304,787
	No of Shares	No of Shares
Issued number of ordinary shares used in calculating basic earnings per share	30,000,000	30,000,000
There is no other equity transaction which dilute the earnings per share		
Basic and diluted earnings per share - (cents per share)	0.41	1.02

** Comparative earnings per shares was calculate using number of shares issued by FOS Lighting Group Pty Ltd and combined earnings of FOS Lighting Group Pty Ltd and FOS Lighting Pty Ltd for the year ended on 30 June 2019

To aid comparability, the number of shares applied in the comparative calculation of earnings per share has been calculated on the basis that FOS Capital Ltd, with its 30,000,000 shares, was in existence as at 30 June 2019.

19. DIRECTOR'S AND EXECUTIVE'S COMPENSATION

(a) Details of Directors

Directors

Con Scrinis	Managing Director
Michael Koutsakis	Executive Director
Michael Monsonego	Non-Executive Director
Mr Alexander (Sandy) Beard **	Non-Executive Director **

(b) Remuneration by Category: Directors

Short term benefits paid *	2020	2019
	$	$
Con Scrinis	240,000	45,000
Michael Koutsakis	240,000	45,000
Michael Monsonego	-	-
Mr Alexander (Sandy) Beard **	-	-
Total	**480,000**	**90,000**

* No long term benefit or other fees were paid to directors

** Mr Alexander (Sandy) Beard was appointed on 31 October 2019 and he resigned on 17 April 2020

Directors did not receive any share based compensation during the year.

Notes to Combined Financial Statements for the year ended 30 June 2020

20. STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	30 June 2020 $	30 June 2019 $
Cash at bank	648,508	509,077

(b) Reconciliation of net cash used in operating activities to net loss after income tax.

Net profit after income tax	123,067	304,787
Depreciation of plant and equipment	43,039	42,089
Amortisation of leasse assets in use	361,162	
Change in net assets and liabilities		
(Increase)/decrease in assets:		
Current receivables	(200,833)	(113,207)
Current inventories	(263,834)	(285,324)
Other current assets	31,654	45,558
Other non-current assets	(45,000)	-
Deferred tax assets	8,703	115,608
Increase/(decrease) in liabilities:		
Current trade payables	(98,930)	233,806
Provisions	36,146	(86,703)
Tax Liabilities	79,876	-
Net cash (used in) operating activities	**75,050**	**256,614**

21. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Combined entity's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Combined entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Combined entity. The Combined entity uses different methods to measure different types of risk to which it is exposed. These methods include ageing analysis for credit risk and cashflow forecasting for liquidity risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Combined entity and appropriate procedures, controls and risk limits.

Price risk

The Combined entity is not exposed to any significant price risk.

Notes to Combined Financial Statements for the year ended 30 June 2020

FINANCIAL INSTRUMENTS (CONT'D)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Combined entity. The Combined entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Combined entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Combined entity does not hold any collateral.

The Combined entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Combined entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. As at 30 June, the Group's financial liabilities were repayable within 60 day terms with the exception of lease liabilities, the current portion of which were repayable between 60 and 365 days, and the non-current over 1 year.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

22. ACQUISITION OF BUSINESS

On 21 June 2019, the Company acquired FOS Lighting Pty Ltd (Frend Lighting Business), (formerly known as Frend Lighting Industries Pty Ltd), Frend Lighting Business operates in the industrial and commercial lighting sectors of the lighting industry with key customers being civil and electrical contractors. Details of fair value of assets and liabilities acquired and consideration paid is as follows:

	21 June 2019
	$
Cash	532,377
Receivables	964,879
Inventory	1,502,642
Prepayment	8,015
Plant and equipment	198,506
Deferred tax assets	94,438
Payables	(592,400)
Employee entitlements	(224,950)
Provision for warranties	(50,666)
Net Identifiable assets acquired	2,432,841
Less: Discount on acquisition of business	(2,332,841)
Cash consideration paid	**100,000**

Frend Lighting Business was acquired from Gerard Lighting, the business deteriorated over the past few years as a result of poor management and a lack of attention given to the business by Gerard Lighting. This deterioration is what led Gerard Lighting to dispose of the business and was a key factor in enabling FOS Lighting Group to acquire the business for the sum of $100,000.

Transaction Costs

No transaction costs were incurred in relation to the acquisition of the Frend Lighting Business.

23. CONTINGENT LIABILTIES

At balance date of this report the Group has no contingent liabilities or commitments with the exception of $45,000 of deposits paid for lease rentals.

24. SUBSEQUENT EVENTS

There were no matters or circumstances that have arisen since 30 June 2020 that have significantly affected or may significantly affect

- the Combined entity’s operation in future financial years or
- the results of those operation in future financial years or
- the Combined entity’s state of affairs in future financial years.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with Australian Accounting Standards and Interpretations;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Combined entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Con Scrinis
Director

Date: 8 September 2020

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF FOS CAPITAL LTD AND FOS LIGHTING GROUP PTY LTD

I declare that, to the best of my knowledge and belief during the year ended 30 June 2020 there have been:

— no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

N. S. Benbow
Director

Dated this 8th day of September, 2020

ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

FOS Lighting Group

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of the FOS Lighting Group, consisting of the combined entities of FOS Capital Ltd, FOS Lighting Group Pty Ltd and FOS Lighting Pty Ltd (the combined entity), which comprises the combined statement of financial position as at 30 June 2020, the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the combined entity's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards 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 all entities in the combined entity 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the combined entity 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 ability of the combined entity 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 combined entity or to cease operations, or has 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.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf
This description forms part of our independent auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

N. S. Benbow
Director

Melbourne, 8 September 2020