

FÖS

C A P I T A L

Dec 2023 Half Year Report

FOS Capital Limited
637 156 275



Appendix 4D - Half Year Report for six months ended 31 December 2023

Results for announcement to the market

Name of entity	FOS CAPITAL LIMITED
ACN	637 156 275

Reporting Period

Half Year Ended	31 December 2023
Previous Corresponding period – half year ended	31 December 2022

Results for announcement to the market

Revenue from ordinary activities	Up	14.9%	to	9,902,286
Operating profit before tax and restructure cost ¹	Up	29.8%	to	676,614
Net profit after tax	down	67.5%	to	127,401

1. Operating profit before tax and restructure cost is a non-IFRS measure reported to provide a greater understanding of the underlying business performance of the Group. The above disclosures are extracted or derived from the financial report for the period ended 31 December 2023, which has been reviewed by WilliamBuck.

No interim dividend has been declared for the half-year ended 31 December 2023.

	Amount per Security	Franked amount per Security
Interim Dividend - Current period	Nil	Nil
- Previous corresponding period	Nil	Nil

Net tangible assets per security

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	9.4 cents	12.5 cents

Additional Appendix 4D disclosure requirements can be found in the enclosed half year financial report of FOS Capital Limited for the half year ended 31 December 2023.

This report is also to be read in conjunction with the Annual Report of FOS Capital Limited for the year ended 30 June 2023 and any public announcements made by FOS Capital Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

This report is based on the consolidated financial statements for the half year ended 31 December 2023 which have been reviewed by William Buck.

The Independent Auditor's Review Report provided by WilliamBuck is included in the Half-Year Financial Report of FOS Capital Limited for the half-year period ended 31 December 2023.

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DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the Consolidated entity consisting of FOS Capital Limited and the entities it controlled (the Consolidated entity), for the half-year ended 31 December 2023 and independent auditor's review report thereon.

DIRECTORS

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

Con Scrinis, Managing Director
Michael Koutsakis, Director
Michael Monsonego, Director
Alexander (Sandy) Beard, Director

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated entity include the manufacturing of a full range of commercial luminaries, outdoor fittings and linear extruded lighting as well as distributing a complete range of commercial and architectural lighting.

RESULTS OF OPERATIONS AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Board is pleased to report that Consolidated entity's trading improved significantly with group revenues of \$9.9 million (2022: \$8.6 million) for the half year ended 31 December 2023, Operating profit before restructuring costs and tax \$676,614 (2022: \$521,149) and statutory net profit after tax \$127,401 (2022: \$392,145) for the half year ended 31 December 2023.

The first half also showed significant improvement in market conditions with orders in hand at December 2023 \$11 million (2022:\$5.3m) and active quotes at December 2023 was \$110 million (2022:\$58m).

On 1 October 2023 FOS Lighting Pty Ltd acquired the business of Klik Systems, established over 40 years and based in Sydney, NSW. It manufactures an extensive range of commercial, industrial & architectural LED linear lighting. The company has 31 employees and services the Australian commercial lighting market with distributors in all capital cities. KLIK derives 25% of its income from export markets with a significant presence in the USA.

Klik Systems acquisition expands FOS's market share in linear lighting and provides a platform to consolidate manufacturing operations for our fastest growing product line. There will be significant operational benefits with the increased volumes and the ability to further rationalise fixed costs as we share knowledge and resources across the group. KLIK also provide FOS with its first substantial export market outside of New Zealand with the ability to increase export sales of our broader product range.

The Company has commenced restructuring and consolidating linear lighting product manufacturing at one location to maximize production capacity utilization, achieve cost synergy, and improve product profitability to continue manufacturing linear lighting products in Australia. This includes the closure of the Sunshine Coast factory and associated redundancy's and the relocation of linear production from the Brisbane factory to Klik in Sydney.

The Company has booked a one-off charge of \$500,000 for the costs of business restructuring and consolidation of linear lighting product manufacturing operations. The Company expects to complete the restructuring of linear lighting products manufacturing by June 2024.

The Board is pleased with the progress the company is making and following the acquisition of Klik brings FOS to its first critical mass hurdle of annualised sales of \$25 million.

The company is well placed to continue its growth with 79 staff and expansive operations in Australia and New Zealand.

We take this opportunity to thank all stake holders especially our dedicated staff and are looking forward to an exciting second half.

DIRECTORS' REPORT (CONTINUED)

DIVIDEND

The Directors have not declared the interim dividend for the half year ended 31 December 2023.

MATTERS SUBSEQUENT TO REPORTING DATE

There were no matters or circumstances specific to the Consolidated entity that have arisen since 31 December 2023 that have significantly affected or may significantly affect the Consolidated entity's operations and state of affairs.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year attached to these financial statements.

