

23 December 2019

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**Market Update**

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**Re-Lodgement of Interim Financial Report**

FE Investments Group Limited (**FEIG**) refers to the Interim Financial Report as at 30 September 2019 (**Interim Report**), lodged with the ASX on 6 December 2019.

The Contents page advised the Reports of the Auditor could be found at the conclusion of the Interim Report. Included at this section should have been the Auditors Independence Declaration under Section 307C of the Corporation Act 2001 (Independence Declaration). Unfortunately, due to circumstances, no fault of FEIG, the Independence Declaration was inadvertently omitted.

Please find **attached** the Interim Report re-lodged in the same form as that on the 6th December 2019 but with the inclusion of the Independence Declaration.

**Credit Rating**

As at 19 December 2019, S&P's report for the Company's NZ subsidiary FE Investments Limited (**FEI**) has lowered its rating to *CCC/C outlook developing* from *B/B stable* in October 2019. The rating has been lowered due to the potential impact on FEI's capitalisation by two large loan receivables, being two hotel property developments and an exposure to a client, Tomizone. However, FEI maintains sufficient liquidity to deal with near-term pressures. In addition, FEIG raised additional capital of A\$3.3m in September 2019 to further strengthen its capital basis.

The change in FEI's S&P rating is disappointing given the work that has been done by FEI Management to restructure the Company's Tomizone exposure and the conservative approach adopted when valuing the Company's 2 hotel development projects. Additionally, FEI has made progress on the Alberton project with 2 of the remaining 3 units now being unconditionally sold with settlement due in mid- January 2020. The View West project has now settled and is being marketed for sale in early 2020. The sale of these projects will further strengthen the Company's capital and liquidity position while also achieving the Company's target of significantly reducing property exposures.

This Announcement was authorised to be given to the ASX by the FEIG Board.



**Marcus Ritchie**  
**Chief Executive Officer**  
[marcus@feigroup.com.au](mailto:marcus@feigroup.com.au)  
1800 458 717



# FE Investments Group Limited

## Half Year Report

30 September 2019



## Highlights - Appendix 4D

Results for announcement to the market for FE Investments Group Limited

Extracts from Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	Half-year Ended 30-Sep-19 \$000 NZD	Half-year Ended 30-Sep-18 \$000 NZD	Movement \$000 NZD	Movement %
Total group income	6,409	7,808	(1,399)	-18%
Total expenses excl. taxes	(7,364)	(9,006)	1,642	-18%
<b>Net loss from ordinary activities before tax attributable to members</b>	<b>(955)</b>	<b>(1,198)</b>	<b>243</b>	<b>-20%</b>
Income Tax	257	(160)	417	
Foreign currency gains	59	7	52	
<b>Net comprehensive loss for the period attributable to members</b>	<b>(639)</b>	<b>(1,351)</b>	<b>1,471</b>	<b>-53%</b>
Basic EPS (cents per share)	(0.686)	(1.477)		
Diluted EPS (cents per share)	(0.686)	(1.477)		

### Dividends Paid and Proposed

There were no dividends paid, recommended or declared during this half year.

Net Tangible Assets per Share	As at 30-Sep-19 NZD	As at 31-Mar-19 NZD
Net tangible assets per share	0.061	0.057

### Brief Explanation of Revenue & Net Profit

Please refer to the Directors' Report.

### Control Gained or Lost over Entities in the Half-year

Not applicable to the group for current financial period.

### Dividend Reinvestment Plans

Not applicable to the group for current financial period.

### Investments in Associates and Joint Ventures

FEIG does not hold any interests in associates and joint ventures.

### Foreign Entities

Foreign entities comply with Australian Accounting Standards.

### Audit Review

The consolidated financial statements within the Interim Financial Report for the half-year ended 30 September 2019 have been reviewed by William Buck.

### Attachments

The half-year financial report of FE Investments Group Limited for the period ending 30 September 2019 is attached.



# Contents

Item	Page
<b>Corporate Directory</b>	3
<b>Directors Report</b>	4
<b>Financial Report</b>	
Condensed consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Condensed consolidated Statement of Financial Position	8
Condensed consolidated Statement of Changes in Equity	9
Condensed consolidated Statement of Cash Flows	10
Notes to the Financial Statements	11
<b>Directors' Declaration</b>	39
<b>Lead Independent Auditor's Review Report</b>	40



## Corporate Directory

FE Investments Group Limited shares are listed for quotation on the Australian Securities Exchange (ASX) under the ticker code "FEI".

<b>ABN</b>	72 107 745 095	
<b>Registered Office</b>	<b>Australia</b> Level 13, 111 Elizabeth Street, Sydney NSW 2000 1800 458 717	
<b>Principal Place of Business</b>	<b>Australia</b> Level 13, 111 Elizabeth Street, Sydney NSW 2000 1800 458 717  <b>New Zealand</b> Level 15, 66 Wyndham Street, Auckland 1010 +64 9 359 9445	
<b>Share Register</b>	<b>Link Market Services Ltd</b> Level 12, 680 George Street, Sydney NSW 2000 1300 554 474 / +61 2 8280 7100	
<b>Directors</b>	<b>Campbell NEWMAN</b>	Independent Chairman (appointed 28/08/19)
	<b>Paul FOX</b>	Non-Executive Director (appointed 28/08/19)
	<b>Thatt Kiong (TK) SHIM</b>	Executive Director (resigned 28/11/19)
	<b>Cook HUANG</b>	Non-Executive Director
	<b>Fang SUN</b>	Non-Executive Director (alternate is Mr McKenzie)
	<b>Jeff MCKENZIE</b>	Alternate Director (appointed 01/09/19)
	<b>Marcus RITCHIE</b>	Executive Director (resigned 24/09/19)
	<b>Anthony LALLY</b>	Non-Executive Director (resigned 24/09/19)
	<b>Maxwell James GREEN</b>	Independent Chairman (resigned 24/09/19)
<b>Group Chief Executive Officer</b>	<b>Marcus RITCHIE</b>	
<b>Company Secretary</b>	<b>Eryn KESTEL</b>	
<b>Solicitor</b>	<b>Australia</b> Ash Street Partners Pty Limited Level 21, 1 York Street, Sydney NSW 2000, Australia  <b>New Zealand</b> Stace Hammond Level 17, 34 Shortland Street, Auckland 1010, New Zealand	
<b>Auditor</b>	<b>William Buck Accountants and Advisors</b> Level 29, 66 Goulburn Street, Sydney NSW 2000	



## Directors Report

HY20 shows business lending growth has accelerated and improved financial results.

The Directors present their report together with the consolidated financial statements of FE Investments Group Limited and its subsidiaries (collectively the "Group"/"FEIG") for the half year ended 30 September 2019 and the auditor's review report thereon.

### Principal Activities

FEIG is listed on ASX, as a specialist financial institution offering deposit taking and business lending in New Zealand and Australia in the SME sector. The Group specialises in business lending and leasing/financing of equipment and associated services in Australia and New Zealand.

The Group's financing products include equipment and technology leasing solutions, term loans, working capital facilities, trade finance, stock financing and discounting facilities. The Group also provides funding for some property developments.

FE Investments Limited ("FEI"), its wholly owned subsidiary in New Zealand, is a Non-Bank Deposit Taker with a licence issued by the Reserve Bank of New Zealand. FEI offers and accepts terms deposits from the New Zealand public. FEIG's subsidiary also holds an Australian Financial Services Licence in Australia.

### Review of Business (Half Year)

This report is for FEIG results for the six months ended 30 September 2019 ("Half Year"). Figures are reported in thousands in New Zealand Dollars.

FEIG generated a Half Year a Normalised profit before impairment charges and fair value adjustments of \$762,000, from a HY18 loss of (\$1,124,000) which is a significant improvement of \$1,886,000 (+168%) on a comparable basis. The company has based lined historical impairments and fair value property development adjustments totalling \$1,401,000, primarily driven by cap rate movements affecting the underlying property developments. The total comprehensive loss for the period is (\$639,000), which is an improvement of 49% of the loss in the prior period of (\$1,351,000).

The improvement in the result was driven by:

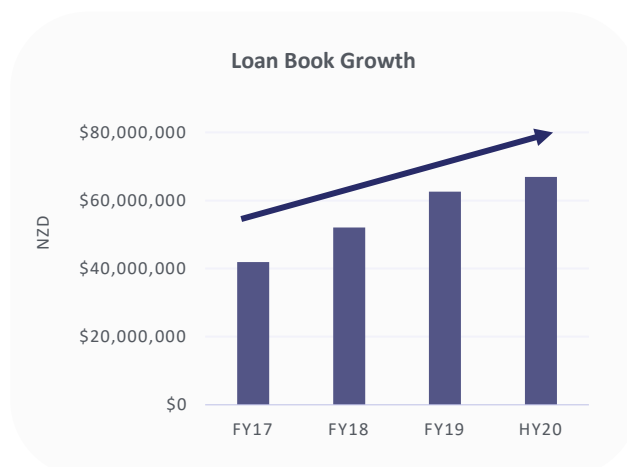
Improved leasing margins by 22%

- ✓ Increased lending to niche target markets
- ✓ Improving interest rate spread on term deposits
- ✓ Technology – Increased online lending approvals using long-standing credit history metrics
- ✓ Strengthening of the senior management ranks through the employment of appropriately skilled personnel
- ✓ Recent board changes have provided additional management support and drive to take advantage of future business opportunities

### Lending

The Lending book has Increased to \$66m a 12% increase YoY driven by:

- ✓ New lending team who have bought additional lending contracts and expertise
- ✓ Launch of online lending capabilities through the website providing an improved customer interaction and efficiency
- ✓ Improvements in FEI's unique credit enhancement system adopting our long-standing credit writing standards via our online lending platform



## Leasing

Leasing transactions have reduced by \$3m YOY to \$9.2m. Capital constraints placed restrictions on the overall leasing book, and as a result, FEI was obliged to withhold contracts during the first 4 months, impacting revenue.

