

The Manager Companies  
Company Announcements Office  
ASX Limited  
Level 4, Stock Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

## HALF YEAR RESULTS – 31 DECEMBER 2019

### Review and results of operations

- **Turnover down 2% - 8% from core business**
- **Net profit attributable to shareholders - \$202K**
- **Operating EBITDA \$1.34M**
- **Previously taken measures have reduced overhead operating levels**
- **Acquisitions continue to diversify the business**
- **Cellnet transitioning to the e-Commerce world**

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Cellnet is pleased to provide the results for the 6 months ending 31 December 2019.

The smartphone market is experiencing lengthening replacement cycles whilst the audio category is growing rapidly.

Cellnet continues to re-position the business for growth, while delivering a profit to shareholders.

The envisaged adoption of 5G networks and handsets and the launch of the next generation of gaming consoles is expected to lift to market conditions.

Powerguard will begin contributing positively in the 2<sup>nd</sup> half of the financial year with the launch of new charging surge protection products.

With the increasing adoption of ecommerce across the globe and a high potential in Australia, management is taking steps to address this segment with the portfolio of brands, products and businesses held by the group.

The group's balance sheet remains in a strong position with the underlying Net Tangible Asset Value per share at 19.7c per share.

The Company delivered an EBITDA operating result for the six months of \$1.336M (\$641K down period on period) on revenue of \$57.8M, impacted by declines in revenue as a result of increasing handset replacement cycles and challenging retail conditions.

Measures taken in December 2018 to cut costs resulted in period on period savings in employee, occupancy, warehousing and other expenses of \$866K period on period.

Cost savings continue to be a management focus.

CEO, Alan Sparks commented on the results "Whilst disappointingly we have seen a decline in core revenues we are pleased to be able to produce a profitable result. We have reduced our cost base and will continue to look at ways to do so, whilst diversifying the business further and competing aggressively in profitable channels where we can grow our market share. I remain excited and positive about the future of Cellnet."

**Alan Sparks**  
**Chief Executive Officer**

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**Cellnet Group Limited**  
and its controlled entities

**ABN: 97 010 721 749**

**Half-Year Financial Report**  
**Period Ended 31 December 2019**

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	<b>Section</b>
<b>Appendix 4D</b>	<b>A</b>
<b>Financial Report</b>	<b>B</b>

## Appendix 4D HALF YEAR REPORT Statutory Results

<b>Name of Entity</b>	Cellnet Group Limited
<b>ABN</b>	97 010 721 749
<b>Reporting Period</b>	Half-year ended 31 December 2019
<b>Previous Corresponding Period</b>	Half-year ended 31 December 2018

This information presented should be read in conjunction with the 30 June 2019 financial report.

### Results for announcement to the market

	Reporting Period \$000	Previous Corresponding Period \$000	% Change Increase / (Decrease)
Revenues from ordinary activities	57,769	59,267	(2.53%)
Profit from ordinary activities after tax attributable to members	202	586	(65.53%)
Net Profit for the period attributable to members	202	586	(63.53%)

For commentary on the results refer to the Directors' Report which forms part of the Half-year Report.

	Reporting Period	Previous Corresponding Period
Final Dividend	\$nil	\$782,439
Amount per security	\$nil	\$0.0125
Franked amount per security	\$nil	\$0.0000
Record Date	N/A	21.09.2018
Interim Dividends	\$nil	\$nil
Amount per Security	N/A	N/A
Franked Amount per Security	N/A	N/A
Record Date	N/A	N/A

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**NTA Backing**

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Net tangible assets backing per share	19.7¢	21.9¢
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**Additional Appendix 4D Disclosure Requirements**

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Nil.

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**Financial Information**

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This Appendix 4D should be read in conjunction with the Half-year Financial Report for the half-year ended 31 December 2019 as set out on pages 5 to 28.

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**Compliance Statement**

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This report is based on accounts that have been reviewed. The review report, which was not subject to audit modification or qualification, is included in the Half-year Financial Report.