ROUNDING OF AMOUNTS

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2020/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

Signed in accordance with a resolution of the directors.



Con Scrinis
Director

Date: 22 February 2024

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

	Notes	31 Dec 2023	31 Dec 2022
		\$	\$
Revenue			
Revenue	2	9,902,286	8,618,313
Cost of sales		(5,556,439)	(5,308,044)
Gross Profit		4,345,847	3,310,269
Other Income	2	103,605	95,570
Expenses			
Selling and distribution expenses		(953,849)	(730,837)
Administrative and corporate expenses		(2,279,577)	(1,754,746)
Depreciation of right of use assets		(339,307)	(309,017)
Depreciation & amortisation		(116,008)	(62,925)
Finance costs		(84,097)	(27,165)
Restructure costs	3	(500,000)	-
Total expenses		(4,272,838)	(2,884,690)
Profit before income tax expense		176,614	521,149
Income tax expense		(49,213)	(129,004)
Profit after tax		127,401	392,145
Other comprehensive income			
Other comprehensive income that may subsequently reclassified to the profit or loss - foreign currency translation gain		15,738	51,157
Total comprehensive income for half-year		143,139	443,302
Earnings per share (cents per share) for profit attributable to the equity holders of the entity:			
Basic and diluted earnings per share	5	0.24	0.83

The accompanying notes forms part of these Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Notes	31 Dec 2023	30 Jun 2023
		\$	\$
Current assets			
Cash and cash equivalents		1,228,709	1,413,914
Trade and other receivables		4,701,281	2,997,585
Inventories		5,806,520	4,360,641
Other current assets		149,570	171,568
Total current assets		11,886,080	8,943,708
Non-current assets			
Plant and equipment		1,122,955	629,409
Right of use assets		452,669	960,574
Intangible assets		4,395,810	2,334,603
Deposits for leaseholds		-	66,199
Deferred tax assets		1,047,417	687,919
Total Non-current assets		7,018,851	4,678,704
Total assets		18,904,931	13,622,412
Current liabilities			
Trade and other payables		2,117,690	1,640,385
Lease liabilities		536,674	806,359
Borrowings	4	1,378,976	-
Deferred consideration	7	1,270,000	300,000
Provision for employee entitlements		1,497,096	679,216
Provision for income tax expense		314,660	126,739
Provision for restructure and warranty		420,271	8,640
Total current liabilities		7,535,367	3,561,339
Non-current liabilities			
Borrowings	4	1,450,000	-
Lease liabilities		9,541	284,758
Provision for employee entitlements		36,513	33,890
Deferred tax liability		442,996	455,050
Total non-current liabilities		1,939,050	773,698
Total Liabilities		9,474,417	4,335,037
Net assets		9,430,514	9,287,375
Equity			
Contributed capital		5,422,042	5,422,042
Foreign currency translation reserve		(54,372)	(70,110)
Retained earnings		4,062,844	3,935,443
Total equity		9,430,514	9,287,375

The accompanying notes forms part of these Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2023	Contributed equity	Foreign currency translation reserve	Retained earnings	Total equity
	\$	\$	\$	\$
At 1 July 2023	5,422,042	(70,110)	3,935,443	9,287,375
Profit for the half year	-	-	127,401	127,401
Change in foreign currency translation reserve	-	15,738	-	15,738
Total comprehensive income for the half-year		15,738	127,401	143,139
Transactions with owners in their capacity as owners:	-	-	-	-
At 31 December 2023	5,422,042	(54,372)	4,062,844	9,430,514

For the half year ended 31 December 2022	Contributed equity	Foreign currency translation reserve	Retained earnings	Total equity
	\$	\$	\$	\$
At 1 July 2022	4,054,389	(97,813)	3,583,033	7,539,609
Profit for the half year	-	-	392,145	392,145
Change in foreign currency translation reserve	-	51,157	-	51,157
Total comprehensive income for the half-year		51,157	392,145	443,302
Transactions with owners in their capacity as owners				
Issue of shares – share placement	1,367,653	-	-	1,367,653
Dividend paid	-	-	(231,531)	(231,531)
At 31 December 2022	5,422,042	(46,656)	3,743,647	9,119,033

The accompanying notes forms part of these Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

