



INNOVATION | EXCELLENCE | GROWTH



Annual Report

2019

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Our Vision

We are driven by a commitment to safety, innovation, excellence and growth while delivering high quality engineered solutions across the complete asset life cycle.



Our Values

Saunders Company Values



SAFETY

One team, one goal,
zero harm

INTEGRITY

In all of our decisions

INNOVATION

Application of information,
imagination & innovation

TEAMWORK

Passionate people working
together to deliver excellence

LEADERSHIP

Passionate people working
together to deliver excellence

Values Aligned Employee Behaviours

- * Safety first culture imbedded in everything we do
- * Empowered to stop work
- * In our behaviour at work and home

- * Be accountable for our actions, results, successes and failures
- * Be honest and reliable
- * Deliver on our commitments

- * Continually challenge ourselves to improve
- * Anticipate and create solutions that meet our customers' needs and exceed their expectations
- * Collaborate with others to bring ideas to life

- * Inspire others to reach their full potential
- * Collaborate with ourselves and our customers in finding solutions
- * Recognise and reward high performance

- * Show personal drive - Engage with and motivate others
- * Demonstrate the leadership to speak up and challenge the status quo
- * Give clear, candid and timely feedback

Saunders Capabilities

Saunders International Ltd (SND) is an ASX-listed company that provides construction, maintenance and civil engineering services to the energy, resources and infrastructure sectors.

With over 65 years' experience, Saunders uses in-house expertise to deliver a comprehensive range of projects that includes design, manufacture, construction, installation and maintenance services.

Saunders is a company built on integrity with a commitment to safety, performance and excellence. Our success is driven by our ability to build strong relationships and mutually beneficial partnerships to produce positive outcomes for our clients, our people, and the wider community.





ONETEAM

Our company,
our future, our time.

INNOVATION

think differently, try new things, continually challenge ourselves to improve

EXCELLENCE

in safety, our work, our teamwork, our communication

GROWTH

growing and developing as individuals and strong, effective teams

SAUNDERS
INTERNATIONAL

Chairman's Letter



Dear Shareholder,

I present the Chairman's Letter for the 2019 Annual Report.

The revenue in FY19 of \$50 million was 33% less than the record \$75 million achieved in the prior year. The tank construction sector in Australia is experiencing a very price competitive cycle. Tank construction opportunities in PNG and the Pacific Islands have been slower to come to market this year than we expected.

The net loss after tax for FY19 of \$1.6 million is disappointing. This loss can primarily be attributed to loss incurred by tank construction business as a result of the aforementioned low revenue for the year. The other significant components were further losses in the previously disclosed bridge maintenance project and a minus \$0.6 million impact on the result as a consequence of our Perth based client for the Lake Cowal project going into voluntary administration last week.

The previously advised operational and organisation restructure of the Company during FY19 is essentially complete. The severe revenue contraction experienced by the tank construction business in FY19 is vindication of the tough decision taken to shut down the workshop and move to a more flexible outsourcing model. Due to timing factors, the benefits of the restructure only marginally impacted on FY19. The full benefits are expected in FY20 and beyond.

The Civil Infrastructure business (bridge construction and precast concrete manufacture) achieved modest growth in revenue over the prior year. The pipeline of opportunities from upcoming rail and road infrastructure projects looks strong. Management continue to be focussed on improving profit margins and safety performance in an environment of competition for appropriately skilled manpower resources.

The Asset Services business (including tank maintenance) achieved a revenue in line with FY18. Management is focused on growing this business via a more diverse range services being offered in FY20 and beyond.

The safety of our employees is our highest priority. We continually review our safety performance and invest in improvements of the safety processes and systems. I am pleased that proactive and ongoing management and employee involvement has enabled the Company to achieve the milestone of 2 million manhours without a lost time injury. The board and management are committed to continual improvement of our systems, procedures and safety culture.

I wish thank Malcolm McComas for his very valuable contribution to the board over the 7 years until his resignation in May. I thank my fellow directors and on behalf of the board, I wish to thank all the Company's employees for their efforts during the year.

Timothy Burnett
Chairman

Board of Directors



MR TIMOTHY BURNETT

Chairman & Non-Executive Director

Mr Burnett has over 38 years' experience in the management of engineering and construction projects and companies, of which 15 years was spent as Managing Director of Saunders International. Prior to joining Saunders, he was a Senior Manager with Brown & Root Inc for 9 years where he managed the construction of marine oil and gas facilities in Europe, Asia and Australia. Mr Burnett has a Bachelor of Engineering (Civil) degree from Melbourne University and a MBA degree from Harvard University. Mr Burnett has been a Director of Saunders since 1990 and he is not considered to be an Independent Director.



MR MARK BENSON

Managing Director & Chief Executive Officer

Mr Benson - GAICD - has 25 years' experience in executive management roles in the engineering and construction industry. His most recent role, prior to joining Saunders International, was General Manager of RCR Energy, a division of ASX Company RCR Tomlinson. In addition, he also held senior positions on several major utility alliances. Mr Benson holds an Advanced Diploma in Management, and has an electrical engineering background. Mr Benson has been a Director of Saunders since 10 August 2015 and Managing Director since 5 October 2015. He is not considered to be an Independent Director.



MR GREG FLETCHER

Non-Executive Director

Mr Fletcher - BComm - is a company Director having retired from the Deloitte partnership in 2009 to take on board roles. He is Vice President of ASX listed companies Yancoal Australia Limited and is the Chairman of privately owned SMEG Australia Pty Ltd. He is a member of the TAFE NSW Board and the Chairman and member of the Audit and Risk Committee of a number of government-owned businesses and entities. Mr Fletcher has been a Director of Saunders since 1 July 2015 and he is considered to be an Independent Director.



ACN 050 287 431

FINANCIAL REPORT

for the financial year ended

30 June 2019

DIRECTORS' REPORT

The Directors present their report on Saunders International Limited ("Saunders" or the "Group") for the financial year ended 30 June 2019 and the independent audit report thereon. In order to comply with the provisions of the *Corporations Act 2001*, the Directors reports as follows:

DIRECTORS

The Directors as at the date of this Director's Report are:

Timothy Burnett
 Mark Benson
 Gregory Fletcher
 Malcolm McComas (resigned as Director 29th May 2019)

Except for Mr. McComas, the above-named directors held office during the whole of the financial year and since the end of the financial year up the date of this report.

COMPANY SECRETARY

Steven Dadich was Company Secretary during the whole year and up to the date of this report.

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

A summary of the revenues and results is as follows: -

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Revenue | 50,126 | 75,368 |
| (Loss)/Profit before restructure costs | (2,260) | (2,766) |
| Restructure costs | - | (1,447) |
| (Loss)/Profit after restructure costs | (2,260) | (4,213) |
| Income tax benefit / (expense) | 650 | 1,373 |
| (Loss)/Profit attributable to the members of Saunders International Limited | (1,610) | (2,840) |

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| (Loss)/Profit attributable to the members of Saunders International Limited | (1,610) | (2,840) |
| Add: Restructure costs net of tax | - | 1,013 |
| Underlying (Loss)/Profit excluding restructure costs net of tax | (1,610) | (1,827) |

Operating and Financial Review

The past 12 months have been both challenging and productive for the Saunders Group. Due to the poor FY18 result, a number of measures have been taken to rectify and strengthen the Group through the recent operational and organisational restructure. The restructure focussed on the initiatives that would modify and strengthen the Group's operating model to deliver greater value to its customers and shareholders through a lean and agile organisation.

The measures implemented in FY19 include:

- Closure of the Sydney workshop and relocation of head office to Rhodes which will reduce fixed costs.
- Right-sizing of the organisational structure with the ability to flex in line with workload, without limiting the ability to service the current pipeline of projects.

These above corrective measures and changes will reduce the annualised fixed operating costs by approximately \$1.0 million.

In addition, we have undertaken a review of Board composition, and a search to identify another industry professional to replace the position vacated by Malcom McComas, with a view to further diversify and enhance the current Board.

Group revenue for the year is \$50.1 million, a decrease of \$25.2 million or 33.5% under (FY18:\$75.4 million) and the NPAT was a loss of \$1.6 million, an improvement of \$1.2 million or 43.3% over (FY18: \$2.8 million), EBITDA was a loss of \$1.2 million (FY18: \$3.2 million) an improvement of 62.5%.

This year's financial result is largely attributable to the following:

- a highly competitive market in the core tank construction sector which resulted in significantly reduced revenue and margins;
- losses on a NSW bridge maintenance project, now completed, and
- an adverse \$0.6 million impact on EBITDA with a Perth based client for the completed Lake Cowal project which entered into voluntary administration last week.

Whilst FY19 did not deliver on revenue and earnings expectations, the Saunders Board and Executive Team has been working hard to ensure Saunders is well positioned to improve its financial performance in FY20 and beyond.

The loss per share was 1.72 cents, compared to the FY18 loss of 3.03 cents per share.

Cash outflows from operating activities were \$3.32 million, an increase of 142.3% on the prior year (FY18: \$1.37 million). The main drivers for the decrease in cash and cash equivalents were the completion of the business restructure and associated payment of employee entitlements and the operational loss in FY19.

The directors consider the Group to be in a strong financial position at year end with cash and cash equivalents of \$8.03 million (FY18: \$12.38 million). The cash and cash equivalents of 30 June 2019 is equivalent to 7.81 cents per share (FY18: 13.23 cents per share). The Group still has no interest-bearing loans, except for finance leases. The net tangible assets per share is 19.62 cents (FY18: 23.12 cents).

Outlook

Work in hand as at 30 June 2019 is reported as \$60.5m (FY18: \$42M), there has been a further \$5.7m already added in FY20. Tendering activity shows the value of live tenders at \$203.8 million. The pipeline (yet to be tendered) is at \$210.7 million.

Our new 2025 strategy was recently endorsed by the board and includes a clear initiative to continue the diversification and growth of the business, with a focus on higher margin projects driven by our technical engineering capabilities.

Saunders is confident that the actions we have taken over the past 12 months will serve us well in the 2020 financial year and beyond.

Employees

The Group's total workforce managed by Saunders was approximately 186 to 226.

Saunders remain focused on investing in people and capability to ensure the achievement of our vision and strategic objectives. A company wide culture programme was rolled out in FY19, Saunders "One Team".

The directors wish to recognise and thank the contribution made by all employees during this year.

Safety

During the year, Saunders Total Recordable Injury Frequency Rate (TRIFR) improved to from 8.92 to zero whilst achieving 2 million man hours LTI free. While some of this is attributed to a slower year, the Group is confident that our safety is focussed on the correct areas with our leaders committed to the Health, Safety and Welfare of our staff. We have achieved our One Team – Zero Harm targets through continual improvements of our systems, procedure and processes.

This supports a continued improvement of 17.5% from previous year ending 2018.

Earnings per share

The basic and diluted earnings per share is calculated using the weighted average number of shares. This shows the basic and diluted loss per share at 1.72 cents (2018: basic and diluted loss per share 3.03 cents.)

DIVIDEND

The Board has declared that due to the financial performance in FY2019 there will not be a final dividend payable for FY2019. (FY2018 final dividend NIL).

DIRECTORS ATTENDANCE AT MEETINGS

Attendance at Meetings

The following table sets out the number of meetings in the year to 30 June 2019, held during the period that the individual was a director and the number of meetings attended.

| | Directors Meetings | | Audit and Risk Committee Meetings | | Remuneration Committee Meetings | |
|-----------------|--------------------|----------|-----------------------------------|----------|---------------------------------|----------|
| | Held | Attended | Held | Attended | Held | Attended |
| Timothy Burnett | 14 | 14 | 4 | 4 | 3 | 3 |
| Mark Benson | 14 | 14 | - | - | - | - |
| Greg Fletcher | 14 | 13 | 4 | 4 | 3 | 3 |
| Malcolm McComas | 13 | 13 | 4 | 3 | 3 | 2 |

INFORMATION ON DIRECTORS

Information on the directors who held office during and since the end of the financial year is as follows:-

| Directors | Qualifications, Experience and Special Responsibilities | Relevant Interest in Shares of Saunders International Limited |
|-----------------|--|---|
| Timothy Burnett | Non-executive Chairman Member of the Audit & Risk Committee Member of the Remuneration Committee Director since 28 November 1990 BE, MBA, FAICD 44 years of relevant industry experience Other listed company directorships in the 3 years immediately before the end of the financial year - Nil | 11,556,548 |

INFORMATION ON DIRECTORS (Cont'd)

Information on the directors who held office during and since the end of the financial year is as follows: -

| Directors | Qualifications, Experience and Special Responsibilities | Relevant Interest in Shares of Saunders International Limited |
|---|---|---|
| Mark Benson | Managing Director from 5 October 2015 Director since 10 August 2015 AdvDipMan, AdvDipProjMgt, GAICD 25 years of relevant industry experience Other listed company directorships in the 3 years immediately before the end of the financial year - Nil | 564,240 |
| Greg Fletcher | Non-Executive Director Chairman of the Audit & Risk Committee Member of the Remuneration Committee Director since 1 July 2015 BCom, CA - Chairman SMEG Australia Pty Ltd - Chairman of Audit and Risk Committees on a number of Government owned businesses Other listed company directorships - Director TAFE NSW Commission - Co Vice Chairman Yancoal Australia Limited Other listed company directorships in the 3 years immediately before the end of the financial year – - Director Yancoal SNC Limited Greg was a Partner of Deloitte Touche Tohmatsu until 31 May 2009, and Deloitte Touche Tohmatsu has been the registered auditor of Saunders since the year ended 30 June 2007 | 5,360 |
| Malcolm McComas (Resigned 29 May 2019) | Non-executive Director Chairman of the Remuneration Committee Member of the Audit & Risk Committee Director since 4 September 2012 B Ec, LLB, FAICD, SFFin 35 years of relevant experience as a lawyer, investment banker and company director Other listed company directorships in the 3 years immediately before the end of the financial year – Pharmaxis Ltd (Chairman) Fitzroy River Corporation Ltd (Chairman) Royalco Resources Limited | 83,250 |

AUDITED REMUNERATION REPORT

This remuneration report, which forms part of the directors' report, contains information about the remuneration of Saunders International Limited's directors and its key management personnel for the financial year ended 30 June 2019. The Remuneration Report sets out, in accordance with section 300A of the Corporations Act: (i) the Group's governance relating to remuneration, (ii) the policy for determining the nature and amount or value of remuneration of key management personnel; (iii) the various components or framework of that remuneration; (iv) the prescribed details relating to the amount or value paid to key management personnel, as well as a description of any performance conditions; (v) the relationship between the policy and the performance of the Group.