- ✓ Leasing margins improved over the last 12 months by 22% due to the company focusing on niche market sectors
- ✓ Capital of A\$3.3m was raised in September 2019 to alleviate any current funding constraints

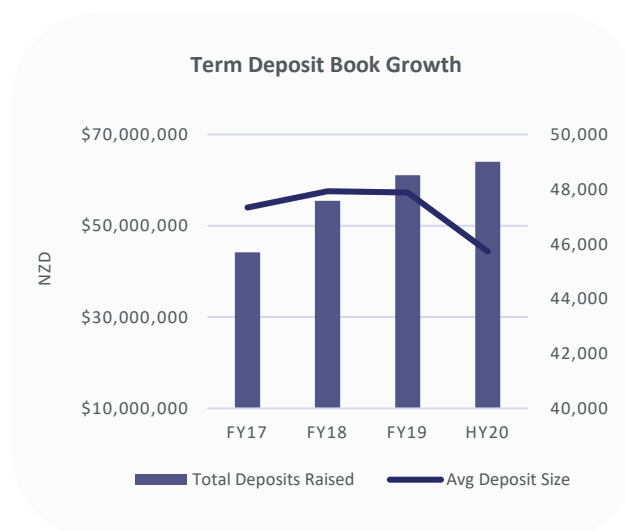
## Deposits

FEI's primary source of funding comes from its loyal depositor base in New Zealand. Reinvestment rates have been maintained at over 65% since HY18. FEI has a proven track record in raising deposits to meet the growth in its loan book.

FEI has taken steps to enhance its online capability to accept deposits, via its website, with strong support from its experienced deposit team. The graph demonstrates that FEI has been able to grow its deposit book on a sustainable basis to fuel growth in the loan book, while reducing reliance on any single depositor.

### A Competitive Source of Funding

- ✓ Total deposit funds is currently \$64m
- ✓ Record deposit growth of over \$6m raised per month
- ✓ Reduction in single depositor exposure with average deposit amount reduced to \$46,000
- ✓ Maintained reinvestment rates at or above 62%
- ✓ Reduction in average interest rate paid on deposits by 1%, improving FEI's cost of funding



## Future Plans

### Lending

- ✓ Australian online platform ready for launch
- ✓ Strong pipeline identified with distribution partners already operating in Australian marketplace
- ✓ Leasing income increased through a wider distribution network
- ✓ Increased pricing on available products and documentation fees (in-line with competitors) with direct benefit to overall profitability
- ✓ Launch digital and direct marketing for the first time to further grow a direct channel and maintain low cost of acquisition
- ✓ Customer origination platform supports additional lending managers
- ✓ Significant focus on driving an expansion of new channels to market through broker, referral, supplier and industry association networks

### Deposits

- ✓ Further improve return on Term Deposit yields over the next 12 months
- ✓ Shift majority of marketing spend from traditional mediums with limited targeting opportunity (print/radio), to digital
- ✓ Accelerate Chinese-language advertising
- ✓ Implement recently signed distribution partner network for term deposits (accountants, financial advisors)

The business has also gone through a significant transformation since the CEO's appointment in April 2019, which was further supported by the appointment of three new board members in September 2019. This has helped to bring further clarity in re-baselining any historical positions.

On the 24<sup>th</sup> November 2019, Mr TK Shim notified the board of his immediate resignation. Mr Mel Stewart, FEI's other co-founder, had previously resigned in April 2019. The Company has inherited some significant challenges (e.g. Hotel exposure and Tomizone), but firmly asserts that disclosing exposures and intended remedies is the appropriate strategy going forward. The Board and Management recognise that they have some exciting opportunities to build upon the core business which is performing above expectations.

## Key Challenges

### 1) Customer Concentration

Tomizone (TMZ) is a public, ASX listed company that has sought to acquire the Eftpos Warehouse Limited (EWL) loan book from EWL. FEI is currently working with TMZ on a refinancing proposal to convert existing financing facilities into equity of TMZ.

This proposed transaction would provide FEI a shareholding of 45-55% in TMZ and two respective board seats. The expected market value of TMZ post-restructure is approximately \$20m.

Beneficially, the transaction would enable TMZ to trade with positive Net Tangible Assets, supported by a positive cashflow. It would also permit FEI to redirect lending activities to higher margin business and further diversify its lending portfolio under new management direction. (refer page 35)

### 2) Concentration of Hotel Developments

The Company has a concentration of credit risk related to two hotel developments which are being project managed and developed by one key Individual, with a total exposure of \$19.0m. There are two borrowers for each project over which development loans are secured.

At the reporting date, the total gross loans associated with the key individual total \$49.0m, of which \$30m is offset by syndication to co-lenders with no recourse back to the Company (refer to page 35).

## Subsequent Events

Mr Thatt Kiong (TK) Shim informed the FE Investments Group Limited (FEIG) Board of his decision to step down as a Non-Executive Director. The resignation was effective immediately on 28th November 2019.

## Auditor Independence and Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is attached to this report for the half-year ended 30 September 2019.

This directors' report is signed in accordance with a resolution of the Board of Directors.



**Campbell Newman**

Chairman

Dated this 30 November 2019



**Marcus Ritchie**

Group Chief Executive Officer

Dated this 30 November 2019



## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

Condensed Consolidated Statement of P&L and Other Comprehensive Income	Note	30-Sep-19 \$000 NZD	30-Sep-18 \$000 NZD
<b>Total group income</b>	2(a)	<b>6,409</b>	<b>7,808</b>
Interest expense		(1,745)	(1,688)
Cost of sales (Leasing)		(1,159)	(3,146)
<b>Net group income</b>		<b>3,505</b>	<b>2,974</b>
Operating expense	2(b)	(1,866)	(2,938)
Employment expense		(1,023)	(923)
Impairment loss on finance receivables and finance leases		(555)	(316)
Net change in fair value of finance receivables at fair value through profit & loss		(846)	89
Exchange rate loss		(18)	(17)
Depreciation and amortisation expense	2(c)	(152)	(67)
<b>Loss before income tax for the period</b>		<b>(955)</b>	<b>(1,198)</b>
Income tax benefit/ (income tax expense)		257	(160)
<b>Loss after income tax for the period</b>		<b>(698)</b>	<b>(1,358)</b>
<b>Other comprehensive Income</b>			
Foreign currency gains on translation of foreign operations		59	7
<b>Total other comprehensive income for the period</b>		<b>59</b>	<b>7</b>
<b>Total comprehensive loss attributable to owners of the Group</b>		<b>(639)</b>	<b>(1,351)</b>
<b>(Loss)/Profit per share attributable to the ordinary equity holders of the Group:</b>		<b>2019</b>	<b>2018</b>
		<b>Cents</b>	<b>Cents</b>
Basic loss per share		(0.686)	(1.477)
Diluted loss per share		(0.686)	(1.477)

The above condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.



## Condensed Consolidated Statement of Financial Position

Condensed Consolidated Statement of Financial Position	Note	30-Sep-19	31-Mar-19
		\$000 NZD	\$000 NZD
<b>Assets</b>			
Cash and cash equivalents		15,497	13,436
Finance receivables	4	55,418	50,302
Finance lease receivable	4	9,214	10,582
Trade and other receivables		155	86
Deferred tax assets		1,388	1,131
Plant and equipment		94	111
Right-of-use asset	1(c)	636	-
Goodwill	6	104	104
Other Intangible assets	7	2,184	2,268
Other assets		138	160
<b>Total assets</b>		<b>84,828</b>	<b>78,180</b>
<b>Liabilities</b>			
First ranking deposits		64,204	61,064
Trade and other payables		794	1,077
Interest bearing borrowings		1,404	1,431
Deferred Income - Finance Fee		165	-
Deferred tax liability		607	607
Lease liability		801	-
Provisions		60	71
<b>Total liabilities</b>		<b>68,035</b>	<b>64,250</b>
<b>Net assets</b>		<b>16,793</b>	<b>13,930</b>
<b>Equity</b>			
Ordinary share capital	8	34,016	30,485
Reserves		(44)	(103)
Accumulated losses		(17,179)	(16,452)
<b>Total equity</b>		<b>16,793</b>	<b>13,930</b>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

## Condensed Consolidated Statement of Changes in Equity

Condensed Consolidated Statement of Changes in Equity	Note	Share Capital	Accumulated losses	Foreign currency translation reserve	Sub-total	Preference share capital	Total equity
		\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>Balance at 1 April 2019</b>		30,485	(16,452)	(103)	13,930	-	13,930
Changes on initial application of AASB 16	1 (c)	-	(29)	-	(29)	-	(29)
<b>Restated balance at 1 April 2019</b>		30,485	(16,481)	(103)	13,901	-	13,901
<i>Total Comprehensive income/(loss) for the period</i>							
Loss for the period		-	(698)	-	(698)	-	(698)
Other comprehensive income		-	-	59	59	-	59
<b>Total Comprehensive (loss)/income for the period</b>		-	(698)	59	(639)	-	(639)
<i>Transactions with owners of the Group</i>							
Issue of ordinary shares		3,531	-	-	3,531	-	3,531
<b>Total transactions with owners of the Group</b>		3,531	-	-	3,531	-	3,531
<b>Balance at 30 September 2019</b>		34,016	(17,179)	(44)	16,793	-	16,793
<b>Balance at 1 April 2018</b>		25,786	(15,657)	(43)	10,086	1,169	11,255
Changes on initial application of AASB 9	1 (c)	-	(353)	-	(353)	-	(353)
<b>Restated balance at 1 April 2018</b>		25,786	(16,010)	(43)	9,733	1,169	10,902
<i>Total Comprehensive income/(loss) for the period</i>							
Loss for the period		-	(1,358)	-	(1,358)	-	(1,358)
Other comprehensive income		-	-	7	7	-	7
<b>Total Comprehensive (loss)/income for the period</b>		-	(1,358)	7	(1,351)	-	(1,351)
<i>Transactions with owners of the Group</i>							
Issue of ordinary shares		1,267	-	-	1,267	-	1,267
<b>Total transactions with owners of the Group</b>		1,267	-	-	1,267	-	1,267
<b>Balance at 30 September 2018</b>		27,053	(17,368)	(36)	9,649	1,169	10,818

