# Marrakech Road Pty Ltd and controlled entities

ACN 165 867 372

Consolidated Special Purpose Financial Report for the year ended 28 June 2020

# Marrakech Road Pty Ltd and controlled entities Consolidated Special Purpose Financial Report for the year ended 28 June 2020

# Directors' report

The directors of Marrakech Road Pty Ltd submit herewith the financial report of Marrakech Road Pty Ltd (the company) and the consolidated entity, being the company and its controlled entities for the year ended 28 June 2020 and auditor's report thereon. In order to comply with the provisions of the *Corporations Act 2001*, the directors' report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

## Directors

**Name**

Mr Terry Andrew Sinclair
Mr John Anthony Joseph Sood
Mr Brendan Philip Boyd
Mr Stephen Fletcher Moulton

Mr Brendan Boyd and Mr John Sood have been in office since the start of the financial year to the date of this report.

Mr Terry Sinclair and Mr Stephen Moulton were appointed as directors on 14 July 2020.

## Principal activities

The consolidated entity's principal activities during the year consisted of the provision of warehousing, wharf cartage, distribution and supply chain services.

The consolidated entity had operations in Victoria, New South Wales, Queensland, Western Australia and South Australia and offered these principal activities across each region.

There have been no changes to the principal activities in the current year.

## Review of operations

For the financial year ended 28 June 2020 the consolidated entity reported a net loss after tax of $4,324,000 (2019: $789,000 loss).

## Corporate activities during the year

On 5 August 2019 the Company acquired 100% of Rocke Brothers Pty Ltd, a Melbourne based port logistics business.

## Impact of COVID-19 pandemic on operations

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity. Due to the nature of the consolidated entity's principal activities, the COVID-19 pandemic has had a negligible impact on its operation and results.

In response to COVID-19, both the Federal Government and the State Government of Victoria have implemented policies and measures with the aim of containing the virus. In an effort to contain the spread of the virus, the Victorian Government, on 2 August 2020, implemented Stage 4 restrictions in Melbourne and Stage 3 restrictions in regional Victoria with quarantine restrictions, travel restrictions, closure of businesses and other restrictive movement measures. Given the national footprint of the operations, and the essential services requirement for domestic and global supply chains to remain open, these measures have not had any material impact on the business.

The consolidated entity did not receive any financial assistance from the Federal or state governments during the financial year.

## Changes in state of affairs

There were no significant changes in the consolidated entity's state of affairs that occurred during the financial year.

## Subsequent events

The following subsequent events occurred:

(i) The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity. The impact of the COVID-19 pandemic is ongoing, and the consolidated entity will continue to adjust to the varying restrictions and progress its sales growth initiatives accordingly. To the date of this report, the COVID-19 pandemic has not had any material impact on the consolidated entity's operations or results.

In response to COVID-19, both the Federal Government and the State Government of Victoria have implemented policies and measures with the aim of containing the virus. In an effort to contain the spread of the virus, the Victorian Government, on 2 August 2020, implemented Stage 4 restrictions in Melbourne and Stage 3 restrictions in regional Victoria with quarantine restrictions, travel restrictions, closure of businesses and other restrictive movement measures. Given the national footprint of the operations, and the essential services requirement for domestic and global supply chains to remain open, these measures have no material impact on the business.

(ii) On 16 July 2020 the Company Shareholder's Agreement was amended to reflect revised shareholder terms. The revised terms have no impact on the operations of the consolidated entity.

(iii) On 30 September 2020, the termination date of the debt facility with Westpac Banking Corporation was extended to 31 December 2021.

There has not been any other matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years other than noted below.

## Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Environmental regulations

The consolidated entity's operations are regulated by environmental regulations under laws of the Commonwealth or of a State or Territory.

## Indemnification of officers and auditors

As at the date of this report, the consolidated entity has paid a premium in respect of a contract insuring the directors of the company (as named above), and all executive officers of the company and of any related body corporate against a liability incurred as such a director or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The consolidated entity has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

## Auditor's independence declaration

The auditor's independence declaration is included on page 5.

## Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the directors

Mr Terry Andrew Sinclair
Director
Melbourne, 18 November 2020

Mr Brendan Philip Boyd
Director
Melbourne, 18 November 2020

**Deloitte.**

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001
Australia

Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

The Board of Directors
Marrakech Road Pty Ltd
850 Lorimer Street
Port Melbourne, VIC 3207

18 November 2020

Dear Directors

**Marrakech Road Pty Ltd**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Marrakech Road Pty Ltd.

As lead audit partner for the audit of the financial statements of Marrakech Road Pty Ltd for the financial year ended 28 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter h Glynn

Peter Glynn
Partner
Chartered Accountants

Deloitte.

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ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
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# Independent Auditor's Report to the Members of Marrakech Road Pty Ltd

### *Opinion*

We have audited the financial report being a special purpose financial report of Marrakech Road Pty Ltd (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 28 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising 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 Company and Group's financial position as at 28 June 2020 and of their financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards to the extend described in Note 1 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 *(including Independence Standards)* (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 Company, 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 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *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.

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***Other Information***

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, 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 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 Company determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes 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 Group 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.

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- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for the audit opinion.

