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| F.E.A.R Corporation Financial Results 2016 | November 14  2016 | |
| Unaudited annual financial results for the trading year ending 14 November 2016. The report contains the Director’s views, the Corporation’s consolidated financial statements and maps a way forward in the 2017 financial year. | | Unaudited Annual Financial Statements |

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# Directors’ Report

The Directors of F.E.A.R CORPORATION (‘F.E.A.R CORPORATION’) present their Report1 together with the financial statements of the consolidated entity, being F.E.A.R CORPORATION (‘the Company’) and its Controlled Entities (‘the Corporation’) for the year ended 14 November 2016.

## Directors’ details

The following persons were directors of F.E.A.R CORPORATION during or since the end of the financial year:

#### Itai Bryan Nyamawuya

B. Tech (Hons) Agricultural Engineering

Managing Director   
Director since 14 November 2015

Mr. Nyamawuya has substantial knowledge of manufacturing processes and retail through executive roles in the steel, agriculture and media industry where he has been responsible for implementing best practice systems across a range of industries.

Other current Directorships: None  
Previous Directorships (last 3 years): None  
Interests in shares: 403,565 shares  
Interest in options: None

#### Mr. Ahmed Shafiq

CA, MBA

Independent Non-Executive Director  
Audit and Risk Committee Chair and Member of the Nomination and Remuneration Committee  
Director since 2013

Ahmed is a Chartered Accountant and brings years of broad financial and commercial experience, both local and international to F.E.A.R Corporation.

Other current Directorships: Voluntary Mentorship Program (Appointed 15 July 2013)  
Previous Directorships (last 3 years): Sapphire Holdings Limited (Appointed 1 March 2011; Resigned 17 September 2014)

Interests in shares: 21,203 shares  
Interest in options: None

#### Company Secretary

Mike Morgan is a Chartered Accountant and the Group Chief Financial Officer. Mike has held senior positions with a number of professional accounting firms and has a Degree in Commerce. Mike has been the Company Secretary of F.E.A.R Corporation for six (6) months.

## Principal activities

During the year, the principal activities of entities within the Corporation were:

* sale, customisation and integration of IT and telecommunications systems
* maintenance of IT and telecommunications systems
* internet based selling of books, hardware and software products
* music recording and publishing
* design and manufacture of steel-based farming equipment; and
* Social media marketing services.

There have been no significant changes in the nature of these activities during the year.

## Review of operations and financial results

The Corporation is becoming a key participant in the IT and telecommunications services market, holding a market share of approximately 3%. While the Corporation’s Services and Retail segments have a diverse customer base, 27% of the Consulting segment’s revenues depended on a single customer (2015: 17%).

In May 2016, the Corporation announced that it had been the target of an unsolicited takeover offer. The Directors believed that this offer significantly undervalued the Corporation. The offer caused some disruption, diverting management time from daily operations, and the Corporation incurred one-off costs of approximately $500 in relation to the offer. The offer has since been withdrawn.

As part of our cost reduction program, it was necessary to reduce our service staff numbers this year from 5 to 3. Redundancy payments totalling $1,800 explain the higher employee benefit expenses this year.

The operating result of the Corporation has increased to $15,400 (2015: $13,200); this is mainly due to the cost control measures implemented during the year which have allowed increased revenue with a lower proportionate cost base.

Revenue from Retail operations was up on last year (by 17%), which is very encouraging and higher than anticipated last year (our expectation was 12%). The key reason for this increase was the expansion of our distribution networks and upgrading of our online sales portal. Revenue growth in our Consulting and Service businesses was steady, which was in line with our expectations last year. This steady growth reflects the current global economic uncertainty and the cost reduction measures undertaken by businesses in the market place.

Earnings per share have increased during the year to $1.22 (2015: $1.11) although neither interim nor final dividends were declared.

Additional capital raising activities were undertaken during the year which raised $16,700 and allowed the Corporation to fund the GETI Ltd operationalization of GETIShop via a cash settlement as well as positioning the Corporation in a strong cash position for 2017 to allow for higher sales revenues, if appropriate opportunities arise.