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



## Condensed Consolidated Statement of Cash Flows

Condensed Consolidated Statement of Cash Flows	30-Sep-19	30-Sep-18
	\$'000 NZD	\$'000 NZD
Interest and fees received	1,463	4,359
Finance lease interest income received	632	683
Interest paid	(2,143)	(1,739)
Cash payments for leasing products	(1,025)	(3,146)
Cash payments to suppliers and employees	(3,142)	(4,061)
Movement in finance receivables	(2,391)	(4,701)
Movement in finance lease receivables	2,700	2,304
Net increase in term deposits	2,514	155
<b>Net cash flows from operating activities</b>	<b>(1,392)</b>	<b>(6,146)</b>
Purchase of property and equipment	(26)	(69)
Acquisition of intangibles	(25)	(17)
<b>Net cashflows from investing activities</b>	<b>(51)</b>	<b>(86)</b>
Issue of ordinary shares	3,531	1,267
Repayment of Borrowings	(27)	
<b>Net cashflows from financing activities</b>	<b>3,504</b>	<b>1,267</b>
<b>Opening cash</b>	<b>13,436</b>	<b>13,319</b>
Net increase/(decrease) in cash held	2,061	(4,965)
<b>Closing cash</b>	<b>15,497</b>	<b>8,354</b>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.



## Notes to the Financial Statements

### 1. Summary of Significant Accounting Policies

#### (a) Reporting Entities

The consolidated financial statements of FE Investments Group Limited, ("FEIG" or "the Group") for the period ended 30 September 2019 were authorised for issue in accordance with a resolution of directors on the date of signing the attached Directors' Declaration. The Company is an Australian incorporated company and is limited by shares that are publicly traded on the Australian Securities Exchange ("ASX"). FEIG shares trade under the ticker code FEI. The nature of the operations and principal activities of the Group are described in the Directors' Report.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. As a result, they should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2019 and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019. Any changes to accounting policies are disclosed below.

The consolidated financial statements for the Group are for the economic entity comprising FE Investments Group Limited and its subsidiaries. The Group consists of:

Entity	Country of Incorporation	Ownership
FE Investments Group Ltd	Australia	Legal parent company/Legal acquirer
FE Investments Limited (FEI)	New Zealand	100% owned by FE Investments Group Limited <i>Accounting acquirer</i>
WolfStrike Rental Services Ltd	New Zealand	100% owned by FE Investments Group Limited
FEI Funds Pty Ltd	Australia	100% owned by FE Investments Group Limited
FEI Finance Pty Ltd	Australia	100% owned by FE Investments Group Limited
WolfStrike Distributors Ltd	New Zealand	100% owned by FE Investments Group Limited
WolfStrike Distributors Pty Ltd	Australia	100% owned by FE Investments Group Limited

#### (b) Basis of Preparation

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001, and with IAS 34 Interim Financial Reporting. They do not include all of the information required for a complete set of annual report. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance.

These consolidated financial statements have been prepared on the basis of historical cost with certain assets measured at Fair Value Through Profit and Loss and should be read in conjunction with the 31 March 2019 Annual Report. All amounts are presented in New Zealand dollars, unless otherwise noted. The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the



legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with the Annual Report of the Group for the year ended 31 March 2019, except for changes in significant accounting policies described in Note 1(c). This is the first set of the Group's financial statements where AASB 16 Leases has been applied.

#### (c) **Changes in Accounting Policies**

This note explains the impact of the adoption of AASB 16 Leases on the Company's financial statements and also discloses the new accounting policies that have been applied from 1 April 2019.

##### AASB 16 Leases

The Group has adopted AASB 16 from 1 April 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases.

##### Impact on the Financial Statements

AASB 16 was adopted without restating comparative information. The reclassifications and the adjustments arising from AASB 16 are therefore not reflected in the balance sheet as at 31 March 2019 but are recognised in the opening balance sheet on 1 April 2019.

##### Group as a Lessor

For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

##### Group as a Lessee

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.

##### 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 Group 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.

##### 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, the consolidated 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.

The right of use asset in the financial statements refers to the office lease for 66 Wyndham Street, Auckland occupied by FEI. The lease commenced in October 2018 with a right of renewal in October 2024 and a final expiry date of 30 September 2027. There is a fixed rent review on the anniversary of the commencement date during the term, and any renewal or extension of the term.

As at 31 March 2019 there was a lease commitment of \$950k. On adoption of AASB 16 a lease liability of \$773k was recognised in the accounts on 1 April 2019, which represents the net present value of the term payments using a discount rate of 7%. The variance of \$177k will be recognised as monthly interest charged over the term of the lease.

Balance Sheet impact of the adoption of AASB16 as at 1 April 2019		1-Apr-19
		\$000 NZD
Right-of-use of Assets		699
Lease liabilities		(773)
Reversal of rental accruals		45
Net reduction in retained earnings		(29)



## 2. Profit for the Period

The following revenue and expense items are relevant in explaining the financial performance for the year:

Revenue and expense Items for the Period		30-Sep-19	30-Sep-18
		\$000 NZD	\$000 NZD
<b>(a)</b>	<b>Total group income</b>		
	Interest income	3,740	2,988
	Finance lease income	1,938	3,814
	Fee income and other income	731	1,006
		<b>6,409</b>	<b>7,808</b>
<b>(b)</b>	<b>Operating expenses</b>		
	Directors' remuneration	387	951
	Marketing expenses	62	44
	Professional and consulting fees	851	726
	Fees paid to First Eastern Securities Limited	27	719
	Other expenses	539	498
		<b>1,866</b>	<b>2,938</b>
<b>(c)</b>	<b>Depreciation and amortisation expenses</b>		
	Depreciation of plant & equipment	68	46
	Depreciation of office space	63	-
	Amortisation of intangible assets	21	21
		<b>152</b>	<b>67</b>

## 3. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. The CEO and the Board use the statutory profit after adjustments for tax, depreciation and merger costs to assess the business.

98% of the Group's assets are held in New Zealand generating 98% of the group's revenue. The segment information provided to the CEO for the reportable segments for the period ended 30 September 2019 as follows:

### NZ Lending products

Interest and fee income earned from loans receivables.

### NZ Leasing

Finance lease options for leasing of equipment and technology solutions to businesses.



Segment Information	Lending	Leasing	Total
	\$000 NZD	\$000 NZD	\$000 NZD
<b>30-September-2019</b>			
Total portfolio income	3,691	1,938	5,629
Interest expense	(1,536)	(271)	(1,807)
Cost of leasing products	-	(1,168)	(1,168)
<b>Net portfolio income</b>	<b>2,155</b>	<b>499</b>	<b>2,654</b>
Impairment and fair value losses	(824)	13	(811)
Other expenses	(445)	(325)	(770)
<b>Profit before income tax</b>	<b>886</b>	<b>187</b>	<b>1,073</b>
<b>Total Segment Assets at 30 September 2019</b>	<b>55,418</b>	<b>9,214</b>	<b>64,632</b>
<b>Total Segment Liabilities at 30 September 2019</b>	<b>41,944</b>	<b>6,974</b>	<b>48,918</b>
<b>30-September-2018</b>			
Total portfolio income	2,988	3,814	6,802
Interest expense	(1,312)	(376)	(1,688)
Cost of leasing products	-	(3,146)	(3,146)
<b>Net portfolio income</b>	<b>1,676</b>	<b>292</b>	<b>1,968</b>
Impairment and fair value losses	(199)	(28)	(227)
Other expenses	(445)	(325)	(770)
<b>Profit/(Loss) before income tax</b>	<b>1,032</b>	<b>(61)</b>	<b>971</b>
<b>Total Segment Assets at 30 September 2018</b>	<b>43,816</b>	<b>12,980</b>	<b>56,796</b>
<b>Total Segment Liabilities at 30 September 2018</b>	<b>35,497</b>	<b>10,516</b>	<b>46,013</b>

Reconciliations of information on reportable segments to AASB Measures		30-Sep-19	30-Sep-18
		\$000 NZD	\$000 NZD
(i)	<b>Revenues</b>		
	Total revenue for reportable segments	5,629	6,802
	Other revenue	780	1,006
	<b>Consolidated Revenue</b>	<b>6,409</b>	<b>7,808</b>
(ii)	<b>Profit before tax</b>		
	Total profit before tax for reportable segments	1,073	971
	Unallocated amounts:		
	Other corporate expenses	(2,028)	(2,169)
	<b>Consolidated loss before tax from continuing operations</b>	<b>(955)</b>	<b>(1,198)</b>
<p><i>The Group has central costs such as Directors Remuneration, Marketing, Professional &amp; Consulting costs, Administrative expenses that have not been allocated to operating segments.</i></p>			
(iii)	<b>Assets</b>		
	Total assets for reportable segments	64,632	56,796
	Other unallocated amounts	20,196	11,791
	<b>Consolidated total assets</b>	<b>84,828</b>	<b>68,587</b>
(iv)	<b>Liabilities</b>		
	Total liabilities for reportable segments	48,918	46,013
	Other unallocated amounts	19,117	11,756
	<b>Consolidated total liabilities</b>	<b>68,035</b>	<b>57,769</b>

## 4. Financial instrument – Fair Values and Risk Management

### Fair Value

Fair value reflects the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value of future cashflows, using inputs based on market conditions prevailing on the measurement date.

