Synertec Corporation Limited

ARBN 161 803 032

ASX Listing Rule 4.2A.3
Appendix 4D Statement

Preliminary Final Report

For the Half-Year Ended
31 December 2019

Current Reporting Period: Half Year Ended 31 December 2019
Previous Corresponding Period: Half Year Ended 31 December 2018

Synertec Corporation Limited
Appendix 4D Statement
Half-Year Ended 31 December 2019

1. Company details

Name of entity:	Synertec Corporation Limited
ARBN:	161 803 032
Reporting period:	For the half-year ended 31 December 2019
Previous period (prior comparative period (pcp)):	For the half-year ended 31 December 2018

2. Results for announcement to the market

	HY 31 Dec 2019	HY 31 Dec 2018	Up/Down	Change	Change
	$	$		$	%
Revenues from ordinary activities	7,278,232	12,805,389	Down	-5,527,157	-43%
(Loss)/profit from ordinary activities after tax attributable to the owners of Synertec Corporation Limited	-$676,788	79,407	Down	-756,197	-952%
(Loss)/profit for the period attributable to the owners of Synertec Corporation Limited	-$676,788	79,407	Down	-756,197	-952%

Dividends

No dividends were declared, paid or recommended in respect of the current period (pcp: nil).

	Amount per security Cents	Franked amount per security Cents
Interim dividend for the half-year ended 31 December 2019	-	-

Comments – Review of operations

Synertec's first half performance was in line with management expectations, despite a sequential decline from earlier periods during which Synertec had recognised significant revenues associated with several large and strategically important projects awarded in 2017 and 2018. The timing of contract awards and delivery relative to the Company's reporting date had a significant impact on overall revenue versus operating cash flow.

The revenue of the Group for the period was $7,282,142 (31 December 2018; $12,805,389), which constitutes revenue produced from both ongoing and new projects commencing during the period.

Although the deferral of some highly anticipated key project opportunities has impacted financial performance for the period, Synertec is pleased to report that a significant revenue contribution continued from its highly regarded core expertise in the water, pharmaceutical and biotech sectors, demonstrating the importance and value of well diversified revenue channels and long-term customer relationships.

The result also reflects significant expansion of gross margin (compared to FY19) as the business pivots towards new, higher-value work. Delivery of a significant volume of contract variation work, at the customer's request, on one of the Company's largest pharmaceutical projects, contributed significantly to revenue during the period, however margins from this work were anticipated to be higher. This project is expected to complete in Q3 of FY20.

The result from operations after tax was a net loss of $676,788 (31 December 2018: net profit of $79,407).

The operating result reflects several significant strategic investments across the Company's target sectors which are expected to deliver sustainable long-term growth. These investments are yet to be endorsed by revenue as some large-scale international bids for which Synertec is well-positioned are taking longer than expected to reach final decision.

Synertec also continued to heavily explore strategic inorganic growth opportunities which would provide a unique vertical integration of products in its target markets. The Company expects to continue working through these opportunities in 2020 in order to deliver the growth targeted in Synertec's strategic plan.

During the period, Synertec reorganised its business and undertook significant process and system improvements to automate and outsource transactional, low-value tasks and inhouse services, enhancing support to its engineering team and its customers. Migration to more flexible system platforms and the introduction of machine-learning intelligence to various processes will provide greater agility, scalability and efficiency, and better attune the cost-base of the business to different activity levels and revenue sources.

During the period, IFRS 16 'Leases', which replaced IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease') was implemented for the first time. There was no material impact on the net result after tax from the implementation of the new standard.

The Group continued to operate with a Total Reportable Injury Frequency Rate (TRIFR) of zero.

Capital management

The Group has continued to diligently manage its working capital. Net cash used in operations for the period amounted to $2,829,810 (31 December 2018; net cash generated from operations of $1,250,768), resulting in total cash as at 31 December 2019 of $2,892,977 (30 June 2019; $5,836,500).

