

# Appendix 4E

## Preliminary final report

N1 Holdings Limited  
ACN: 609 268 279

The following information is provided pursuant to ASX Listing Rule 4.3A.

N1 Holdings Limited (ASX: N1H, "N1" or "Company") is pleased to provide its 30 June 2019 preliminary final report to shareholders. The financial year has seen a continuing tightened credit environment post Royal Commission on Financial Services and increased regulatory constraints on Australian property investment. The Company has continued its diversification strategy and ongoing transition of its business model. The financial year saw significant growth in the Company's unique direct channel of commercial broking and lending. The Company's commercial broking and lending business captures demand in the market void left by banks retreating from small-to-medium enterprise (SME) lending. During the year, the company established its first commercial lending fund, the One Lending Fund (Fund), operating through the Company's asset management arm, N1 Venture Pty Ltd which holds an AFS licence (number 477879). The Fund initially issued \$2.1m worth of units issued on 1 February 2019 and further issues during the year resulted in funds under management of \$6.2m as at 30 June 2019. As at the date of this report, the Fund has \$7.9m in funds under management. Commercial lending (comprising amounts lent from the Company's balance sheet and from the Fund) has become the most prominent revenue driver for the Company offsetting the decline in residential home loan broking revenue due to the tightening of mortgage lending and downturn in the property cycle downturn.

The annual revenue of the Company and its controlled entities (together the "group") recorded an increase of 13% to \$4.06m (FY18: \$3.60m) and an increase in cash receipts from customers of 8% to \$4.44m (FY18: \$4.11m).

In August 2019, the Company sold its Finsure aggregated trail book for \$2.38m. The strategic decision was made based on recent accelerated trail run off due to regulatory changes and the banks' pullback from interest-only loans resulting in more loans being switched to principal and interest repayments. In addition a further catalyst for the sale was indication by the government that broker remuneration practices will be reviewed by 2022. Notwithstanding the sale of the trail book, the Company will continue to broker new home loans and will continue to earn upfront and trail commission for future new loans it brokers. In addition, the Company has actively responded to the changing market conditions by launching its self-branded wholesale lending home loan product - N1 Plus. N1 Plus allows the Company to be involved in the "whole process" of creating new home loans including after the post-settlement stage. Management believes that continued transitioning of business model from purely home loan broking to include commercial lending and commercial loan broking, and the launch of wholesale home loan product (N1 Plus) will continue to propel the Company's revenue whilst improving the overall profit margin.

The Company continued its Business to Business (B2B) model which empowers high ticket value transactions both in commercial lending and realty. The Company has also continued to explore expansion into complementary financial services. To support this, the management of the Company have devised a range of partnership opportunities with upstream providers such as lenders and wholesale funders, peers such as realty companies and distribution channels such as aggregators and broker network.

During FY19, N1 Loans was once again recognised as an innovative leader by industry peers. It was awarded by the industry media The Adviser Top 25 Brokerage 2019 for the third time in the last 4 years. N1 Loans was also recognised by the Australian Mortgage Awards as a finalist for the Brokerage of the Year Award and with the Australian Broking Awards as a finalist for the Diversification Program of the Year and Innovator of the Year.

The themes of future growth lie in a focus of direct channel approach in home lending, commercial lending and B2B financial advisory services.

### 1. Company details

Name of entity:	N1 Holdings Limited
ACN:	609 268 279
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

## 2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	12.8% to	4,057,306
Loss from ordinary activities after tax	up	38.8% to	(2,571,340)
Loss for the year	up	38.8% to	(2,571,340)

### Dividends

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

### Comments

During FY19, the Company generated revenue of \$4.06m (FY18: \$3.60m) delivering a net loss of \$2.57m (FY18: loss \$1.85m). Normalised EBIDTA with non-cashflow loss related to trailbook being adjusted, has improved by \$626,494 to a loss of \$674,607 (FY18: loss of \$1.3m). No dividend was declared during FY19 (FY18: Nil).

The increased net loss is mainly due to the following non-cash expenses totalling \$1,024,207.

- In August 2019, the Company committed to selling its Finsure aggregated mortgage trail commissions book. As a result, the contract assets and related contract liabilities for the trail book were reclassified as assets held for sale as at 30 June 2019. This has created a non-cash loss of \$592,432.
- Increased depreciation and amortisation cost of \$166,419
- Reduced deferred tax benefit of \$265,356

During FY19, the Company's financial services business continued to be the group's major revenue generator, accounting for 80.24% of the total revenue of the group. It is worth noting that 25.68% of the revenue comes from commercial lending including management fee from the Fund. The real estate business generated revenue of \$531,524 representing 13.1% of the group's total revenue and a reduction of 34% compared to FY18. Realty income has declined due to a downturn in the property market and increased regulatory intervention. Persisting decline of market activity and falling auction clearance rates during the year, have undeniably had an adverse effect on the industry in general. A flood of new entrants into property management industry due to falling sales activity has also contributed to squeezing profit margin property management revenue. In response to this, the management of the Company has reacted swiftly to optimise the operational cost during the financial year by merging of offices, service accounts and sales team. N1 Realty also has attached focus to commercial properties and large acquisitions transactions by utilising its strong network in the local Asian business community. N1 Migration generated \$145,117 in revenue representing 3.58% of the group's total revenue.