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A Glynn

Peter Glynn
Partner
Chartered Accountants
Melbourne, 18 November 2020

# Directors' declaration

As detailed in Note 1 to the financial statements, the company 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 company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and consolidated entity.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed, guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the director made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the directors

Mr Terry Andrew Sinclair
Director
Melbourne, 18 November 2020

Mr Brendan Philip Boyd
Director
Melbourne, 18 November 2020

# Consolidated statement of profit or loss and other comprehensive income for the year ended 28 June 2020

| | Note | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenue | 2 | 251,492 | 194,830 | - | - |
| Other income | 2 | 257 | 321 | - | 684 |
| Employee benefits expense | 2 | (64,251) | (50,685) | - | - |
| Depreciation and amortisation expense | 2 | (39,677) | (4,573) | - | - |
| Occupancy expense | | (8,715) | (36,107) | - | - |
| Finance costs | 2 | (9,145) | (1,295) | (1,083) | (878) |
| Direct warehouse and transport costs | | (69,174) | (55,548) | - | - |
| Subcontractor costs | | (55,756) | (38,869) | - | - |
| Profit/(loss) on sale of property, plant and equipment | 2 | 170 | (185) | - | - |
| Administration expense | | (9,349) | (5,472) | - | - |
| Transaction costs | | (1,087) | (2,363) | (1,087) | (2,363) |
| Change in measurement of deferred consideration | 2 | (481) | - | (481) | - |
| (Loss)/profit before tax | | (5,716) | 54 | (2,651) | (2,557) |
| Income tax benefit/(expense) | 3 | 1,392 | (843) | 535 | 89 |
| **Loss for the year** | | **(4,324)** | **(789)** | **(2,116)** | **(2,468)** |
| Other comprehensive income for the year | | - | - | - | - |
| **Total comprehensive loss for the year** | | **(4,324)** | **(789)** | **(2,116)** | **(2,468)** |

The accompanying notes form part of these financial statements.

# Consolidated statement of financial position as at 28 June 2020

| | Note | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 21(a) | 19,820 | 10,624 | 1,839 | 69 |
| Trade and other receivables | 4 | 37,034 | 27,496 | - | - |
| Current tax assets | | 246 | 1,532 | 246 | 1,532 |
| Other assets | 5 | 2,951 | 1,807 | 4 | 551 |
| **Total current assets** | | **60,051** | **41,459** | **2,089** | **2,152** |
| **Non-current assets** | | | | | |
| Other financial assets | 6 | - | - | 99,383 | 53,724 |
| Property, plant and equipment | 7 | 15,864 | 6,645 | - | - |
| Right of use assets | 8 | 173,451 | - | - | - |
| Intangible assets | 9 | 33,841 | 13,455 | - | - |
| Deferred tax assets | 10 | 8,746 | 5,800 | 612 | 668 |
| **Total non-current assets** | | **231,902** | **25,900** | **99,995** | **54,392** |
| **Total assets** | | **291,953** | **67,359** | **102,084** | **56,544** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 11 | 23,806 | 17,154 | 568 | 966 |
| Other financial liabilities | 12 | 5,333 | 1,010 | 5,333 | - |
| Lease liabilities | 13 | 30,485 | - | - | - |
| Provisions | 14 | 7,493 | 3,790 | - | - |
| Deferred revenue | 15 | 297 | - | - | - |
| Borrowings | 16 | 26,000 | 4,000 | 26,000 | 20,394 |
| **Total current liabilities** | | **93,414** | **25,954** | **31,901** | **21,360** |
| **Non-current liabilities** | | | | | |
| Other financial liabilities | 12 | - | 9,289 | - | - |
| Lease liabilities | 13 | 161,202 | - | - | - |
| Borrowings | 16 | - | 10,000 | 27,204 | 10,000 |
| Provisions | 14 | 2,926 | 3,292 | - | - |
| **Total non-current liabilities** | | **164,128** | **22,581** | **27,204** | **10,000** |
| **Total liabilities** | | **257,542** | **48,535** | **59,105** | **31,360** |
| **Net assets** | | **34,411** | **18,824** | **42,979** | **25,184** |
| **Equity** | | | | | |
| Issued capital | 17 | 52,186 | 32,275 | 52,186 | 32,275 |
| Reserves | 18 | (24,453) | (24,453) | (24,453) | (24,453) |
| Retained earnings | 19 | 6,678 | 11,002 | 15,246 | 17,362 |
| **Total equity** | | **34,411** | **18,824** | **42,979** | **25,184** |

The accompanying notes form part of these financial statements.

# Consolidated statement of changes in equity for the year ended 28 June 2020

| Consolidated | Note | Share capital | Share buy-back reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at 24 June 2018** | | 28,775 | (24,453) | 11,791 | 16,113 |
| Loss for the year | | - | - | (789) | (789) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | - | (789) | (789) |
| Issued capital | 17 | 3,500 | - | - | 3,500 |
| Share issue costs | 17 | - | - | - | - |
| **Balance at 30 June 2019** | | **32,275** | **(24,453)** | **11,002** | **18,824** |
| Loss for the year | | - | - | (4,324) | (4,324) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | - | (4,324) | (4,324) |
| Issued capital | 17 | 20,000 | - | - | 20,000 |
| Share issue costs, net of tax | | (89) | - | - | (89) |
| **Balance at 28 June 2020** | | **52,186** | **(24,453)** | **6,678** | **34,411** |