The Corporation’s net assets increased by 63% compared to the previous year, which is largely due to the Corporation’s capital raising activities.

The acquisitions which have occurred during the year are in line with the Corporation’s strategy to increase both online and offline sales capacity.

Goodwill of $2,440 arising from restructuring of GETI Ltd (as described below) is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of GETI Ltd.’s workforce and expected cost synergies.

The Chairman’s report contains further information on the detailed operations of the Corporation during the year.

### Significant changes in the state of affairs

During the year, the following changes occurred within the Corporation:

#### Recapitalisation of GETI Ltd:

On 30 September 2015, the Corporation recapitalized GETI Ltd by 100% of its market value thereby allowing it to retool and gain market share. The recapitalization was made to enhance the Corporation’s position in the retail market for computer and telecommunications hardware in Zimbabwe. GETI is now a significant business in Zimbabwe in the Corporation’s targeted market. The cost of recapitalization was $1,606 which was made in cash.

#### Operationalisation of GETIShop:

On 14 May 2016, the Corporation opened the doors of GETIShop which is 100% owned by subsidiary, GETI Limited. The shop was classified as operational in the 2014 financial statements. There was an operating loss of $2,000.

#### Issue of share capital:

On 14 May 2016, the Corporation issued 1,500,000 shares as part of its capital raising program which resulted in proceeds of $16,700 each share has the same terms and conditions as the existing ordinary shares.

### Dividends

In respect of the current year, no dividend will be paid on 14 November 2016 (2015: $Nil).

### Events arising since the end of the reporting period

Apart from the final dividend declared, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

* the entity’s operations in future financial years
* the results of those operations in future financial years; or
* the entity’s state of affairs in future financial years

### Likely developments, business strategies and prospects

Based on the expected growth in online sales, as predicted by a number of prominent economic commentators, and the demand from customers for the latest technology, we expect significant increase in online sales for next few years. We have a number of strategies to benefit from this growth, including:

* upgrading our online sales portal
* further expanding our distribution networks
* further reducing manufacturing costs; and
* a strong marketing campaign

We have instigated an urgent upgrade of the Corporation’s website and online sales portal. We have allocated $3.8m for this upgrade, which will mostly be funded from retained earnings. We expect the upgrade to be completed in the next twelve (12) months, to be followed by a strong marketing campaign.

We are continually considering ways of reducing the Corporation’s cost of manufacturing. The Directors are giving consideration to a major upgrade of production-line technology to improve efficiency. The Directors expect to receive the results of a feasibility study within the next six (6) months, and the various options will be considered at that time.

Looking ahead, the Corporation is currently engaged in a competitive tender process to supply the Zimbabwean government $100,000 IT and telecommunication systems and offer integration and maintenance services over the next five (5) years. If successful, supply is expected to commence next year, significantly affecting future revenues.

Given both the competitive nature of the tender, and the fact that the process is ongoing, we have utilised the exemption in s299A(3) and have not disclosed further details about the possible impact of the potential contract on the Corporation’s business strategy and future prospects. We are relying on the exemption on the basis that disclosure of the potential financial impact on the Corporation arising from the outcome of the tender process is premature, and would be likely to result in other tender competitors gaining a commercial advantage, which would jeopardise the Corporation’s prospects.

### Material business risks faced by the Corporation

They are likely to have an effect on the financial prospects of the Corporation, and how the Corporation manages these risks include:

#### Delayed payments from overseas markets

Given our reliance on the United Kingdom, USA and other overseas markets, the issue of bond notes could have a significant impact on our financial results. Based on the views of prominent economic commentators, we do not anticipate any significant slowdown in these overseas economies, but are currently investigating the likely effects of the bond notes; and

#### Technological obsolescence

Given the rapidly changing environment in which the Corporation operates, this could have a very significant impact on our financial results. We address this risk through investment in research and development and by constantly monitoring the market. With competitors constantly seeking to enter our market with improved designs, we see this risk increasing in the future.