Financial instruments measured at fair value are recognized under a three-level hierarchy as outlined below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The management uses judgement in selecting an appropriate valuation technique for financial instruments which are not quoted in an active market.

The Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period.

The following methods and assumptions are used to estimate the fair value of each class of financial asset and liability:

**Finance receivables** – The Group classifies its financial assets as subsequently measured at either amortised cost or fair value, according to the Group's business model for managing its financial assets and the contractual cash flow characteristics of its financial assets, in accordance with accounting policies under AASB 9.

**Finance lease receivables** – The carry value of finance lease receivables is calculated using the effective interest rate to discount future cash flows to net present value.

**Other financial assets and liabilities** – Other financial assets and liabilities consist of bank balances, receivables, and payables. The carrying value of all these financial assets and liabilities is the fair value.

The following table shows the carrying amounts and fair values of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying Amounts			Fair Value			
	Fair value through Profit and Loss	At amortised cost	Total carrying amounts	Level 1	Level 2	Level 3	Total
<b>30-Sep-19</b>							
Finance receivables	15,140	40,278	55,418	-	-	15,140	15,140
<b>Total</b>	<b>15,140</b>	<b>40,278</b>	<b>55,418</b>	<b>-</b>	<b>-</b>	<b>15,140</b>	<b>15,140</b>
<b>31-Mar-19</b>							
Finance receivables	11,497	38,805	52,302	-	-	11,497	11,497
<b>Total</b>	<b>11,497</b>	<b>38,805</b>	<b>52,302</b>	<b>-</b>	<b>-</b>	<b>11,497</b>	<b>11,497</b>

### Fair Value Hierarchy

The fair value hierarchy is determined by reference to observability of inputs into the fair value models.

### Finance Receivables

Fair value has been determined based on relevant information and management estimates. This includes unobservable inputs such as historic and current interest rates and comparable recent transactions of the company. These are classified as level 3.

### Key Unobservable Inputs

At 30 September 2019, included in the level 3 finance receivables is \$11.50m that has been determined by reference to estimated stage of completion of the underlying property developments. This has been assessed for one project at 40% and other project at 15% (31 March 2019: \$7.14m).



## Risk Management

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board of directors has established the risk management team, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board of directors on its activities.

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

### (i) Finance Lease Receivables

Finance lease receivables relate to the contracted revenues relating to leases issued by the Group to its customers and originators. The finance lease receivable balance is measured using the future contracted revenue and is then discounted and impairment tested. Future interest revenue is also excluded from the finance lease receivables.

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Under a finance lease, substantially all the risks and benefits incidental to the ownership of the leased asset are transferred by the lessor to the lessees. The Group recognized at the beginning of the lease term an asset at an amount equal to the aggregate of the present value (discounted at the interest rate implicit in the lease) of the minimum lease payments and an estimate of the value of any unguaranteed residual value (as unearned income) expected to accrue to the benefit of the Group at the end of the lease term.

For impaired lease receivables, the Group has a right to recover the leased asset and for impaired loan receivables the Group, in certain instances, has access to collateral. Given the large number of small dollar accounts comprising the portfolio it is not practical to assess the value of the collateral. For the majority of its receivables, the Group does not identify any individual lease receivables as significant, and accordingly for those receivables, no unimpaired past due loans are identified and the allowance for losses is calculated on a collective basis. As at the balance date, there were no single exposures that were considered to be individually significant or impaired.

### (ii) Finance Receivables

Finance receivables are loans made by the Group to its borrowers. Finance receivables are measured at amortised costs or are measured at Fair Value through Profit and Loss (FVTPL). Net gains and losses including any interest, are recognized in profit or loss. A Discounted Cash Flow method is adopted to fair value the receivables to these borrowers. The inputs to measure the fair value are the existing interest rates for both the gross exposure and the syndicated sell downs. For the receivables that are carried at amortised cost, they are adjusted for Estimated Credit Loss (ECL) under AASB 9.

#### Finance Receivables & Credit risk

Finance receivables are derecognised when they are repaid, or if the material risks and rewards relating to the receivables are transferred or assigned to another party. The Group's exposure to risk in relation to assigned receivables is limited to ongoing management commissions. The Group continues to recognize the receivables only to the extent of this continuing involvement.





Interest income is recognized in profit or loss using the effective interest rate method, that includes all yield-related fees and commissions.

The identification and estimation of impairment allowances is a key estimate made in preparing these financial statements. Impaired finance receivables are loans where there is evidence that the Group may not recover all the interest, fees and principal owing. Restructured finance receivables are where the terms have been amended to terms that would not have been available for new facilities with comparable risks. 90 day past due finance receivables are receivables which are not impaired or restructured, but where the counterparty has not operated within the key terms for at least 90 days.

Finance Lease Receivables	30-Sep-19	31-Mar-19
	\$'000 NZD	\$'000 NZD
<b>Secured/unsecured and not past due nor impaired receivables</b>	9,456	10,861
Less than 1 year	5,845	5,829
Between 1 to 5 years	4,706	6,519
	<b>10,551</b>	<b>12,348</b>
90 day past due receivables	137	131
Unearned finance lease income	(1,208)	(1,618)
	<b>9,480</b>	<b>10,861</b>
Less collective provisions	(266)	(279)
	9,214	10,582
Individually impaired receivables	-	-
	<b>9,214</b>	<b>10,582</b>
Net investment in finance lease receivables:		
Less than 1 year	4,950	5,109
Between 1 to 5 years	4,506	5,752
	<b>9,456</b>	<b>10,861</b>
<b>Provision for collectively impaired leases</b>		
Opening provision for collectively impaired leases	(279)	(73)
Impairment movement	13	(206)
Closing provision for collectively impaired leases	(266)	(279)
Debt written-off	-	(4)
<b>Total Impairment Charge</b>	<b>13</b>	<b>(210)</b>



## Half Year Ended 30 September 2019

Gross Exposures of Finance Receivables at Amortised Costs and Fair Value Receivables	At Amortised Costs			Fair Value		Total
	Stage 1	Stage 2	Stage 3	Sub Total		
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>Total Exposures</b>						
<b>As at 1 April 2019</b>	<b>23,840</b>	<b>13,878</b>	<b>3,869</b>	<b>41,587</b>	<b>10,831</b>	<b>52,418</b>
Transfer of financial receivables:						
Transfer from Stage 1 to 2	-	-	-	-	-	-
Transfer from Stage 2 to 1	1,613	(1,613)	-	-	-	-
Transfer to Stage 3	(19)	-	19	-	-	-
Transfer from Stage 3	-	-	-	-	-	-
Net further lending/(repayment) to existing facilities	(1,428)	2,501	(527)	399	4,831	4,927
New finance facilities originated or purchased during the period	710	303	-	1,013	-	1,013
Other – Transfer from FV to amortised cost		342		342	(342)	-
<b>As at 30 September 2019 - Total credit exposure</b>	<b>24,716</b>	<b>14,961</b>	<b>3,361</b>	<b>43,038</b>	<b>15,320</b>	<b>58,358</b>



## Half Year Ended 30 September 2019

Expected Credit Loss (ECL) and Fair Value Adjustment on Finance Receivables	At Amortised Costs			Fair Value		Total
	Stage 1	Stage 2	Stage 3	Sub Total		
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>As at 1 April 2019</b>						
Expected credit loss at amortised costs	(211)	(471)	(2,100)	(2,782)	-	(2,782)
Fair value adjustments	-	-	-	-	666	666
<i>During the year:</i>						
Transfer of financial instruments:						
Transfer from Stage 1 to 2	-	-	-	-	-	-
Transfer from Stage 2 to 1	-	-	-	-	-	-
Transfer to Stage 3	19	-	(19)	-	-	-
Transfer from Stage 3	-	-	-	-	-	-
Net further lending/(repayment) to existing facilities	(19)	(114)	170	37	-	37
New finance facilities originated or purchased during the period	(12)	(3)	-	(15)	-	(15)
Fair value adjustments	-	-	-	-	(846)	(87)
<b>As at 30 September 2019 - Total expected credit loss &amp; fair value movement</b>	<b>(222)</b>	<b>(589)</b>	<b>(1,949)</b>	<b>(2,760)</b>	<b>(180)</b>	<b>(2,940)</b>
<b>Net loan receivable</b>	<b>24,494</b>	<b>14,372</b>	<b>1,412</b>	<b>40,278</b>	<b>15,140</b>	<b>55,418</b>
ECL on finance receivables income statement (charge)/release for the period	(11)	(118)	151	22	-	22
Fair value adjustment through profit & loss	-	-	-	-	(846)	(846)
<b>Total income statement (charge)/release for period</b>	<b>(11)</b>	<b>(118)</b>	<b>151</b>	<b>22</b>	<b>(846)</b>	<b>(824)</b>



## Year Ended 31 March 2019

Gross Exposures of Finance Receivables at Amortised Costs and Fair Value Receivables	At Amortised Costs			Fair Value		Total
	Stage 1	Stage 2	Stage 3	Sub Total		
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>Total Exposures</b>						
<b>As at 1 April 2018</b>	<b>15,931</b>	<b>8,196</b>	<b>2,013</b>	<b>26,140</b>	<b>15,889</b>	<b>42,029</b>
Transfer of financial receivables:						
Transfer from Stage 1 to 2	(5,705)	5,705	-	-	-	-
Transfer from Stage 2 to 1	1,365	(1,365)	-	-	-	-
Transfer to Stage 3	(1,905)	-	1,905	-	-	-
Transfer from Stage 3	-	-	-	-	-	-
Net further lending/(repayment) to existing facilities	(1,941)	109	(49)	(1,881)	(5,058)	(6,939)
New finance facilities originated or purchased during the period	16,095	1,233	-	17,328	-	17,328
<b>As at 31 March 2019 - Total credit exposure</b>	<b>23,840</b>	<b>13,878</b>	<b>3,869</b>	<b>41,587</b>	<b>10,831</b>	<b>52,418</b>

