

Financial Report as at 30 June 2019

Pages	2-17	Directors' Report
Page	18	Consolidated Statement of Comprehensive Income
Page	19	Consolidated Statement of Financial Position
Page	20	Consolidated Statement of Changes in Equity
Page	21	Consolidated Statement of Cash Flows
Pages	22-59	Notes to the Financial Statements
Page	60	Directors' Declaration
Page	61	Auditor's Independence Declaration
Pages	62-65	Auditor's Report to the Members

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report

The Directors present their report, together with the consolidated financial report of the Group comprising K&S Corporation Limited (the "Company") and its subsidiaries, for the year ended 30 June 2019 and the Auditor's Report thereon.

DIRECTORS

The Directors of the Company in office at the date of this report, together with particulars of their qualifications, experience and special responsibilities are set out below.

Tony Johnson Chairman
Age 72, Director since 1986

Tony Johnson BA, LLB, LLM (Companies & Securities) FAICD is a lawyer and an accredited mediator. Mr Johnson is a founder and former Chairman of the national law firm Johnson Winter & Slattery. He has worked extensively in the corporate advisory and commercial disputes area.

Mr Johnson is also Chairman of AA Scott Pty Ltd, the largest Shareholder of K&S Corporation Limited and Chairman of Adelaide Community Healthcare Alliance.

Member of:

- Environmental Committee (Chairman)
- Nomination and Remuneration Committee
- Audit Committee

Paul Sarant Managing Director and Chief Executive Officer
Age 51, Director since 2014

Paul Sarant B.Eng., has extensive experience in the transport and logistics sector. Mr Sarant held the position of Executive General Manager DTM for seven years at K&S Corporation prior to his appointment as Managing Director and Chief Executive Officer. Before that, Mr Sarant occupied a range of senior management roles, including general management and senior logistics roles in the course of his fifteen years at Amcor Printing Paper Group/PaperInX and was former General Manager at Spicer Stationery Group.

Member of:

- Environmental Committee

Legh Winser
Age 71, Director since 2013

Legh Winser is a former Managing Director of the Company, a position which he held for 16 years. He has extensive knowledge of the transport and logistics industry with more than 40 years' experience. Mr Winser is also an alternate director of several companies with the Scott's Group of Companies.

Member of:

- Environmental Committee
- Nomination and Remuneration Committee

Ray Smith (*Independent Director*)
Age 72, Director since 2008

Ray Smith FCPA, FAICD, Dip Com is a Director of listed entity Cleanaway Waste Management Ltd and is a Director of Hy-Line Australia Pty Ltd. He is also a former Director of Warrnambool Cheese and Butter Factory Company Holdings Limited and Crowe Horwath Australasia Ltd. Mr Smith brings a wealth of corporate and financial experience in the areas of strategy, acquisitions, treasury and capital raising.

Member of:

- Audit Committee (Chairman)
- Nomination & Remuneration Committee (Chairman)

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

Graham Walters AM (*Independent Director*)

Age 77, Director since 22 May 2018

Graham Walters AM FCA is an experienced chartered accountant and director of successful public and private companies and associations, with extensive experience in accounting, finance, audit, risk management and corporate governance. Mr Walters is a former Chairman of Partners South Australia of KPMG and a former Chairman of Westpac South Australia.

Mr Walters AM is a Director of Adelaide Community Healthcare Alliance and Adelaide Development Company Ltd.

Member of:

- Audit Committee

Secretary

Chris Bright BEc, LLB, Grad Dip CSPM, FCIS

Age 48, Secretary since 2005

Chris Bright has held the position of General Counsel for 17 years. Mr Bright was admitted as a solicitor in South Australia in 1997. He also has experience working in private practice in Adelaide, principally in commercial dispute resolution.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Directors' Meetings	Audit Committee Meetings	Nomination & Remuneration Committee Meetings	Environmental Committee Meetings
Number of meetings held:	11	4	1	4
Number of meetings attended:				
Mr T Johnson	11	4	1	4
Mr R Smith	10	4	1	-
Mr P Sarant	11	-	-	4
Mr L Winser	9	-	1	4
Mr G Walters AM	11	4	-	-

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were transport and logistics, contract management, warehousing and distribution and fuel distribution.

There were no significant changes in the nature of the activities of the Group during the year.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

OPERATING AND FINANCIAL REVIEW

The Board presents the 2019 Operating and Financial Review, which has been designed to provide Shareholders with a clear and concise overview of the Company's operations, financial position, business strategies and outlook. The review complements the financial report and has been prepared in accordance with the guidelines in ASIC RG247.

The consolidated profit for the year ended 30 June 2019 attributable to the members of K&S Corporation Limited ("K&S") is shown below, along with comparative results for the previous corresponding period:

Financial Overview		2019	2018	% Movement
Operating Revenue	\$'000	905,207	844,136	7.2%
Statutory profit after tax	\$'000	2,321	17,124	(86.4%)
Statutory profit before tax	\$'000	3,197	24,600	(87.0%)
Earnings before interest and tax (EBIT)	\$'000	11,158	31,656	(64.8%)
Earnings before interest, tax and depreciation (EBITDA)	\$'000	60,515	74,023	(18.2%)
Less non-recurring legal settlement	\$'000	(9,525)	(10,900)	(12.6%)
Less other non-recurring expenses / (income)	\$'000	9,572	(2,698)	(454.8%)
Underlying profit before interest, tax & depreciation	\$'000	60,562	60,425	0.2%
Underlying profit before interest & tax	\$'000	11,205	18,058	(37.9%)
Underlying profit before tax ¹	\$'000	3,244	11,002	(70.5%)
Underlying operating profit after tax ¹	\$'000	2,354	7,605	(69.0%)
Total assets	\$'000	579,778	553,369	4.8%
Net borrowings	\$'000	131,605	129,964	1.3%
Shareholders' funds	\$'000	240,331	220,867	8.8%
Depreciation & amortisation	\$'000	49,357	42,367	16.5%
Dividend per share	cents	2.0	4.0	(50.0%)
Net tangible assets per share	\$	1.84	1.72	7.0%
Operating cash flow	\$'000	61,833	40,812	51.5%
Return on assets	%	0.4	1.4	(71.4%)
Gearing	%	35.4	37.0	(4.3%)
Employee numbers		2,749	2,814	(2.3%)
Lost time injuries		57	55	3.6%
Lost time injuries frequency rate		10	9	11.1%

¹ Underlying profits and earnings per share based on underlying profits are categorised as non-IFRS Financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230- Disclosing non-IFRS information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments primarily include the Aurizon settlement, impairment and onerous lease costs. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to audit or review by the auditor.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

The Company is a tier one logistics provider, recognised as a leader in the development and provision of specialist logistics solutions for customers. The Group operates in the Australian and New Zealand markets. The Group's success is underpinned by a strong focus on safety, service and continuous improvement.

FY2019 has been demanding and challenging, with the transport and logistics sector continuing to experience high levels of competition and pressure on rates, the low growth economic environment, and the concentration of bargaining power in large and sophisticated buyers of transport and logistics services.

Operating revenues increased by 7.2% to \$905.2 million in FY2019.

The Group achieved a statutory profit before tax of \$3.2 million, a decrease of \$21.4 million or 87% on the prior corresponding period. The current year was significantly impacted by the full year impact of increased rail network costs following the closure of the Company's rail provider Aurizon in FY2018. The increased costs borne by the Group in the current year are estimated at \$6.4 million. The FY2018 statutory profit before tax of \$24.6 million included significant items for non-recurring benefits of \$13.6 million.

After adjusting for a number of significant items including the benefit from the finalisation of the Aurizon rail claim and costs associated with several restructuring activities, the current year underlying profit before tax was \$3.2 million, a decrease of 70.5% on the prior corresponding period.

The underlying profit after tax was \$2.3 million, down on the prior corresponding period by \$5.3 million.

Included in the Company's statutory result for FY2019 was a \$9.5 million (before tax) accounting gain relating to the settlement of claims arising out of the closure of Aurizon's intermodal business in December 2017. The Company's statutory result also included \$9.2 million of non-recurring costs which primarily relate to the Company's exit from its WA General Freight business.

Operating cashflow for FY2019 was \$61.8 million, 51.5% higher than for the previous year. Operating cashflow benefitted from the receipt of \$25.6 million in settlement proceeds from Aurizon and a focus on working capital management.

Australian Transport

Steel volumes from our major customers remain strong, with infrastructure projects undertaken by the various state governments (particularly in Victoria) underpinning ongoing activity levels despite the fall in domestic housing and apartment construction. We expect steel volumes to be a continuing source of strength for the K&S Freighters eastern seaboard operations in FY2020.

Our contract logistics business has experienced a pleasing FY2019, with revenues and profit contribution growing. While the contract logistics model deployed can be capital intensive, it provides the opportunity to share the benefits and risks of asset utilisation with customers in a more balanced and committed manner than is typically exhibited in less differentiated sectors of the transport and logistics industry. As a consequence of the pending loss of a long term major contract following a recent tender process, our contract logistics business revenue is likely to reduce in FY2020 but its margins are expected to improve.

Our specialised aviation refuelling business, Aero Refuellers, has also provided another sound result despite strong levels of competition, a flat agricultural season and reduced fire activity. Significant upgrades to Aero Refuellers' tanker fleet were completed in FY2019. Aero Refuellers will continue to target growth opportunities in FY2020, including new airport operations and customers.

Our Port Kembla Bulktrans coal cartage operation generated improved returns in FY2019 on the back of stronger coal volumes. While Bulktrans is currently providing some transitional cartage services to the new incumbent provider for the Illawarra Coal scope, our Illawarra Coal contract expired on 30 June 2019 and we expect that this operation will make a substantially reduced contribution in FY2020.

We continue to incur increased costs in our rail transport operations under the arrangements entered into with Pacific National following the closure of Aurizon's intermodal business. The Adelaide-Darwin corridor has also experienced subdued market demand, albeit that we have successfully migrated some road transport volumes to rail on this corridor. We are actively targeting additional parcels of rail volumes to complement our existing rail network volume profile to improve efficiencies and returns.

The Company's chemical transport division, Chemtrans, experienced a difficult year with reduced market demand. While we currently do not anticipate revenue growth in FY2020, we are working towards greater operational efficiencies and disciplines to improve returns by Chemtrans.

K&S Energy also experienced a disappointing year in FY2019 with margins falling. K&S Energy has undergone a strategic review of its customer arrangements to ensure that acceptable returns on funds employed are being achieved.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

Revenues increased modestly in our Western Australian based General Freight and Heavy Haulage operations in FY2019. Trading margins remained under pressure with the north-west Western Australia transport and logistics market continuing to exhibit sustained high levels of competition.

Cost reduction strategies continue to be implemented across the business, in particular, operational efficiencies, supplier renegotiations, and the rationalisation and replacement of specific fleet. Ongoing cost reductions will continue to have a positive impact on results in FY2020.

Fuel

Our fuel trading business, K&S Fuels, has again provided sound financial results in FY2019. However, the fuel retailing and wholesaling market are dynamic and continue to exhibit a high level of competition.

New Zealand Transport

The New Zealand business delivered another sound result in FY2019. Our strategy in New Zealand has been to provide integrated and value adding service offerings to our major customers. We also continue to strive to further diversify our business.

Balance Sheet and Funding

In May 2019, the Company successfully extended the terms of its existing \$40 million multi-option finance facility with Commonwealth Bank of Australia and its \$25 million multi-option facility with Westpac Banking Corporation to April 2021 and February 2021 respectively.

During the course of the year, the Company acquired fixed assets totalling \$65 million. Funding of this equipment was \$50.7 million via hire purchase agreements and the balance of \$14.3 million was settled from cash facilities.

Based upon independent valuations, the Company increased the carrying value of its freehold property portfolio by \$24.5 million. This reinforces the Company's strategy to own its main operational sites.