The launch of the Fund in the second half of FY19 has brought in the most significant uplift in revenue for the group and has become a major revenue driver for the Company. Total commercial loan origination commission and lending revenue including interest from loans in the current reporting period amounted to \$1.04m (FY18: \$144,321), which represents an increase of over 622%.

## 3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(1.66)	0.06

## 4. Control gained over entities

N1 Capital Singapore Pte. Ltd. was incorporated on 1 February 2019, it has been fully owned by the group since incorporation.

Borrowing Business Pty Ltd was incorporated on 22 May 2019, it has been fully owned by the group since incorporation.

## 5. Loss of control over entities

Not applicable.

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## 6. Dividends

### *Current period*

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

### *Previous period*

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

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## 7. Dividend reinvestment plans

Not applicable.

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## 8. Details of associates and joint venture entities

Name of Entity:	Reporting entity's percentage holding		Aggregate share of profit/(loss) (where material)	
	FY19 (%)	FY18 (%)	FY19 (\$)	FY18 (\$)
N1X Capital Pty Ltd	40	40	0	0

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## 9. Foreign entities

Not applicable.

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## 10. Audit qualification or review

This report is based on accounts which are in the process of being audited. It is not considered likely that any audit qualification will arise.

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## 11. Attachments

Refer to the attached unaudited financial statements and related notes.

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## 12. Signed



Signed \_\_\_\_\_

Ren Hor Wong  
Executive Chairman and CEO

Date: 30 August 2019

**N1 Holdings Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Revenue</b>	3	4,057,306	3,596,657
Other income		35,712	62,939
<b>Expenses</b>			
Consulting and referral fees		(913,577)	(813,792)
Employee cost		(2,503,698)	(2,811,083)
IT and technology		(11,010)	(23,741)
Sales and marketing		(99,682)	(121,912)
Rent and utilities		(487,747)	(479,161)
Professional fee		(374,717)	(368,063)
Office and administrative expense		(238,869)	(240,879)
Finance cost		(564,093)	(242,494)
Travel cost		(102,702)	(90,109)
Depreciation and amortisation		(774,240)	(607,821)
Other operation cost		(35,623)	(11,957)
Loss for assets classified as held for sale		(592,432)	-
<b>Loss before income tax benefit</b>		(2,605,372)	(2,151,416)
Income tax benefit		34,032	299,388
<b>Loss after income tax benefit for the year</b>		(2,571,340)	(1,852,028)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<u>(2,571,340)</u>	<u>(1,852,028)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	1	(3.2)	(2.3)
Diluted earnings per share	1	(3.2)	(2.3)

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

**N1 Holdings Limited**  
**Consolidated statement of financial position**  
**As at 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		919,532	1,008,874
Trade and other receivables	4	283,585	1,187,664
Contract assets	5	91,566	-
Short-term loan receivables	7	2,752,500	1,694,000
Other financial assets	6	421,507	-
Assets held for sale	8	2,384,525	-
Other current assets		54,650	17,537
<b>Total current assets</b>		<u>6,907,865</u>	<u>3,908,075</u>
<b>Non-current assets</b>			
Trade and other receivables	4	-	1,437,481
Contract assets	5	121,273	-
Property, plant and equipment		293,354	366,044
Deferred tax assets		839,775	943,641
Intangible assets	9	1,591,185	2,210,032
Other non-current assets		236,823	234,735
<b>Total non-current assets</b>		<u>3,082,410</u>	<u>5,191,933</u>
<b>Total assets</b>		<u>9,990,275</u>	<u>9,100,008</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		409,764	727,715
Contract liabilities		216,248	-
Loan and borrowings	10	3,770,103	1,462,272
Deferred income		172,845	158,567
Provisions		150,697	215,490
<b>Total current liabilities</b>		<u>4,719,657</u>	<u>2,564,044</u>
<b>Non-current liabilities</b>			
Contract liabilities		53,483	-
Loan and borrowings	10	4,091,681	3,295,411
Deferred tax liabilities		839,775	943,641
Provisions		52,159	34,274
<b>Total non-current liabilities</b>		<u>5,037,098</u>	<u>4,273,326</u>
<b>Total liabilities</b>		<u>9,756,755</u>	<u>6,837,370</u>
<b>Net assets</b>		<u>233,520</u>	<u>2,262,638</u>
<b>Equity</b>			
Issued capital		5,688,093	5,722,125
Reserves	11	206,524	206,884
Retained earnings		(5,661,097)	(3,666,371)
<b>Total equity</b>		<u>233,520</u>	<u>2,262,638</u>