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**Cellnet Group Limited**  
and its controlled entities  
**Half-Year Financial Report**

**Condensed Financial Report**  
for the Half-Year Ended  
31 December 2019

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**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Corporate Information**

**ABN 97 010 721 749**

**Directors**

M. Wendt (Chairman)  
K. Gilmore  
M.Reddie  
T. Pearson

**Company Secretary**

C. Barnes

**Principal Registered Office**

Cellnet Group Limited  
Tenancy E1, 5 Grevillea Place  
Brisbane Airport QLD 4008  
Phone: 1300 CELLNET  
Fax: 1800 CELLNET

**Banker**

Westpac Banking Corporation  
260 Queen Street  
Brisbane QLD 4000

**Auditor**

Pitcher Partners  
345 Queen Street  
Brisbane QLD 4000  
Phone: 07 3222 8444

**Share Registrar**

Link Market Services Ltd  
Level 21  
10 Eagle Street  
Brisbane QLD 4000  
Phone: 1300 554 474

**Stock Exchange**

The Company is listed on the Australian Securities Exchange. The home exchange is Brisbane.

# Cellnet Group Limited and its controlled entities

## Half-Year Financial Report

### Directors' Report

Your Directors submit their report for the half-year ended 31 December 2019.

### Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for the periods as detailed below:

M. Wendt (Chairman)  
K. Gilmore  
M. Reddie  
T. Pearson

### Principal activities

The principal activities of the consolidated entity are:

- Sourcing products and the distribution of market leading brands and lifestyle technology products including mobile phone, gaming, table and notebook/hybrid accessories into retail and business channels in Australia and New Zealand; and
- Category management and fulfilment services to the mobile telecommunications and retail industries in Australia and New Zealand

### Review and results of operations

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Powerguard will begin contributing positively in the 2<sup>nd</sup> half of the financial year with the launch of new charging surge protection products.

With the increasing adoption of ecommerce across the globe and a high potential in Australia, management is taking steps to address this segment with the portfolio of brands, products and businesses held by the group.

The group's balance sheet remains in a strong position with an underlying Net Tangible Asset Value per share of 19.7c per share.

## Cellnet Group Limited and its controlled entities

### Half-Year Financial Report

The Company delivered an EBITDA operating result for the six months of \$1.336M (\$641K down period on period) on revenue of \$57.8M, impacted by declines in revenue as a result of increasing handset replacement cycles and challenging retail conditions.

Measures taken in December 2018 to cut costs resulted in period on period savings in employee, occupancy, warehousing and other expenses of \$866K period on period. Cost savings continue to be a management focus.

#### Dividends

There was no dividend declared in the six months ended 31 December 2019.

#### Rounding

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191. Amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000 unless otherwise stated.

#### Auditor's Independence Declaration

Attached is a copy of the Auditors Independence Declaration provided under Section 307C of the *Corporations Act 2001* in relation to the review of the half-year ended 31 December 2019. This Auditors Independence Declaration forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.



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Director  
17 February 2020

### **Auditor's Independence Declaration to the Directors of Cellnet Group Limited**

In relation to the independent auditor's review for the half-year ended 31 December 2019, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Cellnet Group Limited and the entities it controlled during the period.

*Pitcher Partners*

PITCHER PARTNERS



DANIEL COLWELL  
Partner

Brisbane, Queensland  
17 February 2020

**Brisbane Sydney Newcastle Melbourne Adelaide Perth**

**Pitcher Partners is an association of independent firms.**

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Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.

**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Interim consolidated statement of  
comprehensive income**

**For the six months ended 31 December 2019**

	Note	Consolidated	
		31 Dec 2019 \$000	31 Dec 2018 \$000
<b>Revenue from contracts with customers</b>	4	<b>57,769</b>	<b>59,267</b>
Other income		-	41
Materials, packaging and consumables used		(46,222)	(46,716)
Depreciation and amortisation expense		(562)	(323)
Employee benefit expense		(5,568)	(5,702)
Finance costs		(469)	(373)
Freight expense		(1,549)	(1,492)
Occupancy expense		(144)	(313)
Warehousing expense		(1,637)	(2,032)
Other expense		(1,313)	(1,481)
<b>Profit before income tax</b>		<b>305</b>	<b>876</b>
Income tax (expense) / benefit	7	(103)	(290)
<b>Profit for the period</b>		<b>202</b>	<b>586</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation		(162)	391
<b>Total comprehensive income for the period</b>		<b>(40)</b>	<b>977</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the parent</b>			
Basic earnings per share		0.32¢	0.97¢
Diluted earnings per share		0.32¢	0.97¢