| Company | Note | Share capital | Share buy-back reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at 24 June 2018** | | 28,775 | (24,453) | 19,830 | 24,152 |
| Loss for the year | | - | - | (2,468) | (2,468) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | - | (2,468) | (2,468) |
| Issued capital | 17 | 3,500 | - | - | 3,500 |
| Share issue costs | 17 | - | - | - | - |
| **Balance at 30 June 2019** | | **32,275** | **(24,453)** | **17,362** | **25,184** |
| Loss for the year | | - | - | (2,116) | (2,116) |
| Other comprehensive income for the year | | - | - | - | - |
| Total comprehensive loss for the year | | - | - | (2,116) | (2,116) |
| Issued capital | 17 | 20,000 | - | - | 20,000 |
| Share issue costs, net of tax | | (89) | - | - | (89) |
| **Balance at 28 June 2020** | | **52,186** | **(24,453)** | **15,246** | **42,979** |

The accompanying notes form part of these financial statements.

# Statement of cash flows for the year ended 28 June 2020

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | Note | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 274,082 | 215,904 | - | - |
| Payments to suppliers and employees | | (225,666) | (214,937) | (1,677) | (4,257) |
| Cash generated from operations | | 48,416 | 967 | (1,677) | (4,257) |
| Interest received | | 33 | 117 | - | 27 |
| Interest and other costs of finance paid | | (8,891) | (1,291) | (822) | (878) |
| Tax receipts/(paid) | | 588 | (3,950) | 548 | (2,362) |
| Net cash provided by/(used in) by operating activities | 21(b) | 40,146 | (4,157) | (1,951) | (7,470) |
| **Cash flows from investing activities** | | | | | |
| Net cash paid for business acquisitions | | (36,555) | (12,596) | (38,487) | (16,078) |
| Net amount received from related parties | | - | - | 10,335 | 3,027 |
| Payment for property, plant and equipment | | (2,763) | (714) | - | - |
| Proceeds from sale of property, plant and equipment | | 2,296 | 3,455 | - | - |
| Net cash used in investing activities | | (37,022) | (9,855) | (28,152) | (13,051) |
| **Cash flows from financing activities** | | | | | |
| Repayment of lease liabilities | | (25,801) | - | - | - |
| Proceeds from issue of equity | | 20,000 | - | 20,000 | - |
| Share issue transaction costs | | (127) | - | (127) | - |
| Proceeds from issue of borrowings | | 15,000 | - | 15,000 | - |
| Repayment of borrowings | | (3,000) | (9,151) | (3,000) | (4,000) |
| Net cash provided by/(used in) financing activities | | 6,072 | (9,151) | 31,873 | (4,000) |
| **Net increase/(decrease)in cash and cash equivalents** | | **9,196** | **(23,163)** | **1,770** | **(24,521)** |
| **Cash and cash equivalents at the beginning of the financial year** | | **10,624** | **33,787** | **69** | **24,590** |
| **Cash and cash equivalents at the end of the year** | 21(a) | **19,820** | **10,624** | **1,839** | **69** |

The accompanying notes form part of these financial statements.

# 1. Summary of accounting policies

Marrakech Road Pty Ltd (the "company") is a proprietary company incorporated and domiciled in Australia. The financial report of the company for the year ended 28 June 2020 comprises the company and its subsidiaries (together referred to as the "consolidated entity" or "the Group"). The comparatives included throughout this report are for the year ended 30 June 2019.

The consolidated entity's principal activities are the provision of warehousing, wharf cartage, distribution and supply chain services.

The financial report was authorised for issue by the directors on 18 November 2020.

**Financial reporting framework**

The company 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 the 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*.

For the purposes of preparing financial statements, the consolidated entity is a for-profit entity.

**Statement of compliance**

The financial statements have been prepared in accordance with the *Corporations Act 2001*, the recognition and measurement requirements specified by all Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 "Presentation of Financial Statements", AASB 107 "Cash Flow Statements", AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors" and AASB 1054 "Australian Additional Disclosures".

**Basis of preparation**

The financial statements have been prepared on the historical cost basis other than certain financial instruments, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial statement are rounded off to the nearest thousand dollars, unless otherwise stated.

**Working capital deficiency**

The financial report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At reporting date the consolidated entity reported a deficiency in current assets compared to current liabilities of $33,363,000 due to:

(i) the classification of external borrowings of $26,000,000 which were classified as current as the debt facility agreement as at 28 June 2020 was due to expire within the coming 12 months. Subsequent to year end, the term of the debt facility was extended until 31 December 2021 at which time $14,500,000 of debt became non-current;

(ii) the adoption of AASB 16 *Leases* which has resulted in lease liabilities of $30,485,000 being classified as current whilst the corresponding assets have been classified as non-current. The payment of these current liabilities will continue to be paid from operating cash flows.

The parent entity is party to the Deed of Cross Guarantee which all group entities are party to.

At the date of this report and having considered the above factors the Directors are confident that the company will be able to continue as a going concern.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including: the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Company, other vote holders or other parties; rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders 'meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the Profit or Loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Accounting policies of all controlled entities are aligned with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

(b) New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins on or after 1 July 2019.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the entity include:

- AASB 16 *Leases*
- Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatment

## AASB 16 – *Leases*

The Group has adopted the new lease accounting standard AASB 16 *Leases* from 1 July 2019. AASB 16 introduces significant changes to lessee accounting by removing the classification of leases as either operating or finance leases as required by AASB 117 and instead introduces a single lessee accounting model.