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

**N1 Holdings Limited**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2019**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Reserves \$</b>	<b>Retained profits \$</b>	<b>Total equity \$</b>
Balance at 1 July 2017	5,756,156	155,610	(1,814,343)	4,097,423
Loss after income tax benefit for the year	-	-	(1,852,028)	(1,852,028)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(1,852,028)	(1,852,028)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	51,274	-	51,274
Recovery of deferred tax on IPO cost	(34,031)	-	-	(34,031)
Balance at 30 June 2018	<u>5,722,125</u>	<u>206,884</u>	<u>(3,666,371)</u>	<u>2,262,638</u>
<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Reserves \$</b>	<b>Retained profits \$</b>	<b>Total equity \$</b>
Balance at 1 July 2018	5,722,125	206,884	(3,666,371)	2,262,638
Impact of adoption of AASB 15	-	-	576,614	576,614
Balance at 1 July 2018 - restated	5,722,125	206,884	(3,089,757)	2,839,252
Loss after income tax benefit for the year	-	-	(2,571,340)	(2,571,340)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,571,340)	(2,571,340)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	(360)	-	(360)
Recovery of deferred tax on IPO cost	(34,032)	-	-	(34,032)
Balance at 30 June 2019	<u>5,688,093</u>	<u>206,524</u>	<u>(5,661,097)</u>	<u>233,520</u>

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

**N1 Holdings Limited**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2019**

	Note	Consolidated 2019 \$	2018 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		4,437,516	4,111,860
Interest received from bank deposit		9,126	17,117
Payments to suppliers and employees		(5,534,531)	(5,112,773)
Net increase in fund lent as commercial loans		(1,058,500)	(1,694,000)
Net Increase in fund received for commercial loans		2,843,452	1,606,740
Interest and other finance costs paid for commercial loans		(312,043)	-
		<u>385,020</u>	<u>(1,071,056)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10,524)	(23,616)
Purchase of Intangible assets	9	(72,178)	(34,553)
Investment in other financial assets		(421,507)	-
Cash received on disposal of plants and equipment		-	48,000
		<u>(504,209)</u>	<u>(10,169)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings and loans		530,000	470,297
Proceeds from issuance of convertible notes		-	1,000,000
Repayment of borrowings and loans		(256,410)	-
Payment of finance cost and interest		(230,801)	(207,165)
Repayment of other financial liability		(12,942)	(85,465)
		<u>29,847</u>	<u>1,177,667</u>
Net cash from financing activities		<u>29,847</u>	<u>1,177,667</u>
Net increase/(decrease) in cash and cash equivalents		(89,342)	96,442
Cash and cash equivalents at the beginning of the financial year		<u>1,008,874</u>	<u>912,432</u>
Cash and cash equivalents at the end of the financial year		<u><u>919,532</u></u>	<u><u>1,008,874</u></u>

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

**N1 Holdings Limited**  
**Notes to the consolidated financial statements**  
**30 June 2019**

**Note 1. Earnings per share**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	<u>(2,571,340)</u>	<u>(1,852,028)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>81,555,573</u>	<u>81,555,573</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>81,555,573</u>	<u>81,555,573</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(3.2)	(2.3)
Diluted earnings per share	(3.2)	(2.3)

**Note 2. Operating segments**

*Identification of reportable operating segments*

The Group is organised into four operating segments: financial services, real estate services, migration services and other. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

*Financial services*

This segment refers to the operating activities in the area of financial service business mainly including:

- Mortgage broking
- Commercial loan lending

The Group acts as a mortgage broker that provides its customer with advice and support and receives commission payments on loans originated through its network of customers.

The Group lends the privately raised funds to commercial borrowers and earns a loan fee and interest from those lending activities.

*Real estate services*

The Group conducts real estate services through N1 Realty Pty Ltd and Sydney Boutique Properties Pty Ltd. The services currently are focused on rental property management and property sales agent service.

*Migration services*

The Group provides migration services to its customers through N1 Migration Pty Ltd which holds a migration agent licence.

Other segments represent the services provided by the Group other than the above three categories.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.