Total cash includes $1,392,977 (30 June 2019; $4,336,500) of cash and cash equivalents and $1,500,000 (30 June 2019: $1,500,000) on term deposit as security for the Group's bank facility, of which $631,730 was utilised (30 June 2019: $815,267). At 31 December 2019, bank guarantees expiring within one year amount to $389,017, (of which $359,577 is due to expire before 30 June 2020) and those expiring in more than one year amount to $242,622.

The Company forecasts the rise in working capital deployed during H1 to begin to return to more typical levels during H2 as net operating cash flow improves following the completion of a large project in Q3 which has 90-day payment terms.

The Group continued to operate with no debt or intangible assets on the balance sheet.

Outlook

The theme of the Group continues to be a heavy focus on delivery of existing projects in a safe, timely, and efficient manner, with the aim to exceed customer expectations. The growth strategy is progressing well, with significant project and collaboration opportunities materialising both domestically and internationally. The strategic international partnerships secured over the past year have bolstered Synertec's ability to bid and serve large international projects more efficiently and are improving access to its target growth markets overseas.

For further information, please refer to the Directors Report within the Interim Financial Report for the Half Year Ended 31 December 2019.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.02	0.03

4. Control gained over entities

The was no control/further control gained over any entities during the period.

5. Loss of control over entities

The was no control/further control lost over any entities during the period.

6. Details of associates and joint venture entities

Not applicable.

	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
Name of associate / joint venture	**Reporting period %**	**Previous period %**	**Reporting period $'000**	**Previous period $'000**
There are no associates or joint venture entities.	-	-	-	-

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

This Statement is based on the consolidated financial statements which were subject to a review by the auditors and the review report is attached as part of the Interim Financial Report.

8. Attachments

Details of attachments (if any):

The Interim Financial Report of Synertec Corporation Limited for the half-year ended 31 December 2019 is attached.

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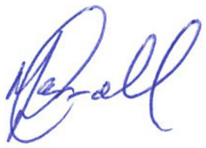
9. Signed



Mr. Michael Carroll

Managing Director

Melbourne

Dated: 27 February 2020

Synertec Corporation Limited

ARBN 161 803 032

Interim Financial Report

For the Half-Year Ended 31 December 2019

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For the period ended 31 December 2019

Corporate Directory

Directors	Ms. Leeanne Bond (Chairperson) Mr. Michael Carroll (Managing Director) Mr. Kiat Poh (Non-executive Director) Mr. Dennis Lin (Non-executive Director)
Corporate Secretary	Mr. David Harris Level 1, 57 Stewart Street Richmond, VIC 3121
Principal registered office in Bermuda	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Registered agent office in Australia	Level 1, 57 Stewart Street Richmond, VIC 3121 Australia Telephone: +(61 3) 9274 3000
Share registry	Boardroom Pty Limited Grosvenor Place Level 12, 225 George Street Sydney, NSW 2000 Australia Telephone: 1300 737 760 (within Australia) +(61 2) 9290 9600 (outside Australia) Facsimile: +(61 2) 9290 9655
Auditor	Grant Thornton Audit Pty Ltd Collins Square Tower 5 727 Collins Street Melbourne VIC 3008
Stock exchange listing	Synertec Corporation Limited shares and options are listed on the Australian Securities Exchange (ASX) ASX Code: SOP (fully paid ordinary shares) SOPOA (options)
Website address	www.synertec.com.au

The Directors present their report together with the financial statements of the consolidated entity for the half-year ended 31 December 2019.

1. Directors

The following persons were directors of Synertec Corporation Limited during the whole of the financial half-year and up to the date of this report:

Ms. Leeanne Bond
Mr. Michael Carroll
Mr. Kiat Poh
Mr. Dennis Lin (appointed 27 August 2019)
Mr. Kim Chuan Freddie Heng (resigned 21 November 2019)

2. Significant changes in the state of affairs

No significant changes noted in the half year ended 31 December 2019.

3. Review of operations

Results from operations

Synertec's first half performance was in line with management expectations, despite a sequential decline from earlier periods during which Synertec had recognised significant revenues associated with several large and strategically important projects awarded in 2017 and 2018. The timing of contract awards and delivery relative to the Company's reporting date had a significant impact on overall revenue versus operating cash flow.