Key management personnel are the non-executive directors, the executive directors and employees who have authority and responsibility for planning, directing and controlling the activities of the entity.

Remuneration Policy and Governance

The board of directors, through the Remuneration Committee, review and approve remuneration of the non-executive directors, the managing director and key management personnel. Remuneration policy is determined by the needs of the Group and the individual talents, capabilities and experience of relevant executives, and the need to attract and retain talent are considered important factors in assessing remuneration.

Non-executive Directors

Non-executive directors are paid fees and where applicable compulsory superannuation contributions are made on their behalf. The current fees are based on the level of fees for comparable listed companies and were reviewed during the year.

The non-executive directors have not been granted options and have not participated in the Employee Share Plan or the Performance Rights Plan.

Managing Director

The managing director is remunerated on a salary package basis which is a component of a formal employment contract. The salary package is considered to be appropriate for the experience and expertise needed for the position and is comparable to other similar sized companies and business units of larger companies. The salary package contains a fixed component and a variable bonus component. The bonus is based on an annual performance appraisal as conducted by the remuneration committee of the board of directors. The performance is measured against a range of objectives set annually by the board. The important objectives are safety, quality, personnel development, quantitative Group financial performance and certain other (subjective and objective) criteria.

The managing director has also participated in the Employee Share Plan and the Performance Rights Plan. Mark Benson holds 450,000 options within the Employee Share Plan and 921,863 performance rights under the Saunders International Performance Rights Plan.

Key Management Personnel

Key management personnel are remunerated based on a number of factors, including experience, qualifications, job level and over performance of the company and individual. The remuneration includes a variable short term incentive (STI), between 10%-60% of salary component. This incentive rewards the key management personnel achieving; financial and operational key performance indicators; progress with the delivery of the Group's business plan and strategic objectives; and specific goals in relation to the development of people within the Group and its profile within the business community.

Examples of key performance indicators measured to assess STI for the Key Management Personnel and Managing Director include:

- achievement of target work in hand levels at 30 June of each year to ensure the sustainability of revenue in subsequent years;
- targets set in relation to the achievement of the Group's business plan such as the diversification of the business and entry into new markets; and
- targets set for safety performance based on Total Recordable Injury Free.

These indicators form approximately 50% of assessable STI with the remaining 50% focussed on the Financial Performance of the Group; EBIT and Cash at hand.

Key management personnel as disclosed on page 14 of the remuneration report have participated in the Employee Share Plan.

AUDITED REMUNERATION REPORT (Cont'd)

Long Term Incentive

The board of directors have considered the issue of long term incentive as a component of the remuneration of executive directors and key management personnel.

Saunders operates two Long Term Incentive ("LTI") plans, which are described below:

- Employee Share Plan
- Performance Rights Plan

As of the date of this report a number of executive officers' own shares in the Group or interests via the Employee Share Plan and the Performance Rights Plan. Key management personnel, who are not directors, collectively have an interest in 116,250 shares under the Employee Share Plan. In addition, other employees own 809,375 shares.

The breadth and depth of share ownership fosters an alignment of objectives between shareholders and directors and management of the Group.

Employee Share Plan

Under the Employee Share Plan (ESP), the Group provides interest free loans to employees to acquire shares in Saunders International Limited, at a specified price per share. The loans are secured by the shares acquired by the eligible employees. The shares will vest and the loans will be repaid, upon a specified anniversary of the issue of the shares. If an eligible employee's employment with the Group is terminated prior to the specified anniversary of the issue of the shares, the shares will be forfeited, and the Group will be entitled to the total amount raised pursuant to the divestment of the shares. The shares are accounted for as in substance options.

Each employee share option converts into one ordinary share of Saunders International Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the year 10,000 options were granted to Key Management Personnel under the ESP. The aggregate fair value of the options granted is \$1,248 as set out on page 15.

Performance Right Plan

The Saunders International Rights Plan was approved by the Board and approved by shareholders at the Annual General Meeting in November 2015.

The features of the long-term incentive comprise the grant of equity in the form of Performance Rights which vest over a three year period. The maximum number of Performance Rights will vest only if stretch objectives for each tranche are achieved. Half of the Performance Rights will vest if the target objectives are achieved. The end of the measurement period for a tranche of Performance Rights will be extended by up to two years at the Board's discretion if significantly less than target vesting would have been achieved for that tranche at the end of the measurement period, adjusted for the pro-rata increase in hurdles to take into account the additional time. The two vesting conditions that will be used will be relative total shareholder return (RTSR) and normalised earnings per share growth (NEPSG).

RTSR will be measured by comparing the Group's TSR over the measurement period with the TSRs achieved by companies that are in a comparator group and remain listed on the ASX. TSR is the percentage return generated from an investment in a Group's shares over the measurement period assuming that dividends are reinvested into the Group's shares. NEPSG will be assessed as the compound annual growth rate (CAGR) reflected in the increase in normalised earnings per share (EPS) from the base year (FY2016) for tranches 1 to 8 and (FY2017) for tranches 9 and 10 to normalised EPS for the final year of the measurement period. Normalised EPS will relate to normal operations and will exclude abnormal items as determined by the Board in its discretion.

For the phase in tranches where the measurement period is less than three years, performance will be evaluated by the Board's assessment of the establishment of strategic foundations for superior TSR and NESPG over the long term. For future grants, it is currently intended that the qualitative vesting conditions will be removed (but retaining TSR and NESPG), and that measurement periods will be no shorter than 3 years.

The vesting scale will be applied to the tranches subject to objective measurement of Saunders performing relative to the comparator group and NEPSG, as appropriate, with the vesting scale ranging continuously from 0% for very poor performance to 100% for very good performance with 50% for on-target performance.

The long-term incentive is aimed at aligning remuneration with the longer-term performance of the Group and retaining the long-term services of the key management personnel.

AUDITED REMUNERATION REPORT (Cont'd)

Performance Right Plan (cont)

During the year 502,110 Performance Rights were granted to the CEO under the LTI Plan. The aggregate fair value of the Performance Rights granted is \$204,197 as set out on page 15. A further 211,325 Performance Rights were granted to other KMP under the LTI Plan. The aggregate fair value of the Performance Rights granted to other KMP is \$134,649 as set out on page 15

Key Terms of Employment Contracts

The Group entered into an executive service agreement with Mark Benson as Managing Director and Chief Executive Officer effective 5 October 2015. The remuneration component of the new agreement is in line with relevant industry comparables. The variable component (Performance Bonus) can range anywhere between 0% to 60% of the fixed component based on performance measured against a range of key performance indicators and targets, set annually by the directors. The attainment of realistically achievable performance and targets on a weighted average measure would result in a bonus of 30% of the fixed component and bonus above and below this would result from overall superior or poorer performance.

The executive service agreement contains the following key terms: -

| | |
|----------------------|--|
| Annual Salary: | Total fixed remuneration of \$515,049 |
| Performance Bonus: | Variable, ranging from 0% to 60% of total fixed annual remuneration, based on performance measured against a range of key performance indicators |
| Long Term Incentive: | Variable, ranging from 0% to 40% of total fixed annual remuneration, based on performance measured against a range of key performance indicators |
| Notice Period: | Six months' notice |

Executive officers are employed under ongoing employment arrangements. Their employment thus entails between three to six months' notice. This is considered appropriate because they have many years of service with the Group and are shareholders of the company.

Relationship between Remuneration Policy and Company Performance

The remuneration of executive officers contains an annual cash bonus. The total cash bonus paid in a year is discretionary and is closely related to and determined by the current profit levels of the Group.

Executive officer's remuneration is aligned with the long-term Group performance via the shareholdings that these individuals retain in the Group.

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2019:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 | 30 June 2017 \$'000 | 30 June 2016 \$'000 | 30 June 2015 \$'000 |
|-------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Revenue | 50,126 | 75,368 | 45,805 | 41,828 | 43,954 |
| Net (loss)/profit before income tax | (2,260) | (4,213) | 1,336 | 3,705 | 6,324 |
| Net (loss)/profit after income tax | (1,610) | (2,840) | 1,428 | 2,891 | 4,431 |

| | 30 June 2019 | 30 June 2018 | 30 June 2017 | 30 June 2016 | 30 June 2015 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Share price at end of year | 0.33 | 0.47 | 0.50 | 0.50 | 0.60 |
| Interim dividend (cents per share) | 0.00 | 1.00 | 2.00 | 2.00 | 2.00 |
| Final dividend (cents per share) | 0.00 | 0.00 | 1.00 | 2.00 | 4.00 |
| Basic (losses)/earnings per share | (1.72) | (3.03) | 1.76 | 3.68 | 5.64 |
| Diluted (losses)/earnings per share | (1.72) | (3.03) | 1.76 | 3.65 | 5.60 |

All dividends above were franked to 100% at 30% corporate tax rate.

AUDITED REMUNERATION REPORT (Cont'd)

Particulars of Directors and Executive Officers interests, including interests under the ESP and Performance Rights Plan during the year ended 30 June 2019 were:

| | Fully paid ordinary shares 2018 | Fully paid ordinary shares issued/purchased during 2019 | Fully paid ordinary shares 2019 | Share options 2018 | Share options vested during 2019 | Share options granted during 2019 | Share options at end 2019 | Performance rights 2018 | Performance rights granted during 2019 | Performance Rights vested during 2019 | Performance rights at end 2019 |
|--------------------------------|---------------------------------|---|---------------------------------|--------------------|----------------------------------|-----------------------------------|---------------------------|-------------------------|--|---------------------------------------|--------------------------------|
| | Number | Number | Number | Number | Number | Number | Number | Number | Number | Number | Number |
| Non-executive Directors | | | | | | | | | | | |
| Timothy Burnett | 11,556,548 | - | 11,556,548 | - | - | - | - | - | - | - | - |
| Malcolm McComas | 83,250 | - | 83,250 | - | - | - | - | - | - | - | - |
| Greg Fletcher | 5,360 | - | 5,360 | - | - | - | - | - | - | - | - |
| TOTAL | 11,645,158 | - | 11,645,158 | - | - | - | - | - | - | - | - |
| Executive Officers | | | | | | | | | | | |
| Mark Benson ¹ | 446,582 | 117,658 | 564,240 | 450,000 | - | - | 450,000 | 895,943 | 502,110 | 476,190 | 921,863 |
| Rudy Sheriff ² | - | - | - | 50,000 | - | - | 50,000 | 127,572 | 155,354 | - | 282,926 |
| David Griffiths ³ | - | - | - | 33,750 | - | - | - | 48,355 | 59,035 | - | - |
| Ian McLoughlin ⁴ | 22,498 | - | 22,498 | 309,375 | - | - | - | 46,663 | 60,736 | - | - |
| Jonathon Bromilow ⁵ | - | - | - | 56,250 | - | 10,000 | 66,250 | 45,474 | 55,971 | - | 101,445 |
| TOTAL | 469,080 | 117,658 | 586,738 | 899,375 | - | 10,000 | 566,250 | 1,164,007 | 833,206 | 476,190 | 1,306,234 |
| GRAND TOTAL | 12,114,238 | 117,658 | 12,231,896 | 899,375 | - | 10,000 | 566,250 | 1,164,007 | 833,206 | 476,190 | 1,306,234 |

1.CEO Managing Director, 2. Chief Financial Officer 3. GM Business Development & Strategy 4.GM Engineering Construction and Maintenance 5. GM Saunders Civilbuild.