**N1 Holdings Limited**  
**Notes to the consolidated financial statements**  
**30 June 2019**

**Note 2. Operating segments (continued)**

*Operating segment information*

	Financial services	Real estate services	Migration services	Other and elimination	Total
<b>Consolidated - 2019</b>	\$	\$	\$	\$	\$
<b>Revenue</b>					
Revenue	3,380,665	531,524	145,117	-	4,057,306
Interest	6,457	-	148	2,520	9,125
Other revenue	11,766	21	-	14,800	26,587
<b>Total revenue</b>	<b>3,398,888</b>	<b>531,545</b>	<b>145,265</b>	<b>17,320</b>	<b>4,093,018</b>
Loss for assets classified as held for sale	(592,432)	-	-	-	(592,432)
Segment operating profit/(loss) before income tax	(357,736)	(834,438)	12,643	(833,409)	(2,012,940)
<b>Profit/(loss) before income tax benefit</b>	<b>(950,168)</b>	<b>(834,438)</b>	<b>12,643</b>	<b>(833,409)</b>	<b>(2,605,372)</b>
Income tax benefit					34,032
<b>Loss after income tax benefit</b>					<b>(2,571,340)</b>
<i>Material items include:</i>					
Depreciation and amortisation expense	42,575	664,261	-	67,404	774,240
Interest expense	108,568	56,566	78	398,881	564,093
<b>Assets</b>					
Segment assets	6,995,506	1,044,737	53,208	1,896,824	9,990,275
<b>Total assets</b>					<b>9,990,275</b>
<b>Liabilities</b>					
Segment liabilities	9,249,051	2,997,457	69,986	(2,559,739)	9,756,755
<b>Total liabilities</b>					<b>9,756,755</b>
<b>Consolidated - 2018</b>	\$	\$	\$	\$	\$
<b>Revenue</b>					
Revenue	2,673,257	805,845	111,055	6,500	3,596,657
Interest	5,631	327	214	10,945	17,117
Other revenue	44,343	1,479	-	-	45,822
<b>Total revenue</b>	<b>2,723,231</b>	<b>807,651</b>	<b>111,269</b>	<b>17,445</b>	<b>3,659,596</b>
Segment profit/(loss) before income tax	(155,885)	(660,935)	(50,374)	(1,284,222)	(2,151,416)
<b>Loss before income tax benefit</b>	<b>(155,885)</b>	<b>(660,935)</b>	<b>(50,374)</b>	<b>(1,284,222)</b>	<b>(2,151,416)</b>
Income tax benefit					299,388
<b>Loss after income tax benefit</b>					<b>(1,852,028)</b>
<i>Material items include:</i>					
Depreciation and amortisation	66,456	466,607	-	74,758	607,821
Interest expense	66,213	50,277	-	100,498	216,988
<b>Assets</b>					
Segment assets	5,664,255	949,650	44,448	2,441,655	9,100,008
<b>Total assets</b>					<b>9,100,008</b>
<b>Liabilities</b>					
Segment liabilities	2,874,229	246,380	18,869	3,697,892	6,837,370
<b>Total liabilities</b>					<b>6,837,370</b>

**N1 Holdings Limited**  
**Notes to the consolidated financial statements**  
**30 June 2019**

**Note 3. Revenue**

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Mortgage brokering origination commission	915,793	1,168,395
Mortgage brokering trail commission	1,297,972	1,244,395
Net movement in trail commission asset valuation	-	116,146
Commercial lending fee and interest	1,041,900	144,321
Real estate service	531,524	805,845
Migration service	145,117	111,055
Other service	125,000	6,500
	<u>4,057,306</u>	<u>3,596,657</u>
<i>Geographical regions</i>		
Australia	4,057,306	3,596,657
International	-	-
	<u>4,057,306</u>	<u>3,596,657</u>

*Timing of revenue recognition*

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. The analysis of the revenue recognition point is as below:

	2019	2019	2018	2018
	At point in	Over time	At point in	Over time
	time	\$	time	\$
	\$	\$	\$	\$
Mortgage origination commission	915,793	-	1,168,395	-
Trail commission	1,297,972	-	1,360,541	-
Commercial lending fee and interest	512,618	529,282	-	144,321
Real Estate service	132,018	399,506	301,774	504,071
Migration service	145,117	-	111,055	-
Other service	125,000	-	6,500	-
	<u>3,128,518</u>	<u>928,788</u>	<u>2,948,265</u>	<u>648,392</u>

**New Accounting Policy - AASB 15 Revenue from Contracts with Customers**

**Note 3. Revenue (continued)**

The Group has adopted AASB 15: Revenue from Contracts with Customers since 1 July 2018. The standard supersedes the previous revenue recognition guidance including AASB 118 Revenue and the related Interpretations.

The standard has introduced a single, principle-based five- step recognition and measurement model for revenue recognition. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur.

**Mortgage broking**

The Group provides a service of introducing applicants to lenders as part of the process to originate a loan and receive commissions for the service provided. The service activities that form part of this process are interrelated and interdependent of each other and form a single performance obligation. The Group recognise commission as revenue upon the settlement of loans when the performance obligation is completed.