The revenue of the Group for the period was $7,282,142 (31 December 2018; $12,805,389), which constitutes revenue produced from both ongoing and new projects commencing during the period.

Although the deferral of some highly anticipated key project opportunities has impacted financial performance for the period, Synertec is pleased to report that a significant revenue contribution continued from its highly regarded core expertise in the water, pharmaceutical and biotech sectors, demonstrating the importance and value of well diversified revenue channels and long-term customer relationships.

Synertec's long-term customers are primarily in the pharmaceutical, water and oil and gas industries. As a result, the business has further developed expertise in these traditional specialist areas, while also continuing to build substantial knowhow and experience in the newer target market of critical infrastructure, which has applications both domestically and globally.

The result also reflects significant expansion of gross margin (compared to FY19) as the business pivots towards new, higher-value work. Delivery of a significant volume of contract variation work, at the customer's request, on one of the Company's largest pharmaceutical projects, contributed significantly to revenue during the period, however margins from this work were anticipated to be higher. This project is expected to complete in Q3 of FY20.

Despite the proportions of revenue derived from Engineering Services and Fixed Price Solutions being the same as the prior comparative period (24% and 76% respectively), the margin on Engineering Services has substantially improved and should continue to build further.

The result from operations after tax was a net loss of $676,788 (31 December 2018: net profit of $79,407).

The operating result reflects several significant strategic investments across the Company's target sectors which are expected to deliver sustainable long-term growth. These investments are yet to be endorsed by revenue as some large-scale international bids for which Synertec is well-positioned are taking longer than expected to reach final decision.

3. Review of operations (continued)

Results from operations (continued)

Synertec also continued to heavily explore strategic inorganic growth opportunities which would provide a unique vertical integration of products in its target markets. The Company expects to continue working through these opportunities in 2020 in order to deliver the growth targeted in Synertec's strategic plan.

During the period, Synertec reorganised its business and undertook significant process and system improvements to automate and outsource transactional, low-value tasks and inhouse services, enhancing support to its engineering team and its customers. Migration to more flexible system platforms and the introduction of machine-learning intelligence to various processes will provide greater agility, scalability and efficiency, and better attune the cost-base of the business to different activity levels and revenue sources. Most importantly, it will ultimately improve service delivery and value to customers.

The Company invested more heavily in the development of its team, culture and the structure of the organisation in order to grow capability and provide a creative environment where its people feel empowered, are enjoying their work and are always looking for ways to improve what they do. The vision is that this setting encourages innovation and the development of valuable IP with a strong commercial application, which then goes to improving retention and continuously strengthening our culture.

During the period, IFRS 16 'Leases', which replaced IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease') was implemented for the first time. The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. There was no material impact on the net result after tax from the implementation of the new standard.

The Group continued to operate with a Total Reportable Injury Frequency Rate (TRIFR) of zero.

Capital management

The Group has continued to diligently manage its working capital. Net cash used in operations for the period amounted to $2,829,810 (31 December 2018; net cash generated from operations of $1,250,768), resulting in total cash as at 31 December 2019 of $2,892,977 (30 June 2019; $5,836,500).

Total cash includes $1,392,977 (30 June 2019; $4,336,500) of cash and cash equivalents and $1,500,000 (30 June 2019: $1,500,000) on term deposit as security for the Group's bank facility, of which $631,730 was utilised (30 June 2019: $815,267). At 31 December 2019, bank guarantees expiring within one year amount to $389,017, (of which $359,577 is due to expire before 30 June 2020) and those expiring in more than one year amount to $242,622.

The Company forecasts the rise in working capital deployed during H1 to begin to return to more typical levels during H2 as net operating cash flow improves following the completion of a large project in Q3 which has 90-day payment terms. The business has carefully managed this project financially and technically over almost two years and is delivering a world-class outcome for its customer on time and budget, which has presented further opportunities for Synertec. The facility is recognised by that organisation as a Global Centre of Excellence.