The above interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Interim consolidated statement of financial position**

As at 31 December 2019

	Note	Consolidated	
		31 Dec 2019 \$000	30 Jun 2019 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,536	1,311
Trade and other receivables	8	23,553	16,285
Inventories	9	21,990	18,232
Other current assets		1,388	1,056
Current tax asset		-	25
Derivative financial instruments	5	-	146
<b>Total current assets</b>		<b>49,467</b>	<b>37,055</b>
<b>Non-current assets</b>			
Receivables from associates		428	428
Investment in associates		-	7
Property, plant and equipment		325	300
Right of use asset	2	923	-
Deferred tax assets (net)		3,043	3,055
Intangible assets	10	6,744	6,637
<b>Total non-current assets</b>		<b>11,463</b>	<b>10,427</b>
<b>TOTAL ASSETS</b>		<b>60,930</b>	<b>47,482</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	18,584	12,358
Current tax liabilities		75	185
Provisions		1,132	1,266
Interest-bearing loans and borrowings	12	16,768	8,878
Derivative financial instruments	5	164	-
Lease liabilities	2	423	-
<b>Total current liabilities</b>		<b>37,146</b>	<b>22,687</b>
<b>Non-current liabilities</b>			
Provisions		162	150
Interest-bearing loans and borrowings	12	-	1,639
Lease liabilities	2	576	-
<b>Total non-current liabilities</b>		<b>738</b>	<b>1,789</b>
<b>TOTAL LIABILITIES</b>		<b>37,884</b>	<b>24,476</b>
<b>NET ASSETS</b>		<b>23,046</b>	<b>23,006</b>
<b>EQUITY</b>			
Issued capital	13	33,453	33,453
Reserves		10,681	10,641
Accumulated losses		(21,088)	(21,088)
<b>TOTAL EQUITY</b>		<b>23,046</b>	<b>23,006</b>

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

Cellnet Group Limited and its controlled entities

Half-Year Financial Report

Interim consolidated statement of changes in equity

For the six months ended 31 December 2019

	Share capital \$000	Reserve for own shares \$000	Foreign currency translation reserve \$000	Share based payment reserve \$000	Reserve for profits \$000	Accumulated losses \$000	Total Equity \$000
At 1 July 2019	33,453	(25)	(187)	1,711	9,142	(21,088)	23,006
Profit for the period	-	-	-	-	-	202	202
Foreign currency translation	-	-	(162)	-	-	-	(162)
Total comprehensive income for the half year	-	-	(162)	-	-	202	40
<i>Transactions with owners in their capacity as owners:</i>							
Transfers to / from reserves	-	-	-	-	202	(202)	-
Share based payments	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>33,453</b>	<b>(25)</b>	<b>(349)</b>	<b>1,711</b>	<b>9,344</b>	<b>(21,088)</b>	<b>23,046</b>
At 1 July 2018	31,453	(25)	(406)	1,713	9,519	(21,088)	21,166
Profit for the period	-	-	-	-	-	586	586
Foreign currency translation	-	-	391	-	-	-	391
Total comprehensive income for the half year	-	-	391	-	-	586	977
<i>Transactions with owners in their capacity as owners:</i>							
Transfers to / from reserves	-	-	-	-	586	(586)	-
Share based payments	-	-	-	(10)	-	-	(10)
Issue of shares	2,000	-	-	-	-	-	2,000
Dividends paid	-	-	-	-	(782)	-	(782)
<b>Balance at 31 December 2018</b>	<b>33,453</b>	<b>(25)</b>	<b>(15)</b>	<b>1,703</b>	<b>9,323</b>	<b>(21,088)</b>	<b>23,046</b>