The deferral of some of the commission as a trailing commission is a mechanism by which the lender is incentivising the broker to introduce quality applicants that will not refinance their loans and therefore maximise the life of the loan. This mechanism affects the transaction price, but it does not give rise to a separate performance obligation. As a result, trailing commission is also recognised as revenue upon settlement of loans and at the same time, the right to trailing commission is now recognised as a contract asset on balance sheet (where it was classified under trade and other receivable in prior period report). The contract asset will only become a financial asset (i.e. a receivable) when the right to the consideration is unconditional. This is expected to be as each month's entitlement to the trailing commission is established when an invoice is raised to the aggregator.

The Group recognises trailing commission as revenue only if it is highly probable that a change in the estimate of the variable consideration would not result in a significant reversal of the cumulative revenue already recognised.

The upfront origination commission was recognised at its transactions price and the trailing commission is recognised by using expected value approach constrained by avoiding possible future downward revenue adjustments (i.e., revenue reversals).

The Group is a principal because it controls its service activities during the loan application process and entitled to gross commissions from lenders/aggregators. As a result, the revenue for commission earned is presented on a gross basis. The portion payable to commission-based brokers is recorded separately and recognised as trail commission liabilities at reporting date.

**Note 3. Revenue (continued)**

**Real estate service**

The Group enters into contracts with its customers to manage and/or sell, on their behalf, of properties. Under these contracts, the Group provides rental management and/or selling agent services (i.e., coordinating the selection of suitable tenants/purchasers and managing the rental and selling of the properties).

As a result, the Group receives property management fees which are based on a percentage of rental collected on behalf the landlords. Income is recognised in the period the service has been rendered. In terms of the real estate selling agent services, the Group receives commissions and fees derived from real estate sales. They are recognised at the time of unconditional exchange of contracts between vendors and purchasers.

The Group is a principal because it controls its service activities during the property management and real estate sales process and entitled to gross commissions from landlords/sellers. Therefore, the revenue for commission earned is presented on a gross basis.

**Commercial loan lending service**

The Group enters into contracts to lend the privately raised fund to commercial borrowers. Under these contracts, the Group provides loan services and earns commercial lending fee and interest from those lending activities. Commercial lending fee is recognised in revenue upon the obligation of establishing the loan for customer is completed. Interest income generated from the commercial lending is recognised when it is earned from the loan lent to customers.

The Group is a principal because it controls its service activities during the lending process and entitled to gross commissions from borrowers. Therefore, the revenue for lending fee and interest earned is presented on a gross basis.

**Render of other service (including migration service)**

Revenue from the rendering of services is recognised in the accounting period in which the services are rendered. For fixed-price services, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group controls its services during the service rendering process and is a principal. It is entitled to gross commissions from applicants. Therefore, the revenue for commission earned is presented on a gross basis.

**Interest**

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Other revenue**

Other revenue is recognised when it is received or when the right to receive payment is established.

**Impact of adoption of AASB 15**

The Group has selected to use the modified retrospective approach in adopting AASB 15 which recognises the cumulative effect of initial application through opening retained earnings as at 1 July 2018. The Group will not restate the comparative period financial statements. The modified retrospective approach applied to contracts not completed at 30 June 2018. Other than the impact for measurement of mortgage brokering revenue and related contract assets as disclosed below, there is no other significant impact over revenue transactions.

Upon adoption of AASB 15, expected value approach is used to replace the net present value approach for recognition and subsequent measurement of revenue and assets in relation with trailing commission from mortgage brokering.

Comparison of financial performance and balances of each relevant account is shown below to disclose the impact of the adoption of AASB 15.

**Note 3. Revenue (continued)**

	<b>Under AASB 15 \$</b>	<b>Under old standard \$</b>
Contract assets as at 30 June 2018*	3,387,542	-
Trade and other receivables as at 30 June 2018 *	304,868	2,625,145
Trail commission liabilities as at 30 June 2018	(490,652)	-
Retained earnings as at 30 June 2018	(3,089,757)	(3,666,371)

\* Contract assets and trade receivable: the change is mainly due to the reclassification of “trailing commission” from trade receivable to contract assets as well as the different valuation approach used.

**Critical accounting estimates and judgements – expected value of trailing income contract assets**

The group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. The group is entitled to the future trailing commissions without having to perform further services and recognise this as a contract asset in accordance with AASB 15. The value of trailing commission is determined by using expected value approach being the sum of probability-weighted amounts for various possible future trailing commission generated from existing loan portfolios as at reporting date in accordance with AASB 15. These calculations require the use of following assumptions which are determined by management with the assistance of external valuation specialist:

- Weighted average loan life (WAL) of 3.7 years
- Loan atrophy rate of 15.95% p.a.