The Company's net asset position increased by 8.8% to \$240.3 million in FY2019. As noted, the Asset Revaluation Reserve increased by \$17.1 million (net of tax) following a revaluation of freehold property. The statutory profit after tax of \$2.3 million for FY2019 was offset by dividends paid of \$5.0 million (final FY2018 dividend and interim FY2019 dividend). Under the dividend reinvestment plan, \$4.1 million of new shares were issued in FY2019.

The Group's gearing ratio also improved to 34.7% at 30 June 2019 compared to 37% in the prior year.

Regal General Freight

On 28 August 2019, an unconditional agreement was entered into by Centurion Transport Co. Pty Ltd ("Centurion"), Regal Transport Group Pty Ltd ("Regal") and K&S Freighters Pty Ltd ("KSF") for the sale of the business and certain assets of the Group's Western Australia based Regal General Freight business.

Under the agreement, Regal will transfer to Centurion its rights and entitlements under customer contracts and Centurion will make offers of employment to the majority of the employees of KSF working in the Regal General Freight business.

The Company has agreed, amongst other things, to:

- a nominal purchase price for the assets of the Regal General Freight business (largely customer contracts and intangible assets) to be acquired under the agreement; and
- provide access to Centurion, at commercial rates, to a number of its fleet to support the customer contracts for a transitional period.

The parties are currently in the process of completing the transaction.

The Company's 30 June 2019 financial statements include an after-tax charge of \$5.1 million in relation to accounting adjustments including impairment charges, as a result of the transaction.

The Company will continue to operate and invest in its Western Australia based Regal Heavy Haulage business.

Safety

Safety remains a key focus for K&S. Our lost time injury rate increased to ten in FY2019 (nine in FY2018).

With our injury frequency rates not declining in the last two years, we are currently reviewing opportunities for cultural change to drive continuous improvement for safety management at K&S.

FY2019 has also seen the introduction of the amended National Heavy Vehicle Law ("HVML") which implements a risk based approach to the identification and elimination of transport related risks and complements the legislative approach taken in existing model work health and safety laws. The amended HVNL expands the chain of responsibility to all parties involved in the transport of goods and deals with mass, dimension, load restraint, speed, fatigue and vehicle standards.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

Dividend

Given the magnitude of the recent changes, the Directors have elected not to declare a final dividend (2018: 2.0 cents per share). The interim dividend of 2.0 cents per share was paid in April 2019, making the total dividend 2.0 cents per share in respect of the year ended 30 June 2019.

Board Composition and Management Changes

On 27 August 2019, K&S announced that Sallie Emmett had been appointed as a non-executive director with effect from 24 September 2019. Mrs Emmett is a lawyer with over 30 years' experience as a practising solicitor in both legal and management roles. Mrs Emmett has a broad range of commercial exposure, including to the transport sector, and expertise in workplace relations.

Mr Wayne Johnston joined the Company as Chief Financial Officer on 2 October 2018, replacing Mr Bryan Walsh who retired after 16 years in the position. Mr Johnston has extensive commercial, ASX listed, capital and restructuring experience encompassing multiple international and domestic jurisdictions.

Outlook

Providing earnings guidance going forward remains difficult.

We will continue to focus on organic growth, particularly in market segments such as contract logistics that will deliver stronger returns on investment.

We continue to review the industry segments in which we operate as well as the ways in which we offer our services to the market. Our current focus includes the general freight businesses in South Australia and the Northern Territory. We are also reviewing customer accounts that currently do not generate adequate returns.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are subject to environmental regulations under both Commonwealth and State legislation in relation to its transport and storage business and its fuel business.

The Group has a Board Committee which monitors compliance with environmental regulations.

Climate Change

Reporting under the National Greenhouse Energy Reporting regime (NGER) was completed and submitted in 2018/19.

Transport and Warehousing

The transport and warehousing business is subject to the Dangerous Goods Acts in Commonwealth and State Legislation. The Group monitors performance and recorded several incidents during the year, none of which has the potential to result in any material restrictions being placed upon the Company's ability to continue its operations in their current form.

Fuel

The fuel business is subject to the South Australian Environmental Protection Act 1993 and the South Australian Dangerous Substances Act 1979. The Group monitors performance and recorded a number of minor fuel related incidents during the year. In all cases, corrective actions have been taken.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

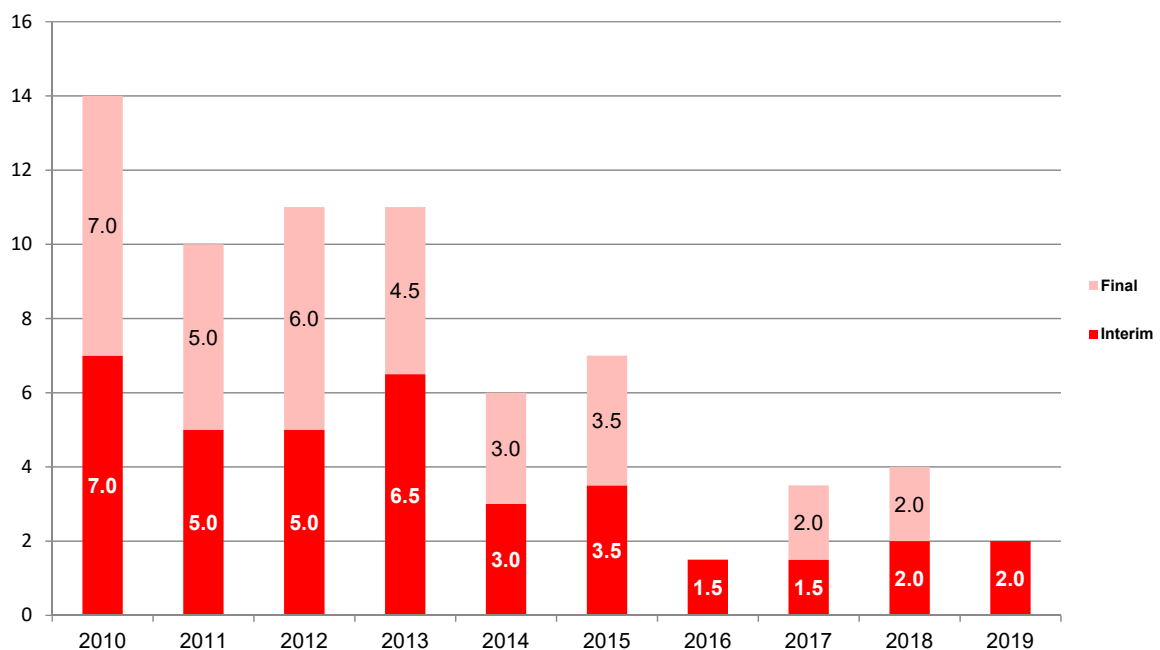
DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

- 1 A fully franked preference dividend (taxed to 30%) of 4.0 cents per share amounting to \$4,800 in respect of the year ended 30 June 2018 was declared on 23rd August 2018 and paid on 2nd November 2018; and
- 2 An interim fully franked ordinary dividend (taxed to 30%) of 2.0 cents per share in respect of the year ended 30 June 2019 was declared on 26th February 2019 and paid on 4th April 2019 amounting to \$2,517,665.

No final dividend was declared for the year ended 30 June 2019.

Dividends paid to Shareholders



EVENTS SUBSEQUENT TO BALANCE DATE

On 1 July 2019, the Group acquired 175 trailers from Scott's Fleet Rentals Pty Ltd for \$3.299 million.

On 28 August 2019, subsidiaries of the Group entered into an unconditional agreement with Centurion Transport Co. Pty Ltd for the sale of the business and certain assets of the Group's Western Australia based Regal Transport General Freight business.

No other matters have arisen in the interval between the end of the financial year and the date of this report, including any item, transaction or event of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

It is anticipated that the consolidated entity will continue to provide transport and logistics operations during the next financial year by further extending its services in Australia and New Zealand and adopting technology-based solutions to contain costs and enhance services offered to customers.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company indemnifies current and former Directors, Executive Officers and the Secretaries of the Company and its controlled entities against all liabilities, costs and expenses to another person (other than the Company or a related body corporate) to the maximum extent permitted by law that may arise from their position as Directors, Executive Officers and Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

Insurance premiums

Since the end of the previous financial year, the Company has paid insurance premiums of \$175,954 in respect of Directors' and Officers' Liability insurance contracts for current and former officers, including Directors, Executive Officers and the Secretaries of the Company and its controlled entities. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in successfully defending proceedings, whether civil or criminal; and
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or position to gain a personal advantage.

The Officers of the Company covered by the policy include the current Directors: T Johnson, L Winser, R Smith, G Walters AM and P Sarant. Other officers covered by the contract are Executive Officers and the Secretaries of the Company and Directors and the Secretaries of controlled entities (who are not also Directors of the Company), General Managers and other Executive Officers of controlled entities.

Indemnification of auditors

To the extent permitted by law and excluding in circumstances of negligence, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its domestic based 100% owned subsidiaries formed a tax consolidated Group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K&S Corporation Limited support the principles of corporate governance. The Company's Corporate Governance Statement can be found on this URL on our website: <http://www.ksgroup.com.au/corporate-governance/>.

ROUNDING

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that legislative instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The entity's Auditor, Ernst & Young have provided the Group with an Auditors' Independence Declaration which is on page 61 of this report.

DIRECTORS' INTERESTS

The beneficial interest of each Director in their own name in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

	Ordinary Shares
Mr L Winser	43,063
Mr P Sarant	60,000

Directors of the Company have relevant interests in additional shares as follows:

	Ordinary Shares
Mr L Winser	1,235,919
Mr T Johnson	535,651
Mr R Smith	44,119
Mr P Sarant	126,603
Mr G Walters AM	5,252

REMUNERATION REPORT (audited)

This remuneration report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company.

For the purposes of this report, the term executive encompasses the Managing Director, executives, general managers and secretaries of the Parent and the Group. Details of the Key Management Personnel are:

i) Directors

Mr T Johnson	Non-Executive Chairman
Mr P Sarant	Managing Director and Chief Executive Officer
Mr R Smith	Non-Executive Director
Mr L Winser	Non-Executive Director
Mr G Walters AM	Non-Executive Director

ii) Key Management Personnel

Mr W Johnston	Chief Financial Officer (appointed 2 October 2018)
Mr B Walsh	Chief Financial Officer (retired 2 October 2018)
Mr C Bright	Company Secretary

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

To this end, the Company adopts the following key principles in its remuneration policy:

- Remuneration is set at levels that will attract and retain good performers and motivate and reward them to continually improve business performance.
- Remuneration is structured to reward employees for increasing Shareholder value.
- Rewards are linked to the achievement of business targets.

The Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for reviewing compensation arrangements for the Directors, the Managing Director and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executives.

While the Nomination and Remuneration Committee reviews the remuneration paid to Non-Executive Directors and the Managing Director, and the aggregate remuneration paid to the executive team, the Board of Directors has ultimate responsibility for determining these amounts.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, Managing Director and other executive remuneration is separate and distinct.

Non-Executive Director Remuneration**Objective**

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain quality Directors, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of Non-Executive Directors' shall be determined from time to time by a general meeting of Shareholders.

The latest determination was at the Annual General Meeting held on 20 November 2012 when Shareholders approved a maximum aggregate remuneration of \$600,000 per year.

The amount of aggregate remuneration sought to be approved by Shareholders and the amounts paid to Directors is reviewed annually. The Board considers the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review, as well as periodically taking advice from external recruitment consultants. No advice was taken from external recruitment consultants in relation to the fees paid to Non-Executive Directors in FY2019. Each Non-Executive Director receives a fee for being a Director of the Company.

Any increase to the fees payable to Non-Executive Directors in the 2018/19 financial year was deferred to 1 January 2019, at which time those fees were increased by 5%.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the Director on the market). It is considered good corporate governance for Directors to have a stake in the Company whose Board he or she sits on.

The remuneration of Non-Executive Directors for the period ended 30 June 2019 is detailed on page 15 of this report.

Executive Director and executive remuneration**Objective**

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company to:

- reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of Shareholders;
- link reward with performance of the Company; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and make up of executive remuneration, the Nomination and Remuneration Committee seeks external information detailing market levels of comparable executive roles from which the Committee makes its recommendation to the Board.