AUDITED REMUNERATION REPORT (Cont'd)

The following table summarises the value of options and performance rights granted during the financial year, in relation to options granted to key management personnel as part of their remuneration:

| | Share options granted during 2019 | Share options forfeited during 2019 | Share options vested during 2019 | Performance rights granted during 2019 | Performance rights forfeited during 2019 | Performance rights vested during 2019 |
|--------------------------------|-----------------------------------|-------------------------------------|----------------------------------|--|--|---------------------------------------|
| | Fair Value \$ | Fair Value \$ | Fair Value \$ | Fair Value \$ | Fair Value \$ | Fair Value \$ |
| Non-executive Directors | | | | | | |
| Timothy Burnett | - | - | - | - | - | - |
| Malcolm McComas | - | - | - | - | - | - |
| Greg Fletcher | - | - | - | - | - | - |
| TOTAL | - | - | - | - | - | - |
| Executive Officers | | | | | | |
| Mark Benson ¹ | - | - | - | 204,197 | - | 219,047 |
| Rudy Sheriff ² | - | - | - | 63,179 | - | - |
| David Griffiths ³ | - | 7,166 | - | 24,008 | 24,008 | - |
| Ian McLoughlin ⁴ | - | 73,893 | - | 24,700 | 24,700 | - |
| Jonathon Bromilow ⁵ | 1,248 | - | - | 22,762 | - | - |
| TOTAL | 1,248 | 81,059 | - | 338,846 | 48,708 | 219,047 |
| GRAND TOTAL | 1,248 | 81,059 | - | 338,846 | 48,708 | 219,047 |

The value of the options and rights granted to key management personnel as part of their remuneration is calculated as at the grant date using a Black-Scholes pricing model. The amounts disclosed as part of remuneration for the financial year, as disclosed on page 16, have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date. Further details are set out in Note 12.

1. CEO Managing Director, 2. Chief Financial Officer 3. GM Business Development & Strategy 4. GM Construction & Asset Services, 5. GM Saunders Civilbuild.

In 2019, Mr. Benson received 30% of his total entitlement pertaining to his Long Term Incentive which vested in 2018.

AUDITED REMUNERATION REPORT (Cont'd)

Remuneration of Executive Officers and Key Management Personnel

| 2019 | Short-term Benefits | | | Post-employment Benefits | Long term employee benefits | Total | Percentage of remuneration related to performance | Cash Bonus as a percentage of maximum achievable ⁸ |
|--------------------------------|---------------------|-------------------------|-----------------------------------|--------------------------|-------------------------------------|------------------|---|---|
| | Cash Fees/Salary | Cash Bonus ⁶ | Non-monetary Benefit ⁷ | Superannuation | Equity settled share based payments | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Non-executive Directors | | | | | | | | |
| Timothy Burnett | 115,069 | - | - | 10,931 | - | 126,000 | - | - |
| Greg Fletcher | 57,534 | - | - | 5,923 | - | 63,457 | - | - |
| Malcolm McComas | 63,000 | - | - | - | - | 63,000 | - | - |
| TOTAL | 235,603 | - | - | 16,854 | - | 252,457 | - | - |
| Executive Officers | | | | | | | | |
| Mark Benson ¹ | 471,921 | 139,990 | 22,677 | 20,451 | 12,149 | 667,188 | 22.8 | 45.3 |
| Rudy Sheriff ² | 281,437 | 44,821 | 12,369 | 20,451 | 21,879 | 380,957 | 17.5 | 57.1 |
| David Griffiths ³ | 218,538 | - | - | 20,451 | - | 238,989 | 0.0 | 0.0 |
| Ian McLoughlin ⁴ | 222,007 | - | 9,542 | 25,000 | - | 256,549 | 0.0 | 0.0 |
| Jonathon Bromilow ⁵ | 218,311 | 21,224 | - | 19,953 | 7,882 | 267,370 | 10.9 | 59.4 |
| TOTAL | 1,412,214 | 206,035 | 44,588 | 106,306 | 41,910 | 1,811,053 | | |
| GRAND TOTAL | 1,647,817 | 206,035 | 44,588 | 123,160 | 41,910 | 2,063,510 | | |

No director or senior management person appointed during the year received a payment as part of his or her remuneration for agreeing to hold the position. Non-executive directors have no entitlement to cash bonus or non-monetary benefits. The key management personnel are also the senior managers of the Group. The value of the options and rights granted to key management personnel as part of their remuneration is calculated as at the grant date using a Black-Scholes pricing model. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.

1. CEO Managing Director. 2. Chief Financial Officer. 3. GM Business Development & Strategy. 4. GM Construction & Asset Services. 5. GM Saunders Civilbuild. 6. Cash bonuses are disclosed on an accruals basis and represent the amount earned in respect of the current financial year. 7. Non-monetary benefits relate to motor vehicle or other expenses packaged within the employee's salary package. 8. Excludes equity settled share based payments. Cash bonuses are discretionary and are determined by the Board in September of each year.

AUDITED REMUNERATION REPORT (Cont'd)

| 2018 | Short-term Benefits | | | Post-employment Benefits Superannuation | Long term employee benefits | Total | Percentage of remuneration related to performance | Cash Bonus as a percentage of maximum achievable ⁹ |
|--------------------------------|---------------------|-------------------------|-----------------------------------|--|-------------------------------------|------------------|---|---|
| | Cash Fees/Salary | Cash Bonus ⁷ | Non-monetary Benefit ⁸ | | Equity settled share based payments | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Non-executive Directors | | | | | | | | |
| Timothy Burnett | 115,069 | - | - | 10,776 | - | 125,845 | - | - |
| Greg Fletcher | 57,534 | - | - | 6,113 | - | 63,647 | - | - |
| Malcolm McComas | 67,050 | - | - | - | - | 67,050 | - | - |
| TOTAL | 239,653 | - | - | 16,889 | - | 256,542 | - | - |
| Executive Officers | | | | | | | | |
| Mark Benson ¹ | 490,440 | - | - | 25,040 | 120,422 | 635,902 | 18.9 | 0.0 |
| Rudy Sheriff ² | 184,701 | 34,720 | 15,644 | 10,333 | 16,223 | 261,621 | 19.5 | 65.9 |
| David Griffiths ³ | 214,955 | 10,256 | - | 20,049 | 7,120 | 252,380 | 6.9 | 29.1 |
| Robert Patterson ⁴ | 117,585 | 6,971 | 14,624 | 14,434 | 8,256 | 161,870 | 9.4 | 31.7 |
| Ian McLoughlin ⁵ | 190,029 | 19,167 | 14,921 | 25,764 | 25,042 | 274,923 | 16.1 | 55.4 |
| Jonathon Bromilow ⁶ | 204,129 | 14,203 | - | 19,211 | 8,305 | 245,848 | 9.2 | 42.4 |
| TOTAL | 1,401,839 | 85,317 | 45,189 | 114,831 | 185,368 | 1,832,544 | | |
| GRAND TOTAL | 1,641,492 | 85,317 | 45,189 | 131,720 | 185,368 | 2,089,086 | | |

1. CEO Managing Director. 2. Chief Financial Officer – The amount of remuneration covers the period from 20 November to 30 June 2018. 3. GM Business Development & Strategy. 4. GM Engineering & Construction/Key Account Manager. 5. GM Construction & Asset Services 6. GM Saunders Civilbuild. 7. Cash bonuses are disclosed on an accruals basis and represent the amount earned in respect of the current financial year. 8. Non-monetary benefits relate to motor vehicle or other expenses packaged within the employee's salary package. 9. Excludes equity and share based payments. Cash bonuses are discretionary and are determined by the Board in September of each year.

Changes in State of Affairs

The Saunders Group reported a restructure provision in FY18, The restructure of the business included significant changes to the operating model, systems and processes to improve the position of the Group to operate profitably in the current competitive and cyclical market conditions. The long-term benefits will enable the business to be more productive and innovative in the way it delivers projects for customers. Saunders International will continue to deliver comprehensive services including; design, fabrication, construction, installation and maintenance of fuel storage tanks. The fabrication service offering will be provided through a panel of quality fabricators across Australia, Internationally and from our Newcastle facility. Key construction equipment has been relocated to the Group's Newcastle facility. The restructure project is forecast to be completed in the first quarter of FY20.

Subsequent Events

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

Future Developments

Details around the Operating and Financial Review and Outlook are disclosed on page 7 and 8. Disclosure of other information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Indemnification of Officers and Auditors

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the Group, the Group secretary, and all executive officers of the Group and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

Non-audit Services

Details of amounts paid or payable to the auditor for non-audit services are outlined in Note 25 to the financial statements. During this financial year there was \$7,852 paid or payable for non-audit services.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 19 of the annual report.

Rounding Off of Amounts

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

This directors' report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the Directors



Mark Benson
Director
Sydney, 28 August 2019



Timothy Burnett
Director
Sydney, 28 August 2019

Auditor's Independence Declaration

28 August 2019

Dear Board Members

Saunders International Limited

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

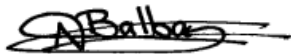
As lead audit partner for the audit of the financial statements of Saunders International Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Nathan Balban
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Saunders International Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Saunders International Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|--|
| <p>Recognition of revenue and work in progress on construction contracts</p> <p><i>Refer to Note 1(b) 'Construction Contracts', Note 1(j) 'Revenue', Note 2 'Critical accounting judgements and key sources of estimation uncertainty', Note 3 'Revenue' and Note 9 'Contract Assets and Contract Liabilities'.</i></p> <p>As at 30 June 2019 the Group's revenue from construction contracts is \$50.1 million.</p> <p>Construction revenue is recognised by management after assessing all factors relevant to each contract. Significant management estimation is required in assessing the following:</p> <ul style="list-style-type: none"> • Estimation of total contract revenue, including determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims; • Estimation of total contract costs, including revisions to total forecast costs for events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract; • Estimation of project contingencies; and • Estimation of stage of completion including determination of project completion date. | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating management's processes and key controls in respect of the recognition of revenue and work in progress on construction contracts; and • Testing a sample of contracts and: <ul style="list-style-type: none"> • agreed the contract terms to the initial contract price; • tested contractual entitlements for changes, variations and claims recognised within contract revenue to supporting documentation, and by reference to the underlying contract, • assessed management's basis for estimates of unapproved variations and claims brought to account within contract revenue, • tested a sample of costs incurred to date to supporting documentation; • assessed the forecast costs to complete through discussion and challenge of project managers and finance personnel; • recalculated the percentage of completion based on costs incurred to date relative to total forecast costs; • assessed appropriateness of contingency allowances within forecast costs; • evaluated exposure to liquidated damages for late delivery of works; and • challenged management's ability to forecast margins on contracts by analysing the accuracy of previous margin forecasts to actual outcomes. <p>We also assessed the appropriateness of the disclosures in Notes 1(b), 1(j), 2, 3 and 9 to the financial statements.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the Directors' Report for the year ended 30 June 2019.

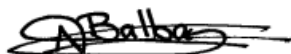
In our opinion, the Remuneration Report of Saunders International Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

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

Nathan Balban
Partner
Chartered Accountants
Sydney, 28 August 2019

Directors' Declaration

The directors declare that: -

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standard, as stated in Note 1 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group, and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



Mark Benson
Director
Sydney, 28 August 2019



Timothy Burnett
Director
Sydney, 28 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the Financial Year Ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|----------------|----------------|
| Revenue | 3 | 50,126 | 75,368 |
| Other income | 4 | 218 | 282 |
| Materials and third-party costs charged to projects | | (26,178) | (46,264) |
| Employee benefits expense | 4 | (21,768) | (27,178) |
| Depreciation expense | 4 | (1,070) | (1,043) |
| Motor vehicle expenses | | (286) | (362) |
| Occupancy and operating lease expenses | 4 | (714) | (952) |
| Restructure costs | 4 | - | (1,447) |
| Other expenses | | (2,588) | (2,617) |
| Loss before income tax attributable to shareholders of the parent entity | | (2,260) | (4,213) |
| Income tax benefit | 5 | 650 | 1,373 |
| Loss for the year attributable to shareholders of the parent entity | | (1,610) | (2,840) |
| Other comprehensive income | | - | - |
| Total comprehensive loss attributable to shareholders of the parent entity | | (1,610) | (2,840) |
| Losses per share | | | |
| Basic (cents per share) | 14 | (1.72) | (3.03) |
| Diluted (cents per share) | 14 | (1.72) | (3.03) |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 19(a) | 8,030 | 12,377 |
| Trade and other receivables | 6 | 8,475 | 6,590 |
| Contract Assets | 9 | 2,681 | 4,792 |
| Inventories | | 169 | 277 |
| Current tax asset | 5 | - | 241 |
| Other | | 286 | 108 |
| Total current assets | | 19,641 | 24,385 |
| Non-current assets | | | |
| Property Plant and equipment | 7 | 10,352 | 10,166 |
| Deferred tax assets | 5 | 2,825 | 1,855 |
| Total non-current assets | | 13,177 | 12,021 |
| Total assets | | 32,818 | 36,406 |
| Current liabilities | | | |
| Trade and other payables | 8 | 7,105 | 7,147 |
| Contract Liabilities | 9 | 1,785 | 1,252 |
| Provisions | 10 | 1,801 | 3,515 |
| Current tax liability | 5 | 160 | - |
| Borrowings | 11 | 122 | 90 |
| Lease incentives | | 35 | - |
| Total current liabilities | | 11,008 | 12,004 |
| Non-current liabilities | | | |
| Provisions | 10 | 94 | 585 |
| Borrowings | 11 | 381 | 327 |
| Lease incentives | | 138 | - |
| Total non-current liabilities | | 613 | 912 |
| Total liabilities | | 11,621 | 12,916 |
| Net assets | | 21,197 | 23,490 |
| Equity | | | |
| Issued capital | 12 | 19,701 | 19,652 |
| Shares buy-back reserve | 12 | (351) | (351) |
| Share based payments reserve | 12 | 581 | 623 |
| Retained earnings | 13 | 1,266 | 3,566 |
| Total equity | | 21,197 | 23,490 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the Financial Year Ended 30 June 2019