## Consolidated profit and loss account for the year ended 14 November 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Revenue |  |  |  |
| Other income |  |  |  |
| Changes in inventories |  |  |  |
| Cost of materials |  |  |  |
| Employee benefits expenses |  |  |  |
| Change in fair value of investment property |  |  |  |
| Depreciation of property, plant and equipment |  |  |  |
| Amortisation of intangible assets |  |  |  |
| Impairment of goodwill |  |  |  |
| Impairment of other intangible assets |  |  |  |
| Other expenses |  |  |  |
| Share of net profit from associates and joint ventures accounted for using the equity method |  |  |  |
| Finance costs |  |  |  |
| Finance income |  |  |  |
| Other financial items |  |  |  |
| Profit before income tax |  |  |  |
| Income tax expense |  |  |  |
| Profit for the year from continuing operations |  |  |  |
| Loss of the year from discounted operations |  |  |  |
| Profit for the year | | | |

## Consolidated Statement of Financial Position as at 14 November 2016

|  |  |  |  |
| --- | --- | --- | --- |
|  | 14 November | | |
| 2014 | 2015 | 2016 |
| Assets |  |  |  |
| Current |  |  |  |
| Cash and cash equivalents |  |  |  |
| Trade and other receivables |  |  |  |
| Other short-term financial assets |  |  |  |
| Inventories |  |  |  |
| Derivative financial instruments |  |  |  |
| Current tax assets |  |  |  |
| Assets and disposal group classified as held for sale |  |  |  |
| Total current assets |  |  |  |
| Non-current |  |  |  |
| Investments accounted for using the equity method |  |  |  |
| Property, plant and equipment |  |  |  |
| Investment property |  |  |  |
| Other long –term financial assets |  |  |  |
| Deferred tax assets |  |  |  |
| Goodwill |  |  |  |
| Other tangible assets |  |  |  |
| Total non-current assets |  |  |  |
| Total assets |  |  |  |

## Consolidated Statement of Financial Position as at 30 June 2016

|  |  |  |  |
| --- | --- | --- | --- |
|  | 14 November | | |
| 2014 | 2015 | 2016 |
| Liabilities |  |  |  |
| Current |  |  |  |
| Trade & other payables |  |  |  |
| Borrowings |  |  |  |
| Derivative financial instruments |  |  |  |
| Provisions |  |  |  |
| Employee benefits |  |  |  |
| Current tax liabilities |  |  |  |
| Liabilities included in disposal group held sale |  |  |  |
| Current liabilities |  |  |  |
| Non-current |  |  |  |
| Trade and other payables |  |  |  |
| Borrowings |  |  |  |
| Employee benefits |  |  |  |
| Deferred tax liabilities |  |  |  |
| Other liabilities |  |  |  |
| Total non-current liabilities |  |  |  |
| Total liabilities |  |  |  |
| Net assets |  |  |  |
| Equity |  |  |  |
| Equity attributable to owners of the parent: |  |  |  |
| * Share capital |  |  |  |
| * Share option reserve |  |  |  |
| * Other components of equity |  |  |  |
| * Retained earnings |  |  |  |
| Non-controlling interest |  |  |  |
| Total equity |  |  |  |

## Capital management policies and procedures

The Corporation’s capital management objectives are:

* to ensure the Corporation’s ability to continue as a going concern; and
* To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Corporation monitors capital on the basis of the carrying amount of equity plus its subordinated loan, less cash and cash equivalents as presented on the face of the statement of financial position and cash flow hedges recognised in other comprehensive income.

The Corporation’s goal in capital management is to maintain a capital-to-overall financing ratio of 1:6 to 1:4. This is in line with the Corporation’s covenants resulting from the subordinated loan it has taken out from its main shareholder in 2013.

## Directors’ Declaration

1. In the opinion of the Directors of F.E.A.R CORPORATION:
2. The consolidated financial statements and notes of F.E.A.R CORPORATION are in accordance with the Corporations Act 2001, including:
3. Giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
4. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
5. There are reasonable grounds to believe that F.E.A.R CORPORATION will be able to pay its debts as and when they become due and payable.
6. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 14 November 2016.
7. *Note 2* confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

Director

Itai Bryan Nyamawuya  
*Dated the 14th day of November 2016*