For the Managing Director and the other executives, remuneration programs are balanced with a mix of fixed and variable rewards. The makeup and eligibility criteria for short term incentives are approved by the Board at the commencement of each financial year.

The Board reviews and considers the fees paid to the Managing Director and other executives of comparable companies when undertaking the annual review, as well as periodically taking advice from external recruitment consultants. No advice was taken from external recruitment consultants in relation to the fees paid to the Managing Director and other executives for the year ended 30 June 2019.

As safety performance is a key organizational goal and critical to the ongoing operations of the Company, the Board believes that aligning the payment of short term incentives to reducing lost time injuries is appropriate and in the interests of Shareholders.

As the Company's annual budget for operating profit after tax is set with a view to increasing the profit generated by the Company, growing earnings per share, and improving the Company's capacity to pay dividends, the Board also believes that aligning the payment of short term incentives to the attainment of budgeted profit after tax on a normalised basis is appropriate and in the interests of Shareholders. The Board also believes that having all of the Company's executives aligned to the common goal of achieving budgeted operating profit after tax drives positive behaviours amongst the executives in maximising Group wide benefits from operating activities.

For the year ended 30 June 2019, the Board approved the adoption of at risk short term incentives of up to 30% of the base remuneration of the Managing Director and executives. The payment of such short term incentives was to be settled 50% in cash and 50% in the Company's shares.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITED

Payment of the short term incentive in respect of the 2019 financial year was conditional upon:

- outperformance of budgeted profit after tax on a normalised basis and excluding any one-off or non-trading items (eg, profit on the sale of real estate) (but including any one-off or non-trading items that have been included in the budget) on a sliding scale up to a maximum of 20% of base remuneration; and
- the reduction of lost time injuries sustained by employees on a sliding scale up to a maximum of 10% of base remuneration.

The Company's Managing Director and executives did not qualify for the payment of any short term incentive in respect of the 2019 financial year.

Employment Contracts

It is the Nomination and Remuneration Committee's current policy that fixed term contracts are not entered into with members of the executive team.

The Managing Director, Mr Sarant, has a contract of employment with an open term. Either of Mr Sarant and the Company may terminate Mr Sarant's employment on the giving of three months' notice or, in the case of the Company, payment in lieu of the three months' notice.

Directors' Retirement Benefits

A change to the Non-Executive Directors' retirement benefits calculation was made in July 2004 to freeze accumulation of years of service of Directors as at 30 June 2004. No Non-Executive Director commencing after 1 July 2004 is eligible for any benefits under the retirement scheme. Mr Johnson is the only remaining Non-Executive Director eligible to receive retirement benefits under the scheme. At 30 June 2019, the total retirement allowance payable to Mr Johnson was \$382,851 (30 June 2018: \$370,697).

The expenditure provided (not paid) during the year ended 30 June 2019 is attributable only to the method of calculation which involves the averaging of the fees paid to Directors, as per the benefits scheme in operation up to 30 June 2004.

Company Underlying Performance

The graph below shows the performance of the Company, as measured by the Company's operating profit before individually significant items, interest and tax (EBIT), and net operating profit before individually significant items after tax (NPAT).

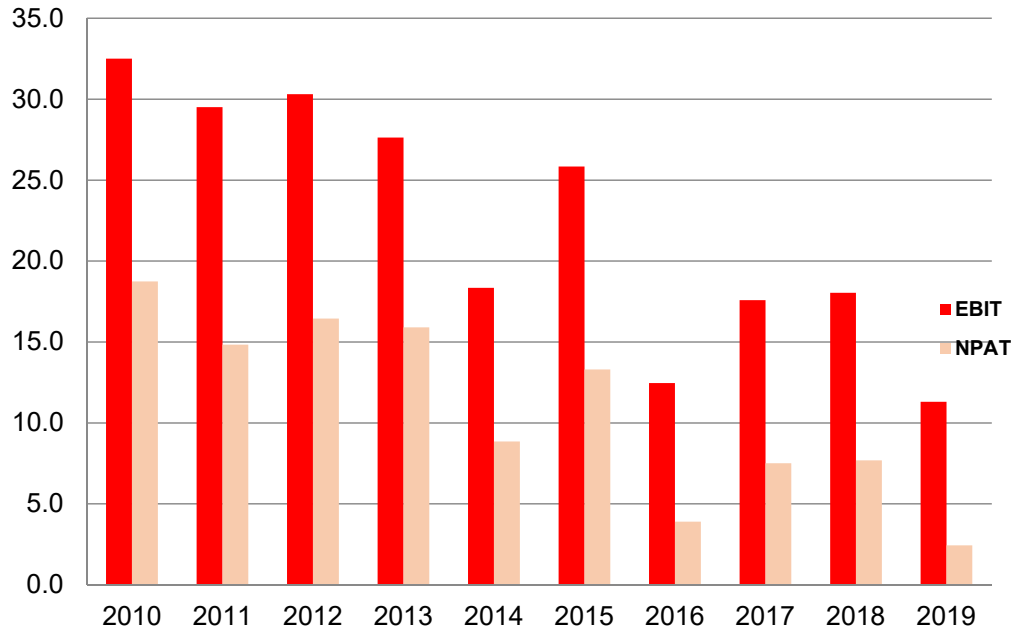
K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITED

Underlying Performance

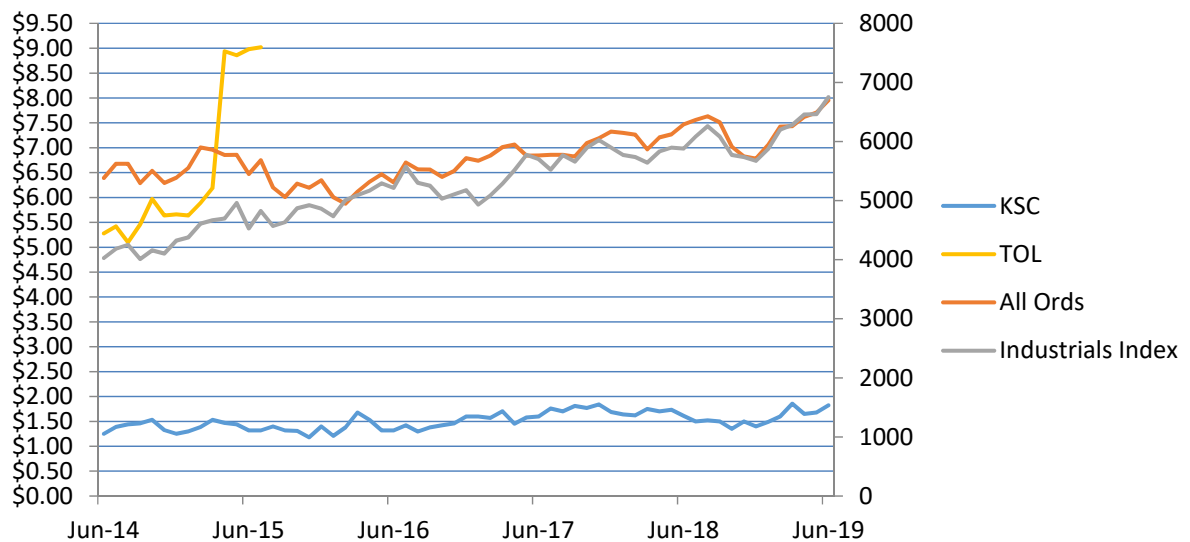


In addition, Dividends paid to Shareholders are disclosed on pages 7-8 of the Directors' report.

The next graph highlights the performance of the share price of K&S Corporation Limited against the Australian Securities Exchange All Ordinaries Index, the Australian Securities Exchange Industrials Index and Toll Holdings Limited* over the past 5 years.

* Toll Holdings Limited securities ceased to be quoted on ASX on 29 May 2015.

K&S Corporation Share Price 2013 - 2019



K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITED

Remuneration of Key Management Personnel of the Company and the Group

The remuneration amounts for the prior year have been updated to include the movements in the leave accruals as well as capture all non-monetary benefits.

Table 1: Remuneration for the year ended 30 June 2019

	Short-Term			Post Employment		Other Long Term	Total	
	Salary & Fees \$	Incentives \$	Non-monetary Benefit ¹ \$	Retirement Benefit \$	Super Contribution \$	Movements in leave accruals ² \$	Performance Related \$	Performance Related %
T Johnson	133,694	-	-	12,154	14,706	-	160,554	-
R Smith	79,310	-	-	-	8,724	-	88,034	-
L Winser	79,310	-	-	-	8,724	-	88,034	-
G Walters AM	79,310	-	-	-	8,724	-	88,034	-
Total	371,624	-	-	12,154	40,878	-	424,656	-
P Sarant	727,889	-	25,524	-	25,000	69,215	847,628	-
W Johnston ³	265,000	-	19,657	-	25,000	21,692	331,349	-
C Bright	258,743	-	25,309	-	25,000	28,903	337,955	-
B Walsh ⁴	114,978	-	9,732	-	10,340	(17,065)	117,985	-
Total Executive KMP	1,366,610	-	80,222	-	85,340	102,745	1,634,917	-
Totals	1,738,234	-	80,222	12,154	126,218	102,745	2,059,573	-

Table 2: Remuneration for the year ended 30 June 2018

	Short-Term			Post Employment		Other Long Term	Total	
	Salary & Fees \$	Incentives \$	Non-monetary Benefit ¹ \$	Retirement Benefit \$	Super Contribution \$	Movements in leave accruals ² \$	Performance Related \$	Performance Related %
T Johnson	127,617	-	-	7,847	14,038	-	149,502	-
R Smith	75,505	-	-	-	8,328	-	83,833	-
L Winser	75,505	-	-	-	8,328	-	83,833	-
G Walters ⁵ AM	6,609	-	-	-	727	-	7,336	-
Total	285,236	-	-	7,847	31,421	-	324,504	-
P Sarant	686,014	-	25,673	-	25,000	110,176	846,863	-
B Walsh	320,023	-	11,025	-	25,000	41,264	397,312	-
C Bright	269,983	-	14,958	-	25,000	37,552	347,493	-
S Hine ⁶	327,125	-	13,076	-	25,000	35,643	400,844	-
Total Executive KMP	1,603,145	-	64,732	-	100,000	224,635	1,992,512	-
Totals	1,888,381	-	64,732	7,847	131,421	224,635	2,317,016	-

1. Non-monetary benefits included are based on benefits paid in the form of fuel cards, tolls and motor vehicles.
2. Includes any net changes in the balance of annual leave and long service leave (i.e. leave entitlements that accrued during the year but were not used).
3. W Johnston was appointed as Chief Financial Officer on 2 October 2018.
4. B Walsh retired as Chief Financial Officer on 2 October 2018.
5. Mr Walters AM was appointed as a Director on 22 May 2018.
6. S Hine ceased to be a KMP on 30 June 2018.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITED

Remuneration of Key Management Personnel of the Company and the Group

Table 3: Loans to Key Management Personnel

Details of aggregates of loans to Key Management Personnel are as follows:

	Amount at the start of the year \$	Amounts written off in the year \$	Amount at the end of the year \$	Number in Group
Total				
2019	282,285	-	148,940	2
2018	305,645	-	282,285	4

There are no loans to any Key Management Personnel above \$100,000 in the reporting period.

Loans to Key Management Personnel are made pursuant to the K&S Corporation Limited Employee Share Plan ("Plan"). As part of the Plan, loans are interest free with K&S Corporation, to fund the purchase of shares in the Company. Loans to Key Management Personnel under the Plan are required to be repaid in full upon the cessation of the employment of the Key Management Personnel with the Company. Shares issued under the Plan are subject to a holding lock until the loan is repaid in full. Non-Executive Directors are not eligible to participate in the Plan. No other loans are made to any Key Management Personnel.