| | Issued capital \$'000 | Shares (Issued)/Vested Under Employee share plan \$'000 | Share Based Payments reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|---|--------------------------|--|---|--------------------------------|-----------------|
| Opening Balance | 11,588 | (351) | 460 | 8,322 | 20,019 |
| Loss for the year | - | - | - | (2,840) | (2,840) |
| Total comprehensive loss | - | - | - | (2,840) | (2,840) |
| <i>Transactions with owners in their capacity as owners</i> | | | | | |
| Dividends paid | - | - | - | (1,916) | (1,916) |
| Share capital issued under institutional placement and rights issue | 8,447 | - | - | - | 8,447 |
| Share issue costs | (542) | - | - | - | (542) |
| Income tax relating to share issue costs | 159 | - | - | - | 159 |
| Share-based payments expense | - | - | 163 | - | 163 |
| Balance at 30 June 2018 | 19,652 | (351) | 623 | 3,566 | 23,490 |
| Balance at 1 July 2018 (as previously reported) | 19,652 | (351) | 623 | 3,566 | 23,490 |
| Opening balance adjustment on application of AASB15 (Note 1(b)) | - | - | - | (690) | (690) |
| Balance at 1 July 2018 (restated) | 19,652 | (351) | 623 | 2,876 | 22,800 |
| | | | | | |
| Loss for the year | - | - | - | (1,610) | (1,610) |
| Total comprehensive loss | - | - | - | (1,610) | (1,610) |
| <i>Transactions with owners in their capacity as owners</i> | | | | | |
| Share based payments vested/lapsed | 49 | - | (49) | - | - |
| Share-based payments expense | - | - | 7 | - | 7 |
| Balance at 30 June 2019 | 19,701 | (351) | 581 | 1,266 | 21,197 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the Financial Year Ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 54,966 | 83,861 |
| Payments to suppliers and employees | | (58,710) | (85,075) |
| Interest received, and other costs of finance paid | | 45 | 62 |
| Income taxes refunded/(paid) | | 377 | (215) |
| Net cash used in operating activities | 19(b) | (3,322) | (1,367) |
| Cash flows from investing activities | | | |
| Payments for plant and equipment | 7 | (1,189) | (706) |
| Cash received on asset sales | | 180 | 19 |
| Net cash used in investing activities | | (1,009) | (687) |
| Cash flows from financing activities | | | |
| Dividends paid to shareholders | | - | (1,916) |
| Repayment of borrowings | | - | (2,500) |
| Payments relating to finance leases | | (81) | (19) |
| Proceeds from issue of shares | | - | 7,905 |
| Net cash (used in) / provided by financing activities | | (81) | 3,470 |
| Net (decrease) / increase in cash and cash equivalents | | (4,412) | 1,416 |
| Cash and cash equivalents at the beginning of the financial year | | 12,377 | 10,942 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 65 | 19 |
| Cash and cash equivalents at the end of the financial year | 19(a) | 8,030 | 12,377 |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

For the purpose of preparing the financial statements, the Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards ('AAS'). Compliance with AAS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 August 2019.

Basis of Preparation

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

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

Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2018. New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 9 Financial Instruments and related amending Standards; and
- AASB 15 Revenue from Contracts with Customers and related amending Standards

(a) AASB 9 Financial Instruments

In the current year, the Group has applied AASB 9 Financial Instruments (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 July 2018. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139. Saunders International has applied the standard from 1 July 2018.

AASB 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and general hedge accounting. The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 did not have a material impact on the Group's financial assets as regards to their classification and measurement.

The Group has no complex financial instruments and does not apply hedge accounting. As a result these changes following the adoption of AASB 9 have not impacted the Group.

The calculation of impairment losses impacts the way the Group calculates the bad debts provision, now termed the credit loss allowance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(b) AASB 15 Revenue from Contracts with Customers

In the current year, the Group has applied AASB 15 Revenue from Contracts with Customers which has come into effect from 1 July 2018. Details of the new requirements of AASB 15 as well as their impact on the Group's consolidated financial statements are described below. AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. It replaces existing guidance, including AASB 118 Revenue and AASB 111 Construction Contracts and related interpretations. The core principle of AASB 15 is that an entity shall recognise revenue when control of a good or service transfers to a customer. Significant judgements and estimates are used in determining the impact of AASB 15, such as the assessment of the probability of customer approval of variations and acceptance of claims, estimation of project completion date and assumed levels of project productivity.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statements of financial position. The Group has adopted the terminology used in AASB 15 to describe such balances. The Group's accounting policies for its revenue streams are disclosed in detail in Note 1(j) below.

Impact on application

The Group has applied AASB 15 retrospectively in accordance with the modified retrospective approach, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of equity and comparative figures therefore not restated. The adjustment has arisen from:

- the higher recognition thresholds for variable consideration under AASB 15 requiring a reduction in previously recognised contract value; and
- the change in the accounting treatment of capitalised tender costs.

The opening equity adjustment due to the application of the higher thresholds is analysed by financial statement line item below. The impact of applying AASB 15 on opening retained earnings was \$690,000 (after tax).

Impact on assets, liabilities and equity at 1 July 2018.

| | As reported at 30 June 2018 (\$'000) | AASB 15 Transition adjustments (\$'000) | Opening balance 1 July 2018 (\$'000) |
|---|---|--|---|
| Contract assets (previously Amounts recoverable from contracts) | 3,540 | (883) | 2,657 |
| Other assets | 108 | (103) | 5 |
| Deferred tax assets | 1,855 | 296 | 2,151 |
| Total assets impact | - | (690) | (690) |
| Retained earnings | 3,566 | (690) | 2,876 |
| Total equity impact | - | (690) | (690) |

The impact of applying AASB 15 on the current year balances are:

- An increase to Revenue and Contract assets of \$883,000 in relation to the change to variable consideration;
- A decrease to Employee benefits expense and Other assets of \$103,000 in relation to the change in capitalised tender costs; and
- An increase to Deferred tax assets and Income tax benefits of \$296,000.

Had AASB 15 not been applied and the financial statements were still produced under previous guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations, the financial report for the year ended 30 June 2019, would have been impacted by a reduction in revenue of \$883,000, an increase in employee benefits expense of \$103,000, a decrease in income tax expense of \$296,000 and a decrease in profit after tax of \$690,000.

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

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

- Engineering & Construction
- Services
- Fabrication & Construction

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

1. SUMMARY OF ACCOUNTING POLICIES (cont)

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

| Revenue stream | Performance obligation | Timing of recognition |
|--------------------------------------|--|--|
| Engineering and Construction Revenue | <ol style="list-style-type: none"> 1. The design and provision of plans for the construction of tanks. 2. The construction, site establishment, erection, commissioning and testing of tanks. | <ol style="list-style-type: none"> 1. Over the time of the design being created. 2. Over the time of the contract with the customer. |
| Services Revenue | <ol style="list-style-type: none"> 1. The maintenance, repair, rectification and minor capital works, of tanks and bridges. | <ol style="list-style-type: none"> 1. Over the time of the contract with the customer. |
| Fabrication and Construction Revenue | <ol style="list-style-type: none"> 1. The design and provision of plans for the construction of bridges. 2. The fabrication, construction, site establishment, erection, commissioning and testing of bridges. | <ol style="list-style-type: none"> 1. Over the time of the design being created. 2. Over the time of the contract with the customer. |

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

Accounting Standard in issue but not yet effective

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

| STANDARD | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| AASB 16 Leases | 1 July 2019 | 30 June 2020 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 July 2019 | 30 June 2020 |

Impact of adoption of AASB 16 Leases

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 July 2019. The Group has chosen the modified retrospective application of AASB 16 in accordance with AASB 16:C5(b).

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

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

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

Impact of adoption of AASB 16 Leases (cont)

The Group will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group has carried out an implementation project. The project has shown that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

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

On initial application of AASB 16, for all leases (except as noted below), the Group will:

- a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

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

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of \$1,500,000.

A preliminary assessment indicates that \$1,500,000 of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group estimates it will recognise a right-of-use asset of between \$1,100,000 to \$1,300,000 and a corresponding lease liability of between \$1,100,000 to \$1,300,000 in respect of all these leases. The impact on profit or loss is estimated to decrease occupancy and operating lease expenses by approximately \$270,000, to increase depreciation by approximately \$300,000 and to increase interest expense by approximately \$40,000. Lease liability incentives of \$173,000 previously recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right-to-use assets and lease liabilities.

Finance leases

The main differences between IFRS 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have a material impact on the amounts recognised in the Group's consolidated financial statements.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(c) Cash and Cash Equivalents

Cash of the Group comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Construction Contracts

The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the amount invoiced exceeds the revenue recognised to date then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue and the receipt of payment is always expected to be less than one year.

(e) Employee Benefits

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

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(f) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is recognised on temporary differences between the tax base of an asset or liability and its carrying amount in the financial statements. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

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

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

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

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(g) Leased Assets

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

(h) Plant and Equipment

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Note 7 provides more detail. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Freehold Land is not depreciated.

The following estimated useful lives are used in the calculation of depreciation: -

| | |
|--------------------------------|--------------|
| Buildings | 40 years |
| Plant and Equipment | 3 – 20 years |
| Office Furniture and Equipment | 3 – 7 years |

(i) Provisions

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

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

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

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

(j) Revenue

Revenue was previously recognised when it is probable that work performed will result in revenue whereas under the new standard, revenue is recognised when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer.

Under AASB 15, the Group accounts for revenue in the following way:

Engineering and Construction revenue

The Group derives revenue from the long-term construction of tanks across Australia and the Pacific region. Contracts entered into may be for the construction of one or several inter-linked pieces of large infrastructure. These contracts include two performance obligations being:

1. The design and provision of plans for the construction of tanks; and
2. The construction, site establishment, erection, commissioning and testing of tanks.

Each tank is referred to as a project. Where contracts are entered into for the design and construction of several projects the total transaction price is allocated across each performance obligation based on stand-alone selling prices. The transaction price typically contains a fixed lump sum amount. It is normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria known as variable consideration, discussed below.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(j) Revenue (cont)

The performance obligations are fulfilled over time and as such revenue is recognised over time. This is because as work is performed on the assets being designed or constructed they are controlled by the customer and have no alternative use to the Saunders Group, with the Group having a right to payment for the performance to date. Thus control of the goods and services is transferred to the customer over time.

Revenue earned is typically invoiced monthly or in some cases on achievement of milestones or in line with costs incurred. Invoices are paid on commercial terms, which may include the customer withholding a retention amount until finalisation of the construction. Where payment is received prior to or post recognition of revenue using the percentage cost of completion method, revenue is deferred or accrued for on the balance sheet.

Services revenue

Fixed price contracts

For fixed price services contracts, revenue arises from maintenance and other services supplied to infrastructure assets and facilities which may involve a range of services and processes. The Group has assessed the services provided to be one performance obligation. The transaction price typically contains a fixed lump sum amount. The total transaction price may include variable consideration.

Performance obligations are fulfilled over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, and the Group enhances assets which the customer controls as the Group performs. Thus control of the goods and services is transferred to the customer over time. Revenue is recognised as the services are provided using cost as the measure of progress.

Customers are in general invoiced on a monthly basis for an amount that is in line with costs incurred. Payment is received following invoicing on normal commercial terms. Where payment is received prior to or post recognition of revenue using the percentage cost of completion method, revenue is deferred or accrued for on the balance sheet.

Cost plus contracts

For cost plus services contracts, revenue arises from maintenance and other services supplied to infrastructure assets and facilities which may involve a range of services and processes. The Group has assessed the services provided to be one performance obligation.

Performance obligations are fulfilled over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, and Group enhances assets which the customer controls as the Group performs. Thus control of the goods and services are transferred to the customer over time.

Customers are in general invoiced on a monthly basis for an amount that is which is calculated on a cost plus basis that are aligned with the stand alone selling prices for each performance obligation. As the amount the Group is entitled to invoice to a customer corresponds directly with the value provided to the customer under the Group's performance completed to date, the Group has applied the practical expedient under AASB 15 and recognised revenue in the amount that they are entitled to invoice. Payment is received on normal commercial terms.

Fabrication and construction revenue

Fabrication and construction revenue arises from contracts maintained by the Group to fabricate components and construct bridges. These contracts include three performance obligations being:

1. The design and provision of plans for the construction of bridges; and
2. The fabrication, construction, site establishment, erection, commissioning and testing of bridges.

The transaction price typically contains a fixed lump sum amount. The total transaction price is allocated across each performance obligation based on stand-alone selling prices. It is normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria known as variable consideration, discussed below.

Each performance obligation is fulfilled over time as the Group enhances assets which the customer controls, for which the Group does not have alternative use and for which the Group has right to payment for performance to date. In some cases, the fabrication of bridge components can be contracted for by itself and in these cases, revenue will be recorded over time. Revenue is recognised as the services are provided using cost as the measure of progress.