	31 Dec 2023	31 Dec 2022
	\$	\$
Cash flows from operating activities		
Receipts from customers	9,266,407	7,071,154
Payments to suppliers and employees	(9,763,004)	(7,953,358)
Interest received	6,850	2,221
Interest paid	(84,097)	(27,165)
Payment of income tax	(34,174)	(104,935)
Net cash flows used in operating activities	(608,018)	(1,012,083)
Cash flows from investing activities		
Payment for plant and equipment	(48,522)	(111,265)
Payment for acquisition of Hawko Lighting	-	(598,240)
Payment for acquisition of Klik Systems (Note 7)	(2,000,000)	-
Net cash flows used in investing activities	(2,048,522)	(709,505)
Cash flows from financing activities		
Proceeds from borrowings	2,828,976	-
Proceeds from issue of shares	-	1,367,653
Dividend payments	-	(231,531)
Payment of lease liabilities	(373,379)	(333,636)
Net cash flows from financing activities	2,455,597	802,486
Net decrease in cash and cash equivalents	(200,943)	(919,102)
Impact of exchange rates on cash and cash equivalents	15,738	51,157
Cash and cash equivalents at beginning of half year	1,413,914	1,890,246
Cash and cash equivalents at end of the half year	1,228,709	1,022,301

The accompanying notes forms part of these Financial Statements

NOTES TO CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The condensed consolidated half year financial report does not include all notes of the type normally included within the annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2023 of FOS Capital Limited.

The financial report covers FOS Capital Limited and controlled entities as a Consolidated entity. FOS Capital Limited is a company limited by shares, incorporated, and domiciled in Australia. The address of FOS Capital Limited's registered office and principal place of business is Unit 3, 41 Rose Street, Richmond, VIC 3121. FOS Capital Limited is a for-profit entity for the purpose of preparing the financial statements.

The half-year financial report was authorised for issue by the directors as at the date of signing the attached Directors' Declaration.

a. Basis of accounting

This condensed consolidated half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting, as appropriate for for-profit entities, and the Corporations Act 2001. Compliance with AASB 134, as appropriate for for-profit entities, ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

The condensed consolidated half-year financial report includes the consolidated results of FOS Capital Limited and its controlled entities for the half year ended 31 December 2023.

The half-year financial report has been prepared in accordance with the historical cost convention, with the exception of fair values applied to the acquisition of assets and assumption of liabilities upon business acquisitions.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2023 and the corresponding half-year.

(b) New or amended Accounting Standards and Interpretations adopted

The Consolidated entity adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There was no material impact upon these financial statements arising from their adoption.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted, however the directors also consider that none of these will have a material impact on the Consolidated entity's existing accounting policies.

NOTES TO CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (CONT'D)

2. REVENUE

	31 Dec 2023	31 Dec 2022
	\$	\$
a) Sales revenue	9,902,286	8,618,313
b) Other Income		
Interest received	6,850	2,221
Rent received	63,229	62,500
Lease settlement	2,925	-
Other revenue	30,601	30,849
	<u>103,605</u>	<u>95,570</u>
Total Revenue	10,005,891	8,713,883

3. BUSINESS RESTRUCTURE

The Consolidated entity acquired the business of Klik Systems on 1 October 2023, a well-known linear lighting product brand. Post-acquisition of Klik Systems, the FOS group undertook restructuring and consolidating linear lighting product manufacturing at one location to maximize production capacity utilization, achieve cost synergy, and improve product profitability to continue manufacturing linear lighting products in Australia.

Business restructuring involves closing the Hawko manufacturing facility and relocating linear product manufacturing from FOS's Brisbane factory to the Klik Systems site in Sydney. The consolidated entity has provided \$500,000 in costs for the business restructuring and consolidation of linear lighting product manufacturing operations in half year ended 31 December 2023. The Consolidated entity expects to complete the restructuring of linear lighting products manufacturing by June 2024.

4. BORROWINGS

	31 Dec 2023	31 Dec 2022
	\$	\$
Borrowing – current (i)	1,378,976	-
Borrowing – non current (ii)	1,450,000	-
	<u>2,828,976</u>	<u>-</u>

- i. The secured borrowings as at 31 December 2023 represents the net position of invoice finance facility, provided by Westpac. This borrowing incurs a base rate equal to the BBSY, a loan margin rate of 1.18% p.a. and a margin rate of 0.52% p.a. and it is secured by a fixed and floating charge over FOS Capital Limited and its controlled entities. The invoice finance facility has limit of \$2,000,000.
- ii. The secured borrowings as at 31 December 2023 represents the business finance facility for 3 years, provided by Westpac. This borrowing incurs an interest rate of 6.50% p.a. and it is secured by a fixed and floating charge over FOS Capital Limited and its controlled entities. The Business finance facility has limit of \$2,000,000.

NOTES TO CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (CONT'D)

5. EARNINGS PER SHARE

Reconciliation of earnings used in calculating earnings per share:

	31 Dec 2023	31 Dec 2022
Profit used to calculate earnings per share	\$127,401	\$392,145
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating earnings and diluted earnings per share	53,806,139	47,423,948
Earnings per share (in cents)	0.24	0.83

There were no contingently issuable equity instruments that could have impacted the diluted earnings per share calculation as at period end.