Table 4: Shareholding of Key Management Personnel

Shares held in K&S Corporation Limited: 30 June 2019	Balance 1 July 2018 Ordinary	Net Change Ordinary	Balance 30 June 2019 Ordinary
Non-Executive Directors			
T Johnson	522,232	13,419	535,651
R Smith	43,013	1,106	44,119
L Winsler	1,246,942	32,040	1,278,982
G Walters AM *	-	5,252	5,252
Executive Director			
P Sarant	186,603	-	186,603
Other Key Management Personnel			
W Johnston	-	-	-
C Bright	51,000	-	51,000
Total	2,049,790	51,817	2,101,607

Table 5: Shareholding of Key Management Personnel

Shares held in K&S Corporation Limited: 30 June 2018	Balance 1 July 2017 Ordinary	Net Change Ordinary	Balance 30 June 2018 Ordinary
Non-Executive Directors			
T Johnson	515,984	6,248	522,232
R Smith	42,011	1,002	43,013
L Winsler	1,217,893	29,049	1,246,942
G Walters AM *	-	-	-
Executive Director			
P Sarant	186,603	-	186,603
Other Key Management Personnel			
B Walsh	161,267	2,177	163,444
C Bright	51,000	-	51,000
S Hine	50,000	-	50,000
Total	2,224,758	38,476	2,263,234

* Mr Walters AM was appointed as a Director on 22 May 2018.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report continued

AUDITED

Remuneration Options: Granted and Vested During the Year

K&S Corporation Limited does not operate any option based schemes for its executives, employees or Directors.

Signed in accordance with a resolution of the Directors.



T Johnson

Chairman

30 August 2019



P Sarant

Managing Director

30 August 2019

K&S CORPORATION LIMITED

ABN 67 007 561 837

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

		CONSOLIDATED	
	NOTE	2019 \$'000	2018 \$'000
Revenue and other income			
Operating revenue	5(a)	905,207	844,136
Other income	5(b)	17,645	23,553
		922,852	867,689
Expenses			
Changes in inventories of fuel		286	1,008
Consumption of fuel held for sale		(121,861)	(99,301)
Contractor expenses		(218,258)	(208,667)
Employee expenses	5(e)	(299,016)	(281,016)
Fleet expenses		(176,111)	(162,724)
Depreciation expense	5(d)	(49,357)	(42,367)
Finance costs	5(c)	(7,961)	(7,056)
Impairment expense	5(g)	(4,460)	-
Other expenses		(43,040)	(43,096)
		(919,778)	(843,219)
Share of profits of associates		123	130
Profit before income tax		3,197	24,600
Income tax expense	6	(876)	(7,476)
Profit after income tax		2,321	17,124
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		977	(673)
		977	(673)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of freehold land and buildings, net of tax		17,112	-
		17,112	-
Other comprehensive income for the period, net of tax		18,089	(673)
Total comprehensive income for the period		20,410	16,451
Earnings per share (cents per share)			
	7		
Basic, profit for the year attributable to ordinary equity holders of the parent		1.8	13.9
Diluted, profit for the year attributable to ordinary equity holders of the parent		1.8	13.9
Dividends per share (cents per share)			
	8		
		2.0	4.0

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes

K&S CORPORATION LIMITED

ABN 67 007 561 837

Consolidated Statement of Financial Position

AS AT 30 JUNE 2019

	NOTE	CONSOLIDATED	
		2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	16,564	15,946
Trade and other receivables	10	116,737	129,741
Inventories		6,142	5,856
Prepayments		10,185	10,071
Total current assets		149,628	161,614
Non-current assets			
Other receivables		4,933	1,035
Investments in associate		421	398
Property, plant & equipment	11	405,939	373,552
Intangibles		6,324	6,070
Deferred tax assets	6	12,533	10,700
Total non-current assets		430,150	391,755
TOTAL ASSETS		579,778	553,369
LIABILITIES			
Current liabilities			
Trade and other payables		95,920	101,859
Interest bearing loans and borrowings	13	39,743	44,170
Income tax payable	6	1,596	686
Provisions	14	33,332	29,539
Total current liabilities		170,591	176,254
Non-current liabilities			
Trade and other payables		650	770
Interest bearing loans and borrowings	13	108,426	101,740
Deferred tax liabilities	6	41,342	37,118
Provisions	14	18,438	16,620
Total non-current liabilities		168,856	156,248
TOTAL LIABILITIES		339,447	332,502
NET ASSETS		240,331	220,867
EQUITY			
Contributed equity	15	162,408	158,099
Reserves		59,043	40,954
Retained earnings		18,880	21,814
TOTAL EQUITY		240,331	220,867

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	Issued Capital \$'000	Retained Earnings \$'000	Asset Revaluation Reserves \$'000	Forex Translation Reserves \$'000	Common Control Reserves \$'000	Total Equity \$'000
CONSOLIDATED							
At 1 July 2018		158,099	21,814	40,885	382	(313)	220,867
Effect of adoption of new accounting standards	2(c)(i)	-	(247)	-	-	-	(247)
At 1 July 2018 (restated)		158,099	21,567	40,885	382	(313)	220,620
Profit for the year		-	2,321	-	-	-	2,321
Other comprehensive income		-	-	17,112	977	-	18,089
Total comprehensive income for the year		-	2,321	17,112	977	-	20,410
Transactions with owners in their capacity as owners:							
Issue of share capital	15	4,309	-	-	-	-	4,309
Changes arising from acquisition of assets in Scott's Transport Industries		-	-	-	-	-	-
Dividends paid	8	-	(5,008)	-	-	-	(5,008)
At 30 June 2019		162,408	18,880	57,997	1,359	(313)	240,331
At 1 July 2017		153,951	9,597	40,885	1,055	(132)	205,356
Profit for the year		-	17,124	-	-	-	17,124
Other comprehensive income		-	-	-	(673)	-	(673)
Total comprehensive income for the year		-	17,124	-	(673)	-	16,451
Transactions with owners in their capacity as owners:							
Issue of share capital	15	4,148	-	-	-	-	4,148
Changes arising from acquisition of assets in Scott's Transport Industries		-	-	-	-	(181)	(181)
Dividends paid	8	-	(4,907)	-	-	-	(4,907)
At 30 June 2018		158,099	21,814	40,885	382	(313)	220,867

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	CONSOLIDATED	
		2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		1,043,051	909,224
Cash payments to suppliers and employees		(968,369)	(860,605)
Interest received		42	24
Borrowing costs paid		(7,952)	(6,900)
Income taxes paid		(4,939)	(931)
Net cash provided by operating activities	9	61,833	40,812
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current assets		6,211	5,705
Payments for property plant & equipment		(17,768)	(22,663)
Dividends received from associates		100	100
Net cash used in investing activities		(11,457)	(16,858)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	16,000
Repayments of borrowings		(5,625)	-
Repayment of lease and hire purchase liabilities		(43,485)	(39,431)
Dividend paid net of reinvestment plan		(701)	(774)
Cash received on assuming employee benefit liabilities		-	2,349
Net cash used in financing activities		(49,811)	(21,856)
Net increase in cash held		565	2,098
Cash at the beginning of the financial year		15,946	13,985
Effects of exchange rate variances on cash		53	(137)
Cash at the end of the financial year	9	16,564	15,946

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

1. CORPORATE INFORMATION

This is the financial report of K&S Corporation Limited (the "Company") and its controlled entities (together, the "Group"). The financial report for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of Directors on 30 August 2019.

K&S Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in Note 4.

Registered Office:

141-147 Jubilee Highway West
Mount Gambier SA 5290
PO Box 567
Mount Gambier SA 5290

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report is a general purpose financial report for a for-profit entity, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for freehold land and buildings which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated, under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016. The Company is an entity to which the legislative instrument applies.

The consolidated financial statements have been prepared on a going concern basis.

As at 30 June 2019, the Consolidated Statement of Financial Position reflected an excess of current liabilities over current assets of \$21.0m (2018: \$14.6m). The amount of the deficit is fully covered by the Group's undrawn banking facilities at 30 June 2019.

A number of prior year disclosures have been updated in the current year to align with the current year disclosures.

b) Compliance with IFRS

The financial report complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

c) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as described below. In relation to the new accounting standards, the comparative figures have been restated in accordance with the respective transition provisions:

AASB 15 – Revenue from Contracts with Customers (effective from 1 July 2018)

The Group has adopted AASB 15 using the full retrospective method of application from 1 July 2018. AASB 15 replaced AASB 118 *Revenue* and AASB 111 *Construction Contracts* and other related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods and services. There was no impact upon transition to AASB 15.

Under AASB 15, the Group measures revenue using the following accounting policies:

Provision of transportation services – These services are provided individually on a per-run basis to customers. The performance obligation related to transport revenue is satisfied over time as the goods are delivered and the service is provided to the customer based on the agreed transaction price.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of fuel – The Group's contracts with customers for the sale of fuel generally include one performance obligation. The Group recognises revenue from the sale of fuel at the point in time when control of the fuel is transferred to the customer, generally on delivery of the fuel product.

Commission from fuel sales – Commission earned from fuel sales under agency arrangements is recognised on a net basis when the fuel is delivered to customers.

Rental income – Rental income is recognised as other income on a straight-line basis over the lease term.

Interest income – Interest income is recognised using the effective interest method.

AASB 9 – Financial Instruments (effective from 1 July 2018)

The Group has implemented AASB 9 *Financial Instruments (2014)* effective 1 July 2018, replacing AASB 139 *Financial Instruments: Recognition and Measurement*. Upon transition, the adoption of the Expected Credit Loss ('ECL') method resulted in a decrease in Trade Receivables, and retained earnings amounting to \$0.247 million. The adoption of AASB 9 did not have any impact to the classification of the Group's financial assets or liabilities on the date of transition.

Accounting policy: Financial instruments

Initial Recognition

Financial Assets

Trade receivables are initially recognised when there is an unconditional right to receive consideration. Other financial assets/liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables are initially measured at the transaction price as defined in AASB 15. Financial assets/liabilities are initially measured at fair value (together with any transaction costs which are directly attributable to the acquisition of the asset, or cost of the liability).

Financial Liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Classification and subsequent measurement

Financial Assets

The categories of 'held to maturity', 'loans and receivables' and 'available for sale' which existed under AASB 139, are no longer relevant. AASB 9 contains three principal classification categories for financial assets:

- (i) *Measured at amortised cost*
- (ii) *Fair value other comprehensive income (FVOCI); and*
- (iii) *Fair value through profit or loss (FVTPL)*

The following table illustrates the measurement requirements of AASB 9:

	Initial recognition	Subsequent measurement
Amortised cost	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at amortised cost using the effective interest rate method and reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss.
FVTPL	Measured at fair value. Any transaction costs of acquisition are recognised in the profit or loss.	These assets are subsequently measured at fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.
FVOCI	Measured at fair value plus transaction costs directly attributable to the acquisition of the asset.	Measured at fair value. Net gains and losses are recognised in other comprehensive income ('OCI'). For equity instruments, these are never reclassified to profit or loss. For debt instruments, they are reclassified to profit or loss upon de-recognition of the asset.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Liabilities

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 9 are satisfied. The Group has not designated any financial liability at fair value through profit or loss.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ('EIR') method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

Interest expense and foreign exchange gains and losses are recognised in profit or loss. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Impairment

AASB 9 replaces the incurred loss model from AASB 139 with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI. Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date or the entire lifetime of the asset.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition

Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its Consolidated Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(ii) Accounting Standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2019, outlined below. Of these standards, AASB 16 *Leases* is expected to have a material impact on the Group's financial statements in the period of initial recognition.

AASB 16 Leases

The Group is required to adopt AASB 16 from 1 July 2019. The Group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains substantially unchanged compared to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

AASB 16 replaces existing leases guidance, including AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Leases where the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of warehouse and office facilities and equipment (see Note 16). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the right-of-use asset will be assessed for impairment. This will replace the previous accounting for onerous leases.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right-of-use assets in the range of \$31m – \$38m as at 1 July 2019. The Group does not expect the adoption of AASB 16 to impact its ability to comply with the financial covenants.