Applying that model, a lessee is required to:

- Recognise assets and liabilities for all leases with a term of more than 12 months in the Consolidated Statement of Financial Position initially measured at the present value of the future lease payments, unless the underlying asset is of low value or the leasing arrangement is short term.
- Recognise amortisation of lease assets separately from interest on lease liabilities in the Statement of Profit or Loss.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Consolidated Cash Flow Statement.

The Group has elected to apply the modified retrospective approach for leases. For leases, which were classified as operating leases under AASB 117, the Group has recognised right-of-use assets and lease liabilities as at the transition date (1 July 2019). The Group has reclassified assets previously classified as finance leases and property make good assets on the adoption date which were previously classified as property, plant & equipment.

The effect as at 1 July 2019 of the recognition of the new right-of-use assets and lease liabilities is disclosed below:

| | **1 July 2019 ($'000)** |
|---|---|
| Increase in right of use assets | 130,331 |
| Increase in finance lease receivable | 549 |
| Decrease in assets from property, plant & equipment (transferred to right-of-use assets) | nil |
| Increase in lease liabilities – current | 24,667 |
| Increase in lease liabilities – non-current | 115,671 |
| Decrease in lease straight line liability | 9,458 |
| Impact on retained earnings | nil |
| | |
| The effect for the year ended 28 June 2020 was to: | |
| Increase in depreciation and amortisation expense | (32,534) |
| Increase in finance costs | (7,435) |
| Decrease in occupancy, material handling equipment & fleet costs (lease rentals) | 36,272 |
| Impact on reported loss before tax for the year | (3,697) |

The application of AASB 16 has an impact on the consolidated statement of cash flows of the Group. Under AASB 16, lessees must present:

- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities
- cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by AASB 107 (the Group has opted to include interest paid as part of financing activities)
- cash payments for the principal portion for a lease liability, as part of financing activities.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash used by operating activities has decreased by $28,344,000 being the lease payments net of the interest expense component, and net cash used in financing activities has increased by the same amount.

The adoption of AASB 16 did not have an impact on net cash flows.

**Interpretation 23 Uncertainty over Income Tax Treatments and AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatment**

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings; and
  - if no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

As there were no uncertain tax positions, the adoption of this Standard did not have any material impact on the financial statements.

**New and revised IFRS Standards in issue but not yet effective**

At the date of authorization of the financial statements, the Group has not applied the following revised and new Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

| **Standard/Amendment** | **Effective for annual reporting periods beginning on or after** |
|---|---|
| AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* | 1 January 2020 |
| AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* | 1 January 2020 |
| AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* | 1 January 2020 |
| AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current* | 1 January 2022 |
| AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments* | 1 January 2022 |

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments at call. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Revenue recognition

In general, revenue is recognised when the entity has transferred control to the buyer.

Revenue from services provided is recognised over the period of service and / or in accordance with agreed contractual terms in the period in which the service is provided.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Dividend income is recognised when the Shareholder's right to receive payment has been established.

(e) Financial instruments

Recognition and Derecognition
Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification of Financial assets
Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- 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.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Initial measurement of financial assets
Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs.

Subsequent measurement of financial assets
For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI
- Financial assets at FVTPL

(i) Amortised cost and effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

(ii) Debt instruments at fair value through other comprehensive income (Debt FVTOCI)
Debt FVTOCI initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss.

(iii) Equity instruments at fair value through other comprehensive income (Equity FVTOCI)
Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not be reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

(iv) Financial assets at fair value through profit or loss (FVTPL)
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line.

Impairment of financial assets
The entity recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Trade and other receivables
The company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

Financial liabilities and Equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities
Financial liabilities at FVTPL
Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

Financial liabilities measured subsequently at amortised cost
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

(f) Goods and services tax

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 cash flow statement 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.

(g) Impairment of assets

At each reporting date, the company 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 (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(h) Income tax

The Company is part of a tax-consolidated group under Australian taxation law, of which Marrakech Road Pty Limited is the head entity. The Marrakech Road Pty Limited tax consolidated group was formed on 1 July 2016. As a result, Marrakech Road Pty Ltd is subject to income tax through its membership of the tax-consolidated group. The consolidated current and deferred tax amounts for the tax-consolidated group are allocated to the members of the tax-consolidated group (including Marrakech Road Pty Ltd) using the 'separate taxpayer within group' approach, with deferred taxes being allocated by reference to the carrying amounts in the financial statements of each member entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits arising from this allocation process are then accounted for as immediately assumed by the head entity, as under Australian taxation law the head entity has the legal obligation (or right) to these amounts.

Entities within the tax-consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of this agreement, Marrakech Road Pty Ltd and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the net taxable profit or loss of the entity and the current tax rate. Amounts owing from or to the head entity in accordance with the tax sharing agreement are recognised as an income tax or revenue and inter-company receivables or payables. Accordingly, the amount arising under the tax funding arrangement for each period is equal to the tax liability or asset assumed by the head entity for that period and no contribution from (or distribution to) equity participants arises in relation to income taxes.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that the Company's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

*Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date.