The Group continued to operate with no debt or intangible assets on the balance sheet.

3. Review of operations (continued)

Outlook

The theme of the Group continues to be a heavy focus on delivery of existing projects in a safe, timely, and efficient manner, with the aim to exceed customer expectations. The growth strategy is progressing well, with significant project and collaboration opportunities materialising both domestically and internationally. The strategic international partnerships secured over the past year have bolstered Synertec's ability to bid and serve large international projects more efficiently and are improving access to its target growth markets overseas.

A target growth market for Synertec is floating LNG production, storage and bunker vessels. This market is rapidly expanding and is aligned with the Company's niche area of capability in LNG CTS. Synertec is familiar with the unique engineering challenges this market presents and has further invested in it during the period.

Synertec has delivered several highly successful LNG CTS projects and the team continues to work on positioning Synertec as the technology provider of choice. In the early stages of this global mega-trend, the Company sees very few, if any, businesses globally which can provide the systems, products and solutions of the quality which Synertec has delivered.

4. Litigation

There has been no litigation in the half-year period and to the best of the Directors' knowledge there are no circumstances that would give rise to any potential litigation relating to this same period.

5. Dividends

There were no dividends paid, declared or recommended during the current or previous financial period.

6. Subsequent events

No matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect the consolidated entity's operations, the results from those operations, or the consolidated entity's state of affairs in future years.

7. Officers of the Company who are former audit partners of auditor

There are no officers of the Company who are former audit partners of Grant Thornton Audit Pty Ltd.

8. Auditor

Grant Thornton Audit Pty Ltd continues in office.

This report is made in accordance with a resolution of directors.

On behalf of the Directors,

Mr. Michael Carroll

Managing Director

Melbourne
27 February 2020

Synertec Corporation Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Note	31 Dec 2019	31 Dec 2018
Continuing operations			
Revenue			
Revenue	5	7,278,232	12,805,389
Other income		3,910	-
Expenses			
Materials and service expense		(3,933,672)	(7,905,982)
Employee benefits expense		(3,112,397)	(3,629,312)
Superannuation expense		(270,872)	(298,323)
Depreciation and amortisation expense		(144,915)	(56,858)
Occupancy expense		(9,822)	(118,554)
Business development expense		(157,386)	(151,714)
IT and telecommunication costs		(87,720)	(87,278)
Legal and professional fees		(60,602)	(47,006)
Other expenses		(218,828)	(247,170)
Directors fees		(103,956)	(92,500)
Corporate development costs		(125,657)	(50,000)
Results from operating activities		**(943,685)**	**120,693**
Finance income		12,151	17,951
Finance costs		(36,509)	(23,445)
Net finance costs		**(24,358)**	**(5,494)**
(Loss)/profit from operations before tax		**(968,043)**	**115,199**
Income tax benefit/(expense)		291,255	(35,792)
(Loss)/profit from operations after tax		**(676,788)**	**79,407**
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive (loss)/profit for the half-year		**(676,788)**	**79,407**
Earnings per share			
Basic (loss)/earnings per share - from continuing operations	13	(0.31)	0.04
Diluted (loss)/earnings per share - from continuing operations	13	(0.31)	0.04

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Synertec Corporation Limited

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 Dec 2019	30 Jun 2019
Assets			
Cash and cash equivalents	6	1,392,977	4,336,500
Trade and other receivables	7	1,997,381	1,541,861
Other assets	8	253,567	231,383
Contract assets		1,662,165	1,373,049
Current tax asset		14,188	14,188
Total current assets		**5,320,278**	**7,496,981**
Non-current assets			
Net deferred tax assets		796,377	502,893
Other assets	8	1,500,000	1,500,000
Property, plant and equipment	9	412,229	262,349
Total non-current assets		**2,708,605**	**2,265,242**
Total assets		**8,028,883**	**9,762,223**
Liabilities			
Trade and other payables	10	2,624,960	3,548,855
Warranty provision		39,709	39,709
Employee benefits		452,590	479,903
Lease liabilities	11	177,288	-
Contract liabilities		54,912	345,477
Total current liabilities		**3,349,459**	**4,413,944**
Non-current liabilities			
Lease liabilities	11	10,792	-
Employee benefits		94,664	99,751
Total non-current liabilities		**105,456**	**99,751**
Total liabilities		**3,454,915**	**4,513,695**
Net assets		**4,573,968**	**5,248,528**
Equity			
Issued capital	12	641,113	641,113
Retained earnings		3,932,855	4,607,415
		4,573,968	**5,248,528**
Total equity		**4,573,968**	**5,248,528**