Leases where the Group is a lessor

There is no expected impact from transition to AASB 16 from leases in which the Group is a lessor.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transition

The Group will apply AASB 16 initially on 1 July 2019, using the modified retrospective approach (whereby the right-of-use asset is equal to the lease liability, subject to certain adjustments). Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with AASB 117 and Interpretation 4. The Group will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment such as personal computers that are considered to be low value.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of K&S Corporation Limited and its subsidiaries ("the Group") as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries by K&S Corporation Limited are accounted for at cost in the separate financial statements of the parent less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of the dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exists. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The difference between the above items and the fair value of the consideration, (including the fair value of any pre-existing investment in the acquiree), is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the Consolidated Statement of Financial Position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Executive Management Team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following aspects:

- Nature of the product or services;
- Type or class of customer for the product or services; and
- Methods used to distribute the products or provide services.

f) Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less which are subject to an insignificant risk of changes in value.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

g) Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in the Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

h) Trade and other receivables

For trade receivables, the Group has adopted a simplified approach when calculating an ECL provision by establishing a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Consumables – purchase cost on a first-in, first-out basis;

Finished goods – weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

j) Foreign currency translation

Both the functional and presentation currency of K&S Corporation Ltd and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries (K&S Freighters Limited and Cochrane's Transport Limited) is New Zealand dollars (NZ\$).

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of K&S Corporation Limited at the rate of exchange ruling at the reporting date and the revenue and expenses are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities in which the Group has significant influence and that are neither a subsidiary nor a joint venture.

Under the equity method, investments in associates are carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment loss is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I) Income tax and other taxes

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences is associated with investments in subsidiaries and associates and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

m) Property, plant and equipment

i) Initial measurement and depreciation

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Freehold land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis using the following rates:

Land	Not depreciated
Buildings	2.5 - 10% p.a.
Motor vehicles	7 - 20% p.a.
Plant and equipment	15 - 40% p.a.
IT equipment	25 - 33% p.a.

ii) Revaluations

Following initial recognition at cost, freehold land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Consolidated Statement of Financial Position unless it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase for the same asset debited directly to the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the reporting date.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognised.

n) **Goodwill and intangibles**

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with AASB 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**o) Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amounts (in which case the impairment loss is treated as a revaluation decrease). Fair value is determined in accordance with AASB 13 *Fair Value Measurement*.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised.

If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the assets in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value net of directly attributable costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised. Interest expense is recorded in profit or loss. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

q) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**s) Employee leave benefits*****i) Wages and salaries***

Liabilities for wages and salaries, including non-monetary benefits are all measured at nominal values in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

ii) Long service and annual leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using yields in high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

iii) Defined contribution superannuation funds

The commitment to defined contribution plans is limited to making contributions in accordance with the minimum statutory requirements. The Group does not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss as incurred.

iv) Directors retirement benefits

Directors commencing after 30 June 2004 are not eligible for any benefit under the Directors Retirement Scheme. However, Non-Executive Directors appointed before that date are eligible to receive retirement benefits on retiring as a Director. In July 2004, the Directors Retirement benefit calculation changed, to freeze the accumulation of years of service for each Director.

t) Contributed Equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

u) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**v) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

w) Significant accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting judgments***Impairment testing***

The Group determines whether goodwill and other non-current assets are impaired, at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated or where there is an impairment trigger. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 12.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Workers' compensation provision

The Group maintains a self-insurance provision for future workers' compensation claims. The provision is determined based on actuarial estimates of future claim rates and is discounted back to its present value. The related carrying amounts are disclosed in Note 14.

Valuation of freehold land and buildings

The Group's policy is to carry its freehold land and buildings at their fair values. Determining the fair values requires significant estimation and judgements including on current market rental rates etc. Refer to Note 11 for further information.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than hire purchase contracts, comprise bank loans, overdrafts and cash deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The Group's exposure to currency risk is minimal.

The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Risk exposures and responses

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. It is the Group's policy that all customers who wish to trade on credit are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

While the Group also minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various states, the Group is materially exposed to counterparty risk with several of its major customers. Concentration of credit risk on trade debtors due from customers are: Transport 92% (2018: 93%) and Fuel 8% (2018: 7%). The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Trade receivables are non-interest bearing and are generally on 14-90 day terms. The allowance for impairment is measured using the simplified expected credit loss model, using an average loss rate %. Set out below is the ageing of receivables at the end of the reporting date that were not impaired:

	2019	2018
	\$'000	\$'000
Neither past due nor impaired	69,894	68,596
Past due 0 – 30 days	26,051	24,178
Past due 31 – 60 days	5,476	4,688
Past due 61 – 90 days	4,011	2,001
Past due 91 days	2,138	1,866

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Movements in the provision for impairment loss were as follows:

	2019 \$'000	2018 \$'000
At 1 July	235	490
Charge for the year	275	11
Amounts written off	-	(266)
At 30 June	<u>510</u>	<u>235</u>

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The level of debt is disclosed in Note 13. The Group's hire-purchase liabilities are at a fixed rate.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Balance Sheet date:

Judgements of reasonably possible movements:	2019 \$'000	Post- tax Higher / (Lower) 2018 \$'000
Consolidated		
+ 1% (100 basis points)	(94)	(138)
- 0.5% (50 basis points)	47	69

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

In addition, the Group maintains access to short and long term funding facilities which are drawn upon as required. These are disclosed in Note 13.

Exposures to liquidity risk

The following liquidity risk disclosure reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and financial guarantees as of 30 June 2019. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

	Less than 1 year \$'000	1 to years \$'000	2 to 5 years \$'000	Greater than 5 years \$'000	Total \$'000
Year ended 30 June 2019					
Financial liabilities					
Interest bearing loans and borrowings	(44,838)	(64,954)	(48,461)	-	(158,253)
Trade and other payables	(95,920)	-	-	-	(95,920)
	<u>(140,758)</u>	<u>(64,954)</u>	<u>(48,461)</u>	<u>-</u>	<u>(254,173)</u>
Year ended 30 June 2018					
Financial liabilities					
Interest bearing loans and borrowings	(49,476)	(61,798)	(44,601)	-	(155,875)
Trade and other payables	(101,859)	-	-	-	(101,859)
	<u>(151,355)</u>	<u>(61,798)</u>	<u>(44,601)</u>	<u>-</u>	<u>(257,734)</u>

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

4. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Management in assessing performance and in determining the allocation of resources.

The Executive Management determined that the Group has three operating segments.

The Group's internal management reporting systems and business model, which monitors resource allocation and working capital fall under the following three segments:

- **Australian Transport** - The provision of logistics services to customers within Australia.
- **Fuels** - The distribution of fuel to fishing, farming and retail customers within the South East of South Australia.
- **New Zealand Transport** - The provision of logistics services to customers within New Zealand.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the accounts and in the prior period except as detailed below:

Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. The price is set periodically and aims to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

Corporate charges

Corporate charges are allocated to each operating segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

The entity has one customer which contributes greater than 10% of total revenue (\$90.5m) and falls within the Australian Transport Segment.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

OPERATING SEGMENTS (continued)

The following table presents revenue and profit information for reportable segments for the years ended 30 June 2019 and 30 June 2018.

Year ended 30 June 2019	Australian Transport \$'000	Fuel \$'000	New Zealand Transport \$'000	Total \$'000
Revenue				
External customers	723,059	130,275	51,831	905,165
Finance revenue	30	-	12	42
Inter-segment sales	1,593	90,839	-	92,432
Total segment revenue	724,682	221,114	51,843	997,639
Results				
Depreciation and amortisation expense	(44,014)	-	(5,343)	(49,357)
Finance costs	(7,232)	-	(729)	(7,961)
Share of profits of associates	123	-	-	123
Segment net operating profit/(loss) after tax	(3,489)	3,220	2,590	2,321
Operating assets	511,238	39,692	44,198	595,128
Operating liabilities	296,792	15,177	12,423	324,392
Other disclosures				
Investments in associate	421	-	-	421
Capital expenditure*	(58,924)	-	(6,073)	(64,997)

Inter-segment revenues of \$92,432,000 are eliminated on consolidation.

* Capital expenditure includes assets acquired through hire-purchase arrangements.

Year ended 30 June 2018	Australian Transport \$'000	Fuel \$'000	New Zealand Transport \$'000	Total \$'000
Revenue				
External customers	703,253	95,056	45,803	844,112
Finance revenue	15	-	9	24
Inter-segment sales	956	80,390	-	81,346
Total segment revenue	704,225	175,446	45,811	925,482
Results				
Depreciation and amortisation expense	(37,781)	-	(4,586)	(42,367)
Finance costs	(6,108)	-	(948)	(7,056)
Share of profits of associates	130	-	-	130
Segment net operating profit after tax	12,190	2,884	2,050	17,124
Operating assets	491,334	36,182	42,028	569,544
Operating liabilities	294,307	14,887	12,379	321,573
Other disclosures				
Investments in associate	398	-	-	398
Capital expenditure	(66,641)	-	(3,540)	(70,181)

Inter-segment revenues of \$81,346,000 are eliminated on consolidation.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

OPERATING SEGMENTS (continued)

i) Segment assets reconciliation to the consolidated statement of financial position

Segment assets are those operating assets of the entity that the executive views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables, inventory, intangibles and deferred tax assets.

Reconciliation of segment operating assets to total assets:

	CONSOLIDATED	
	2019	2018
Segment operating assets	595,128	569,544
Inter-segment eliminations	(27,883)	(26,875)
Deferred tax assets	12,533	10,700
Total assets per the Consolidated Statement of Financial Position	579,778	553,369

The analysis of location of non-current assets excluding deferred tax asset are as follows:

Australia	382,395	347,012
New Zealand	35,222	34,043
Total non-current assets per the Consolidated Statement of Financial Position	417,617	381,055

ii) Segment liabilities reconciliation to the consolidated statement of financial position

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The Managing Director, Chief Financial Officer and Directors review the level of debt for each segment in the monthly Board meetings.

Reconciliation of segment operating liabilities to total liabilities.

Segment operating liabilities	324,392	321,573
Inter-segment eliminations	(27,883)	(26,875)
Deferred tax liabilities	41,342	37,118
Income tax payable	1,596	686
Total liabilities per the Consolidated Statement of Financial Position	339,447	332,502

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

5. REVENUE AND EXPENSES

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
a) Revenue		
Rendering of services	765,709	729,844
Sale of goods	139,138	113,875
Agency commission from fuel sales	318	393
Finance revenue	42	24
Total revenue	905,207	844,136

Key information relating to the Group's financial performance is detailed below. In accordance with AASB 15, the table disaggregates revenue by operating segments that correspond to the internal reports reviewed by management.