*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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such 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.

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 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 company 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 company intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(i) 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 employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. The expected cost of short-term employee benefits in the form of compensated absences is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Liabilities recognised in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to reporting date.

The consolidated entity recognises a provision when a bonus is payable in accordance with the employee's contract of employment or approved by the board as part of a short-term incentive arrangement in the period of service and the amount can be reliably measured.

(j) Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(k) Leased Assets

**Group as lessee**
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The right-of-use asset is subsequently amortised using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment with the exception that they factor in lease renewals where relevant. In addition, the right-of-use assets are periodically reduced by impairment losses in accordance with AASB 136 Impairment of Assets, if any, and adjusted for certain remeasurements of the lease liability.

*Lease liabilities*
The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate as the discount rate. The discount rate is generally calculated using incremental borrowing rates for the specific lease terms and currencies. The weighted average incremental borrowing rate used to calculate the lease liabilities as of 1 July 2019 was 4.25%. Lease liabilities are disclosed as such in the Statement of Financial Position to calculate the lease liabilities as of 1 July 2019 was 4.25%. Lease liabilities are disclosed as such in the Statement of Financial Position.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in substance fixed payments less any lease incentives
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement rate
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- payment of penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

The lease liability is measured at amortised cost using the effective interest method. It will be remeasured when there is a change in index rate for future lease payments, a change in the Group's estimated amount payable under a residue value guarantee or changes in the Group's assessment of probabilities of exercising a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustment during the period presented.

***Policies applicable prior to 1 July 2019***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Group as lessee**

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. For assets acquired, depreciation is calculated either on a diminishing value or straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Any new additions are depreciated on a straight line basis. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(l) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 12 Income Taxes and AASB 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with AASB 2 Share-Based Payments at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired, and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

(m) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

*Property, plant and equipment*

Useful lives and residual value of property, plant and equipment are reviewed annually. Judgement is applied in determining the useful lives of property, plant and equipment. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

*Employee entitlements*

Management judgement is applied in determining the following key assumptions used in the calculation of employee entitlements at reporting date:

- future increases in salaries and wages;
- future on cost rates; and
- experience of employee departures and period of service.

*Provision for doubtful debts*

Management's judgement is applied in determining the provision for doubtful debts in accordance with note 1(e).

*Classification of preference shares*

Management's judgement is applied in determining whether there is any obligation for the Company to deliver cash or another financial asset as part of the preference share arrangement.

Right to use asset useful life and lease term
Extension options are considered in the lease term when measuring the lease liability when the option to extend the lease is reasonably certain. These are used to maximise operational flexibility in terms of managing the assets used in the entity's operations. The extension and termination options held are exercisable only by the entity and not by the respective lessor.

*Impairment of assets*

Determining whether the goodwill is impaired requires an estimation of the value in use of the cash generating unit to which the goodwill is associated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Where the actual cash flows are less than expected, a material impairment loss may arise.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2020 \$'000** | **2019 \$'000** | **2020 \$'000** | **2019 \$'000** |

## 2. Loss for the year

Loss for the year has been arrived at after charging / (crediting):

| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
|---|---|---|---|---|
| Revenue: | | | | |
| Warehousing and transport services | (250,634) | (194,636) | - | - |
| Other services | (858) | (194) | - | - |
| | (251,492) | (194,830) | - | - |
| Other income: | | | | |
| Interest revenue | (53) | (117) | - | - |
| Other income | (204) | (204) | - | (684) |
| | (257) | (321) | - | (684) |
| Finance costs: | | | | |
| Bank fees | 24 | 19 | 6 | 5 |
| Amortisation of borrowing costs | 87 | 50 | 84 | 46 |
| Interest | 1,567 | 1,147 | 993 | 827 |
| Interest expense – leases (refer note 1(b)) | 7,435 | - | - | - |
| Financing charges | 32 | 79 | - | - |
| | 9,145 | 1,295 | 1,083 | 878 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 7,143 | 4,573 | - | - |
| Amortisation of right of use assets (refer note 1(b)) | 32,534 | - | - | - |
| | 39,677 | 4,573 | - | - |
| Loss/(profit) on sale of plant and equipment | (170) | 185 | - | - |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2020 $'000** | **2019 $'000** | **2020 $'000** | **2019 $'000** |

## 2. Loss for the year (continued)

Loss for the year has been arrived at after charging / (crediting):

| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Employee benefits expense: | | | | |
| Post-employment benefits to defined contribution plans | 4,352 | 3,257 | - | - |
| Other employee benefits | 59,899 | 47,428 | - | - |
| | 64,251 | 50,685 | - | - |
| Change in measurement of deferred consideration: | | | | |
| Remeasurement of deferred contingent consideration (refer note 23) | (19) | - | (19) | - |
| Prior period acquisition consideration remeasurement | 500 | - | 500 | - |
| | 481 | - | 481 | - |