Customers are in general invoiced on a monthly basis for an amount that is in line with costs incurred. Payment is received following invoice on normal commercial terms. Where payment is received prior to or post recognition of revenue using the percentage cost of completion method, revenue is deferred or accrued for on the balance sheet.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(j) Revenue (cont)

Variable consideration

Where consideration in respect of a contract is variable, the expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, known as “constraint” requirements. The Group assesses the constraint requirements on a periodic basis when estimating the variable consideration to be included in the transaction price. When calculating the estimates of variable consideration, the Group considers available information including historic performance on similar contracts and other information regarding events that affect the variability that are out of the control of the Group.

Where modifications in design or contract requirements are entered into, these are treated as a continuation of the original contract in accordance with the contract modification guidance in AASB 1, and the transaction price and measure of progress is updated to reflect these. Where the price of the modification has not been confirmed, this is treated as variable consideration and an estimate is made of the amount of revenue to recognise whilst also considering the constraint requirement.

Tender and contract costs

Costs incurred prior to the commencement of a contract that give rise to resources that will be used in the anticipated delivery of the contract and are expected to be recovered are capitalised. Typically, these are design costs. Where these contract assets are capitalised, they are amortised over the course of the contract consistent with the transfer of service to the customer. Tenders costs which are capitalised are only costs incremental in the winning of a contract.

(k) Financial Assets

Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(l) Goods and Services Tax

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(m) Impairment of Assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(n) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of income tax. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(o) Basis of consolidation

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- i. the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- ii. potential voting rights held by the Company, other vote holders or other parties;
- iii. rights arising from other contractual arrangements; and
- iv. any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASB's).

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(p) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 at the acquisition date); and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another AASB.

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with AASB 139, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

(q) Share Based Payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Black-Scholes-Merton model, which requires the input of highly subjective assumptions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

1. SUMMARY OF ACCOUNTING POLICIES (cont)

(r) Comparative amounts

When required by accounting standards, comparative amounts have been adjusted to conform to changes in presentation for the current financial year.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Saunders' accounting policies, which are described in Note 1, the directors of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

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

Construction contracts

Construction revenue is recognised by management after assessing all factors relevant to each contract. Significant management estimation is required in assessing the following:

- Estimation of total contract revenue, including determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims;
- Estimation of total contract costs, including revisions to total forecast costs for events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract;
- Estimation of project contingencies; and
- Estimation of stage of completion including determination of project complete date.

Restructuring provision

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the estimated direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

Recoverability of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised. The factors considered by management in making this assessment includes expectations of future profitability, and in the case of unused tax losses, that these will continue to be available under current tax legislation.

3. REVENUE

| Revenue stream | Revenue recognition | Australia | PNG | Total | Total |
|----------------------------|---------------------|---------------|--------------|---------------|---------------|
| | | \$'000 | \$'000 | 2019 | 2018 |
| | | | | \$'000 | \$'000 |
| Engineering & Construction | Over time | 5,580 | 2,400 | 7,980 | 35,002 |
| Services | Over time | 18,937 | - | 18,937 | 18,575 |
| Fabrication & Construction | Over time | 23,147 | - | 23,147 | 21,703 |
| Interest Received | Point in time | 62 | - | 62 | 88 |
| Total revenue | | 47,726 | 2,400 | 50,126 | 75,368 |

4. LOSS FOR THE YEAR

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Other income | | |
| Discounts and rebates | 138 | 263 |
| Profit on sale of asset | 80 | 19 |
| | 218 | 282 |
| Profit before income tax has been arrived at after (crediting)/charging the following expenses: | | |
| Cost of sales | 42,987 | 70,287 |
| Depreciation | | |
| Plant and equipment | 950 | 964 |
| Office furniture and equipment | 120 | 79 |
| | 1,070 | 1,043 |
| Finance costs | 17 | 6 |
| Restructure Provision (Note 10) | - | 1,447 |
| Release of Make good provision | (270) | - |
| Bad debt expense | 240 | - |
| Operating lease rental expenses: | | |
| Lease payments | 714 | 952 |
| Employee benefits expense: | | |
| Post-employment benefits – defined contributions | 1,450 | 2,000 |
| Payroll tax expense | 1,018 | 1,256 |
| Employee Share Plan | 7 | 163 |
| Salary and wages | 19,293 | 23,759 |
| | 21,768 | 27,178 |

5. INCOME TAX

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Income tax recognised in (loss)/profit | | |
| Income tax expense comprises: | | |
| Current income tax expense | 55 | 385 |
| R&D tax concession | - | (321) |
| Deferred tax expense relating to the origination and reversal of temporary differences | (705) | (1,437) |
| Total income tax (benefit) / expense | (650) | (1,373) |
| The prima facie income tax expense on pre-tax accounting profit reconciles to income tax expense in the financial statements as follows: | | |
| (Loss)/Profit before taxation | (2,260) | (4,213) |
| Income tax at 30% | (678) | (1,264) |
| Effect of different rates of tax in foreign jurisdictions | - | 63 |
| Other | 28 | 149 |
| R&D tax concession | - | (321) |
| Total income tax (benefit) / expense | (650) | (1,373) |
| Current tax (liability)/asset | (160) | 241 |

The income tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

5. INCOME TAX (cont)

Deferred Tax Balances

The deferred tax expense above is itemised as follows:

| | Opening balance | (Charged)/ Credited to income | Recognised directly to equity | Closing balance |
|---------------------------------|--------------------|-------------------------------------|----------------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2019 | | | | |
| Deferred tax assets | | | | |
| Employee benefits | 697 | (171) | - | 526 |
| Restructure Provision | 522 | (435) | - | 87 |
| Contract Assets | 221 | (446) | 265 | 40 |
| Tax Losses | 735 | 1,404 | - | 2,139 |
| Share issue costs | 128 | (17) | - | 111 |
| Accruals and other | 142 | 176 | - | 318 |
| Deferred tax asset | 2,445 | 511 | 265 | 3,221 |
| 2019 | | | | |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (555) | 174 | - | (381) |
| Other | (35) | 20 | - | (15) |
| Deferred tax liabilities | (590) | 194 | - | (396) |
| Net deferred tax asset | 1,855 | 705 | 265 | 2,825 |

| | Opening balance | (Charged)/ Credited to income | Recognised directly to equity | Closing balance |
|------------------------------------|--------------------|-------------------------------------|----------------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2018 | | | | |
| Deferred tax assets | | | | |
| Employee benefits | 724 | (27) | - | 697 |
| Restructure Provision | - | 522 | - | 522 |
| Amounts recoverable from contracts | - | 221 | - | 221 |
| Tax Losses | - | 735 | - | 735 |
| Share issue costs | - | (31) | 159 | 128 |
| Accruals and other | 161 | (19) | - | 142 |
| Deferred tax asset | 885 | 1,401 | 159 | 2,445 |
| 2018 | | | | |
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (626) | 71 | - | (555) |
| Other | - | (35) | - | (35) |
| Deferred tax liabilities | (626) | 36 | - | (590) |
| Net deferred tax asset | 259 | 1,437 | 159 | 1,855 |

6. TRADE AND OTHER RECEIVABLES

| | 2019 \$'000 | 2018 \$'000 |
|----------------------|----------------|----------------|
| Trade receivables(i) | 8,475 | 6,590 |

A provision matrix is determined based on historic credit loss rates for each group of customers, adjusted for any material expected changes to the customer's future credit risk. On that basis, the credit loss allowance as at 30 June 2019 was determined as follows:

| Provision matrix | Australia | PNG |
|------------------|-----------|------|
| Current | 0.0% | 0.0% |
| 1 to 30 days | 0.0% | 0.0% |
| 30 to 60 days | 0.0% | 0.0% |
| 60 to 90 days | 0.2% | 0.0% |
| Over 90 days | 0.5% | 0.0% |
| Contract assets | 0.1% | 0.0% |

| | Australia \$'000 | PNG \$'000 | Total Group \$'000 |
|---|---------------------|---------------|--------------------------|
| Receivables | | | |
| Current | 5,036 | - | 5,036 |
| 1 to 30 days | 2,739 | - | 2,739 |
| 30 to 60 days | 151 | - | 151 |
| 60 to 90 days | 263 | 82 | 345 |
| Over 90 days | 460 | 4 | 464 |
| Total receivables | 8,649 | 86 | 8,735 |
| Contract assets | 2,549 | 132 | 2,681 |
| Allowance based on historic credit losses | 5 | - | 5 |
| Adjustment for expected changes in credit risk ¹ | 255 | - | 255 |
| Credit loss allowance | 260 | - | 260 |
| Net carrying amount | 10,938 | 218 | 11,156 |

¹ Adjustment to reflect the lower credit risk and probability of default relating to customers that are over 90 days past due.

Trade receivables and contract assets are written off when there has been a significant change in the risk characteristics of a debtor and there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

The Group has applied the exception under AASB 9 to not restate comparatives as the credit loss allowance under AASB 139 and AASB 9 did not result in material changes to the amounts previously reported.

- (i) The average credit period on sale of goods and rendering of services is approximately 35 days. No interest is charged on trade receivables. Each receivable 60 days overdue has been reviewed to assess whether there is a risk that it might be irrecoverable. On the basis of this review, management has provided for trade receivable balances which may be at risk of being irrecoverable.

Ageing of past due but not impaired.

| | | |
|---------------------------|-----|-----|
| 60 days over the due date | 549 | 484 |
|---------------------------|-----|-----|

7. PROPERTY, PLANT AND EQUIPMENT

Impairment Testing

Saunders International Limited reviews the carrying amounts of its tangible assets annually at each reporting date to determine whether there is any impairment. As at 30 June 2019 the directors reviewed the future budgets of the Group to determine whether there are any indications of impairment. No indicators of impairment were noted and no impairment losses are recorded.

| | Land at cost \$'000 | Buildings at cost \$'000 | Plant and Equipment at cost \$'000 | Office furniture and equipment at cost \$'000 | Total \$'000 |
|---------------------------------|------------------------|-----------------------------|---------------------------------------|--|-----------------|
| Gross carrying amount | | | | | |
| Balance at 1 July 2017 | 3,400 | 1,150 | 12,281 | 792 | 17,623 |
| Additions | - | - | 1,229 | 40 | 1,269 |
| Disposals | - | - | (146) | - | (146) |
| Balance at 30 June 2018 | 3,400 | 1,150 | 13,364 | 832 | 18,746 |
| Additions | - | - | 1,069 | 287 | 1,356 |
| Disposals | - | - | (820) | (399) | (1,219) |
| Balance at 30 June 2019 | 3,400 | 1,150 | 13,613 | 720 | 18,883 |
| Accumulated depreciation | | | | | |
| Balance at 1 July 2017 | - | 7 | 6,987 | 543 | 7,537 |
| Disposals | - | - | (28) | - | (28) |
| Depreciation expense | - | 29 | 991 | 51 | 1,071 |
| Balance at 30 June 2018 | - | 36 | 7,950 | 594 | 8,580 |
| Disposals | - | - | (826) | (293) | (1,119) |
| Depreciation expense | - | 29 | 950 | 91 | 1,070 |
| Balance at 30 June 2019 | - | 65 | 8,074 | 392 | 8,531 |
| Net book value | | | | | |
| As at 30 June 2018 | 3,400 | 1,114 | 5,414 | 238 | 10,166 |
| As at 30 June 2019 | 3,400 | 1,085 | 5,539 | 328 | 10,352 |

8. TRADE AND OTHER PAYABLES

| | 2019 \$'000 | 2018 \$'000 |
|--------------------------------|----------------|----------------|
| Current | | |
| Trade payables (i) | 6,663 | 6,018 |
| Goods and services tax payable | 237 | 233 |
| Accruals and other | 205 | 896 |
| | 7,105 | 7,147 |

- (i) The average credit period on purchases of goods is between 45-60 days. No interest is charged on the trade payables. The Group has a policy that all payables are paid within the agreed credit timeframe.

9. CONTRACT ASSETS AND CONTRACT LIABILITIES

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| Contract assets related to contracts | 2,681 | 4,792 |
| Contract liabilities relating to contracts | 1,785 | 1,252 |

Contract assets

Contract assets are balances due from customers under long term contracts as work is performed and therefore a contract asset is recognised over the period in which the performance obligation is fulfilled. This represents the Group's right to consideration for the services transferred to date. Amounts are generally reclassified to accounts receivable when these have been invoiced to a customer. There has been a significant change in contract assets in the period due to the initial application of AASB 15 as set out on page 30.

The directors of the Group always measure the loss allowance on amounts due from customers at an amount equal to lifetime ECL, taking into account the historical default experience and the future prospects of the construction industry. None of the amounts due from customers at the end of the reporting period is past due. There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for the amounts due from customers under construction contracts. Refer to Note 6 for the risk profile of amounts due from customers based on the Group's provision matrix.

Refer to Note 1(b), where the effects of the initial application of AASB 15 have been detailed.

Contract liabilities

Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the percentage cost complete method. Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was \$4,792,000. Revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods was \$1,252,000. Partially satisfied performance obligations continue to incur revenue and costs in the period.

Remaining performance obligations (Work in hand)

Contracts which have remaining performance obligations as at 30 June 2019 are set out below. As permitted under the transitional provisions in AASB 15, the transaction price allocated to remaining performance obligations as of 30 June 2018 is not disclosed.

| Revenue stream | Total \$'000 |
|----------------------------|-------------------------|
| Engineering & Construction | 1,818 |
| Services | 27,917 |
| Fabrication & Construction | 30,762 |
| Total work in hand | 60,497 |

Contracts in the different sectors have different lengths. The average duration of contracts is 12 – 24 months, however some contracts will vary from these typical lengths. Revenue is typically earned over these varying timeframes, however more of the revenue noted above is expected to be earned within 12 months.