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

**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Interim consolidated statement of cash flows**

For the six months ended 31 December 2019

Note	Consolidated	
	31 Dec 2019 \$000	31 Dec 2018 \$000
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	58,542	54,386
Payments to suppliers and employees (inclusive of GST)	(60,890)	(62,834)
Income tax paid	(201)	-
Interest paid	(345)	(264)
<b>Net cash flows used in operating activities</b>	<b>(2,894)</b>	<b>(8,712)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(72)	(48)
Purchase of intangibles	-	(305)
Payment for acquisition of businesses, net of cash acquired	(714)	(2,578)
Loans to associates	-	(166)
Lease incentives received	69	-
Payment of contingent consideration	(1,131)	-
<b>Net cash flows used in investing activities</b>	<b>(1,848)</b>	<b>(3,097)</b>
<b>Cash flows from financing activities</b>		
Payment of dividend	-	(782)
Principal repayments on leases	(134)	-
Proceeds from borrowings	24,373	27,325
Repayment of borrowings	(18,122)	(14,623)
<b>Net cash flows from financing activities</b>	<b>6,117</b>	<b>11,920</b>
Net increase / (decrease) in cash and cash equivalents	1,375	111
Cash and cash equivalents at beginning of period	1,311	2,253
Net foreign exchange differences	(150)	276
<b>Cash and cash equivalents at end of period</b>	<b>2,536</b>	<b>2,640</b>

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

# Cellnet Group Limited and its controlled entities

## Half-Year Financial Report

### Notes to the Financial Statement

For the six months ended 31 December 2019

#### 1. Corporate Information

Cellnet Group Limited (the "Company") is a company domiciled in Australia whose shares are publicly traded. The interim condensed consolidated financial statements of the Company as at and for the half-year ended 31 December 2019 comprise the results of the Company and its subsidiaries (together referred to as the "consolidated entity" or the "group").

The interim condensed consolidated financial statements of the consolidated entity for the six months ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 17 February 2020.

The interim condensed consolidated financial statements of the consolidated entity as at and for the half-year ended 31 December 2019 are available upon request from the Company's registered office at Tenancy E1, 5 Grevillea Place, Brisbane Airport QLD 4008 or at [www.cellnet.com.au](http://www.cellnet.com.au).

#### 2. Basis of preparation and accounting policies

##### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the group's annual financial statements as at 30 June 2019.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those adopted in the group's annual report for the year ended 30 June 2019, except as described below.

##### Initial application of AASB 16 Leases

AASB 16 *Leases* is applicable to the group for the first time for the half-year. The group has applied the modified retrospective approach permitted under AASB 16 to account for the initial application of the standard in the current half, meaning that comparative balances have not been restated. Rather, the reclassifications and adjustments arising from initial application of the new leasing standard are recognised in the opening balance sheet on 1 July 2019.

On initial application, the group made an election to measure right-of-use assets for all leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to each lease recognised on the balance sheet at 30 June 2019. As a result of this election, there was no impact on accumulated losses or reserves from applying the new standard for the first time.

The group used the following practical expedients permitted by the standard in applying AASB 16 for the first time:

- The use of a single discount rate for a portfolio of leases with reasonably similar characteristics; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group has relied on its assessment made applying previously applicable accounting standards and interpretations.

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied in the measurement of lease liabilities at 1 July 2019 was 5.0%.

The table below provides a reconciliation of the operating lease commitments disclosed in note 21 of the group's annual financial statements for the year ended 30 June 2019, and the carrying value of lease liabilities at 1 July 2019.

## Cellnet Group Limited and its controlled entities

### Half-Year Financial Report

#### Notes to the Financial Statement

##### For the six months ended 31 December 2019

	<b>\$000</b>
Operating lease commitments disclosed as at 30 June 2019	326
Discounted using the lessee's incremental borrowing rate at the date of initial application	319
Less: Leases with a contractual maturity date of less than 12 months from the date of initial application	(51)
<b>Lease liability recognised as at 1 July 2019</b>	<b>268</b>
Of which are:	
Current lease liabilities	169
Non-current lease liabilities	99
	<b>268</b>

The group's right-of-use assets relate entirely to leases of premises. The carrying value of right-of-use assets recognised at 1 July 2019 was \$268,000.

The only financial statement line items affected by the initial application of the new standard were current and non-current lease liabilities and right-of-use assets, which were impacted in the amounts disclosed above.

#### Revised lease accounting policy

For years ended 30 June 2019 and prior, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the group under residual value guarantees
- The exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the group's incremental rate of borrowing is used, being the rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

During the half-year the group entered into a 5 year lease of a new head office premises in Brisbane and a 2 year lease extension on its existing lease arrangement in Auckland. These non-cash financing activities resulted in an increase in lease liabilities and right-of use assets of \$865,000 on initial recognition.