## 3. Income tax

**Prima facie tax payable**

The income tax expense for the year can be reconciled to accounting profit as follows:

| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| (Loss)/profit before tax | (5,716) | 54 | (2,651) | (2,557) |
| Income tax (benefit)/expense at 30% (2019: 30%) | (1,715) | 16 | (795) | (767) |
| Effect of expenses that are not deductible in determining taxable profit | 367 | 824 | 337 | 675 |
| (Over)/under provision for tax in prior year | (56) | 3 | - | 3 |
| Other | 12 | - | (77) | - |
| **Income tax (benefit)/expense** | (1,392) | 843 | (535) | (89) |

## 4. Trade and other receivables

| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Trade receivables | 36,636 | 26,169 | - | - |
| Allowance for doubtful debts | (179) | (17) | - | - |
| | 36,457 | 26,152 | - | - |
| Other receivables | 577 | 1,344 | - | - |
| | 37,034 | 27,496 | - | - |

## 5. Other Assets

| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Accrued income | 1,436 | 318 | - | - |
| Prepayments | 1,472 | 926 | - | - |
| Other assets | 43 | 563 | 4 | 551 |
| | 2,951 | 1,807 | 4 | 551 |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |

## 6. Other financial assets

| | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|
| Investments in controlled entities | - | - | 68,717 | 24,878 |
| Loans to controlled entities | - | - | 30,666 | 28,846 |
| | - | - | 99,383 | 53,724 |
| Current | - | - | - | - |
| Non-current | - | - | 99,383 | 53,724 |
| | - | - | 99,383 | 53,724 |

## 7. Property, plant and equipment

| | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|
| **Plant and equipment** | | | | |
| At cost | 26,528 | 14,935 | - | - |
| Accumulated depreciation | (10,664) | (8,290) | - | - |
| **Total property, plant and equipment** | 15,864 | 6,645 | - | - |

Useful lives of 3-15 years are used in the calculation of depreciation for plant and equipment.

## 8. Right of use assets

| | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|
| **Property** | | | | |
| At cost (refer note 1(b)) | 176,326 | - | - | - |
| Accumulated depreciation | (26,993) | - | - | - |
| **Total property** | 149,333 | - | - | - |
| **Plant and equipment** | | | | |
| At cost (refer note 1(b)) | 29,943 | - | - | - |
| Accumulated depreciation | (5,825) | - | - | - |
| Total plant and equipment | 24,118 | - | - | - |
| **Total right of use assets** | 173,451 | - | - | - |

## 9. Intangible assets

| | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|
| **Software** | | | | |
| At cost | 3,486 | 2,633 | - | - |
| Accumulated depreciation | (2,708) | (2,293) | - | - |
| **Total software** | 778 | 340 | - | - |
| Goodwill (refer note 23) | 33,063 | 13,115 | - | - |
| **Total intangible assets** | 33,841 | 13,455 | - | - |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2020 $'000** | **2019 $'000** | **2020 $'000** | **2019 $'000** |

## 10. Deferred tax assets

| | | | | |
|---|---|---|---|---|
| Temporary differences | 8,746 | 5,800 | 612 | 668 |
| | 8,746 | 5,800 | 612 | 668 |

## 11. Trade and other payables

| | | | | |
|---|---|---|---|---|
| Trade payables | 10,810 | 9,469 | - | - |
| Goods and services tax (GST) payable | 869 | 785 | - | - |
| Other accruals | 12,127 | 6,900 | 568 | 966 |
| | 23,806 | 17,154 | 568 | 966 |

## 12. Other financial liabilities

| | | | | |
|---|---|---|---|---|
| Lease incentive (refer note 1(b)) | - | 9,500 | - | - |
| Other financial liabilities | - | 799 | - | - |
| Deferred consideration (refer note 23) | 5,333 | - | 5,333 | - |
| | 5,333 | 10,299 | 5,333 | - |
| Current | 5,333 | 1,010 | 5,333 | - |
| Non-current | - | 9,289 | - | - |
| | 5,333 | 10,299 | 5,333 | - |

## 13. Lease liabilities

| | | | | |
|---|---|---|---|---|
| Lease liabilities associated with property assets (refer note 1(b)) | 166,451 | - | - | - |
| Lease liabilities associated with equipment assets (refer note 1(b)) | 25,236 | - | - | - |
| | 191,687 | - | - | - |
| Current | 30,485 | - | - | - |
| Non-current | 161,202 | - | - | - |
| | 191,687 | - | - | - |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | **2020 $'000** | **2019 $'000** | **2020 $'000** | **2019 $'000** |

## 14. Provisions

| | | | | |
|---|---|---|---|---|
| Employee benefits | 7,622 | 5,587 | - | - |
| Make good provision | 2,647 | 1,383 | - | - |
| Onerous lease provision on short term lease | 150 | - | - | - |
| Other provisions | - | 112 | | |
| | 10,419 | 7,082 | - | - |
| Current | 7,493 | 3,790 | - | - |
| Non-current (i) | 2,926 | 3,292 | - | - |
| | 10,419 | 7,082 | - | - |

(i) non-current proportion of employee benefits and make good provisions

## 15. Deferred revenue

| | | | | |
|---|---|---|---|---|
| Arising from warehousing contracts | 297 | - | - | - |
| | 297 | - | - | - |

## 16. Borrowings

| | | | | |
|---|---|---|---|---|
| Related party loans - unsecured | - | - | 27,204 | 16,394 |
| External borrowings – secured (i) | 26,000 | 14,000 | 26,000 | 14,000 |
| | 26,000 | 14,000 | 53,204 | 30,394 |
| Current | 26,000 | 4,000 | 26,000 | 20,394 |
| Non-current – secured | - | 10,000 | 27,204 | 10,000 |
| | 26,000 | 14,000 | 53,204 | 30,394 |

(i) External borrowings are classified as current due to the debt facility as at year end expiring on 31 July 2020 in addition to a loan covenant not being compliant at year end. Subsequent to year end the debt facility has been renegotiated and the term of the debt facilities have been extended until 31 December 2021.