10. PROVISIONS

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------|----------------|----------------|
| <u>Current</u> | | |
| Employee benefits | 1,661 | 2,068 |
| Restructure Provision (i) | 140 | 1,447 |
| | 1,801 | 3,515 |
| <u>Non-current</u> | | |
| Employee benefits | 94 | 315 |
| Lease make good | - | 270 |
| | 94 | 585 |

(i) The restructure provision is inclusive of but not limited to; right sizing the business and redundancies, operational improvements and relocation of plant and equipment to Newcastle.

| Provision | Opening balance | Additions to provision during current period | Credited to profit and loss | Utilisation of provision during current period | Closing balance |
|----------------------------------|--------------------|--|--------------------------------|--|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Restructure Provision | 1,447 | - | - | 1,307 | 140 |
| Lease make good | 270 | - | 270 | - | - |

11. BORROWINGS

| | 2019 \$'000 | 2018 \$'000 |
|---------------------------|----------------|----------------|
| <u>Current</u> | | |
| Finance Lease Liabilities | 122 | 90 |
| <u>Non-current</u> | | |
| Finance Lease Liabilities | 381 | 327 |

12. ISSUED CAPITAL

102,848,127 fully paid ordinary shares (2018: 102,730,469)

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

Ordinary shares

Ordinary shares at beginning of financial year

Ordinary shares issued during the current year

Ordinary shares at end of financial year

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| | 19,350 | 19,301 |
| | 2019 Number | 2018 Number |
| Ordinary shares at beginning of financial year | 102,730,469 | 85,639,278 |
| Ordinary shares issued during the current year | 117,658 | 17,091,191 |
| Ordinary shares at end of financial year | 102,848,127 | 102,730,469 |
| | 2019 \$'000 | 2018 \$'000 |
| Fully paid ordinary shares | | |
| Balance at beginning of financial year | 19,652 | 11,588 |
| Shares issued performance Rights Plan | 49 | - |
| Share capital issued under institutional placement and rights issue (i) | - | 8,447 |
| Share issue costs | - | (542) |
| Tax on share issue costs | - | 159 |
| Balance at end of financial year | 19,701 | 19,652 |

Treasury shares under employee share plan

Balance at beginning of financial year

Treasury shares vested during the year

Share issued during the year

Balance at end of financial year

| | | |
|--|--------|--------|
| | (351) | (351) |
| | - | - |
| | - | - |
| | (351) | (351) |
| | 19,350 | 19,301 |

Issued capital

- (i) Saunders successfully completed a placement to institutional investors of 5,500 thousand new shares at \$0.50 each to raise a gross amount of \$2,750 thousand.

Saunders also completed a 1 for 8 underwritten rights issue for 11,593,206 shares at \$0.50 per share, including 200,625 of treasury shares issued under the employee share plan to raise a gross amount of \$5,697 thousand, net of employee share plan issues.

Reserves

Nature and purpose of reserves

(a) Share buyback reserve

The value of shares bought back are allocated to this reserve

(b) Share-based payments reserve

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

12. ISSUED CAPITAL (cont)

Employee Share Plan

The Board has approved and implemented an Employee Share Plan (“ESP”).

Under the ESP, the Group provides interest free loans to employees to acquire shares in Saunders International Limited, at a specified price per share. The loans are secured by the shares acquired by the eligible employees. The shares will vest and the loans will be repaid, upon a specified anniversary of the issue of the shares. If an eligible employee’s employment with the Group is terminated prior to the specified anniversary of the issue of the shares, the shares will be forfeited, and the Group will be entitled to the total amount raised pursuant to the divestment of the shares. The shares are accounted for as in substance options.

Each employee share option converts into one ordinary share of Saunders International Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

At balance date, a total of 10 tranches of the ESP have been issued.

Tranche 4: During the financial year 80,000 shares forfeited.

Tranche 5: During the financial year 80,000 shares forfeited.

Tranche 6: During the financial year 15,000 shares forfeited. The tranche has been modified to vest February 2020.

Tranche 7: During the financial year 200,000 shares forfeited.

Tranche 8: Offer of 400,000 in January 2016 with all offers accepted.

Tranche 9: During the financial year 35,000 shares forfeited.

Tranche 10: During the financial year 45,000 shares forfeited.

Tranche 11: During the financial year 40,625 shares forfeited.

Tranche 12: During the financial year 10,000 shares forfeited.

Tranche 13: During the financial year 10,000 shares forfeited.

The fair value of the share options granted during the financial year is included in below table. Options have been valued using the Black Scholes pricing model. Expected volatility is based on the historical share price volatility over the past 3 years.

One individual employee holds more than 200,000 options under the ESP.

12. ISSUED CAPITAL (cont)

Details of the fair value assumptions used are as follows:

| | Tranche 4 | Tranche 5 | Tranche 6 | Tranche 7 | Tranche 8 | Tranche 9 | Tranche 10 | Tranche 11 | Tranche 12 | Tranche 13 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|
| Grant Date | Feb 2013 | Feb 2014 | Feb 2015 | Oct 2015 | Jan 2016 | Feb 2016 | Feb 2017 | Oct 2017 | Feb 2018 | Feb 2019 |
| Grant Price | \$0.83 | \$0.85 | \$0.72 | \$0.59 | \$0.58 | \$0.58 | \$0.58 | \$0.50 | \$0.59 | \$0.33 |
| Opening Volume | 80,000 | 80,000 | 80,000 | 200,000 | 400,000 | 115,000 | 215,000 | 146,250 | 210,000 | |
| New grants | - | - | - | - | - | - | - | - | - | 365,000 |
| Forfeitures | (80,000) | (80,000) | (15,000) | (200,000) | - | (35,000) | (45,000) | (40,625) | (10,000) | (10,000) |
| Closing Volume | - | - | 65,000 | - | 400,000 | 80,000 | 170,000 | 105,625 | 200,000 | 355,000 |
| Exercise Price | \$0.83 | \$0.85 | \$0.72 | \$0.59 | \$0.58 | \$0.58 | \$0.58 | \$0.50 | \$0.59 | \$0.33 |
| Expected Volatility | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% |
| Option Life | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Risk Free Interest Rate | 3.00% | 5.15% | 6.25% | 1.88% | 2.05% | 1.72% | 2.00% | 2.75% | 2.82% | 1.71% |
| Grant date fair value | \$0.39 | \$0.39 | \$0.31 | \$0.22 | \$0.22 | \$0.21 | \$0.22 | \$0.19 | \$0.23 | \$0.12 |

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date. Tranche 4 and Tranche 5 was not extended and did not vest. Tranche 6 was extended until February 2020 as set out above.

12. ISSUED CAPITAL (cont)

Movement in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year.

| | 2019 | | 2018 | |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of year | 1,526,250 | 0.62 | 1,605,000 | 0.65 |
| Granted during the year | 365,000 | 0.33 | 493,125 | 0.59 |
| Forfeited during the year | (515,625) | 0.66 | (571,875) | 0.66 |
| Exercised during the year | - | - | - | - |
| Balance at end of year | 1,375,625 | 0.52 | 1,526,250 | 0.62 |
| Exercisable at end of year | - | - | - | - |

Performance Right Plan

The Saunders International Rights Plan was approved by the Board and approved by shareholders at the Annual General Meeting in October 2015.

The features of the long-term incentive comprises the grant of equity in the form of Performance Rights which vest over a three year period. The maximum number of Performance Rights will vest only if stretch objectives for each tranche are achieved. Half of the Performance Rights will vest if the target objectives are achieved. The end of the measurement period for a tranche of Performance Rights will be extended by up to two years at the Board's discretion if significantly less than target vesting would have been achieved for that tranche at the end of the measurement period, adjusted for the pro-rata increase in hurdles to take into account the additional time. The two vesting conditions that will be used will be relative total shareholder return (RTSR) and normalised earnings per share growth (NEPSG).

RTSR will be measured by comparing the Group's TSR over the measurement period with the TSRs achieved by companies that are in a comparator group and remain listed on the ASX. TSR is the percentage return generated from an investment in a Group's shares over the measurement period assuming that dividends are reinvested into the Group's shares. NEPSG will be assessed as the compound annual growth rate (CAGR) reflected in the increase in normalised earnings per share (EPS) from the base year (FY2016) for tranches 1 to 8 and (FY2017) for tranches 9 and 10 to normalised EPS for the final year of the measurement period. Normalised EPS will relate to normal operations and will exclude abnormal items as determined by the Board in its discretion.

For the phase in tranches where the measurement period is less than three years, performance will be evaluated by the Board's assessment of the establishment of strategic foundations for superior TSR and NESPG over the long term. For future grants, it is currently intended that the qualitative vesting conditions will be removed (but retaining TSR and NESPG), and that measurement periods will be no shorter than 3 years.

The vesting scale will be applied to the tranches subject to objective measurement of Saunders performing relative to the comparator group and NEPSG, as appropriate, with the vesting scale ranging continuously from 0% for very poor performance to 100% for very good performance with 50% for on-target performance.

The long-term incentive is aimed at aligning remuneration with the longer term performance of the Group and retaining the long-term services of the key management personnel.

12. ISSUED CAPITAL (cont)

The Managing Director and certain Key Management Personnel participate in the Saunders International Rights Plan. This plan is part of the long term incentive component of the respective remuneration packages. The total number of Performance Rights issued under the plan is 2,989,632 of which 1,307,884 have vested as at 30 June 2019

Details of the fair value assumptions used are as follows:

| | Tranche 1 & 2 | Tranche 3 | Tranche 6 & 7 | Tranche 8 | Tranche 9 | Tranche 10 | Tranche 11 | Tranche 12 | Tranche 13 | Tranche 13 |
|--------------------------------|---------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Grant Date | 2 June 2016 | 2 June 2016 | 2 June 2016 | 2 June 2016 | 1 Sept 2017 | 1 Sept 2017 | 1 Sept 2018 | 1 Sept 2018 | 1 Sept 2019 | 1 Sept 2019 |
| Grant Price | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Opening Volume | 388,954 | 194,477 | 186,197 | 62,066 | 238,095 | 238,095 | 379,689 | 379,689 | - | - |
| New grants | - | - | - | - | - | - | - | - | 461,185 | 461,185 |
| Vested | (388,954) | (194,477) | (186,197) | (62,066) | (238,095) | (238,095) | - | - | - | - |
| Closing Volume | - | - | - | - | - | - | 379,689 | 379,689 | 461,185 | 461,185 |
| Exercise Price | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Expected Volatility | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% | 26.87% |
| Option Life | 0 years | 0 years | 0 years | 0 years | 0.25 years | 0.25 years | 1.25 years | 1.25 years | 2.25 years | 2.25 years |
| Dividend value | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 | \$0.06 |
| Risk Free Interest Rate | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% | 1.93% |
| Grant date fair value | \$0.41 | \$0.41 | \$0.47 | \$0.47 | \$0.46 | \$0.46 | \$0.49 | \$0.49 | \$0.41 | \$0.41 |

There has been no alteration of the terms and conditions of the above share-based payment arrangements since the grant date and number of options granted were outstanding at the end of the year. The weighted average exercise price of the option is \$0.00 per option and the share price on grant date was \$0.54 per share for tranches 1 to 8, \$0.52 per share for tranches 9 and 10, \$0.46 for tranches 11 and 12 and \$0.41 for tranches 13 and 14. The share options outstanding at the end of the year has a weighted average remaining contractual life of 0.25 years.

13. RETAINED EARNINGS

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Balance at beginning of financial year | 3,566 | 8,322 |
| (Loss)/Profit for the year | (1,610) | (2,840) |
| Dividends provided for or paid | - | (1,916) |
| Balance at end of financial year | 1,956 | 3,566 |
| Opening balance adjustments on application of AASB 15 (Note 1(b)) | (690) | - |
| Balance restated at end of financial year | 1,266 | 3,566 |

14. EARNINGS PER SHARE

| | 2019 Cents per share | 2018 Cents per share |
|-------------------------------------|----------------------------|----------------------------|
| Basic (losses)/earnings per share | (1.72) | (3.03) |
| Diluted (losses)/earnings per share | (1.72) | (3.03) |

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Net (loss)/profit | (1,610) | (2,840) |
| Earnings used in the calculation of basic EPS | (1,610) | (2,840) |

Weighted average number of ordinary shares for the purposes of basic earnings per share

| | 2019 No.'000 | 2018 No.'000 |
|--|-----------------|-----------------|
| | 93,617 | 93,586 |

Diluted earnings per share

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

Weighted average number of ordinary shares used in the calculation of basic EPS

| | | |
|--|--------|--------|
| | 93,617 | 93,586 |
|--|--------|--------|

Shares deemed to be issued for no consideration in respect of employee options and performance rights (a)

| | | |
|--|---|---|
| | - | - |
|--|---|---|

Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share

| | | |
|--|--------|--------|
| | 93,617 | 93,586 |
|--|--------|--------|

During the year ended 30 June 2019 the potential ordinary shares associated with the employee share option plan as set out in Note 12 are anti-dilutive and therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share. The potential ordinary shares associated with the Performance Rights, as set out in Note 12 are anti-dilutive, and have not been included in the weighted average number of ordinary shares for the purposes of diluted earnings per share.