**Note 4. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Commission receivables	231,015	258,988
Agent commission clawback receivable	52,570	45,881
NPV of future trailing income receivable*	-	882,795
	<u>283,585</u>	<u>1,187,664</u>
	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Non-current</b>		
NPV of future trailing income receivable*	-	1,437,481

**Credit risk**

The group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. On a geographic basis, the group has significant credit risk exposures in Australia only.

The group has assessed that there are no trade and other receivables that are impaired at year end (30 June 2018: nil). As at 30 June 2019, the amount of all trade and other receivables past due is \$39,654 (2018: \$36,597).

\* The balance was reconciled to contract assets as a result of adopting AASB 15.

**Note 5. Contract assets**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Contract assets - current	<u>91,566</u>	<u>-</u>
Contract assets - non-current	<u>121,273</u>	<u>-</u>

The contract asset relates to future trailing income recognised as a result of current adopting AASB 15 Revenue from Contracts with Customers. The contract asset for trailing income is recognised and measured by using expected value approach. The contract asset will only become a financial asset (i.e. a receivable) when the right to the consideration is unconditional. This is expected to be as each month's entitlement to the trailing commission is established when an invoice is raised to the aggregator.

Upon initial application of AASB 15 in 2019, the Group selected the cumulative approach in an accordance with paragraph c3(b) of AASB15. The required disclosure of the related impact in this reporting period is presented in Note 3 to this financial report.

**Reconciliation of the contract assets at the beginning and end of the current financial year are set out below:**

Opening balance	3,387,542
Expected trail commission from new loans since 1 July 2018 and commissions step up	1,276,386
Trail commission received	(1,297,972)
Trail commission assets classified as held for sale	(2,384,525)
Loss for assets classified as held for sale	(768,592)
	<u>212,839</u>

**Note 6. Other financial assets**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term financial assets investment	<u>421,507</u>	<u>-</u>

**Note 7. Short-term loan receivables**

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Short-term loan receivables	<u>2,752,500</u>	<u>1,694,000</u>

The Group raised funds to lend money to commercial entities on a short-term basis and earns the interest as income.

The short-term loan balance represented the outstanding amounts owed from commercial borrowing customers.

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**Note 8. Assets held for sale**

	<b>Consolidated</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Assets held for sale	<u>2,384,525</u>	<u>-</u>

Assets held for sale relate to contract assets that generate trail commission for the Group. Management are planning to sell this trail book within the next twelve months to focus more on their long-term strategic developments such as the commercial loan lending business.

The estimated net loss on sale of the trail book is \$592,432. This includes the loss of \$768,592 on assets classified as held for sale from contract assets and the gain of \$176,160 on assets classified as held for sale from contract liabilities.

**Note 9. Intangible assets**

	<b>Consolidated</b>	<b>2018</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Goodwill	536,216	536,216
Rent roll	2,217,048	2,155,370
Less: Accumulated amortisation	<u>(1,240,377)</u>	<u>(597,695)</u>
	976,671	1,557,675
Website and IT system	328,957	318,457
Less: Accumulated amortisation	<u>(250,659)</u>	<u>(202,316)</u>
	78,298	116,141
	<u>1,591,185</u>	<u>2,210,032</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Goodwill (b)</b>	<b>Rent Roll (c)</b>	<b>Website and IT system (d)</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2017	536,216	1,975,193	142,394	2,653,803
Additions	-	-	34,553	34,553
Amortisation/written-down	<u>-</u>	<u>(417,518)</u>	<u>(60,806)</u>	<u>(478,324)</u>
Balance at 30 June 2018	536,216	1,557,675	116,141	2,210,032
Additions	-	61,678	10,500	72,178
Amortisation/written-down	<u>-</u>	<u>(642,682)</u>	<u>(48,343)</u>	<u>(691,025)</u>
Balance at 30 June 2019	<u>536,216</u>	<u>976,671</u>	<u>78,298</u>	<u>1,591,185</u>

*b) Goodwill*

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

**Note 9. Intangible assets (continued)**

**Critical accounting estimates and judgements – Key assumptions used for value-in-use calculations**

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (“CGU”) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a three-year period and extrapolated to five years. The following table sets out the key assumptions for the impairment testing of the goodwill. The goodwill balance at the reporting date only relates the real estate services segment.

Growth rate: 3%	Growth rate is based on management’s estimated inflation rate.
Pre-tax discount rate: 8%	Pre-tax discount rate reflects the specific risks relating to the real estate agency industry in Australia.
Terminal value:	Terminal value is based on the third year budgeted net cash flow, the pre-tax discount rate of 8% and the growth rate of 3%.