## Year Ended 31 March 2019

Expected Credit Loss (ECL) and Fair Value Adjustment on Finance Receivables	At Amortised Costs			Fair Value		Total
	Stage 1	Stage 2	Stage 3	Sub Total		
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>As at 1 April 2018</b>						
Expected credit loss at amortised cost	(247)	(147)	(1,721)	(2,115)	-	(2,115)
Fair value adjustments	-	-	-	-	(95)	(95)
During the year:						
Transfer of financial instruments:						
Transfer from Stage 1 to 2	128	(128)	-	-	-	-
Transfer from Stage 2 to 1	(14)	14	-	-	-	-
Transfer to Stage 3	36	-	(36)	-	-	-
Transfer from Stage 3	-	-	-	-	-	-
Net further lending/(repayment) to existing facilities	17	(153)	(343)	(479)	-	(479)
New finance facilities originated or purchased during the period	(131)	(57)	-	(188)	-	(188)
Fair value adjustments	-	-	-	-	761	761
<b>As at 31 March 2019 - total expected credit loss &amp; fair value movement</b>	<b>(211)</b>	<b>(471)</b>	<b>(2,100)</b>	<b>(2,782)</b>	<b>666</b>	<b>(2,116)</b>
<b>Net movement in loans receivable</b>	<b>23,629</b>	<b>13,407</b>	<b>1,769</b>	<b>38,805</b>	<b>11,497</b>	<b>50,302</b>
ECL on finance receivables income statement (charge)/release for the period	36	(324)	(379)	(667)	-	(667)
Recoveries	-	-	125	125	-	125
Fair value adjustment through profit & loss	-	-	-	-	761	761
<b>Total income statement (charge)/release for the period</b>	<b>36</b>	<b>(324)</b>	<b>(254)</b>	<b>(542)</b>	<b>761</b>	<b>219</b>



### Credit Risk

The Group manages its exposure to credit risk by undertaking a comprehensive analysis of all projects, limiting its exposure to individual counterparty groups, performing credit checks, obtaining appropriate collateral, regular credit reviews, and proactive management of defaults or concerns with borrowers.

The Group's maximum exposure to credit risk is the amount shown in the balance sheet, without any allowance for security held. The Group holds security over assets financed. For many receivables, the Group also holds other forms of collateral, such as general security agreements over the borrowing Group or guarantor, and personal guarantees from directors or associated companies. It is not practical to estimate the fair value of these various forms of collateral.

AASB 9 contains new classification and measurement approach for financial assets. The group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement and the Group expects to use these grades for the purposes of identifying credit risk under AASB 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Neither Past Due nor Impaired Gross Finance Receivables - at Amortised Cost			30-Sep-19	31-Mar-19
			\$000	\$000
Stage 1	<u>Grade 1</u>	Strong	13,466	15,507
	<u>Grade 2</u>	Satisfactory	4,069	5,907
	<u>Grade 3</u>	Average	8,816	4,170
			<b>26,351</b>	<b>25,584</b>

One of the Company's key customers are currently undergoing a debt/ equity raising that is forecasted to lower FEI's exposures.

### Derecognised Finance Receivables

The Company has assigned absolutely, for consideration, certain finance receivables on commercial terms (including to entities associated with two of the Company's directors, as disclosed in note 9). To the extent of the assignment, these finance receivables have been derecognised.

Derecognised Finance Receivables	30-Sep-19	31-Mar-19
	\$000	\$000
Gross finance receivables subject to assignment	47,514	44,620
Total syndication of loans - on a non-recourse basis	33,255	34,465
Derecognised finance receivables	<b>14,259</b>	<b>10,155</b>

A shareholder has received fees for property brokering services to a total consideration \$518,000 since 2017.



Each property syndication is governed by a Trust Deed. FEI is a Trustee under these Deeds. As a trustee, FEI has to ensure that any monies received as settlement of the projects are immediately passed on to syndicated investors on a 'pari-passu' basis. The Gross receivables relates to four property developments, primarily two hotel developments, with details set out below. All these receivables have interest capitalising, and the Company is entitled under the loan agreements to exit fees and a share of the net development profit.

#### Concentration of Credit Risk – Hotel Developments

The Company has a concentration of credit risk related to two hotel developments which are being developed by one key individual, with a total exposure of \$17.0m as follows:

Exposure	30-Sep-2019 \$000 NZD
<b>201 Hobson St</b>	
Loan receivable	19,730
Syndication	(15,001)
	<b>4,729</b>
<b>29 Anzac Ave</b>	
Loan receivable	19,864
Syndication	(13,302)
	<b>6,562</b>
Other loans to Primary Developer	2,419
Other loans to Secondary Developer	3,238
<b>Total exposure relating to the two hotels</b>	<b>16,948</b>

The two hotel developments are in Central Auckland and at the reporting date both are cleared sites ready for development.

The loans are secured over these developments. The other loans to the key Individuals are primarily secured over the Net Development Margin (NDM) of the two hotel sites, with further, lower value security over their personal properties. At the reporting date, the gross loans associated with the key Individuals, of which there are two borrowers per project, totaling \$49m. \$28m is offset by syndication to co-lenders on a non-recourse basis.

There are five Personal Guarantees relating to the loans receivable. However, the Directors do not consider there are significant assets to support these guarantees. FEI has completed feasibility studies in conjunction with the key individual to confirm the viability of the two hotel projects.

Colliers, an international property advisory firm, published the New Zealand Hotel Market snapshot in October 2019. For the year ended 30 September 2019 as compared to 2018 they commented on statistics from Tourism Industry Aotearoa (TIA):

- Auckland occupancy declined from 83.7% to 81.9%
- Auckland ADR raised from \$196 to \$208
- Auckland REVPAR declined 7.9% to \$160
- There were 446 new hotel rooms completed in Auckland in the last 12 months
- There are 2,641 new hotel rooms under construction in Auckland



### 201 Hobson St (Hobson Project 201 Ltd)

The hotel development is a prospective 108 room four-star hotel located at 201 Hobson St, Auckland.

Resource consent was issued in November 2017. Additionally, the Company has received an offer of a fixed price construction contract with a major NZ construction firm. The contract is expected signed in December 2019. Construction is expected to commence early 2020 and targeted be completed by December 2021.

A 10-year lease with two renewals of 10 years each (total of 30 years) was signed in September 2018 with a major international hotel operator, who has agreed to have the development tenanted with a renowned, internationally recognized brand. The lease commences on issuance of Code of Practical Completion. The lessee is responsible for the fit-out and furniture, fixtures and equipment.

The assumptions used in the calculation of fair value is based on the best information available to the Directors at the time of preparing these financial statements.

### Feasibility Study

The analysis prepared by the Company and the Developer which illustrates the risk is below. The expected sales price is calculated based on the expected cap rate, which is itself based on a range of information received from reputable commercial real estate firms. In some cases, the analysis has included both hotel projects. One key commercial real estate firm has indicated a cap rate in the range of 4.50%-4.75%. The sales price is sensitive to this cap rate, as discussed in the Key Risks.

	Sensitivity 1	Sensitivity 2	Sensitivity 3
Cap rate (yield)	5.00%	5.25%	5.50%
Expected sales price (indicative)	53,500,000	50,952,381	48,636,364
Sales commission	(535,000)	(509,524)	(486,364)
Net sale	52,965,000	50,442,857	48,150,000
Estimated Project costs	45,895,503	45,895,503	45,895,503
<b>Net Development Margin (Indicative) before finance costs</b>	<b>7,069,497</b>	<b>4,547,354</b>	<b>2,254,497</b>

*Note feasibility subject to change*

### Key Assumptions

The feasibility study has been prepared with the current key assumptions;

- **Lease:** income based on a signed 10-year lease with major international hotel operator.
- **Sales price:** for the purposes of considering potential impairment, we have assumed a cap rate of 5.20%.
- **Resource Consent:** approved and issued in November 2017.
- **Construction costs:** a fixed price construction contract with a maximum ceiling is expected to be agreed with a major New Zealand construction company in early December 2019.
- **Land/initial costs:** have already been incurred.
- **Estimated date of physical completion:** December 2021.



### 29 Anzac Ave (A29 Holdings Ltd)

The hotel development is a prospective 176 room four-star hotel located at 29 Anzac Avenue, Auckland. Resource consent was issued in 2018.

Discussions with an international hotel operator are in progress and a final agreement with that hotel operator expected imminently. Once the operator has been engaged, then final design will be completed.

Construction is assumed to commence late in Quarter 1, 2020 and to be completed by December 2021.

### Feasibility Study

The analysis and a range of scenarios prepared by the Company and the Developer which illustrates the risk is below. The expected sales price is calculated based on the expected cap rate, based on a range of information received and reputable commercial real estate firms where in some cases the analysis has included both Hotel projects, provided by a reputable commercial real estate firm whose analysis includes the two projects. One key commercial real estate firm has indicated a cap rate in the range of 4.50%-4.75%. The sales price is sensitive to this cap rate as discussed in the Key Risks.

	Sensitivity 1	Sensitivity 2	Sensitivity 3
Cap rate (yield)	5.00%	5.25%	5.50%
Expected sales price (indicative)	90,000,000	85,714,286	81,818,182
Sales commission	(900,000)	(857,143)	(818,182)
Net sale	89,100,000	84,857,143	81,000,000
Estimated Project costs	72,767,847	72,767,847	72,767,847
<b>Net Development Margin (Indicative) before finance costs</b>	<b>16,332,153</b>	<b>12,089,296</b>	<b>8,232,153</b>

*Note: Feasibility subject to change*

### Key Assumptions

The feasibility study has been prepared with the current key assumptions:

- **Income:** the property is being negotiated to operate under a traditional management contract with an international hotel operator.
- **Sales price:** for the purposes of considering any potential impairment, we have assumed a cap rate of 5.25%.
- **Construction costs:** based on cost per room and comparable to the known construction costs of 201 Hobson St after allowing for economies of scale.
- **Land/initial costs:** have already been incurred.
- **Contingency/escalation:** based on 10% of expected construction costs.
- **Date of practical completion:** expected December 2021.