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |

## 17. Issued capital & preference shares

| | | | | |
|---|---|---|---|---|
| 1,504,738 fully paid ordinary shares (2019: 1,504,738) | 4,960 | 4,960 | 4,960 | 4,960 |
| 1,400,404 preference shares issued (2019: 973,194) | 48,478 | 28,478 | 48,478 | 28,478 |
| Share issue costs | (1,252) | (1,163) | (1,252) | (1,163) |
| Balance at end of the year | 52,186 | 32,275 | 52,186 | 32,275 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Consolidated and company | | Consolidated and company | |
| | No. '000 | $'000 | No. '000 | $'000 |
| **Fully paid ordinary and preference shares** | | | | |
| Balance at beginning of the year | 2,478 | 32,275 | 2,433 | 28,775 |
| Ordinary shares issued/(cancelled) | - | - | 45 | 3,500 |
| Preference shares issued | 427 | 20,000 | - | - |
| Share issue costs, net of tax | - | (89) | - | - |
| Balance at end of the year | 2,905 | 52,186 | 2,478 | 32,275 |

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

## 18. Share buyback reserve

| | | | | |
|---|---|---|---|---|
| Share buyback reserve (i) | 24,453 | 24,453 | 24,453 | 24,453 |

Effective 1 August 2016, the company undertook a selective share buyback whereby the purchase price for $4,062,000 fully paid ordinary shares totaled $28,515,000. An amount of $4,062,000 was applied against the share capital of Marrakech Road Pty Ltd with the remainder allocated to the share buyback reserve and amounted to $24,453,000.

## 19. Retained earnings

| | | | | |
|---|---|---|---|---|
| Balance at beginning of the year | 11,002 | 11,791 | 17,362 | 19,830 |
| Net loss for the period | (4,324) | (789) | (2,116) | (2,468) |
| Balance at the end of the year | 6,678 | 11,002 | 15,246 | 17,362 |

## 20. Controlled Entities

Details of the controlled entities at the end of the reporting period are as follows:

| Name of entity | Country of incorporation | Ownership interest % | |
|---|---|---|---|
| | | 2020 | 2019 |
| **Parent entity** | | | |
| Marrakech Road Pty Ltd | Australia | 100 | 100 |
| **Controlled entities** | | | |
| Hoffmann SPV Pty Ltd | Australia | 100 | 100 |
| R Hoffmann & Co Pty Ltd | Australia | 100 | 100 |
| Kagan SPV Pty Ltd | Australia | 100 | 100 |
| Kagan Bros. Storage Pty Ltd | Australia | 100 | 100 |
| Kagan Bros. (VIC) Pty Ltd | Australia | 100 | 100 |
| Silk Contract Logistics Pty Ltd | Australia | 100 | 100 |
| Marrakech Lane Pty Ltd | Australia | 100 | 100 |
| Container Swinglift Services Pty Ltd | Australia | 100 | 100 |
| Flincept Pty Ltd | Australia | 100 | 100 |
| L & M Scott Haulage Pty Ltd | Australia | 100 | 100 |
| Rocke Brothers Pty Ltd | Australia | 100 | - |

The company and all of its wholly owned subsidiaries have entered into a deed of cross guarantee with Marrakech Road Pty Ltd pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to individually prepare and lodge audited financial statements. This deed of cross guarantee was entered into on 22 June 2015. All wholly owned subsidiaries have a financial year ended 28 June 2020 (prior year: 30 June 2019).

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |

## 21. Cash and cash equivalents

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

For the purposes of the cash flow statement, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 19,820 | 10,624 | 1,839 | 69 |

## 21. Cash and cash equivalents (continued)

### (b) Reconciliation of (loss)/profit for the period to net cash flows from operating activities

| | Consolidated 2020 $'000 | Consolidated 2019 $'000 | Company 2020 $'000 | Company 2019 $'000 |
|---|---|---|---|---|
| Loss for the period | (4,324) | (789) | (2,116) | (2,468) |
| (Gain)/loss on sale of property, plant and equipment | (170) | 185 | - | - |
| Non-cash net interest expense/(income) | 234 | - | 222 | (657) |
| Remeasurement of deferred consideration liability | 481 | - | 481 | - |
| Depreciation of non-current assets | 7,143 | 4,573 | - | - |
| Amortisation right-of-use assets | 32,534 | - | - | - |
| Changes in net assets and liabilities, net of effects from acquisition of businesses: | | | | |
| (Increase)/decrease in assets: | | | | |
| Trade and other receivables | (1,159) | 1,823 | - | - |
| Other current assets | 53 | (1,180) | 515 | - |
| Deferred tax assets | (2,527) | (419) | 95 | 237 |
| Increase/(decrease) in liabilities: | | | | |
| Trade and other payables | 5,660 | (5,711) | (614) | (1,894) |
| Current tax amounts | 1,287 | (2,688) | (534) | (2,688) |
| Provisions | 637 | 15 | - | - |
| Deferred revenue | 297 | (186) | - | - |
| Other liabilities | - | 220 | - | - |
| Net cash (used in)/provided by operating activities | 40,146 | (4,157) | (1,951) | (7,470) |