*c) Rent Roll Assets*

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Rent Roll – Cost	2,217,048	2,155,370
Rent Roll – Written-down	<u>(1,240,377)</u>	<u>(597,695)</u>
Rent Roll – Net	<u>976,671</u>	<u>1,557,675</u>

Rent rolls are accounted for as an intangible asset with a finite life in accordance with AASB 138 (Intangible Assets). They are initially recognised at cost and subsequently written down to their recoverable value at each reporting period, with reference to the reduction in rent under management times industry resale multiple being 2-5 times.

*d) Website and IT System*

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Website and IT system – Cost	328,957	318,457
Website and IT system – Accumulated amortisation	<u>(250,659)</u>	<u>(202,316)</u>
Website and IT system – Net	<u>78,298</u>	<u>116,141</u>

Acquired website and computer software licences are capitalised on the basis of costs incurred to acquire them.

These costs are amortised over their estimated useful lives. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Amortisation is recognised in the profit and loss statement on a diminishing basis over the estimated useful life of the intangible assets from the date that they are considered suitable for use. The estimated useful life of website and IT system is 5 years. The current amortisation charges for website and IT system are included under depreciation and amortisation expenses.



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**Note 10. Loan and borrowings**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Bank loan (i)	56,410	56,410
Loan received for commercial lending (ii)	2,820,192	1,022,921
Convertible debt (iii)	-	370,000
Loan from other lenders (iv)	880,000	-
Finance lease payable - current	13,501	12,941
	<u>3,770,103</u>	<u>1,462,272</u>
<b>Non-current</b>		
Bank loan (i)	824,141	880,551
Loan received for commercial lending (ii)	1,630,000	583,819
Convertible debt (iii)	1,370,000	1,000,000
Loan from other lenders (iv)	230,000	780,000
Finance lease payable - non-current	37,540	51,041
	<u>4,091,681</u>	<u>3,295,411</u>

i) The bank loan was borrowed from National Australia Bank and consisted of two loan drawdowns.

Drawdown of \$1,000,000 in October 2016: The repayment term of the loan is 5 years expiring 30 November 2021. Principal repayment has been extended in FY18 to be based on a 15-year period. The interest is 5.905% per annum with principal and interest repayments in accordance with the amended loan agreement. The loan is secured by the Sydney Boutique Property rent roll. The outstanding loan balance as at 30 June 2019 is \$655,551 (30 June 2018: \$711,961).

Drawdown of \$225,000 in November 2017: The repayment term of the loan is 3 years ending on 30 July 2020. The interest is 5.6480% per annum with interest repayable in accordance with the loan agreement. The loan is secured by the N1 Realty rent roll. The outstanding loan balance as at 30 June 2019 is \$225,000 (30 June 2018: \$225,000).

ii) Loan received for commercial lending is the funds being raised for commercial loan lending to customers. The BBBSA loan is secured by the Company's loan book. The remaining loans are unsecured. Key information of these loans are detailed in the table below.

	Repayment term	Drawdown amount	Drawdown date	Balance at 30/06/2019	Interest rate (per annum)
BBBSA	3 years *	1,000,000	31/01/2019	870,192	10.50%
Private loan batch#1	3 months rolling **	100,000	16/04/2018	100,000	10.00%
Private loan batch#2	3 months rolling **	500,000	01/06/2018	500,000	10.00%
Private loan batch#3	2 years **	500,000	01/08/2018	500,000	10.00%
Private loan batch#4	3 months rolling **	800,000	01/11/2018	600,000	10.00%
Private loan batch#5	2 years **	230,000	01/11/2018	230,000	10.00%
Private loan batch#6	2 years **	400,000	23/11/2018	400,000	10.00%
Private loan batch#7	1 year **	100,000	01/03/2019	100,000	8.00%
Private loan batch#8	3 months rolling **	650,000	19/03/2019	650,000	10.00%
Private loan batch#9	2 year **	100,000	01/04/2019	100,000	10.00%
Private loan batch#10	2 years **	400,000	09/05/2019	400,000	10.00%
		<u>4,780,000</u>		<u>4,450,192</u>	

\* Principal and Interest, as per management, the balance shall be settled within the next twelve months \*\* Interest only

iii) Convertible debt

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**Note 10. Loan and borrowings (continued)**

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
As at the beginning of the period	1,370,000	370,000
Borrowed	-	1,000,000
Derivative expense	-	79,023
Settled	-	(79,023)
	<u>1,370,000</u>	<u>1,370,000</u>
As at end of the period	<u>1,370,000</u>	<u>1,370,000</u>

In FY17, the Company issued 1.85 million unlisted convertible notes in exchange for a cost fund of \$370,000. The holders of the convertible notes may choose to convert the notes to shares in the Company at \$0.20 per share at any time before the maturity date, which was extended to 12 May 2021.