**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Notes to the Financial Statement**

**For the six months ended 31 December 2019**

**3. Seasonality of operations**

The consolidated entity's balance sheet is impacted by seasonality in sales. December trade balances are generally expected to be higher than those as at the previous financial year end due to greater sales activity around calendar year end. Users of the interim consolidated financial report may therefore benefit from reading this report in conjunction with the interim consolidated financial report for the half-year ended 31 December 2018.

**4. Operating segment information**

**Identification of reportable 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 (the Chief Executive Officer) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments are identified by management based on the manner in which products are sold. The group has identified three operating segments, being Cellnet Australia, Cellnet New Zealand, and Turn Left Distribution. The Cellnet Australia and Cellnet New Zealand operating segments are aggregated into the one reportable segment (Cellnet), based on the similar economic characteristics that exist between these two segments, and similarities in the nature of products, type and class of customer for these products, distribution methods and similar economic and regulatory environments in Australia and New Zealand.

Financial information for each of the group's reportable segments is set out below:

<b>December 2019</b>	<b>Cellnet \$'000</b>	<b>Turn Left \$'000</b>	<b>Corporate and Eliminations \$'000</b>	<b>Total \$'000</b>
Australia	39,947	9,806	-	49,753
New Zealand	8,016	-	-	8,016
<b>Revenue</b>	<b>47,963</b>	<b>9,806</b>	<b>-</b>	<b>57,769</b>
<b>EBITDA</b>	<b>578</b>	<b>765</b>	<b>(7)</b>	<b>1,336</b>
Depreciation and amortisation	(111)	(78)	(54)	(243)
Amortisation of intangibles acquired through business combination **	-	(319)	-	(319)
Finance costs	(465)	(4)	-	(469)
<b>Profit before tax</b>	<b>2</b>	<b>364</b>	<b>(61)</b>	<b>305</b>
Other income	-	-	-	-
Segment assets	46,046	10,474	4,410	60,930
Segment liabilities	32,667	3,198	2,019	37,884

\* Non-cash amortisation of customer relationship and supplier relationship intangibles acquired in the business combination of Turn Left Distribution Pty Ltd

**Cellnet Group Limited and its controlled entities**  
**Half-Year Financial Report**

**Notes to the Financial Statement**

**For the six months ended 31 December 2019**

**4. Operating segment information (continued)**

December 2018	Cellnet \$'000	Turn Left \$'000	Corporate and Eliminations \$'000	Total \$'000
Australia	43,323	7,039	-	50,362
New Zealand	8,901	4	-	8,905
<b>Revenue</b>	<b>52,224</b>	<b>7,043</b>	<b>-</b>	<b>59,267</b>
<b>EBITDA Operating Result</b>	<b>1,715</b>	<b>255</b>	<b>7</b>	<b>1,977</b>
<i>Less non-operational expenses:</i>				
Fair value increase to inventory acquired in Turn Left & sold during the period *	-	(405)	-	(405)
<b>EBITDA</b>	<b>1,715</b>	<b>(150)</b>	<b>7</b>	<b>1,572</b>
Depreciation and amortisation	(54)	(10)	(47)	(111)
Amortisation of intangibles acquired through business combination **	-	(212)	-	(212)
Finance costs	(369)	(4)	-	(373)
<b>Profit before tax</b>	<b>1,292</b>	<b>(376)</b>	<b>(40)</b>	<b>876</b>
Other income	34	-	7	41
Segment assets	43,619	12,516	4,142	60,277
Segment liabilities	28,809	3,735	4,382	36,926

\* Non-cash amortisation of customer relationship and supplier relationship intangibles acquired in the business combination of Turn Left Distribution Pty Ltd

\*\* EBITDA for the comparative half-year includes a non-recurring expenditure of \$405,000 included in materials, packaging and consumables used in profit or loss that represents the increase from the book value (lower of cost or NRV) to fair value (market selling price less costs to sell) of inventory acquired from Turn Left under AASB 3 *Business Combinations*.