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

Synertec Corporation Limited

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

	Issued capital	Retained earnings	Total
	$	$	$
Balance at 1 July 2018	641,113	4,704,262	5,345,375
Profit for the half-year	-	79,407	79,407
Other comprehensive income	-	-	-
Total comprehensive income	-	79,407	79,407
Balance at 31 December 2018	**641,113**	**4,783,669**	**5,424,782**
Balance at 1 July 2019	641,113	4,607,415	5,248,528
Adjustment on transition to IFRS 16 - DTA on initial recognition of leases	-	2,228	2,228
Loss for the half-year	-	(676,788)	(676,788)
Other comprehensive income	-	-	-
Total comprehensive loss	**-**	**(676,788)**	**(676,788)**
Balance at 31 December 2019	**641,113**	**3,932,855**	**4,573,968**

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

Synertec Corporation Limited

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2019

		31 Dec 2019	31 Dec 2018
Cash flows from operating activities			
Cash receipts from customers		6,845,712	15,766,255
Cash paid to suppliers and employees		(9,687,674)	(14,519,251)
Cash (used in)/generated from operations		(2,841,962)	1,247,004
Interest received		12,152	17,951
Income taxes paid		-	(14,187)
Net cash (used in)/from operating activities	*6A(i)*	**(2,829,810)**	**1,250,768**
Cash flows from investing activities			
Proceeds from financial assets		-	14,552
Payment for property, plant and equipment		(14,279)	(74,095)
Net cash used in investing activities		**(14,279)**	**(59,543)**
Cash flows used in financing activities			
Repayment of finance lease liabilities		(92,436)	-
Interest paid		(6,999)	-
Net cash used in financing activities		**(99,435)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(2,943,524)**	**1,191,224**
Cash and cash equivalent at beginning of the half-year		4,336,501	3,509,673
Cash and cash equivalents at end of the half-year		**1,392,977**	**4,700,897**

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

1. General information

The financial statements cover Synertec Corporation Limited as a consolidated entity consisting of Synertec Corporation Limited (referred as the 'Company') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019 (together referred to as the 'Group').

Synertec Corporation Limited is the Group's Ultimate Parent Company. It is a public company (limited by shares) incorporated in Bermuda, and listed on the Australian Securities Exchange (ASX:SOP).

Its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Its registered office in Australia is Level 1, 57 Stewart Street, Richmond, VIC 3121, Australia.

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2020.

2. Basis of preparation

The condensed interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2019. They have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ (IAS 34). They do not include all of the information required in annual financial statements in accordance with IFRSs. Accordingly, these financial statements are to be read in conjunction with the annual reports of Synertec Corporation Limited for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules.

The consolidated general purpose financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC Interpretations, and other authoritative pronouncements of the International Accounting Standards Board (IASB). These financial statements have been prepared on an accrual basis and are based on historical costs. Cost is based on the fair values of the consideration given in exchange for assets. These financial statements are presented in Australian dollars which is the entity's functional and presentation currency.

3. Changes in significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group’s last annual financial statements for the year ended 30 June 2019, except as described below. Note that the changes in accounting policies specified below only apply to the current period. The accounting policies included in the Group’s last annual financial statements for the year ended 30 June 2019 are the relevant policies for the purposes of comparatives.

New standards adopted as at 1 July 2019

IFRS 16 *Leases*

IFRS 16 ‘Leases’ replaces IAS 17 ‘Leases’ along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’).