Segments	For the year ended 30 June 2019			
	Australian Transport \$'000	New Zealand Transport \$'000	Fuels \$'000	Total \$'000
Type of service				
Transport Services	713,878	51,831	-	765,709
Sale of Fuel (including agency commissions)	9,181	-	130,275	139,456
Total revenue from contracts with customers	723,059	51,831	130,275	905,165
Geographical markets				
Australia	723,059	-	130,275	853,334
New Zealand	-	51,831	-	51,831
	723,059	51,831	130,275	905,165
Total revenue from contracts with customers				
Timing of revenue recognition				
Services transferred over time	723,059	51,831	-	774,890
Goods transferred at a point in time	-	-	130,275	130,275
Total revenue from contracts with customers	723,059	51,831	130,275	905,165

Segments	For the year ended 30 June 2018			
	Australian Transport \$'000	New Zealand Transport \$'000	Fuels \$'000	Total \$'000
Type of service				
Transport Services	684,041	45,803	-	729,844
Sale of Fuel (including agency commissions)	19,212	-	95,056	114,268
Total revenue from contracts with customers	703,253	45,803	95,056	844,112
Geographical markets				
Australia	703,253	-	95,056	798,309
New Zealand	-	45,803	-	45,803
	703,253	45,803	95,056	844,112
Total revenue from contracts with customers				
Timing of revenue recognition				
Services transferred over time	703,253	45,803	-	749,056
Goods transferred at a point in time	-	-	95,056	95,056
Total revenue from contracts with customers	703,253	45,803	95,056	844,112

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

REVENUE AND EXPENSES (continued)

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
b) Other income		
- Net gains on disposal of property, plant and equipment	2,709	2,152
- Other	14,936 ¹	21,401 ¹
Total other income	17,645	23,553
<p>1 Included within other income is a \$9.5m (30 June 2018: \$16.1m) from the Group's former rail provider, Aurizon, for the resolution of claims against it by the Group arising out of the closure of Aurizon's intermodal business in December 2017. This claim was settled in the period and no further monies are owed to the Group relating to this matter.</p>		
c) Finance costs		
- Other parties	2,598	2,016
- Finance charges on hire purchase contracts	5,363	5,040
Total finance costs	7,961	7,056
d) Depreciation expense		
Depreciation		
- Buildings	2,649	2,302
- Motor vehicles	41,936	35,691
- Plant and equipment	4,772	4,374
Total depreciation expense	49,357	42,367
e) Employee expenses		
- Wages and salaries	240,325	227,117
- Workers' compensation costs	12,325	9,659
- Long service leave provision	1,514	1,185
- Annual leave provision	14,443	14,376
- Payroll tax	13,451	12,635
- Defined contribution plan expense	16,954	16,036
- Directors retirement scheme expense	4	8
Total employee expenses	299,016	281,016
f) Operating lease rental expense		
- Property	17,052	16,238
- Plant & equipment	13,515	14,388
	30,567	30,626
g) Individually significant items		
- Aurizon legal settlement	9,525	10,900
- Arrium recovery	-	1,429
- Prior year indirect tax matters	(375)	1,269
- Impairment expense ²	(4,460)	-
- Onerous lease provisions	(2,884)	-
- Other non-recurring site closure costs	(1,853)	-
Total significant items pre-tax	(47)	13,598
Tax impact on significant items	14	(4,079)
Total significant items, net of tax	(33)	9,519

2 Following a strategic review of the Company's Western Australian general freight business, an assessment of the carrying value of the motor vehicle and plant and equipment assets specific to this business was performed. The recoverable amount of motor vehicles was determined from market prices from auctions and then cost to dispose. The recoverable amount of plant and equipment was based on the highest and best use (fair value) and expected to be obsolete. As a result, the Directors elected to raise an impairment in relation to these assets of \$4.460m. Refer to note 21 for further information in relation to the sale of the Group's Western Australian general freight business in August 2019.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

6. INCOME TAX

	CONSOLIDATED	
	2019	2018
	\$'000	\$'000
The major components of income tax expense are:		
Statement of Comprehensive Income		
<i>Current income tax</i>		
- Current income tax charge	6,008	1,032
- Adjustments in respect of current income tax of previous years	(190)	128
<i>Deferred income tax</i>		
- Relating to origination and reversal of Income tax expense reported in the Statement of Comprehensive Income temporary differences	(4,942)	6,316
Income tax expense reported in the Statement of Comprehensive Income	876	7,476
Consolidated Statement of Changes in Equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
- Net gain on revaluation of freehold land and buildings	7,333	-
- Common control (Scott's Transport Industries acquisition)	-	(134)
Income tax expense reported in equity	7,333	(133)
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	3,197	24,600
At the Group's statutory income tax rate of 30% (2018: 30%)	959	7,380
- Permanent differences	107	(32)
- Adjustments in respect of current income tax of previous years	(190)	128
Income tax expense reported in the Statement of Comprehensive Income	876	7,476

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

INCOME TAX (continued)

Recognised deferred tax assets and liabilities

	2019		CONSOLIDATED 2018	
	2019 \$'000	2019 \$'000	2018 \$'000	2018 \$'000
	Current income tax	Deferred income tax	Current income tax	Deferred income tax
Opening balance	(686)	(26,418)	(444)	(20,335)
Charged to income	(6,008)	4,942	(1,032)	(5,991)
(Under) provision in relation to prior year	190	-	(128)	-
DTA recognised on losses	-	-	-	(325)
Charged to equity	-	(7,333)	-	134
Payments	4,842	-	918	-
Other movements	66	-	-	99
Closing balance	(1,596)	(28,809)	(686)	(26,418)

Tax expense in Statement of Comprehensive Income

876

7,476

Amounts recognised in the Consolidated Statement of Financial Position:

Deferred tax assets	12,533	10,700
Deferred tax liabilities	(41,342)	(37,118)
	(28,809)	(26,418)

Consolidated Statement of Financial Position

2019
\$'000

2018
\$'000

Deferred income tax

Deferred income tax at 30 June relates to the following:

CONSOLIDATED

Deferred tax liabilities

- Property, plant and equipment	(33,662)	(28,609)
- Trade and other receivables not derived for tax purposes	(7,680)	(8,509)
	(41,342)	(37,118)

Deferred tax assets

- Deferred tax asset recognised on losses	-	1,586
- Accelerated depreciation for accounting purposes	-	62
- Trade and other payables not currently deductible	2,683	1,341
- Provisions not currently deductible	9,850	7,711
	12,533	10,700

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

INCOME TAX (continued)

Tax consolidation

(i) Members of the Tax Consolidated Group and the Tax Sharing Arrangement

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group. K&S Corporation Limited is the head entity of the tax consolidated Group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

K&S Corporation Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime when lodging its 30 June 2003 consolidated tax return.

(ii) Tax effect accounting by members of the Tax Consolidated Group

Members of the tax consolidated Group have entered into a tax funding agreement. The tax funding agreement requires members of the tax consolidated Group to make contributions to the head company for tax liabilities and deferred tax balances arising from transactions occurring after the implementation of tax consolidation. Contributions are payable following the payment of the liabilities by K&S Corporation Limited. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense or benefit. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation Group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. In addition to its own current and deferred tax amounts, the head entity also recognises current and deferred tax assets and liabilities arising from unused tax losses and unused tax credits assumed from controlled entities within the tax consolidated Group.

In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or upon leaving the Group.

A Deferred Tax Asset / Liability is recognised when there is a deductible / taxable temporary difference between the tax base of an asset or liability and its carrying amount in the Consolidated Statement of Financial Position.

In preparing the accounts for K&S Corporation Limited for the current year, the following amounts have been recognised as tax consolidation adjustments:

	2019	PARENT
	\$'000	2018
	\$'000	\$'000
Total (reduction) to tax expense of K&S Corporation Ltd	(6,350)	(3,340)
Total increase to inter-company assets of K&S Corporation Ltd	6,350	3,340

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

7. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2019	2018
	\$	\$
Basic earnings per share	\$0.018	\$0.139
Diluted earnings per share	\$0.018	\$0.139
Net profit attributable to ordinary equity holders of the parent from continuing operations	2,321,641	17,124,000
Net profit attributable to ordinary equity holders of the parent	<u>2,321,641</u>	<u>17,124,000</u>
	2019	2018
	Thousands	Thousands
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	<u>125,760</u>	123,160
Effect of dilution		
- Ordinary shares	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>125,760</u>	123,160

8. DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED	
	2019	2018
	\$'000	\$'000
<i>Declared and paid during the year:</i>		
Dividends on ordinary shares		
Final franked dividend for 2018: 2.0 cents (2017: 2.0 cents)	2,491	2,442
Interim franked dividend for 2019: 2.0 cents (2018: 2.0 cents)	2,517	2,465
	<u>5,008</u>	<u>4,907</u>
<i>Proposed (not recognised as a liability as at 30 June):</i>		
Dividends on ordinary shares		
Final franked dividend for 2019: \$Nil (2018: 2.0 cents)	-	2,491
Franking credit balance		
The amount of franking credits available for the subsequent year are:		
franking account balance as at the end of the financial year at 30% (2018: 30%)	44,617	42,873
franking credits that will arise from the payment of income tax payable as at the end of the financial year	<u>1,596</u>	-
The amount of franking credits available for future reporting periods:		
impact on franking account of dividends proposed but not recognised as a distribution to equity holders during the period	-	(2,491)
	<u>46,213</u>	<u>40,382</u>

Tax rates

- The tax rate at which dividends have been franked is 30% (2018: 30%)
- Dividends proposed will be franked at the rate of 30% (2018: 30%)

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

9. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2019	2018
	\$'000	\$'000
Cash	54	57
Cash deposits with banks	16,510	15,889
	<u>16,564</u>	<u>15,946</u>

Cash deposits with banks earn interest at floating rates based on daily bank deposit rates.

Reconciliation of net profit / (loss) after income tax to net cash flows from operations

Net profit after income tax	2,321	17,124
Less items classified as investing/financing activities:		
- Profit on sale of non-current assets	(1,899)	(2,152)
Add/(less) non-cash items:		
- Impairment of non-current assets	4,460	-
- Amounts set aside to provisions	5,611	(400)
- Depreciation expense	49,357	42,367
- Share of associates' net profit	(123)	(130)
Net cash provided by operating activities before changes in assets and liabilities	<u>59,727</u>	<u>56,809</u>

CHANGE IN ASSETS AND LIABILITIES

(Increase) in inventories	(286)	(1,008)
(Increase)/decrease in future income tax benefit	(1,832)	2,844
(Increase) in prepayments	(114)	(1,177)
(Increase)/decrease in receivables	13,746	(41,025)
(Decrease)/increase in trade creditors	(6,060)	20,965
Increase in income taxes payable	910	242
Increase in deferred taxes payable	(3,109)	3,239
Exchange rate differences	(1,149)	(77)
Net cash provided by operating activities	<u>61,833</u>	<u>40,812</u>

10. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2019	2018
	\$'000	\$'000
Current		
Trade debtors	107,740	101,096
Allowance for impairment loss	(510)	(235)
	<u>107,230</u>	<u>100,861</u>
Sundry debtors	9,507	28,880
Total trade and other receivables	<u>116,737</u>	<u>129,741</u>

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

11. PROPERTY, PLANT and EQUIPMENT

	CONSOLIDATED			
	Freehold Land and Buildings \$'000	Motor Vehicles \$'000	Plant & Equipment \$'000	Total \$'000
a) Reconciliation of carrying amounts at the beginning and end of the period:				
Year ended 30 June 2019				
As at 1 July 2018, net of accumulated depreciation and impairment	121,291	235,077	17,184	373,552
Additions	6,731	52,482	5,784	64,997
Disposals	-	(4,202)	(77)	(4,279)
Revaluation	24,471	-	(27)	24,444
Transfers	(56)	-	56	-
Impairment	-	(3,500)	(960)	(4,460)
Depreciation charge for the year	(2,649)	(41,936)	(4,772)	(49,357)
Exchange adjustment	1	980	61	1,042
At 30 June 2019, net of accumulated depreciation and impairment	149,789	239,471	16,679	405,939
At 30 June 2019				
Cost or fair value	156,269	512,087	77,708	746,064
Accumulated depreciation and impairment	(6,480)	(272,616)	(61,029)	(340,125)
Net carrying amount	149,789	239,471	16,679	405,939
Year ended 30 June 2018				
As at 1 July 2017, net of accumulated depreciation and impairment	117,266	217,295	16,437	350,998
Additions	6,328	58,729	5,124	70,181
Disposals	-	(4,117)	(57)	(4,174)
Depreciation charge for the year	(2,302)	(35,691)	(4,374)	(42,367)
Exchange adjustment	(1)	(1,139)	54	(1,086)
At 30 June 2018, net of accumulated depreciation and impairment	121,291	235,077	17,184	373,552
At 30 June 2018				
Cost or fair value	131,886	486,492	71,809	690,187
Accumulated depreciation and impairment	(10,595)	(251,415)	(54,625)	(316,635)
Net carrying amount	121,291	235,077	17,184	373,552

b) Revaluation of freehold land and buildings

The freehold land and buildings are included in the financial statements at fair value, except for capital expenditure subsequent to the valuation which is recorded at cost. A revaluation was performed in the current year by an independent valuer, Jones Lang LaSalle resulting in an increase to the asset revaluation reserve of \$24,471,000 (pre-tax).

Fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

As the freehold land and buildings measured at fair value contains unobservable price inputs, they are designated as a Level 3 valuation. The most significant unobservable inputs are:

- Rental capitalisation rates between 6.5% and 9.5%; and
- Future rental growth rates ranging from 2.5% - 3.5%.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate, and an opposite change in the long term vacancy rate.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

PROPERTY, PLANT and EQUIPMENT (continued)

c) Carrying amounts if freehold land and buildings were measured at cost less accumulated depreciation and impairment

If freehold land and buildings were measured using the cost model the carrying amounts would be as follows:

	CONSOLIDATED	
	2019 Freehold land and buildings \$'000	2018 Freehold land and buildings \$'000
Cost	104,050	97,319
Accumulated depreciation and impairment	(19,590)	(17,809)
Net carrying amount	84,460	79,510

12. IMPAIRMENT TESTING OF ASSETS

Cash generating units

For the purpose of impairment testing, goodwill is allocated to cash-generating units ('CGUs') which equate to the Group's reportable segments being Australian Transport, Fuels and New Zealand Transport. The Group's goodwill balance of \$6,070,000 is solely allocated to the New Zealand Transport CGU.

Impairment testing

Following an impairment assessment at 30 June 2019, the recoverable amount for all CGUs exceeded their carrying values and no impairment was recognised (2018: Nil). The recoverable amounts were determined through a fair value less costs of disposal calculation. Key estimates and judgements included:

Cashflow forecasts

The cash flow forecasts are based on financial budgets approved by the Board for FY2020 and then projected over a five-year period using short and long-term growth rates specific to market and economic conditions.

Terminal growth rates and discount rates

The Group applied post-tax discount rates to post-tax cashflows as this approximates applying pre-tax discount rates to pre-tax cashflows. The discount rates incorporate a risk adjustment relative to the risks associated with the net post-tax cashflows being achieved.

The following discount and terminal growth rates were applicable for each CGU:

	Pre-tax discount rate		Terminal growth rate	
	2019 %	2018 %	2019 %	2018 %
Australian Transport	12.33	13.93	2.5	3.0
Fuel	12.33	13.71	2.5	3.0
New Zealand Transport	11.82	13.38	2.5	2.5

Sensitivity analysis

Increases in discount rates or changes in other assumptions such as operating performance may cause the recoverable amount to fall below carrying value. Based on current economic conditions and CGU performances, there were no reasonably possible changes to key assumptions used in the determination of CGU recoverable amounts that would result in a material impairment to the Group.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

13. INTEREST BEARING LOANS AND BORROWINGS

	2019 \$'000	2018 \$'000
Current		
Hire purchase liabilities – secured	39,743	37,545
Bank loans – secured	-	6,625
	39,743	44,170
Non-current		
Non redeemable preference shares	60	60
Hire purchase liabilities – secured	78,366	72,680
Bank loans – secured	30,000	29,000
	108,426	101,740

Summary of financing arrangements

Credit facilities are provided as part of the overall debt funding structure of the Group. During the year, the Group extended its bank bill facilities. The revised maturity dates as well as the drawn component of each facility is shown below:

Facility and limit	Maturity	Interest rate	Amounts drawn	
			2019 \$'000	2018 \$'000
\$25m bank bill facility ^{1,2}	February 2021	BBSY + margin	24,000	-
\$33m bank bill facility ¹	November 2020	BBSY + margin	6,000	29,000
\$40m bank bill facility ¹	April 2021	BBSY + margin	-	6,625
\$7m bank overdraft facility ¹	On demand	BBSY + margin	-	-
Hire purchase facility ³	1 – 60 months	4.57% ⁴	118,109	110,225
Total interest bearing liabilities			148,109	145,850

1. The bank loans are secured by fixed and floating charges over the assets of the Group. Bank loans are also secured by registered mortgages over a number of freehold properties of the Group. In addition, the Company and all its subsidiaries have the following interlocking guarantees in support of the Company's banking facilities:

- Interlocking guarantee and indemnity between Westpac Banking Corporation (WBC) and the Company and its wholly owned subsidiaries dated 23 September 2002, pursuant to which the Company and its wholly owned subsidiaries jointly and severally guarantee to WBC the performance by the Company and its wholly owned subsidiaries of their respective obligations under the WBC facility agreement.
- Guarantee and indemnity between Commonwealth Bank of Australia (CBA) and the Company and its wholly owned subsidiaries dated 15 June 2007, pursuant to which the Company and its wholly owned subsidiaries jointly and severally guarantee to CBA the performance by the Company and its wholly owned subsidiaries of their respective obligations under the CBA facility agreement.

2. \$1m of this facility is a bank guarantee facility.

3. Hire purchase liabilities are secured by the relevant assets.

4. This represents the weighted average interest rate across all of the Group's hire purchase liabilities.

The carrying values of the bank bill facilities approximate the fair values as they bear a fully variable interest rate.

Hire purchase commitments

	2019		2018	
	Minimum payments \$'000	Present value of payments \$'000	Minimum payments	Present value of payments
Within one year	44,208	39,743	41,819	37,545
After one year but not more than five years	83,416	78,366	77,398	72,680
Greater than 5 years	-	-	-	-
Total minimum lease payments	127,624	118,109	119,217	110,225
Fair value of hire purchase liabilities	117,981	-	108,575	-

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

INTEREST BEARING LOANS AND BORROWINGS (continued)

30-Jun-19	1 July 2018	Cash Flows	For. Ex. movement	New Leases	Other	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Hire Purchase Liabilities	110,225	(43,485)	681	50,688	-	118,109
Non-redeemable preference shares	60	-	-	-	-	60
Bank Loans - secured	35,625	(5,625)	-	-	-	30,000
Total Liabilities from financing activities	145,910	(49,110)	681	50,688	-	148,169

30-Jun-18	1 July 2017	Cash Flows	For. Ex. movement	New Leases	Other	30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Hire Purchase Liabilities	103,451	(39,431)	(711)	46,916	-	110,225
Non-redeemable preference shares	60	-	-	-	-	60
Bank Loans - secured	19,625	16,000	-	-	-	35,625
Total Liabilities from financing activities	123,136	(23,431)	(711)	46,916	-	145,910

Non-cash financing and investment activities

During the financial year, the economic entity acquired property, plant and equipment with an aggregate fair value of \$50,688,000 (2018: \$46,916,000) by means of finance lease or hire purchase arrangements. These acquisitions and disposals are not reflected in the Consolidated Statement of Cash Flows.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

14. PROVISIONS

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
Current		
Employee benefits	26,156	25,702
Self insured workers' compensation liability	4,292	3,837
Onerous lease provision	2,884	-
	33,332	29,539
Non-current		
Employee benefits	5,805	6,361
Make good provision	290	149
Directors' retirement allowance	383	371
Self insured workers' compensation liability	11,960	9,739
	18,438	16,620

a) Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits and make good provisions, are set out below:

	Onerous Lease Provision \$'000	Directors Retirement Allowance \$'000	Self insured workers' compensation liability \$'000	Total \$'000
CONSOLIDATED				
At 1 July 2018	-	371	13,576	13,947
Arising during the year	2,884	12	12,325	15,213
Utilised	-	-	(9,649)	(9,649)
At 30 June 2019	2,884	383	16,252	19,511

b) Nature and timing of provisions

i) Make good provision

In accordance with various lease agreements, the Group must restore leased premises to their original condition at the end of the leases.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provisions is the costs that will ultimately be incurred.

ii) Long service leave

Refer to Note 2s(ii) for the relevant accounting policy applied in the measurement of this provision.

iii) Directors retirement allowance

Refer to Note 2s(iv) for the relevant accounting policy applied in the measurement of this provision.

iv) Self Insured Workers Compensation

Workers compensation self insurance liability is based on actuarial assessments prepared in accordance with the Group's self insurance licence.

v) Onerous lease provision

The onerous lease provision relates to some of the Group's property rental arrangements in Western Australia. These have been recognised where the contractual costs to fulfil the rental obligations exceed the economic benefits derived from those rental properties.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

15. CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
a) Ordinary shares		
Contributed Equity		
127,279,339 (2018: 124,528,908) ordinary shares fully paid	162,408	158,099
	162,408	158,099

Effective 1 July 1998, the Corporations Legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital or par value in respect of its issued capital.

Fully paid ordinary shares carry one vote per share, either in person or by proxy, at a meeting of the Company and carry the right to receive dividends as declared.

	Thousands	\$'000
Movements in ordinary shares on issue		
At 1 July 2017	122,070	153,951
Issued through Dividend Re-investment Plan – 1,187,065 ordinary shares at \$1.7240	1,187	2,047
Issued through Dividend Re-investment Plan – 1,272,302 ordinary shares at \$1.6516	1,272	2,101
At 30 June 2018	124,529	158,099
Issued through Dividend Re-investment Plan – 1,354,321 ordinary shares at \$1.5806	1,354	2,141
Issued through Dividend Re-investment Plan – 1,396,110 ordinary shares at \$1.5530	1,396	2,168
At 30 June 2019	127,279	162,408

b) Capital management

When managing capital, the Group's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to Shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group is not subject to any externally imposed capital requirements.

During 2019, the Group paid dividends of \$5,008,243 (2018: \$4,906,523).

Management monitor capital through the gearing ratio (Net debt / Net debt + Shareholders funds). The gearing ratios based on continuing operations at 30 June were as follows:

	CONSOLIDATED	
	2019 \$'000	2018 \$'000
Total interest bearing loans and borrowings	148,169	145,910
Less cash and cash equivalents	(16,564)	(15,946)
Net debt	131,605	129,964
Net debt + Shareholders funds	371,936	350,832
Gearing ratio	35.4%	37.0%

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

CONTRIBUTED EQUITY AND RESERVES (continued)

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

Common control reserve

The common control reserve was created to record a gain in relation to a transaction with the Group's major shareholder.

16. COMMITMENTS

	CONSOLIDATED	
	2019	2018
	\$'000	\$'000
The estimated maximum amount of commitments not provided for in the accounts as at 30 June 2019 are:		
Capital expenditure commitments		
The aggregate amount of contracts for capital expenditure on plant and equipment due no later than one year	4,286	28,849
Lease rental commitments		
Operating lease and hire commitments:		
- Not later than one year	16,819	14,025
- Later than one year but not later than five years	27,126	20,394
- Later than five years	1,830	3,868
	45,775	38,287

The Group leases property under non-cancellable operating leases expiring from one month to fifteen years. Leases generally provide the Group with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movement in the Consumer Price Index or operating criteria.

17. CONTINGENT LIABILITIES

From time to time the Group is party to claims from customers and suppliers arising from operations in the ordinary course of business. At the date of this report there are no claims or contingent liabilities that are expected to materially impact, either individually or in aggregate, the Group's financial position or results from operations.

18. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 17 December 2016, the wholly owned subsidiaries disclosed in Note 19 are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports. It is a condition of the legislative instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

DEED OF CROSS GUARANTEE (continued)

The subsidiaries have also given similar guarantees in the event that the Company is wound up. The entities within the Deed of Cross Guarantee are referred to in Note 19. A Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2019 is set out below:

	CLOSED GROUP	
	2019 \$'000	2018 \$'000
Consolidated Statement of Comprehensive Income		
Profit/(loss) before income tax	(264)	21,665
Income tax benefit/(expense)	(5)	(6,592)
Profit/(loss) after income tax	(269)	15,073
Retained profits at the beginning of the year	11,279	1,289
Transfer from reserves	(248)	(176)
Dividends provided or paid	(5,008)	(4,907)
Retained earnings at the end of the year	5,754	11,279
Consolidated Statement of Financial Position		
Cash	13,985	13,602
Trade and other receivables	110,801	124,313
Inventories	6,142	5,856
Prepayments	9,724	9,859
Total current assets	140,652	153,630
Other receivables	4,933	1,035
Investment in associate	10,046	10,022
Property, plant and equipment	377,041	346,374
Deferred tax assets	12,533	10,393
Total non-current assets	404,553	367,824
Total assets	545,205	521,454
Trade and other payables	98,884	102,507
Interest bearing loans and borrowings	34,353	30,989
Current tax liabilities	993	-
Provisions	25,434	25,020
Total current liabilities	159,664	158,516
Trade and other payables	650	797
Interest bearing loans and borrowings	100,133	99,893
Deferred tax liabilities	39,895	35,250
Provisions	18,498	16,620
Total non-current liabilities	159,176	152,560
Total liabilities	318,840	311,076
Net assets	226,365	210,378
Contributed equity	162,408	158,099
Reserves	58,203	41,000
Retained earnings	5,754	11,279
Total equity	226,365	210,378

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

19. CONTROLLED ENTITIES

Particulars in relation to controlled entities Name	Class of Share	Country of Incorporation	% Equity Interest	
			2019	2018
Controlled Entities¹				
K&S Corporation Limited				
Reid Bros Pty Ltd	Ord	Australia	100	100
Kain & Shelton Pty Ltd	Ord	Australia	100	100
K&S Freighters Pty Ltd	Ord	Australia	100	100
K&S Group Administrative Services Pty Ltd	Ord	Australia	100	100
Kain & Shelton (Agencies) Pty Ltd	Ord	Australia	100	100
K&S Transport Management Pty Ltd	Ord	Australia	100	100
Blakistons-Gibb Pty Ltd	Ord	Australia	100	100
K&S Logistics Pty Ltd	Ord	Australia	100	100
K&S Integrated Distribution Pty Ltd	Ord	Australia	100	100
K&S Group Pty Ltd	Ord	Australia	100	100
DTM Holdings (No. 2) Pty Ltd	Ord	Australia	100	100
Alento Pty Ltd	Ord	Australia	100	100
DTM Holdings Pty Ltd	Ord	Australia	100	100
DTM Pty Ltd	Ord	Australia	100	100
K&S Project Services Pty Ltd	Ord	Australia	100	100
Regal Transport Group Pty Ltd	Ord	Australia	100	100
Strategic Transport Services Pty Ltd	Ord	Australia	100	100
Vortex Nominees Pty Ltd	Ord	Australia	100	100
K&S Freighters Limited	Ord	New Zealand	100	100
Cochrane's Transport Limited	Ord	New Zealand	100	100
Scott Corporation Pty Ltd	Ord	Australia	100	100
Bulktrans Pty Ltd	Ord	Australia	100	100
Chemtrans Pty Ltd	Ord	Australia	100	100
Hyde Park Tank Depot Pty Ltd	Ord	Australia	100	100
Energytrans Pty Ltd	Ord	Australia	100	100

¹ All wholly owned Australian entities in this table are part of the Deed of Cross Guarantee.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

20. RELATED PARTY DISCLOSURES

DIRECTORS

The names of each person holding the position of Director of K&S Corporation Limited during the financial year and up to the date of signing the financial report are Messrs. T Johnson, L Winser, R Smith, G Walters AM and P Sarant.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies as noted below:

- Mr Winser is an alternate Director of several companies (including AA Scott Pty Ltd, The Border Watch Pty Ltd, Scott's Fleet Rentals Pty Ltd, Sneaths Freightliners Pty Ltd, and Northfuels Pty Ltd);
- Mr Johnson has an interest as a Director of AA Scott Pty Ltd;
- Mr Smith is a Director of Cleanaway Waste Management Ltd; and
- Mr Sarant is a Director of Smart Logistics Pty Ltd.

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

From time to time Directors of the Group, or their related entities, may buy goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

The aggregate amount of dealings with these companies during 2019 were as follows:

	PURCHASES		SALES		RECEIVABLES		PAYABLES	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
AA Scott Pty. Ltd	2,179,181	2,389,189	5,195	3,985	2,537	1,113	75,559	260,930
The Border Watch Pty Ltd ¹	19,401	25,240	65,458	63,003	5,422	50,327	1,764	3,102
Smart Logistics Pty Ltd	-	-	15,601,436	16,253,946	1,026,582	1,443,049	-	-
Scott's Fleet Rentals Pty Ltd	8,247,277	10,429,898	1,472,865	204,100	685,189	98,858	978,213	1,006,125
Ray Scott Pastoral Pty Ltd ¹	-	-	881	-	969	-	-	-
Raymond Scott Pty Ltd ¹	592,337	798,115	256,294	-	134,532	-	-	73,455
Ascot Cartage Contractors Pty Ltd ¹	1,098,280	565,729	-	-	-	-	28,835	24,420
Ascot Haulage (Int) Pty Ltd ¹	348,879	159,267	-	-	-	-	8,647	15,707
Sneaths Freightliners Pty Ltd	41,246	-	-	-	-	-	-	-
Fairfield Industries Pty Ltd ¹	1,770	-	-	-	-	-	-	-
Northfuels Pty Ltd	28,457	-	-	-	-	-	-	-
Cleanaway Waste Management Ltd	235,803	183,659	1,034,471	985,045	122,606	-	44,796	20,724

1. These entities are related parties of the Group's majority shareholders.

No provision for doubtful debts has been recognised in respect of these balances as they are considered recoverable.

Other related party arrangements

The Group also has an agreement to rent equipment from Scott's Fleet Rentals Pty Ltd which expires in February 2022. Under this agreement, the amounts payable to Scott's Fleet Rentals Pty Ltd are determined on the number of kilometres travelled during the year. In addition, the Group also has the option to de-hire at its sole discretion, any equipment by providing 30 days' notice to Scott's Fleet Rentals Pty Ltd. The amounts paid in 2019 and 2018 are noted in the table above.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

RELATED PARTY DISCLOSURES (continued)

Terms and conditions of transactions within the wholly-owned Group

Sales to and purchases from within the wholly-owned Group are made at arm's length. Terms and conditions of the tax funding agreement are set out in Note 6. Outstanding balances at year-end are unsecured and interest free.

DIRECTORS' SHARE TRANSACTIONS

	CONSOLIDATED	
	2019	2018
Shareholdings		
Aggregate number of shares held by Directors and their Director-related entities at balance date:		
- Ordinary shares	1,864,004	1,812,187
- Preference shares	-	-

All share transactions were with the parent Company, K&S Corporation Limited.

	\$'000	\$'000
Dividends		
Aggregate amount of dividends paid in respect of shares held by Directors or their Director-related entities during the year:		
- Ordinary shares	73	71

Directors' transactions in shares and share options

Purchases of shares by Directors and Director related entities are set out in the Directors Report.

Ultimate parent entity

The immediate parent entity and ultimate controlling entity of K&S Corporation Ltd is AA Scott Pty Ltd, a company incorporated in South Australia.

Compensation for Key Management Personnel

	CONSOLIDATED	
	2019	2018
	\$	\$
Short-term	1,818,456	1,953,113
Long-term	102,745	224,635
Post employment	138,372	139,268
	2,059,573	2,317,016

Loans with Key Management Personnel

Details of aggregates of loans to Key Management Personnel are as follows:

	Amount at the start of the year	Amounts written off in the year	Amount at the end of the year	Number in Group
Total	\$	\$	\$	
2019	282,285	-	148,940	2
2018	305,645	-	282,285	4

There are no loans to any Key Management Personnel above \$100,000 in the reporting period.

Loans to Key Management Personnel are made pursuant to the K&S Corporation Limited Employee Share Plan ("Plan"). As part of the Plan, loans are interest free with K&S Corporation, to fund the purchase of shares in the Company. Loans to Key Management Personnel under the Plan are required to be repaid in full upon the cessation of the employment of the Key Management Personnel with the Company. Shares issued under the Plan are subject to a holding lock until the loan is repaid in full. Non-Executive Directors are not eligible to participate in the Plan. No other loans are made to any Key Management Personnel.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Notes to the Financial Statements continued

21. EVENTS SUBSEQUENT TO BALANCE DATE

On 1 July 2019, the Group acquired 175 trailers from Scott's Fleet Rentals Pty Ltd for \$3,298,920.

On 28 August 2019, subsidiaries of the Group entered into an unconditional agreement with Centurion Transport Co. Pty Ltd for the sale of the business and certain assets of the Group's Western Australia based Regal Transport General Freight business.

Other than this, in the interval between the end of the financial year and the date of this report no items, transactions or events of a material and unusual nature are likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

It is anticipated that the consolidated entity will continue to provide transport and logistics operations during the next financial year by further extending its services in Australia and New Zealand and adopting technology-based solutions to contain costs and enhance services offered to customers.

No other matters have arisen in the interval between the end of the financial year and the date of this report, including any item, transaction or event of a material and unusual nature which, in the opinion of the Directors of the Company, are likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

22. AUDITORS' REMUNERATION

The auditor of K&S Corporation Limited is Ernst & Young.

	CONSOLIDATED	
	2019	2018
	\$	\$
Audit Services:		
Audit and review of the statutory financial reports	295,721	197,400
	295,721	197,400
Other Services:		
AASB 15 / 16 Technical workshop	-	6,500
	-	6,500

23. PARENT ENTITY INFORMATION

	2019	2018
	\$'000	\$'000
Current assets	99,148	101,158
Total assets	197,246	199,215
Current liabilities	(1,073)	(3,340)
Total liabilities	(31,577)	(32,840)
Issued capital	162,408	158,099
Retained earnings	3,261	8,276
Total Shareholders' equity	165,669	166,375
Loss after tax of the parent entity	(6)	(4)
Total comprehensive loss of the parent entity	(6)	(4)

Guarantees

Cross guarantees given by the Company and its wholly owned controlled entities are described in Note 18.

Contingent liabilities

Contingent liabilities of the Company and its wholly owned controlled entities are outlined in Note 17.

K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2019

In accordance with a resolution of the Directors of K&S Corporation Limited, we state that:

In the opinion of the Directors:

a) The financial report of the company and of the Group is in accordance with the Corporations Act 2001, including:

- i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b).

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

d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2019.

e) As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 18 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

Dated at Melbourne this 30th day of August 2019.

On behalf of the Board:



Tony Johnson
Chairman



Paul Sarant
Managing Director

Auditor's Independence Declaration to the Directors of K&S Corporation Limited

As lead auditor for the audit of the financial report of K&S Corporation Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of K&S Corporation Limited and the entities it controlled during the financial year.

Ernst + Young

Ernst & Young



David Sanders
Partner
Adelaide
30 August 2019

Independent Auditor's Report to the Members of K&S Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of K&S Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Impairment assessment of intangible assets and property, plant and equipment

Why significant	How our audit addressed the key audit matter
<p>As at 30 June 2019, the value of the Group's net assets exceeded its market capitalisation. This was considered by the Group to be an indicator of impairment.</p> <p>An impairment assessment of intangible assets and property, plant and equipment was carried out by the Group as disclosed in Note 12 of the financial report using a fair value less costs to sell approach. This required the Group to apply judgments in relation to forecast cash flows, long term growth rates, the allocation of corporate costs to the Group's cash generating units (CGUs) and the application of an appropriate discount rate.</p> <p>Given the uncertainties involved in the forecast of future results used in the impairment assessment, we considered this to be a key audit matter.</p> <p>Freehold land and buildings are recorded in the financial statements at fair value. A valuation was performed in the current year by an independent valuation specialist, which resulted in an increase to the asset revaluation reserve of \$24.47 million, before tax.</p> <p>An impairment charge of \$4.46 million was recognised at 30 June 2019 for motor vehicles and plant and equipment following a strategic review of the Group's Western Australia general freight business.</p>	<p>We assessed the appropriateness of the key assumptions used by the Group in their impairment testing model.</p> <p>Specifically, we assessed the cash flow projections, discount rates, long term growth rates and sensitivities used, with the assistance of our valuation specialists where appropriate.</p> <p>We considered external market data and assessed the historical accuracy of the Group's forecasting and ensured that the forecast cash flows were consistent with the most recent board-approved cash flow forecasts.</p> <p>We considered the qualifications, competency and objectivity of the Group's independent valuation specialist. Our real estate specialists assessed the work of the valuer.</p> <p>We assessed the appropriateness of the recognition of the impairment expense and increase to the asset revaluation reserve and associated disclosures at 30 June 2019.</p> <p>We also assessed the adequacy of the disclosures associated with the impairment assessment.</p>

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of K&S Corporation for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst + Young

Ernst & Young



David Sanders
Partner
Adelaide
30 August 2019