## Risks Associated with the Key Assumptions

### Cap rate

#### Overview

- This is the most significant assumption and has the most impact on expected sales price and Net Development Margin (NDM).
- The expected cap rate valuation has been based on a wide range of information including that provided by a reputable commercial real estate firms and a number of factors including, but not limited to, hotel star rating, central location, intended purchaser market and hotel operators.
- The cap rate has been calculated with reference to sales of other Auckland hotels, other central Auckland commercial properties, and on the selling price of Auckland hotel rooms.
- A change in cap rate can have a material impact on the NDM. In effect, the higher the cap rate, the lower the NDM and the lower the cap rate, the higher the NDM.
- With interest rates at all-time lows, prospective yields in investment properties are appealing to investors thus demand is high for such investments. Additionally, economists are predicting at least one further Official Cash Rate cut in early 2020, indicating the risk of interest rates increasing before the completion of the development in December 2021 is low.

#### Comparison Considerations

- RV 401 Queen St 80 room 4-star hotel sold in December 2018 with a yield of 3.9%.
  - The property was sold to a high-net-worth international family and is considered by the real estate firm as the best comparable transaction for both hotels.
- Haka 3.5 Star 63 room hotel in Epsom was sold in February 2019 with an initial yield of 5%;
  - Noting long term passing yield is 6.3%. The average price per room was \$185,714.
- Best Western President hotel in central Auckland sold in June 2018 with a passing yield of 6.2%.
  - This is an older property with strata-title.
- Another study by an international property firm published a general range of cap rates between 6.5% - 7.5%
  - However, this report published in 2017/2018 did not specifically identify the 201 Hobson Street or 29 Anzac Ave projects or detail hotels by star rating or specific location.

#### Summary

- The cap rate for 201 Hobson St has been set at 5.20% for impairment considerations given that it will be a brand new 4-star property with a new long-term lease in place with a reputable international operator and global brand, and located in central Auckland city. This references a sales price closer to RV 401 Queen St.
- The key rationale why the lower cap has been applied is that the property is being targeted to be sold to high net worth individuals from outside New Zealand.
- The sales price rate per room assumed for 201 Hobson St is \$478,318 and for 29 Anzac Ave is \$487,013. This reflects a premium pricing.
- The cap rate for 29 Anzac Ave has been set at 5.25% for impairment considerations given that it will be a brand new 4-star property with a new long-term lease in place with a reputable international operator and global brand, and located in central Auckland city. The project started before 201 Hobson St, hence the higher cap rate.
- The impairment analysis has considered finance charges
- Cap rate are subject to change.



### Net Rental Income on 29 Anzac Ave

- Assumed an average room rate of \$223, net of GST.
- Assumed an average occupancy of 85%.
- Based on 176 rooms.
- The model assumes a lease will be signed, and profitability is dependent on a lease providing a certain level of occupancy.
- The property developer has signed a memorandum of understanding which outlines expected operator fees.

### Construction Costs

- The construction costs for 201 Hobson St have been established from an offer with detailed construction plans by the preferred construction firm and equate to \$229,630 per room. Plans are currently being reviewed by two quantity surveyors.
- The construction costs for 29 Anzac Ave have not yet been determined in detail.
- It is assumed that the construction cost per room is \$211,364. This is expected to be lower than 201 Hobson St as the project takes advantage of economies of scale and operational and construction efficiencies.

### Cost of Borrowing - Interest Rate

- For the purpose of impairment testing it is assumed that bank financing will be in place for the construction project at an expected average rate of 5% for 201 Hobson St and 29 Anzac Ave.

### Other Risk Factors

- If the hotel projects are not completed or commenced there would be significant financial loss.
- If there are significant time delays in construction this would lead to a decline in NDM.
- The lenders to the project, including FEI, have agreed to specified interest rates, however this is superseded by a return on a pari-passu basis if a lower return is realised. Therefore, if the projects are less profitable than expected, the interest FEI receives at the end of the project could be lower than the interest capitalised. The risk for FEI is that a reduction in project profit could lead to a loss of future interest revenue, or even a reversal of capitalised interest.

## 5. Funding and Liquidity Risk

The Group funds its activities through a combination of first ranking term deposits and equity.

### (i) Funding

#### First-Ranking Term Deposits

First ranking term deposits are secured by registered first ranking security interest over all the assets and undertakings of FEI under the terms of the Trust Deed dated 28th November 2016 ("the Trust Deed"), subject to certain permitted charges not to exceed 2% of total tangible assets. Term deposits are initially recorded at fair value and subsequently carried at amortised cost. No depositor held more than 5% of the term deposits as at 30 September 2019.

#### Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. In order to maintain or adjust its capital structure, the Group considers the issue of new capital, return of capital to shareholders and dividend policy as well as its plans for acquisition and disposal of assets.



## (ii) Liquidity Risk

The Group seeks to broadly match the duration of its lending to its funding activities to ensure that there is sufficient liquidity to make payments as they fall due. The Group also regularly monitors its short-term and long-term cashflows.

The Group's policy is to hold adequate cash reserves and liquid assets, together with projected finance receivables repayments, to cover projected deposit redemption and operating expenses on a three-month rolling basis.

The Group's contractual and expected liquidity positions are set out below. The Directors expect the timing of some finance receivables will differ from their contractual maturities, and that a portion of term deposit investors will roll-over their investments. Those expectations are illustrated in the expected liquidity position.

A conservative deposit reinvestment rate of 60% (31/3/19: 50%) has been assumed in the expected liquidity analysis, which is lower than the actual average reinvestment rate of 62% experienced during the period (31/3/19: 67%).

	On demand	0-6 months	6-12 months	1-2 years	> 2 years	Gross nominal inflow/ (outflow)	Carrying amount
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>Contractual liquidity at 30/09/19</b>							
Cash and cash equivalents	15,497	-	-	-	-	15,497	15,497
Finance receivables	-	29,988	22,588	9,828	8,910	71,314	55,418
Finance lease receivables	-	3,374	2,444	2,965	1,814	10,597	9,214
First ranking term deposits	(62)	(22,743)	(24,267)	(14,546)	(5,645)	(67,263)	(64,204)
Other liabilities	-	(959)	(1,404)	-	-	(2,363)	(2,617)
<b>Total</b>	<b>15,435</b>	<b>9,660</b>	<b>(639)</b>	<b>(1,753)</b>	<b>5,079</b>	<b>27,821</b>	<b>13,308</b>
<b>Contractual liquidity at 31/03/19</b>							
Cash and cash equivalents	13,436	-	-	-	-	13,436	13,436
Finance receivables	-	20,395	16,939	21,418	4,538	63,290	50,302
Finance lease receivables	-	3,264	2,690	3,828	2,687	12,469	10,582
First ranking term deposits	-	(26,284)	(18,156)	(15,024)	(4,590)	(64,054)	(61,064)
Other liabilities	-	(2,508)	-	-	-	(2,508)	(2,508)
<b>Total</b>	<b>13,436</b>	<b>(5,133)</b>	<b>1,473</b>	<b>10,222</b>	<b>2,635</b>	<b>22,633</b>	<b>10,748</b>
<b>Expected liquidity at 30/09/19</b>							
Cash and cash equivalents	15,497	-	-	-	-	15,497	15,497
Finance receivables	-	20,276	10,094	22,421	10,776	63,568	55,418
Finance lease receivables	-	3,268	2,392	2,949	1,813	10,422	9,214
First ranking term deposits	(62)	(9,097)	(9,707)	(6,328)	(42,069)	(67,263)	(64,204)
Other liabilities	-	(959)	(1,404)	-	-	(2,363)	(2,617)
<b>Total</b>	<b>15,435</b>	<b>13,488</b>	<b>1,375</b>	<b>19,042</b>	<b>(29,480)</b>	<b>19,861</b>	<b>13,562</b>



	On demand	0-6 months	6-12 months	1-2 years	> 2 years	Gross nominal inflow/ (outflow)	Carrying amount
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
<b>Expected liquidity at 31/03/19</b>							
Cash and cash equivalents	13,436	-	-	-	-	13,436	13,436
Finance receivables	-	12,859	12,767	34,914	15,927	76,466	50,302
Finance lease receivables	-	3,264	2,690	3,828	2,687	12,469	10,582
First ranking term deposits	-	(15,770)	(10,894)	(9,014)	(34,322)	(70,000)	(61,064)
Other liabilities	-	(1,134)	(1,497)	-	-	(2,631)	(2,508)
<b>Total</b>	<b>13,436</b>	<b>(781)</b>	<b>3,066</b>	<b>29,728</b>	<b>(15,708)</b>	<b>29,741</b>	<b>10,748</b>

## 6. Goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating business units, which represent the lowest level within the Group at which goodwill is monitored for internal management purposes. The carrying amount of goodwill of each CGU is tested for impairment at each statutory reporting date and whenever there is indicator that the asset may be impaired.