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

3. Changes in significant accounting policies (continued)

New standards adopted as at 1 July 2019 (continued)

IFRS 16 *Leases (continued)*

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 6%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 30 June19 (as disclosed in the financial statements at 30 June 2019) to the lease liabilities recognised at 1 July 2019.

Adjusted total operating lease commitments at 30 June 2019(i)	**280,516**
Operating lease liabilities before discounting	294,693
Discounted using incremental borrowing rate	(14,176)
Total lease liabilities recognised under IFRS 16 at 1 July 2019	**280,516**

(i) For IFRS 16 purposes, the operating lease commitments disclosed in the financial statements as at 30 June 2019 of $416,688 was adjusted to exclude outgoings and leases which were unlikely to be renewed and leases which had a remaining lease term of less than 12 months at 30 June 2019.

4. Significant accounting policies

Financial instruments

The Group does not hold derivative financial assets. Where required the Group classifies non-derivative financial assets into the following categories:
a) financial assets at fair value through profit or loss; and
b) loans and receivables.
The Group classifies non-derivative financial liabilities into the other financial liabilities category.

4. Significant accounting policies (continued)

Financial instruments (continued)

(i) Non-derivative financial assets and financial liabilities - recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets - measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares
Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:
- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security.

4. Significant accounting policies (continued)

Impairment (continued)

(ii) Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets measured at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Revenue and other income

The Group's revenue arises from contracts for the design, engineering and/or construction of engineering products and solutions.

The Group is involved in providing consulting engineering services on hourly rate, and also fixed rate projects where billing is made on pre-determined project milestones. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on a relative fair value basis between the different services.

The Group recognises revenue from fixed price projects in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed. The revenue that is accrued but not yet invoiced is included as a contract asset.

Contract revenue includes the initial amount agreed in the contract plus any variations, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. Variations are variable consideration that is estimated using either the 'expected value' or the 'most likely amount', and is subject to the constraint that it can only be included in the transaction price if it is highly probable that there will not be a significant revenue reversal.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligations(s) are satisfied.

The Group is often engaged by customers to provide engineering solutions – known as "Projects". In all Projects, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative value.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

4. Significant accounting policies (continued)

Revenue and other income (continued)

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Transfer of Goods

Revenue from the sale of custom products engineered by the Group for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods transferred are due after receipt of the invoice by the customer.

For sales of engineered products that are not subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

Engineering Services

The Group provides engineering services relating to the design and engineering of customised Engineering solutions. Revenue from these services is recognised on a time-and-materials basis as the services are provided. Customers are invoiced monthly as work progresses. Any amounts remaining unbilled at the end of a reporting period are presented in the statement of financial position as Work In Progress (asset) as only the passage of time is required before payment of these amounts will be due.

Fixed Price Solutions

The Group enters into contracts for the design, engineering and construction or construction management of customised engineering solutions in exchange for a fixed fee and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. When a contract also includes a warranty period, the total transaction price is allocated to each of the distinct performance obligations identifiable under the contract on the basis of its relative stand-alone selling price.

To depict the progress by which the Group transfers control of the systems to the customer, and to establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation by comparing actual costs (hours and purchases) spent to date with the total estimated costs required to design, engineer, and construct each solution. The percentage complete basis provides the most faithful depiction of the transfer of goods and services to each customer due to the Group's ability to make reliable estimates of the total number of costs required to complete the Project, arising from its significant historical experience constructing similar solutions.

Advanced Receipt

When payments received from customers exceed revenue recognised to date on a particular contract, any excess (a contract liability) is reported in the statement of financial position as contract liabilities.

Warranty Period

The Group sometimes provides warranty on its engineering solutions. Under the terms of this warranty customers can request rectification or replacement works if the solution provided by the Group fails to perform in accordance with the agreed contract and specifications. These warranties are accounted for under IFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* .

Leased assets

For any new contracts entered into on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

4. Significant accounting policies (continued)

Leased assets (continued)

1. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
2. the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
3. The Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in lease liabilities.