15. DIVIDENDS

| | 2019 | | 2018 | |
|-----------------------------------|-----------------|--------------|-----------------|--------------|
| | Cents per share | Total \$'000 | Cents per share | Total \$'000 |
| Recognised amounts | | | | |
| <u>Fully paid ordinary shares</u> | | | | |
| Final dividend (2018): | | | | |
| Fully franked at a 30% tax rate | - | - | 1.0 | 856 |
| Interim dividend (2019): | | | | |
| Fully franked at a 30% tax rate | - | - | 1.0 | 1,060 |
| | - | - | 2.0 | 1,916 |
| Unrecognised amounts | | | | |
| <u>Fully paid ordinary shares</u> | | | | |
| Final dividend (2019): | - | - | - | - |

On 27 August 2019, the directors declared that there will not be a final dividend paid to shareholders for the financial year ended 30 June 2019.

| | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|----------------|----------------|
| Adjusted franking account balance | 1,774 | 1,614 |

16. SEGMENT INFORMATION

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

In the current period 1 customer made up 13% of the revenue earned (2018: 2 customers made up 32% of the revenue earned). The customer accounted for \$6,504,709.

17. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contract dispute

There are no contingent liabilities and contingent assets in the current year (2018:Nil).

18. LEASES

Operating Leases

Motor Vehicle

Operating leases relate to motor vehicles. These leases are non-cancellable leases of less than five-year term, with rent payable monthly in advance. The monthly lease payments are fixed for the term of the leases. Additional charges are required if proposed kilometres travelled are exceeded. There is no renewal of terms or purchase options at the end of the term of the leases.

Non-cancellable operating lease commitments

No longer than 1 year

Longer than 1 year and not longer than 5 years

The Group is committed to a lease of the offices that it occupies at Rhodes, Sydney until 31st March 2024. The Group has an option to break the lease after 3 years.

Non-cancellable operating lease commitments

No longer than 1 year

Longer than 1 and not longer than 5 years

| | 2019 \$'000 | 2018 \$'000 |
|--|----------------|----------------|
| | 56 | 67 |
| | 65 | 37 |
| | 121 | 104 |
| | | |
| | 313 | 300 |
| | 1,174 | - |
| | 1,487 | 300 |

19. NOTES TO THE STATEMENT OF CASH FLOWS

| 2019 | 2018 |
|--------|--------|
| \$'000 | \$'000 |

(a) Cash and cash equivalents

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

| | | |
|---------------------------|-------|--------|
| Cash and cash equivalents | 8,030 | 12,377 |
|---------------------------|-------|--------|

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

| | | |
|---|---------|---------|
| Loss for the year | (1,610) | (2,840) |
| Share-based payments expense | 7 | 163 |
| Depreciation | 1,070 | 1,043 |
| Restructure costs | - | 1,447 |
| Gain on disposal | (80) | - |
| (Increase)/decrease in assets: | | |
| Current tax asset | 401 | (151) |
| Deferred tax asset | (705) | (1,437) |
| Trade and other receivables | (1,885) | 5,306 |
| Contract Assets | 1,125 | (3,540) |
| Inventories | 108 | 13 |
| Other assets | (178) | 449 |
| Increase/(decrease) in liabilities: | | |
| Trade and other payables | (76) | (1,167) |
| Contract Liabilities | 533 | (1,111) |
| Provisions | (2,205) | 458 |
| Lease incentives | 173 | - |
| Net cash (outflow) / inflow from operating activities | (3,322) | (1,367) |

(c) Financing facilities

The Group's principal financing facilities for the provision of bank guarantees as described in Note 20 is secured by a fixed and floating charge over the assets of the Group.

| | | |
|---------------|-------|--------|
| Amount used | 3,072 | 2,706 |
| Amount unused | 1,928 | 7,294 |
| | 5,000 | 10,000 |

The facilities have financial covenants relating to the Group's capital adequacy ratio and its leverage ratio.

(d) Asset and liabilities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

| Note | Balance at 1 July 2018 | Cash | Non-Cash | Balance at 30 June 2019 |
|------------------|------------------------------|-----------------------------|-------------------------------|-------------------------------|
| | | Financing cash flows (i) | Movement in finance leases | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Borrowing | 417 | (52) | 138 | 503 |

(i) Financing cash flows comprise of repayment of borrowings and payments in relation to finance leases.

20. FINANCIAL INSTRUMENTS

The Group has three significant categories of financial instruments which are described below together with the policies and risk management processes which the Group utilises:

(a) Cash and cash equivalents

The Group deposits its cash and cash equivalents with Australian banks. Funds can be deposited in cheque accounts, cash management accounts and term deposits. The policy is to utilise at least two Australian banks for cash management accounts and term deposits. The policy with term deposits is to provide for liquidity with a range of maturities up to 6 months.

(b) Debtors and credit risk management

The Group has a credit risk policy to protect against the risk of debtor default. The majority of the Group's debtors are long term customers and are multinational oil and gas companies, government authorities and large Australian corporations where the credit risk is considered to be low. New customers are assessed for credit risk using credit references and reports from credit agencies as necessary.

(c) Bank guarantees

The Group has a preference to provide bank guarantees to customers in lieu of the cash retention required under contracts. This preference is pursued subject to specific contract requirements and the Group's bank facility requirements.

Capital risk management

The Group's capital structure currently consists of equity and retained earnings and there is no external long-term debt or short term debt except for an interest-free vendor loan. The operating cash flows of the Group are used to finance short term capital. The capital risk management is continuously reviewed as the Group has surplus cash available for investment.

Categories of financial instruments

| | 2019 \$'000 | 2018 \$'000 |
|------------------------------|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | 8,030 | 12,377 |
| Loans and receivables | 8,475 | 6,590 |
| | 16,505 | 18,967 |
| Financial liabilities | | |
| Trade payables and accruals | 7,105 | 7,147 |
| Borrowings | 503 | 417 |
| | 7,608 | 7,564 |

Obligations under finance leases

(a) Leasing arrangements

The Group leased certain of its construction equipment under finance leases. The average lease term is five years. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

(b) Finance lease liabilities

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------|----------------|
| Minimum Lease Payments | | |
| Not later than one year | 122 | 90 |
| Later than one year but not later than five years | 381 | 327 |
| | 503 | 417 |

20. FINANCIAL INSTRUMENTS (cont.)

Financial risk management objectives

The Group's exposure to market risk mainly arising from interest rate risk, is disclosed (including currency risk, fair value interest rate risk and price risk) and cash flow interest rate risk is disclosed in the interest rate sensitivity analysis below. Credit risk is monitored monthly through continuous management of the ongoing projects.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term liquidity management requirements. The Group manages liquidity risk by continually monitoring and maintaining adequate banking facilities. Cash flows are monitored and matched to the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to receive or pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate % | Less than 1 month \$'000 | 1 to 3 months \$'000 | 3 months to 2 years \$'000 | Total \$'000 |
|------------------------------|---|--------------------------------|----------------------------|----------------------------------|-----------------|
| 2019 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 0.21% | 8,030 | - | - | 8,030 |
| Trade receivables | - | 4,936 | 3,235 | 304 | 8,475 |
| Financial liabilities | | | | | |
| Trade payables and accruals | - | 1,789 | 2,501 | 2,815 | 7,105 |
| Borrowings | 11.2% | 5 | 13 | 485 | 503 |
| 2018 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 0.16% | 11,375 | 1,002 | - | 12,377 |
| Trade receivables | - | 5,314 | 792 | 484 | 6,590 |
| Financial liabilities | | | | | |
| Trade payables and accruals | - | 5,003 | 2,114 | 30 | 7,147 |
| Borrowings | 12.2% | 8 | 16 | 393 | 417 |

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on exposure to interest rates for cash and cash equivalents that were subject to interest rate fluctuations at the reporting date. At reporting date, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's profit or loss would increase or decrease by \$80,173 (2018: \$123,769).

Fair value of financial instruments

No financial asset or financial liability is held at fair value. The directors consider the fair value of the financial assets and financial liabilities to approximate their carrying amounts.

21. DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION

The board of directors approves on an annual basis the amounts of compensation for directors and key management personnel with reference to the Group's performance and general compensation levels in equivalent companies and industries.

(a) Remuneration of Directors and Key Management Personnel

| | 2019 \$ | 2018 \$ |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 1,898,440 | 1,771,998 |
| Post-employment benefits | 123,160 | 131,720 |
| Share-based payments | 41,910 | 185,368 |
| | 2,063,510 | 2,089,086 |

The names of and positions held by the key management are set out on page 16 of the Remuneration Report. Further details of the remuneration of key management are disclosed in the Remuneration Report.

(b) Other Transactions with Key Management Personnel

There were no transactions with directors and other key management personnel apart from those disclosed in this note and note 22.

(c) Directors' and Key Management Equity Holdings

Refer to the table on page 14 of the Remuneration Report.

22. RELATED PARTY TRANSACTIONS

The Group leased a property containing its workshop and offices from an entity partly owned by a director of the Group. This lease expired on the 31st of March 2019. The following director has an interest in the related party Group as follows:

| | |
|-----------------|-----|
| Timothy Burnett | 34% |
|-----------------|-----|

The rental rate for the year was negotiated as assessed by a Certified Practising Valuer on 1 January 2017, for the calendar years 2017 and 2018, the extension to end of March 2019 was at the same rates. Rent paid during the year amounted to \$450,000 (2018: \$600,000).

23. SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows.

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group | |
|---------------------------------|-------------------------------------|--------------------------------------|---|------|
| | | | 2019 | 2018 |
| Saunders Civilbuild Pty Ltd | Bridge construction and maintenance | Australia | 100% | 100% |
| Saunders Property (NSW) Pty Ltd | Real property investments | Australia | 100% | 100% |
| Saunders Asset Services Pty Ltd | Maintenance | Australia | 100% | 100% |
| Saunders PNG Limited | Tank construction and maintenance | PNG | 100% | 100% |

24. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out below. See Note 1 for a summary of the significant accounting policies relating to the Group.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are accounted for at cost. Dividends received from subsidiaries, associates and joint ventures are recognised in profit or loss when a right to receive the dividend is established (provided that it is probable that the economic benefits will flow to the Parent and the amount of income can be measured reliably).

Tax consolidation

The company and its wholly-owned Australian resident entities are members of a tax-consolidated group under Australian tax law. The company is the head entity within the tax-consolidated group. In addition to its own current and deferred tax amounts, the company also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

Amounts payable or receivable under the tax-funding arrangement between the company and the entities in the tax consolidated group are determined using a 'separate taxpayer within group' approach to determine the tax contribution amounts payable or receivable by each member of the tax-consolidated group. This approach results in the tax effect of transactions being recognised in the legal entity where that transaction occurred, and does not tax effect transactions that have no tax consequences to the group. The same basis is used for tax allocation within the tax-consolidated group.

Summary financial information

The individual financial statements for the parent entity, Saunders International Limited show the following aggregate amounts:

| Financial Position | 2019 | 2018 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Assets | | |
| Current assets | 8,676 | 17,792 |
| Non-current assets | 16,862 | 14,514 |
| Total assets | 25,538 | 32,306 |
| Liabilities | | |
| Current liabilities | 4,061 | 8,389 |
| Non-current liabilities | 234 | 176 |
| Total liabilities | 4,295 | 8,565 |
| Equity | | |
| Issued capital | 19,701 | 19,652 |
| Shares buy-back reserve under employee share plan | (351) | (351) |
| Share based payments reserve | 581 | 623 |
| Retained earnings | 1,312 | 3,817 |
| Total equity | 21,243 | 23,741 |
| Financial Performance | 2019 | 2018 |
| | \$'000 | \$'000 |
| (Loss)/Profit for the year | (1,815) | (2,238) |
| Other comprehensive (loss)/income | - | - |
| Total comprehensive (loss)/income | (1,815) | (2,238) |

25. REMUNERATION OF AUDITOR

| | 2019 \$ | 2018 \$ |
|---|----------------|----------------|
| Audit or review of the financial report | 142,000 | 135,000 |
| PNG tax services | 7,852 | 14,979 |
| | 149,852 | 149,979 |

The auditor of Saunders International Limited is Deloitte Touche Tohmatsu.

26. SUBSEQUENT EVENTS

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

27. ADDITIONAL COMPANY INFORMATION

General Information

Saunders International Limited is incorporated and operating in Australia.

Saunders International Limited's registered office and its principal place of business is as follows:

Registered office

Suite 2.04, Level 2 Building F
Rhodes Corporate Park, 1 Homebush Bay Drive
Tel: (02) 9792 2444

Principal place of business

Suite 2.04, Level 2 Building F
Rhodes Corporate Park, 1 Homebush Bay Drive
Tel: (02) 9792 2444

Corporate Governance

The Board of Saunders has adopted a suite of Corporate Governance Practices to ensure that the company is effectively directed and managed risks are identified, monitored and assessed, and appropriate disclosures made.

In developing and adopting the Practices, the Board considered the third edition of the ASX Corporate Governance Principles and Recommendations. The Board incorporates the Principles and Recommendations into its Practices to the extent that they are appropriate, taking into account the Company's size, activities and resources. The Board has adopted the following Charters Policies and Codes: -

The Board Charter

The Board Charter sets out matters relating to the responsibilities of the Board and its directors and matters relating to the composition of the Board and appointment of directors.