6. OPERATING SEGMENTS

The Consolidated entity is organised into two operating segments based on geographical locations, being Australia and New Zealand. All operating segments' operating results are regularly reviewed by the Consolidated entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

There were no individual customers with revenues greater than 10% of trading revenues in the Consolidated entity.

Geographic Segment information for the half year ended 31 December 2023

	Australia	New Zealand	Total
	\$	\$	\$
Sales revenue	8,733,717	1,168,569	9,902,286
Other revenue	96,755	6,850	103,605
Total Revenue	8,830,472	1,175,419	10,005,891
Net profit after tax	304,675	(177,273)	127,401
Total assets	17,047,280	1,857,652	18,904,932
Total liabilities	(9,389,640)	(84,778)	(9,474,418)

Geographic Segment information for the half year ended 31 December 2022

Sales revenue	6,898,693	1,719,620	8,618,313
Other revenue	93,685	1,885	95,570
Total Revenue	6,992,378	1,721,505	8,713,883
Net profit after tax	367,515	24,630	392,145
Total assets	12,406,207	2,399,795	14,806,002
Total liabilities	(5,315,832)	(329,392)	(5,645,224)

NOTES TO CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS (CONT'D)

7. ACQUISITION OF KLIK SYSTEMS

On 1 October 2023 FOS Lighting Pty Ltd acquired a business of Klik Systems, established over 40 years ago and is based in Sydney, NSW. It manufactures an extensive range of commercial, industrial & architectural LED linear lighting.

The values identified in relation to the acquisition of Klik Systems are provisional as at 31 December 2023, as the fair value of intangible assets are yet to be finalised.

The provisional fair values of the assets and liabilities of Klik Systems as at 1 October 2023 were as follows;

	Provisional Fair Value \$
Inventory	973,772
Plant and equipment	512,820
Deferred tax assets	198,670
Employee liabilities	(794,681)
Goodwill	2,109,419
	<hr/> 3,000,000 <hr/>
Details of the purchase consideration:	
Cash consideration paid	2,000,000
Deferred consideration	1,000,000
	<hr/> 3,000,000 <hr/>

Contribution since acquisition

Since the acquisition date Klik Systems has contributed revenue of \$3,023,496 and a profit before tax of \$309,889 which is included within the consolidated profit.

The Consolidated entity will be required to pay additional consideration up to \$1,000,000 on 1 October 2024.

As at 31 December 2023, deferred consideration disclosed in the Statement of Financial Position represents \$1,000,000 payable to Klik Systems and \$270,000 payable to the vendors of Hawko Lighting which was paid in January 2024.

8. CONTINGENT LIABILITIES

With the exception of the bank guarantee issued for a value of \$133,396 (June 2023: deposit paid \$45,000) for leasehold tenancies, as report date the directors are unaware of any contingent liabilities or commitments that may materially impact the Consolidated entity.

9. SUBSEQUENT EVENTS

There were no matters or circumstances specific to the Consolidated entity that have arisen since 31 December 2023 that have significantly affected or may significantly affect the Consolidated entity's operations and state of affairs.

DIRECTORS' DECLARATION

The directors declare that:

In the directors' opinion, the financial statements and notes thereto, as set out in the accompanying financial report are in accordance with the Corporations Act 2001, including:

- complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2023 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that FOS Capital Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.



Con Scrinis
Director

Date: 22 February 2024

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of FOS Capital Limited

As lead auditor for the review of FOS Capital Limited for the half-year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of FOS Capital Limited and the entities it controlled during the period.

William Buck

William Buck Audit (Vic) Pty Ltd

ABN 59 116 151 136

N. S. Benbow

N. S. Benbow

Director

Melbourne, 22 February 2024

Independent auditor's review report to the members of FOS Capital Limited

Report on the half-year financial report



Our conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of FOS Capital Limited (the Company), and its controlled entities (together, the Group) does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the half-year then ended; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

What was reviewed?

We have reviewed the accompanying half-year financial report of the Group, which comprises:

- the consolidated statement of financial position as at 31 December 2023,
- the consolidated statement of comprehensive income for the half-year then ended,
- the consolidated statement of changes in equity for the half-year then ended,
- the consolidated statement of cash flows for the half-year then ended,
- notes to the financial statements, including a summary of material accounting policy, and
- the directors' declaration.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the financial report

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

Auditor's responsibilities for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

William Buck

William Buck Audit (Vic) Pty Ltd

ABN 59 116 151 136

N. S. Benbow

N. S. Benbow

Director

Melbourne, 22 February 2024