Changes to presentation - classification of expenses

Synertec Corporation Ltd decided in the current financial year to modify the classification of its expenses in the consolidated statement of profit or loss to disaggregate some categories of expenses, providing more detailed and relevant financial information to our stakeholders. The comparative information has been reclassified accordingly.

Going concern

In preparing the financial statements, the Directors have made an assessment of the ability of the Group to continue as a going concern. In considering their position, the Directors have had regard to the current cash reserves, the level of forecast cash expenditure and the likelihood of being able to raise funds in future, should the need arise. The Directors have concluded there are reasonable grounds to believe the Company is a going concern and will be able to continue pay its debts as and when they become due and payable.

5. Revenue

		31 Dec 2019	31 Dec 2018
Revenue streams			
Fixed price solutions		5,541,747	9,482,048
Engineering services		1,736,485	3,065,499
Transfer of goods		-	257,842
		7,278,232	**12,805,389**

6. Cash and cash equivalents

		31 Dec 2019	30 June 2019
Bank balances		1,391,629	4,335,153
Cash on hand		1,348	1,347
Cash and cash equivalents		**1,392,977**	**4,336,500**

6A. Cash flow information

(i) Reconciliation of cash flows from operating activities

Cash flows from operating activities		**31 Dec 2019**	**31 Dec 2018**
(Loss)/profit for the half-year		(676,788)	79,407
Adjustments:			
Depreciation and amortisation	*9*	144,915	56,858
Net interest costs		24,358	5,494
Impairment of receivables		6,336	-
Tax (benefit)/expense		(291,255)	35,792
		(792,434)	177,551
Increase in contract assets		(289,117)	(668,467)
Increase in other assets		(12,275)	(33,768)
Increase in trade and other receivables		(655,776)	(2,136,229)
(Decrease)/increase in trade and other payables		(719,360)	1,402,131
(Decrease)/increase in employee benefits		(32,400)	38,295
Decrease in finance liabilities		(92,436)	-
(Decrease)/increase in contract liabilities		(290,565)	2,408,695
Cash generated (used in)/from operating activities		(2,884,363)	1,188,208
Interest paid net of interest received		19,150	19,784
Income taxes paid		-	(14,187)
Realised foreign currency gains		35,403	56,964
Net cash (used in)/from operating activities		**(2,829,810)**	**1,250,768**

7. Trade and other receivables

	31 Dec 2019	30 Jun 2019
Trade receivables	1,996,740	1,531,311
Other receivables	641	10,550
	1,997,381	**1,541,861**

8. Other assets

Current

	31 Dec 2019	30 Jun 2019
Prepayments and other debtors	210,702	188,518
Deposits	30,603	30,603
Stock on hand	12,262	12,262
Current	**253,567**	**231,383**

Non-Current

	31 Dec 2019	30 Jun 2019
ANZ term deposits(i)	1,500,000	1,500,000
Non-current	**1,500,000**	**1,500,000**

(i) The Company has deposits with ANZ held as cash security for its facilities with the bank, which includes the bank guarantee facility of $1,500,000 of which $631,730 was utilised (30 June 2019: $815,267). At 31 December 2019, bank guarantees expiring within one year amount to $389,017, (of which $359,577 is due to expire before 30 June 2020) and those expiring in more than one year amount to $242,622.

Other components of the bank facility include an overdraft facility of $750,000 (undrawn) and a commercial card facility of $100,000 (drawn component repaid monthly).