Board Committees and their Charters

In order to better manage its responsibilities, the Board has established an Audit and Risk Committee and a Remuneration Committee. Each committee has adopted a Charter approved by the Board.

Policies and Codes of Conduct

The Company has adopted a number of Policies and Codes of Conduct as follows: -

- * Security Trading Policy - Directors and Senior Executives
- * Shareholder Communication Policy
- * Continuous Disclosures Policy
- * Code of Conduct for Directors and Senior Executives

Corporate Governance Statement and Appendix 4G

The Company reports on an annual basis, its compliance and/or reasons for non-compliance with the third edition of the ASX Corporate Governance Principles and Recommendations. The Corporate Governance Statement follows and the Appendix 4G has been released on the ASX Announcements platform.

*Further information on the above Charters Policies and Codes can be found on the Company's website:
www.saundersint.com/investors/corporate-governance/*



CORPORATE GOVERNANCE STATEMENT (28 AUGUST 2019)

The ASX has released the third edition of the Corporate Governance Principles and Recommendations. There are 8 principles and 29 recommendations in this document. The following tables set out the Company's position in relation to the principles and recommendations. The board of the company has approved this document.

| PRINCIPLES AND RECOMMENDATIONS | PRINCIPLES AND RECOMMENDATIONS AND DISCLOSURE AS TO COMPLIANCE AND/OR REASONS FOR NON-COMPLIANCE |
|----------------------------------|--|
| PRINCIPLE 1: | <p>LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 1 | <p>The Company has a Board Charter which addresses Recommendation 1.1 in that it identifies the respective roles and responsibilities of the board and management and it identifies those matters expressly reserved for the board and those delegated to management.</p> |
| Recommendation 1.2 to 1.4 | <p>The Company complies with Recommendations 1.2 to 1.4 concerning the appointment and engagement of directors and the accountability of the company secretary.</p> |
| Recommendation 1.5 | <p>The Company does not comply with Recommendation 1.5, gender diversity. However, the Company does comply with the Workplace Gender Equality Act for the latest reporting period as confirmed by written advice from the Workplace Gender Equality Agency, a copy of which is on the Company's website.</p> <p>The Company does not follow Recommendation 1.5 and therefore it does not have a written policy. The reasons for not following this recommendation include that the Company has a small number of employees (200 approx.), and a small board (3 persons). The Company considers that it is unrealistic or not in its interest to establish measurable objectives for gender diversity across its workforce. However, the Company's Recruitment Strategy ensures that appropriate selection criteria based on qualifications, experience and diverse skills are used when hiring new staff. Additionally, the Company's Harassment and Discrimination Strategy embraces the principle of equal opportunity for all regardless of gender, race, sexual preference, family responsibilities and any other attributes.</p> <p>The Company has been successful in attracting several female candidates to the business in the last year and has set a goal to further improve gender diversity in this year.</p> |
| Recommendation 1.6 | <p>The Company does not comply with Recommendation 1.6 in that although it does have a formal process for the periodic evaluation of the performance of the board, this does not extend to its committees and individual directors. Because the board is small, the preferred method for evaluation of the committee and individual directors is ongoing comment and review between board members.</p> |
| Recommendation 1.7 | <p>The Company does comply with Recommendation 1.7 in that it does have a formal process for the evaluation of the CEO and senior executives and this is conducted annually with the latest being in June-August 2019.</p> |

| PRINCIPLES AND RECOMMENDATIONS | PRINCIPLES AND RECOMMENDATIONS AND DISCLOSURE AS TO COMPLIANCE AND/OR REASONS FOR NON-COMPLIANCE |
|--------------------------------|--|
| PRINCIPLE 2: | <p>STRUCTURE THE BOARD TO ADD VALUE</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 2.1 | The board does not have a nomination committee. The board is a small board (currently 3 persons) and therefore it is able to effectively undertake the relevant tasks such as addressing succession issues and ensuring the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. |
| Recommendation 2.2 | The board discloses the skills and experience of its directors on its website and in each annual report. |
| Recommendation 2.3 | The Company discloses on its website which directors are considered by the board to be independent directors and also the length of service as a director of the Company. |
| Recommendation 2.4 | A majority of the board should be independent directors. The Company does not comply with this recommendation in that only 33% of the currently serving directors are independent. The Company considers the composition to be in its best interests. The size of the Company and the specialist nature of its activities is best served by a small board with an adequate component of Company and industry specific knowledge. |
| Recommendation 2.5 | The chair should be an independent director. The Company does not comply with this recommendation in that the Chairman is not independent. The Company considers this to be appropriate and in its best interests. The size of the Company and specialist nature of its activities is best served by a chairman who has Company and industry specific knowledge and significant equity in the Company. |
| Recommendation 2.6 | The Company has a process to induct a new director which is customized to meet each director's needs. The Company encourages directors to maintain their skills and knowledge as needed. |
| PRINCIPLE 3: | <p>ACT ETHICALLY AND RESPONSIBLY</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 3.1: | The Company has a Code of Conduct for Directors and Senior Executives and this is disclosed on the Company website. |

| PRINCIPLES AND RECOMMENDATIONS | PRINCIPLES AND RECOMMENDATIONS AND DISCLOSURE AS TO COMPLIANCE AND/OR REASONS FOR NON-COMPLIANCE |
|------------------------------------|---|
| PRINCIPLE 4: | <p>SAFEGUARD INTEGRITY IN CORPORATE REPORTING</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 4.1: | <p>The Company has an Audit and Risk Committee. The charter of this committee is disclosed on the website. The committee is composed of one independent director and is chaired by that independent director who is not the chairman of the board. The Company considers the composition to be in its best interests. The size of the Company and the specialist nature of its activities is best served by a small board with an adequate component of Company and industry specific knowledge.</p> <p>The composition of the committee, the number of meetings and attendance is disclosed annually in the Company's Annual Report.</p> |
| Recommendation 4.2: | <p>With respect to the latest financial year, the CEO and the CFO have confirmed to the board, in a written statement, that: -</p> <ul style="list-style-type: none"> • The financial reports are complete and present a true and fair view, in all material aspects, of the financial condition and operating results of the Company. • These views are founded on a sound system of internal control and risk management that implements the policies adopted by the board. |
| Recommendation 4.3: | <p>The Company ensures that its external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.</p> |
| PRINCIPLE 5: | <p>MAKE TIMELY AND BALANCED DISCLOSURE</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 5.1: | <p>The Company has a written Continuous Disclosure Policy which is disclosed on the Company's website.</p> |
| PRINCIPLE 6: | <p>RESPECT THE RIGHTS OF SECURITY HOLDERS</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 6.1 | <p>The Company discloses information about itself and its corporate governance via its website.</p> |
| Recommendations 6.2 and 6.3 | <p>The Company has a Shareholder Communication Policy which addresses these recommendations.</p> |
| Recommendation 6.4 | <p>The Company gives security holders the option to receive communications electronically.</p> |

| PRINCIPLES AND RECOMMENDATIONS | PRINCIPLES AND RECOMMENDATIONS AND DISCLOSURE AS TO COMPLIANCE AND/OR REASONS FOR NON-COMPLIANCE |
|--------------------------------|---|
| PRINCIPLE 7: | <p>RECOGNIZE AND MANAGE RISK</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 7.1: | <p>The Company does have an Audit and Risk Committee. See notes on the Recommendation 4.1 concerning the composition of the committee.</p> <p>The charter of the committee is disclosed via the Company's website.</p> <p>The composition of the committee, the number of meetings and attendance is disclosed annually in the Company's Annual Report.</p> |
| Recommendation 7.2: | <p>The Company does comply with this recommendation in that it has a Risk Management Framework. This framework was reviewed by the board during the last financial year.</p> |
| Recommendation 7.3: | <p>The Company does not have an all embracing internal audit function. The Company does have comprehensive internal audit processes with respect to certain classes of risk, namely OHS and Quality.</p> <p>Other risks are monitored and managed by management and this process is overseen by the board.</p> |
| Recommendation 7.4: | <p>The Company considers that its material exposure to economic, environmental and social sustainability risks are low and within the spectrum of what would be typical for a company of its size and activities.</p> |
| PRINCIPLE 8: | <p>REMUNERATION FAIRLY AND RESPONSIBLY</p> <p>The Company complies with this principle and recommendations to the extent as described below: -</p> |
| Recommendation 8.1: | <p>The Company has a remuneration committee which has a charter which is disclosed via the Company's website.</p> <p>The remuneration committee is composed of one independent non-executive directors and is chaired by an independent director.</p> <p>The Company considers the composition to be in its best interests. The size of the Company and the specialist nature of its activities is best served by a small board with an adequate component of Company and industry specific knowledge.</p> <p>The composition of the committee, the number of meetings and attendance is disclosed annually in the Company's Annual Report.</p> |
| Recommendation 8.2: | <p>The Company discloses annually, information about the remuneration of non-executive directors, the managing director and key management personnel in the Remuneration Report section of the Annual Report.</p> |
| Recommendation 8.3: | <p>The Company discloses annually, information about its Employee Share Plan and Performance Rights Plan in the notes to the Financial Statements contained in the Annual Report.</p> |

Additional Stock Exchange Information

As at 21st August 2019

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Share Capital

There are 102,848,127 fully paid ordinary shares held by 642 individual shareholders. In addition, there are 1,375,625 shares issued to employees under the Employee Share Purchase Place (ESP). These ESP shares are not included for the purposes of calculating the totals and percentages used in this section. There are no options issued.

SUBSTANTIAL SHAREHOLDERS

| Shareholder | No. of Shares | Percentage |
|--------------------|---------------|------------|
| Mr. Desmond Bryant | 24,316,811 | 23.64% |
| Timothy Burnett | 11,556,548 | 11.24% |

DISTRIBUTION OF SHARES

| Range | No. of Holders |
|------------------|----------------|
| 1 - 1,000 | 52 |
| 1,001 - 5,000 | 134 |
| 5,001 - 10,000 | 101 |
| 10,001 - 100,000 | 293 |
| 100,000 and over | 62 |
| TOTAL | 642 |

THE TWENTY LARGEST REGISTERED HOLDERS

| Name | No. of Shares | Percentage |
|--|-------------------|---------------|
| National Nominees Limited | 23,065,908 | 22.43% |
| Mr Desmond Bryant | 19,712,587 | 19.17% |
| Anacacia Pty Ltd (Wattle Fund A/C) | 7,723,166 | 7.51% |
| Tivolico Pty Ltd | 6,802,604 | 6.61% |
| Marlot Pty Ltd | 4,753,944 | 4.62% |
| Mr John Power | 3,401,453 | 3.31% |
| Effjay Holdings Pty Ltd (Desmond Bryant Family A/C) | 2,999,445 | 2.92% |
| Pacbay Pty Ltd (Stephen Wood Family) | 2,018,445 | 1.96% |
| Debry Pty Ltd | 1,604,779 | 1.56% |
| Corliaj Pty Ltd (Civilbuild Constructions Pty Ltd Superannuation Fund) | 1,319,040 | 1.28% |
| Sagimo Holdings Pty Ltd | 1,286,760 | 1.25% |
| Mrs Karyn May McClelland | 1,215,366 | 1.18% |
| Donald Cant Pty Ltd | 1,057,931 | 1.03% |
| Anacacia Pty Ltd (Wattle Fund A/C) | 1,002,155 | 0.97% |
| Active Air Spares Pty Ltd | 1,000,000 | 0.97% |
| Parmelia Pty Ltd (Reilly Family Super Fund A/C) | 723,628 | 0.70% |
| Woodscenic Pty Ltd (Wood) | 688,985 | 0.67% |
| Mr Robert Graburn Patterson | 652,142 | 0.63% |
| Mr Trevor Ross Kennedy | 646,976 | 0.63% |
| Anacacia Capital Pty Ltd (Wattle Fund A/C) | 631,188 | 0.61% |
| TOP 20 SHAREHOLDERS | 82,306,512 | 80.03% |

Corporate Directory

Saunders International Limited
ABN 14 050 287 431

Saunders Asset Services
ABN 95 610 760 426

Saunders Civilbuild
ABN 86 617 431 562

Saunders (PNG) Limited
1-114512

Saunders Property Group
ABN 39 617 486 021

Board of Directors
Timothy Burnett - Chairman
Mark Benson - Managing Director
Greg Fletcher - Director

Secretary
Steven Dadich

Auditors
Deloitte Touche Tohmatsu
Eclipse Tower, Level 19
60 Station Street, Parramatta NSW 2150

Principal Banker
Commonwealth Bank
Corporate Financial Services
Level 1, 430 Forest Rd, Hurstville NSW 2220

Registered Office & Principal Administrative Office
Saunders International Limited
L2, 1F Homebush Bay Drive, Rhodes NSW 2138
Phone (02) 9792 2444

Saunders Civilbuild
74 Kalaroo Rd, Redhead NSW 2290
Phone (02) 4946 0266

Saunders (PNG) Limited
Ground Floor, Century 21 House
Lot 51, Section 35 Kunai Street
Hohola National Capital District,
Papua New Guinea

Share Register Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000
Phone (02) 8280 7111

Stock Exchange Listing
Australia Securities Exchange
20 Bridge St, Sydney NSW 2000

Website
www.saundersint.com

Email
mail@saundersint.com