## 22. Remuneration of auditors

| | Consolidated 2020 | Consolidated 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|
| Audit of the financial statement | 171,000 | 109,700 | - | - |
| Tax compliance | 115,052 | 49,000 | - | - |
| Tax advisory services | 45,408 | 23,000 | - | - |
| Corporate advisory services | 55,000 | 74,000 | - | - |
| | 386,460 | 255,700 | - | - |

The auditor is Deloitte Touche Tohmatsu

# 23. Business Combinations

## 23.1 Business acquired

On 5 August 2019, Marrakech Road Pty Ltd acquired Rocke Brothers Pty Ltd. Transaction costs of $1.087m have been recognised in the loss for the year. At the date of acquisition, the fair value of assets and liabilities acquired are set out below:

| | **Total 2020 $'000** |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 1,932 |
| Trade and other receivables | 8,853 |
| Other assets | 892 |
| **Total current assets at fair value** | **11,677** |
| **Non-current assets** | |
| Property, plant and equipment | 17,174 |
| Right of Use assets | 5,271 |
| Deferred tax assets | 381 |
| **Total non-current assets at fair value** | **22,826** |
| **Total assets** | **34,503** |
| **Liabilities** | |
| **Total liabilities** | |
| Trade and other payables | 3,395 |
| Provisions | 1,946 |
| Lease liabilities | 5,271 |
| **Total liabilities at fair value** | **10,612** |
| **Total identifiable net assets acquired at fair value** | **23,891** |

## 23.2 Goodwill arising on acquisition

| | |
|---|---|
| Consideration transferred | 32,487 |
| Deferred consideration | 6,000 |
| Deferred contingent consideration | 5,352 |
| Less: fair value of identifiable net assets acquired | (23,891) |
| Goodwill arising on acquisition | **19,948** |

| | |
|---|---|
| Net cash outflow as presented in the cash flow statement: | |
| Cash consideration | 38,487 |
| Less: cash and cash equivalents on acquisition date | (1,932) |
| | **36,555** |

## 23. Business Combinations (continued)

The transaction includes contingent deferred consideration of up to $6,000,000 depending on the value realised by the principal shareholders of Marrakech Road in the event that the directors enter into a contractually binding liquidity event (exit) prior to 30 June 2022 and complete the exit prior to 31 December 2022.

The payment is not contingent on on-going employment or services of the vendors in the business and accordingly is considered by management to be akin to consideration for the Enterprise (rather than remuneration) under AASB 3 'Business Combinations'.

To determine the fair value of the deferred contingent consideration management has prepared a Monte Carlo valuation model and have arrived at a valuation of $5.35m (remeasured to $5.33m at reporting date). The model simulates a series of potential exit multiples, timings and pay-offs to the vendor using a random normal distribution.

The primary model assumptions are that on acquisition of Rocke Brothers Pty Ltd the Marrakech Road combined group had a EV valuation of greater than the highest hurdle and that the probability of a liquidity events in FY20, FY21 and FY22 were 0%, 33.3% and 66.6% accordingly.

## 24. Contingent liabilities

During the year a subsidiary of the company was issued a notice of demand from a customer claiming alleged damages caused to the customer's product stored at one of the subsidiary company's warehousing facilities. The company, in consultation with an external expert advice, believes the claim is spurious and is without substance. The claim has been rejected by the company's insurer and will be vigorously defended. No provision for liability has been recognised in respect of this matter.

## 25. Subsequent Events

The following subsequent events occurred:

(i) The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity. The impact of the COVID-19 pandemic is ongoing, and the consolidated entity will continue to adjust to the varying restrictions and progress its sales growth initiatives accordingly. To the date of this report, the COVID-19 pandemic has not had any material impact on the consolidated entity's operations or results.

In response to COVID-19, both the Federal Government and the State Government of Victoria have implemented policies and measures with the aim of containing the virus. In an effort to contain the spread of the virus, the Victorian Government, on 2 August 2020, implemented Stage 4 restrictions in Melbourne and Stage 3 restrictions in regional Victoria with quarantine restrictions, travel restrictions, closure of businesses and other restrictive movement measures. Given the national footprint of the operations, and the essential services requirement for domestic and global supply chains to remain open, these measures have no material impact on the business.

(ii) On 16 July 2020 the Company Shareholder's Agreement was amended to reflect revised shareholder terms. The revised terms have no impact on the operations of the consolidated entity.

(iii) On 30 September 2020, the termination date of the debt facility with Westpac Banking Corporation was extended to 31 December 2021.

There has not been any other matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## 26. Additional company information

Marrakech Road Pty Ltd is a proprietary company, incorporated and operating in Australia.

**Registered office**

Unit 3, 850 Lorimer Street,
Port Melbourne Vic 3207

**Principal places of business**

Unit 3, 850 Lorimer Street,
Port Melbourne Vic 3207

Lot 2, 29 Alick Road,
Brooklyn Vic 3012