On 27 September 2017, the Company issued 5 million unlisted unsecured convertible notes with a total value of \$1,000,000. The holders of the convertible notes may choose to convert the notes to shares in the Company at \$0.20 per share at any time before the maturity date, which was extended to 27 September 2021.

The Company and the relevant holders of the Convertible Bonds have agreed to extend the maturity date for the Convertible Bonds by 24 months to 11 May 2021. In addition, the interest rate has been amended from 7% to 10% pa which will take affect on and from the original maturity date, being 12 May 2019.

iv) Loan from other lenders consists of seven loans from non-related parties. The first loan has a principal amount of \$180,000. The repayment term is 2 years and extended to 3 years in FY18 and the interest rate is 10% per annum in accordance with the loan agreement. The second loan has a principal amount of \$200,000. The repayment term is 2 years and the interest rate is 10% per annum in accordance with the loan agreement. The third loan has a principal amount of \$200,000. The repayment term is 2 years and the interest rate is 10% per annum in accordance with the loan agreement. The fourth loan has a principal amount of \$200,000. The repayment term is 1 year and the interest rate is 8% per annum in accordance with the loan agreement. The fifth loan has a principal amount of \$130,000. The repayment term is 2 years and the interest rate is 10% per annum in accordance with the loan agreement. The sixth loan has a principal amount of \$100,000. The repayment term is 1 year and the interest rate is 8% per annum in accordance with the loan agreement. The seventh loan has a principal amount of \$130,000. The repayment term is 2 years and the interest rate is 10% per annum in accordance with the loan agreement.

**Note 11. Reserves**

**3.2 Share-based payments reserve**

The Group operates an employee share and option plan.

Share-based payments to employees are remeasured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are remeasured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date that the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the binomial approximation and Black Scholes valuation methodology. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

**(a) Employee Option Plan**

The establishment of the Employee Option Plan was approved by the Board of directors in February 2017. The Employee Option Plan is designed to provide long-term incentives for employees (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted Options which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Once Options are vested, the Options remain exercisable for a period of two years.

Options are granted under the plan for no consideration and carry no dividend or voting rights. When exercised, each Option is convertible into one ordinary Share.

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**Note 11. Reserves (continued)**

(b) *Options granted under the Employee Option Plan:*

	2019 Average exercise price per Option \$	2019 Number of Options	2018 Average exercise price per Option \$	2018 Number of Options
As at beginning of the year	0.20	5,991,250	0.20	8,738,750
Forfeited during the year	0.20	(587,500)	0.20	(2,747,500)
As at end of the year	0.20	5,403,750	0.20	5,991,250

Options outstanding under the Employee Option Plan at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry Date	Exercise price \$	Fair value at grant date \$	Options 30 June 19	Options 30 June 18
14/12/2015	14/12/2020	\$0.20	0.0540	3,710,000	3,710,000
18/03/2016	18/03/2018	\$0.20	0.0385	-	-
01/03/2017	14/12/2020	\$0.20	0.0475	1,693,750	2,281,250

Average remaining contractual life of options outstanding at end of period 1.46 years

(c) *Fair value of the options granted*

The fair value of the options granted is considered to represent the value of the services received over the vesting period. The value was calculated using the Black Scholes valuation methodology applying the following inputs:

Weighted average exercise price:	\$0.20
Weighted average life of the Option:	2.79 years
Expected share price volatility:	43.19%
Risk-free interest rate:	1.99%

Historical share price volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future volatility. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

**Note 12. Events after the reporting period**

In July 2019, the Company has made a strategic investment in Stropro Technologies, a fintech start-up founded in 2017. The investment has been structured as a SAFE (Simple Agreement for Future Equity) pursuant to which the Company has agreed to make cash payment to Stropro Technologies in exchange for a contractual right to convert that investment into shares at a later date.

In July 2019, the Company's subsidiary N1 Loans has entered into a joint venture with Smartkey Property to form Loan 77 Pty Ltd. The joint venture company, Loan 77, will refer mortgage brokering opportunities to N1 Loans from Smartkey Property's current pipelines of over 2,000 property settlements.

In July 2019, the Company launches suite of self-branded home lending products. The new product suite, named "N1 Plus", includes a range of prime, specialist and "low doc" loans.

In August 2019, One Lending Fund, which is managed by N1 Venture Pty Ltd (AFSL 477879) issued original units of \$2.1 million. Total funds under management has amounted to \$7.9 million as at the date of this report.

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**Note 12. Events after the reporting period (continued)**

In August 2019, the Company sold the trail book for a consideration of \$2.38 million. The contract assets and related contract liabilities for the trail book have been reclassified as assets held for sale as at 30 June 2019.

In August 2019, the Company established Yizh hao (Shanghai) Business Consultation Co. Ltd in China to replace its Shanghai representative office under N1 Loans. The company will serve as a pilot of its business consultation services in China.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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