9. Property, plant and equipment

	Computers	Furniture and equipment	Leasehold improvements	Motor vehicles	TOTAL
Cost					
Balance at 1 Jul 2018	476,196	191,058	21,157	386,961	1,075,372
Additions	82,804	17,023	-	30,000	129,826
Disposals	-	(52,000)	-	(215,865)	(267,865)
Balance at 30 Jun 2018	**559,000**	**156,081**	**21,157**	**201,096**	**937,333**
Balance at 1 Jul 2019	559,000	156,081	21,157	201,096	937,333
Adjustment on transition to IFRS16	-	16,975	263,541	-	280,516
Additons	14,279	-	-	-	14,279
Disposals	-	-	-	-	-
Balance at 31 Dec 2019	**573,279**	**173,056**	**284,698**	**201,096**	**1,232,128**
Accumulated depreciation					
Balance at 1 Jul 2018	396,103	96,275	19,128	154,795	666,301
Disposals	-	(4,938)	-	(113,940)	(118,878)
Depreciation/amortisation expense	60,641	17,586	406	48,930	127,562
Balance at 30 Jun 2018	**456,743**	**108,923**	**19,534**	**89,785**	**674,984**
Balance at 1 Jul 2019	456,743	108,923	19,534	89,785	674,984
Disposals	-	-	-	-	-
Depreciation/amortisation expense	30,692	7,942	94,050	12,231	144,915
Balance at 31 Dec 2019	**487,435**	**116,865**	**113,584**	**102,016**	**819,899**
Carrying amounts					
at 1 Jul 2018	**80,094**	**94,783**	**2,029**	**232,167**	**409,071**
at 30 Jun 2019	**102,257**	**47,159**	**1,623**	**111,310**	**262,349**
at 1 Jul 2019	**102,257**	**47,159**	**1,623**	**111,310**	**262,349**
at 31 Dec 2019	**85,844**	**56,191**	**171,114**	**99,080**	**412,229**

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	31 Dec 2019	30 Jun 2019
Furniture and equipment	16,975	-
Leasehold improvements	263,541	-
Total right-of-use assets	**280,516**	**-**

The amount of depreciation that has been recognised on the right-of-use assets at 31 December 2019 is $96,101.

10. Trade and other payables

	31 Dec 2019	30 Jun 2019
Trade payables	1,339,774	2,483,379
Other payables	284,867	303,544
Accrued costs	1,000,319	761,932
Current	**2,624,960**	**3,548,855**

11. Leasing

Lease liabilities are presented in the statement of financial position as follows:

	31 Dec 2019	30 Jun 2019
Lease liabilities (current)	177,288	-
Lease liabilities (non-current)	10,792	-
	188,080	**-**

The Group has leases for offices, warehouses and a photocopier. The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payment due						
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	After five years	Total
Lease payments	183,395	4,968	4,968	1,656	-	-	194,987
Finance charges	(6,107)	(527)	(253)	(20)	-	-	(6,907)
Net present values	**177,288**	**4,441**	**4,715**	**1,636**	**-**	**-**	**188,080**

Out of the total finance costs of $36,509, an amount of $6,999 is attributable to the lease liabilities during the half year ending 31 December 2019.

12. Issued capital

	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 $	30 Jun 2019 $
Ordinary shares - fully paid	220,701,277	220,701,277	641,113	641,113
	220,701,277	**220,701,277**	**641,113**	**641,113**

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

13. Earnings per share

In accordance with IAS 33 'Earnings Per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account for the half-year ended 31 December 2019.

Earnings per share from continuing operations	**31 Dec 2019**	**31 Dec 2018**
Profit/(loss) after income tax	(676,788)	79,407
Weighted average number of ordinary shares used in calculating basic earnings per share	220,701,277	206,144,526
Weighted average number of ordinary shares used in calculating diluted earnings per share	220,701,277	206,144,526
Basic (loss)/earnings per share (cents per share)	(0.31)	0.04
Diluted (loss)/earnings per share (cents per share)	(0.31)	0.04

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

14. Contingent liabilities

The consolidated entity does not have any contingent liabilities at reporting date.

15. Subsequent events

No matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect the consolidated entity's operations, the results from those operations, or the consolidated entity's state of affairs in future years.

In the Directors' opinion:

1. The attached financial statements and notes comply with the International Financial Reporting Standard IAS 34 'Interim Financial Reporting'; as appropriate for for-profit oriented entities;

2. The attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

3. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Mr. Michael Carroll
Managing Director

27 February 2020

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Independent Auditor's Report

To the Members of Synertec Corporation Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Synertec Corporation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Synertec Corporation Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with IAS 34 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not presented fairly, including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard IAS 34 *Interim Financial Reporting*. As the auditor of Synertec Corporation Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 27 February 2020