Goodwill	30-Sep-19	31-Mar-19
	\$000 NZD	\$000 NZD
<b>Carrying Value</b>		
Cost	104	104
Net book amount	<b>104</b>	<b>104</b>
<b>Movement in Goodwill at Net Book Amount</b>		
Balance at the beginning of the year	104	-
Additions or fair value adjustments through business combinations	-	104
Impairment loss	-	-
<b>Balance at the end of the year</b>	<b>104</b>	<b>104</b>





## 7. Other Intangible Assets

Other Intangible Assets	LeaseTech brand	Customer base	Other intangibles	Total
	\$000 NZD	\$000 NZD	\$000 NZD	\$000 NZD
Balance at 1 April 2019	1,780	369	119	2,268
Additions	-	-	25	25
Amortisation	-	(55)	(54)	(109)
Impairment loss	-	-	-	-
<b>Balance at 30 September 2019</b>	<b>1,780</b>	<b>314</b>	<b>90</b>	<b>2,184</b>
Balance at 1 April 2018	1,780	410	70	2,260
Additions	-	-	202	202
Amortisation	-	(41)	(153)	(194)
Impairment loss	-	-	-	-
<b>Balance at 31 March 2019</b>	<b>1,780</b>	<b>369</b>	<b>119</b>	<b>2,268</b>

## 8. Contributed Equity - Shares

Contributed Equity - Shares	Ordinary Shares		Preference Shares	
	30-Sep-19	31-Mar-19	30-Sep-19	31-Mar-19
	000's	000's	000's	000's
Balance at beginning of the period	180,981	143,048	-	1,169
Shares issued during the period	45,235	37,933	-	-
Shares redeemed	-	-	-	(1,169)
<b>Shares at the end of the period</b>	<b>226,216</b>	<b>180,981</b>	<b>-</b>	<b>-</b>

## 9. Related Party Transactions

### (a) Parent Entity

The legal parent entity of the group is FE Investments Group Limited (FEIG). The parent entity of the Group for accounting purposes is FE Investments Limited (FEI).

### (b) Subsidiaries and Associate

Interests in Group entities are set out in note 1(a).

### (c) Changes to Directors

During the period 1 April 2019 to 30 September 2019, Campbell Newman, Paul Fox and Jeff McKenzie were appointed as new Directors of FE Investments Group Limited and are each being paid A\$540 per month for their services from their appointment date. All directors are now being paid A\$540 per month for their services due to shareholders not approving an increase in directors' fees and insufficient capacity available under the current approved fee limit of \$200,000.



Mr Thatt Kiong (TK) Shim informed the FE Investments Group Limited (FEIG) Board of his decision to step down as a Non-Executive Director. The resignation was effective immediately on 28th November 2019.

**(d) Transactions with Related Parties**

**(i) Services from Related Party Entities**

Consulting fees of \$0 were paid to directors' related entities.

**(ii) Transactions with Federal Securities Limited**

Federal Securities Limited (previously known as First Eastern Securities Limited) is beneficially owned by Mr Stewart and Mr Shim and, former Directors of FEIG who resigned on 17 April 2019 and 28th November 2019 respectively. It provides services to some borrowers, which include investor relations and property loan sell-down related matters, and including services provided by other entities. The Company's loan agreements with those borrowers include a requirement for the borrower to pay a share of fees described as loan documentation fees, finance fees, property loan management fees, advisory fees, exit fees and other fees to Federal Securities Limited in some instances.

These amounts are drawn down by the Company from the borrowers' accounts. The identification of these transactions as related party transactions is a key matter in preparing these financial statements. The Company stopped paying expenses on behalf of Federal Securities Limited since the 1st of April 2019.

Transactions with Federal Securities Limited	30-Sep-19	30-Sep-18
	\$000 NZD	\$000 NZD
Fees drawn down from borrowers and paid to Federal Securities Limited	27	447
Costs drawn down from borrowers and reimbursed to Federal Securities Limited	-	272
	<b>27</b>	<b>719</b>

**(iii) Other Transactions with Directors and Related Entities**

FEI has previously paid certain expenses on behalf of Mr Shim and Mr Stewart, and their associated companies. These expenses accumulated as unsecured receivables. The accumulated receivables were interest free until August 2017, when interest began to be charged at 5.77%. On 31 March 2018, the majority of the outstanding balance of these receivables was converted to an interest-bearing term loan with an interest rate of 8%.

	Mr Shim		Mr Stewart	
	30-Sep-19	30-Sep-18	30-Sep-19	30-Sep-18
	\$000	\$000	\$000	\$000
Expenses paid on behalf of directors and associated entities	18	33	3	7



	Mr Shim		Mr Stewart	
	30-Sep-19 \$000	31-Mar-19 \$000	30-Sep-19 \$000	31-Mar-19 \$000
Outstanding interest free unsecured receivable	2	1	3	14
Outstanding unsecured term loan (8% interest)	-	-	41	33

(iii) Other Transactions with Directors and Related Entities (continued)

Legal fees of \$7,939 (30 September 2018: \$30,125) were paid to Schnauer Legal Ltd and Schnauer and Co, entities associated with Mr Schnauer who is a director of FEI the NZ subsidiary. Directors fees of \$27,250 were also paid to Mr Schnauer during the period. Additionally, Mr Schnauer is both a trustee and a beneficiary of J A Delmont Family Trust, which has deposits of \$80,559 with FEI as at 30 September 2019 (31 March 2019: \$80,559), which received gross interest of \$2,309 during the half year ended 30 September 2019 (30 September 2018: \$2,340).

Salaries of \$158,788 was paid to Mr Ritchie during the half year and this forms part of employment costs.

FEI's former Directors (Thatt Kiong (TK) Shim and Mel Stewart) were subject to an investigation by the New Zealand regulator, the Financial Markets Authority (FMA) over the restatement and reissuance of the financial statements for the year ended 31 March 2018 and transactions with Federal Securities Limited. The Company has recently advised the FMA of the actions of the two former directors of the Company in respect of additional transactions associated with those directors totaling \$172,000. At the time of this report the current Board of Directors does not consider there will be any material risks to the Company or its Depositors as a result of these matters. At the time of this report, the matter is still under review.

(iv) Derecognised Finance Receivables

The Company had assigned absolutely, for consideration, certain finance receivables on commercial terms to entities associated with directors, or former directors, of the Company. The associated entities and beneficial owners are:

- Equity No 8 Limited and Federal Securities Limited which are beneficially owned jointly by Mr. Shim and Mr. Stewart (resigned 28th November 2019 and 17th April 2019).
- CNZF Management Co. Limited which is majority owned by entities controlled by Mr. Huang, director of FEIG.

	Balance at Year End		Interest Paid to Related Entities	
De-recognised Finance Receivables	30-Sep-19 \$000 NZD	31-Mar-19 \$000 NZD	30-Sep-19 \$000 NZD	30-Sep-18 \$000 NZD
Equity No 8 Limited	-	1	-	16
First Eastern Securities Limited	336	551	29	24
CNZF management Co. Ltd	664	1,400	49	94

(v) Preference Share Transactions with Directors

FEI's New Zealand entity had previously issued preference shares to entities associated with three of the Company's directors. All of these preference shares have redeemed in the period to 31 March 2019. The associated entities and beneficial owners are:

- Equity No 8 Limited and First Eastern Capital Limited which are beneficially owned jointly by Mr. Shim and Mr. Stewart
- Parkiri Limited which is jointly controlled by Mr. Ritchie, and of which Mr. Ritchie is a beneficiary.

Preference Share Transactions with Directors	30-Sep-19	31-Mar-19
	\$000 NZD	\$000 NZD
<b>Equity No 8 Limited</b>		
Opening balance	-	750
Issued during the period	-	-
Redeemed during the year	-	(750)
Closing balance	-	-
<b>First Eastern Capital Limited</b>		
Opening balance	-	100
Issued during the period	-	-
Redeemed during the year	-	(100)
Closing balance	-	-
<b>Parkiri Limited</b>		
Opening balance	-	319
Issued during the period	-	-
Redeemed during the year	-	(319)
Closing balance	-	-

## 10. Other Matters

### Concentration of Credit Risk – Tomizone Limited

Tomizone Limited (TMZ) is an ASX listed entity that offers an extensive suite of managed services, encompassing WiFi & analytics, business cloud applications, VoIP, data redundancy and security systems.

Part of the FEI's loan book has exposure to TMZ and Eftpos Warehouse Limited (EWL), an EFTPOS leasing business that TMZ has provided guarantees for.

The debt facilities are secured by a first ranking security over the specific loan book assets and the business of certain TMZ subsidiaries and EWL and personal guarantees. A portion \$5.4m is secured by underlying operational leases. FEI receives monthly repayment of the underlying operational leases.



<b>Total Exposures 30-Sep-19</b>	<b>\$ NZD</b>
TMZ Term Debt	3,027,276
Eftpos Warehouse Term Debt	6,387,378
FEI Convertible Notes in TMZ	1,645,633
<b>Loan receivable Exposure</b>	<b>11,060,287</b>
TMZ Contract Facility	2,272,867
Eftpos Warehouse Contract Facility	415,595
Eftpos Warehouse Leases	2,745,911
<b>Debt secured by underlying operational leases</b>	<b>5,434,373</b>

TMZ is currently suspended from trading for failing to lodge audited financial accounts. TMZ are seeking to complete the proposed financing transaction which will enable its financial accounts to be lodged. TMZ had reported negative cashflows from operations for the quarter ended 30 September 2019 and negative net assets per security at 31 December 2018. TMZ received an emphasis of matter in regard to its going concern in its most recent review by its auditor. Bondholders have agreed for TMZ to currently accrue interest payments on its convertible notes whilst it completes its restructure.

FEI and FEIG are currently working on a transaction with TMZ, in which TMZ has sought to acquire the EWL loan book from EWL and FEIG would convert the loans receivable exposure of \$11m to equity in TMZ. This proposed transaction would provide FEIG with a 45%-55% shareholding in TMZ.

The transaction would enable TMZ to trade with a positive Net Tangible Assets supported by a positive cash flow and allow TMZ to raise additional equity.

The acquisition of EWL by TMZ will provide TMZ with an existing asset base producing positive cash flow and monthly earnings. The restructure will also significantly reduce TMZ's finance charges and right-size operating costs when compared to sales.

The Group has been working closely with the TMZ board throughout the transaction programme and has been reviewing actual and forecasted trading activity.

