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| F.E.A.R Corporation Financial Results H1 2017 | May 14  2017 | |
| Unaudited annual financial results for half year ending 14 May 2017. The report contains the Director’s views, the Corporation’s consolidated financial statements and maps a way forward in the second half of 2017 financial year. | | Unaudited H1 Financial Statements |

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# Directors’ Report

The Directors of F.E.A.R CORPORATION (‘FearCo’) present their Report together with the financial statements of the consolidated entity, being F.E.A.R CORPORATION (‘the Corporation’) and its Controlled Entities (‘the Company’) for the year ended 14 May 2017.

## Directors’ details

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

#### 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 half 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 half 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 Corporations’ Services and Retail segments have a diverse customer base, 33% of the Consulting segment’s revenues depended on a single customer (May 2016: 27%).

The operating result of the Corporation has increased to $9,400 (May 2015: $8,200); 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 6%), which is lower than anticipated last year (our expectation was 8%). The key reason for this low increase was the rise of transaction costs in our distribution networks. 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.

Operationalization of GETI Ltd run GETIShop is positioning the Corporation in a strong cash position for 2017 as volume of sales recorded a 13% rise over the period.

The Corporation’s net assets increased by 5% compared to the previous year.

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

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

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 significant growth in online sales, as projected in our 2016 Annual Financial Report, and the demand from customers for the latest technology, we expect increase in online sales for next few years. We are currently implementing a number of strategies to benefit from this growth, including:

* upgrading our online sales portals
* further expanding our (online and offline) distribution networks
* further reducing manufacturing costs; and
* a strong (online and offline) marketing campaign

We commissioned the upgrade of the Corporations’ website and online sales portals. We have allocated $3,800 for this upgrade, which will mostly be funded from retained earnings. We expect the upgrade to be completed in H2, to be followed by a strong marketing campaign.

We are continually considering ways of reducing the Corporation’s cost of production. The Directors are giving consideration to a major upgrade of production-line technology to improve efficiency. The Directors are still reviewing the results of a feasibility study on investing in new technology considering various options that have been tabled.

### 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 and tightening control of foreign currency by fiscal authorities could have a significant impact on our financial results. We however, have noted significant growth in sales to these overseas economies and are currently investigating the likely effects of tight fiscal controls on our earnings; 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 insistently seeking to enter our market with improved designs, we see this risk increasing in the future.

## Consolidated Profit & Loss Account for half year ended 14 May 2017

|  |  |  |
| --- | --- | --- |
|  | May 2016 | May 2017 |
| Revenue | 72,000 | 78,065 |
| Other income | 12,112 | 12,876 |
| Changes in inventories | - | - |
| Cost of materials | (33,223) | (31,936) |
| Employee benefits expenses | (27,444) | (10,338) |
| Change in fair value of investment property | - | - |
| Depreciation of property, plant and equipment | (2,567) | (1,233) |
| Amortisation of intangible assets | (497) | - |
| Impairment of goodwill | - | - |
| Impairment of other intangible assets | - | - |
| Other expenses | (6,411) | (5,937) |
| Share of net profit from associates and joint ventures accounted for using the equity method | - | - |
| Finance costs | (2,863) | (2,237) |
| Finance income | 2,231 | 3,106 |
| Other financial items | - | - |
| **Profit before income tax** | **13,338** | **42,366** |
| Income tax expense | (6,820) | (16,491) |
| Profit for the half year from continuing operations | 6,518 | 25,875 |
| Loss of the half year from discontinued operations | (2,513) | - |
| **Profit for the half year** | **4,005** | **25,875** |

## Consolidated Statement of Financial Position as at 14 May 2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | November | November | May |
| 2015 | 2016 | 2017 |
| Assets | | | |
| Current | 4,879 | 7,435 | 8,251 |
| Cash and cash equivalents | 6,788 | 2,876 | 3,917 |
| Trade and other receivables | 967 | 1,072 | 1,840 |
| Other short-term financial assets | 267 | 436 | 527 |
| Inventories | - | 56 | 109 |
| Derivative financial instruments | 91 | 105 | 84 |
| Current tax assets | 2,054 | 3,095 | 1,130 |
| Assets and disposal group classified as held for sale | - | - | - |
| **Total current assets** | **15,046** | **15,075** | **15,858** |
| Non-current | 4,805 | 4,979 | 4,979 |
| Investments accounted for using the equity method | - | - | - |
| Property, plant and equipment | 2,672 | 3,832 | 3,832 |
| Investment property | - | - | - |
| Other long –term financial assets | - | - | - |
| Deferred tax assets | - | - | - |
| Goodwill | - | - | - |
| Other tangible assets | 671 | 1,960 | 2,492 |
| **Total non-current assets** | **8,148** | **10,771** | **11,303** |
| **Total assets** | **23,194** | **25,846** | **27,161** |
|  | | | |
| **Liabilities** |  |  |  |
| Current |  |  |  |
| Trade & other payables | 3,439 | 3,487 | 3,401 |
| Borrowings | 1,000 | 1,500 | 1,630 |
| Derivative financial instruments | 283 | 442 | 602 |
| Provisions | 1,500 | 500 | 500 |
| Employee benefits | 11,133 | 12,064 | 10,385 |
| Current tax liabilities | 5,012 | 6,032 | 2,739 |
| Liabilities included in disposal group held sale | - | - | - |
| Current liabilities | 22,367 | 24,075 | 19,257 |
| Non-current |  |  |  |
| Trade and other payables | 4,741 | 5,562 | 7,369 |
| Borrowings | 7,500 | 7,500 | 7,500 |
| Employee benefits | 4,178 | 4,049 | 4,937 |
| Deferred tax liabilities | 100 | 100 | 3,000 |
| Other liabilities | 1,584 | 1,592 | 2,630 |
| Total non-current liabilities | 18,103 | 18,803 | 25,436 |
| **Total liabilities** | **40,470** | **42,878** | **44,693** |
| Net assets | 23,194 | 25,846 | 27,161 |
| Equity | 8,791 | 9,275 | 10,492 |
| Equity attributable to owners of the parent: |  |  |  |
| * Share capital | 4,450 | 4,133 | 3,157 |
| * Share option reserve | 1,000 | 1,000 | 1,000 |
| * Other components of equity | 735 | 324 | 583 |
| * Retained earnings | 2,300 | 2,300 | 2,300 |
| Non-controlling interest | - | - | - |
| **Total equity** | **40,470** | **42,878** | **44,693** |

## 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 14 May 2017 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 May 2017*