The key terms of this restructure are:

- TMZ will acquire the assets and cashflow of EWL
- FEI will convert debt into ordinary shares of TMZ
- TMZ will gain approval of current Convertible Note holders to convert their debt into ordinary shares at the same rate
- FEIG will be required to raise additional capital to support the transaction once approved by shareholders
- TMZ will be required to raise additional capital

Following the completion of the proposed transaction, it is forecast that TMZ:

- Will have positive equity of approximately \$5.2m
- TMZ will operate profitably with positive cashflow following the acquisition of EWL and in significant organic growth in its own business



The transaction is dependent upon a number of other factors, including those outside the control of FEIG:

- An independent expert report confirming that the transaction is in the interests of all shareholders of TMZ
- The approval by shareholders of the issue of TMZ shares in respect to the conversion of debt and new capital introduced to TMZ
- The approval of the existing convertible note holders to convert their debt into equity with initial discussions with note holders already underway

TMZ is currently in discussions regarding its capital raising options, and whilst interest has been identified and is being pursued, firm commitments are yet to be received at the time of approving these financial statements.

Any capital raised by TMZ is expected to be in the form of either capital notes or equity. If capital notes, they will include a minimum conversion price and coupon rate. The final terms, conversion price and priority of ranking security is subject to a capital raise process. This proposed process is currently underway with an expected completion date in March 2020.

Depending on the nature of the incoming capital, the conversion price set is expected to result in FEIG holding approximately 45%-55% of the issued capital in TMZ and implies a total enterprise business value of approximately \$20m.

Valuation for the purposes of establishing the terms of the transaction prior to the independent expert opinion of TMZ has been determined on the basis of market multiples on both historic and projected figures of the business post-restructure.

The Directors of the Company have assumed that the transaction will be successfully concluded on terms similar to those planned in the transaction outlined above. On this basis, the Directors of the Company have concluded that no specific provision for impairment is required at 30 September 2019 for the convertible note and finance receivables owing by TMZ and related entities.

If the transaction is not successful, then the Group will be obliged to exercise its security rights over the TMZ businesses of which the Group holds security. The Company has already reviewed this option with an independent accounting firm.

In the event that this option is exercised, it is likely that value to be recovered would be below the carrying value of the loan receivable at 30 September 2019. The Directors are unable to quantify the extent of any potential losses at the current time.

## 11. Dividend

During the period ended 30 September 2019, the Group did not declare a dividend. No dividends were paid for the previous reporting period.

## 12. Contingencies

There are no contingent liabilities as at the date of this report.



## 13. Going Concern

The Directors consider that the financial statements can be prepared on a going concern basis. The following factors have been considered by the Directors which confirms the Group's ability to meet its ongoing future commitments:

- The Group's ability to raise additional capital to support business growth, and the TMZ and hotel development projects
- A deposit reinvestment rate of 60% has been assumed in the company's liquidity analysis which is lower than actual average reinvestment rate of 62% as per Note 5 (Liquidity risk)
- A customer of the company is undergoing a debt/equity raise which will lower FEI's exposures
- Continued positive expected liquidity profile as per Note 5 (Liquidity risk)
- Forecast trading surplus

### Tomizone

As detailed in Note 10, the Group has a concentration of credit risk with TMZ, with a total exposure at 30 September 2019 of \$16m. The Group is engaged with TMZ on a restructure transaction. This will result in the Group converting approximately \$11m of receivable financing facilities into equity of TMZ. While the group has already raised \$3.0m, additional equity will be required to be raised to support the transaction and significantly strengthen the liquidity/capital position of the Group. The restructure programme is subject to a number of factors, including shareholder and regulatory approval, as well as the ability of TMZ to also raise capital. There are significant uncertainties from which the final outcome of the restructure may be different from what is outlined.

If a suitable transaction plan is not finalised with TMZ by the next reporting date, then the Group will need to exercise its rights under its security arrangement and take control of the assets and business of TMZ and related entities. The Group notes that it would still have to raise similar amounts of equity but would maintain the cashflow associated under this option. These financial statements have been prepared on the key assumption that the transaction with TMZ will be successfully completed substantially in line with the current plan. The impact of these plans not being successful has not been quantified and would have a significant impact on the Group and could impact its ability to continue to trade as a Going Concern.

### Hotel Projects

Furthermore, as detailed in Note 4, the Group has significant exposure to two major Hotel developments in central Auckland with one key individual project manager/developer totaling \$17m. The recovery of the Loans Receivable is dependent on the successful completion of both of these developments. The hotel developments have most documentation in order, however construction has not yet commenced on either site. Nonetheless, both sites have been cleared and are ready for construction to begin. The key assumption on these hotel developments is the projected final sales price.

These financial statements have been prepared on the assumption that the hotels will be constructed on a timely basis and on budget and will be sold at a cap rate that provides an acceptable return to the developer, the Company and co-investors. If these projects are not successfully completed it would have a significant impact on the Group and could impact its ability to continue to trade as a Going concern.

### Deferred Tax Asset

The Group has recognised a Deferred Tax Asset (DTA) in relation to temporary differences on provision for credit losses and accruals. The recovery of the DTA is subject to the ability of the Group to continue to trade and generate taxable profits. It is also subject to meeting continuity of shareholder rules.



## 14. Subsequent Events

Mr Thatt Kiong (TK) Shim informed the FE Investments Group Limited (FEIG) Board of his decision to step down as a Non-Executive Director. The resignation was effective immediately on 28th November 2019.





## Directors' Declaration

In accordance with a resolution of the directors of FE Investments Group Limited, the directors of the Group declare that:

1. The financial statements and notes, as set out on pages 8 to 29, are in accordance with the Corporations Act 2001, including:
  - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 30 September 2019 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

A handwritten signature in blue ink, appearing to read 'Campbell Newman', with a stylized flourish at the end.

**Campbell Newman**

Chairman of the Board

Dated this 30 November 2019

## FE Investments Group Limited

Independent auditor's review report to the members

### Report on the Review of the Half-Year Financial Report

#### Disclaimer of Conclusion

We have reviewed the accompanying half-year financial report of FE Investments Group Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated condensed statement of financial position as at 30 September 2019, the consolidated condensed statement of profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we do not express a conclusion on the accompanying half-year financial report of the consolidated entity. Because of the significance of the matters described in the *Basis for Disclaimer of Conclusion* section of our report, we have not been able to obtain sufficient appropriate review evidence to provide a basis for a review conclusion on this half-year financial report.

#### Basis for Disclaimer of Conclusion

The half-year financial report includes three material balances for which we have been unable to obtain sufficient appropriate review evidence. These balances are:

- \$11m of Loans receivable from Tomizone
  - \$17m of Loans receivable from two hotel developments
  - \$1m of Deferred Tax Asset
- a) As stated in Note 10, the consolidated entity has \$11m of loans receivable from Tomizone and related entities and is working on a transaction which could result in the sale of this asset to the company. This successful completion of this arrangement is dependent upon a number of factors including the ability of both Tomizone and the company to raise additional capital. As the outcome of this transaction is based on future events, we were unable to obtain sufficient appropriate review evidence on this matter.
- b) As stated in Note 4, the consolidated entity has \$17m of loans receivable from two hotel developments in central Auckland. The ultimate collection of these receivables is dependent upon the successful completion of these projects on a timely basis and their sell down to investors. There are a number of significant uncertainties related to these projects, and we were unable to obtain sufficient appropriate review evidence on this matter.

#### ACCOUNTANTS & ADVISORS

Sydney Office  
Level 29, 66 Goulburn Street  
Sydney NSW 2000

Parramatta Office  
Level 7, 3 Horwood Place  
Parramatta NSW 2150

Telephone: +61 2 8263 4000  
**williambuck.com**

- c) As stated in Note 13 the consolidated entity has a Deferred Tax Asset of \$1m. The recoverability of this asset is dependent on the consolidated entity earning taxable profits in the future, and shareholder continuity is maintained. Due to the two uncertainties relating to the matters (a) and (b) above, we were unable to obtain sufficient appropriate review evidence on this matter.
- d) We draw attention to Note 13 in the financial statements, which discloses conditions that indicate the existence of material uncertainties, relating to the matters (a) and (b) above, surrounding the continuing use of the going concern assumption in the preparation of the half-year financial report.

We consider the impact of the above matters to be material and pervasive to the half-year financial report of the consolidated entity.

### **Responsibilities of the Directors for the Half-Year Financial Report**

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

### **Auditor's Responsibilities for the Review of the Half-Year Financial Report**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the consolidated entity's financial position as at 30 September 2019 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

However, because of the matters described in the *Basis for Disclaimer of Conclusion* section of our report, we were not able to obtain sufficient appropriate review evidence to provide a basis for review conclusion on the half-year financial report.

As the auditor of FE Investments Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the half-year financial report.

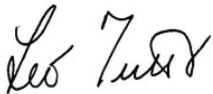
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards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

## **Independence**

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.



**William Buck**  
Accountants & Advisors  
ABN: 16 021 300 521



**L.E. Tutt**  
Partner

Sydney, 6 December 2019

## FE Investments Group Limited

### Auditors Independence Declaration under Section 307C of the Corporation Act 2001

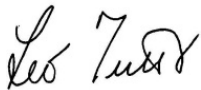
I declare that, to the best of my knowledge and belief during the half-year ended 30 September 2019 there have been:

- 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.

Yours faithfully,



**William Buck**  
Accountants & Advisors  
ABN: 16 021 300 521



**L.E. Tutt**  
Partner

Sydney, 6 December 2019

#### ACCOUNTANTS & ADVISORS

**Sydney Office**  
Level 29, 66 Goulburn Street  
Sydney NSW 2000

**Parramatta Office**  
Level 7, 3 Horwood Place  
Parramatta NSW 2150

Telephone: +61 2 8263 4000  
**williambuck.com**