**5. Fair value measurements**

Outlined below are the judgements and estimates made in determining the fair value of assets and liabilities that are recognised and measured at fair value. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its assets and liabilities into the three levels prescribed under the accounting standards, as follows:

**Level 1:** The fair value of assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting period.

**Level 2:** The fair value of assets and liabilities that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. That is, all valuation inputs are observable.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

# Cellnet Group Limited and its controlled entities

## Half-Year Financial Report

### Notes to the Financial Statement

For the six months ended 31 December 2019

#### 5. Fair value measurements (cont'd)

The only balances on the group's balance sheet which are measured at fair value are forward foreign exchange contracts and contingent consideration payable. The fair value of forward foreign exchange contracts is determined by calculating the difference between the forward rate and closing rate on these contracts at balance date. Such fair value measurement is included in level 2, as it is based on an observable input. At 31 December 2019 the group recognised a liability of \$164,000 (30 June 2019: asset of \$146,000) for forward exchange contracts held at balance date.

The fair value of contingent consideration is calculated based on a probability weighted assessment of management's expectations surrounding the satisfaction of related performance targets. Key inputs into the valuation include scenario probability factors which are determined based on forecast internal financial information, which are unobservable (level 3 inputs). Details of the assumptions made in valuing contingent consideration liabilities in respect of business combinations described in note 16 are outlined as follows.

##### **Turn Left Distribution (TLD)**

The contingent consideration consists of contractual earn-out, over-performance and incentive payment arrangements based on the financial performance of TLD over the FY19 and FY20 financial years. These are summarised as follows:

*Earn-out:* From \$0.8m up to \$1m per annum where gross profit on sales of software in FY20 is between \$1.6m and \$2.0m.

*Over-performance:* 25% of cumulative gross profit on sales of software over the earn-out period (i.e. FY19-FY20) where gross profit for this period exceeds \$4.0m, uncapped in amount.

*Incentive:* 25% of all net profit over the earn-out period (i.e. FY19-FY20) where net profit (less any earn-out and over-performance payments) exceeds \$4.0m, uncapped in amount.

The fair value of the contingent consideration liability at 31 December 2019 was \$172,000. The group has adopted a probability factor of 20% in respect of the FY20 earn-out payment and a probability factor of 0% for incentive and over-performance payments. Reasonably possible changes in these assumptions include a reduction in the FY20 earn-out probability to 0% or increase in same to 100%, which would result in a decrease or increase in the liability of \$172,000 and \$828,000 respectively.

##### **Powerguard**

The fair value of the contingent consideration liability at 31 December 2019 was \$131,000. The valuation of contingent consideration allows for gross profit margins of \$800,000 and \$1,000,000 respectively for the FY19 and FY20 earn-out periods. Reasonably possible changes in these assumptions may result in an increase or decrease in the fair value of the contingent consideration liability of up to \$131,000.

#### 6. Dividends

The group has not paid or declared any dividends for the half-year ended 31 December 2019. In the comparative half-year ended 31 December 2018 the group paid an unfranked dividend of 1.25 cents per fully paid ordinary share, amounting to \$782,438, on 8 October 2018.

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**7. Income tax expense**

Numerical reconciliation of income tax benefit / (expense) to prima facie tax payable:

	<b>Dec 2019</b>	<b>Dec 2018</b>
	<b>\$000</b>	<b>\$000</b>
Profit before income tax	305	876
Prima facie tax benefit / (expense) at the Australian tax rate of 30%	(92)	(263)
<b>Tax effect of adjustments</b>		
Prior year under/(over) provision for deferred tax	-	(22)
Non-deductible expenditure	(13)	(9)
Difference in New Zealand tax rate (28%)	2	4
<b>Income tax benefit / (expense)</b>	<b>(103)</b>	<b>(290)</b>

**8. Trade and other receivables**

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$000</b>	<b>\$000</b>
Receivables from contracts with customers	22,509	15,516
Allowances for expected credit losses	(225)	(164)
	<b>22,284</b>	<b>15,352</b>
Other receivables and prepayments	1,269	933
	<b>23,553</b>	<b>16,285</b>

As disclosed in note 3, December trade balances are generally expected to be higher than those as at the previous financial year end due to greater sales activity around calendar year end. The balance of trade and other receivables at 31 December 2018 was \$24,934,000.

**9. Inventories**

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$000</b>	<b>\$000</b>
Stock on hand	23,982	19,998
Less: provision for obsolescence	(1,992)	(1,766)
	<b>21,990</b>	<b>18,232</b>

As disclosed in note 3, December trade balances are generally expected to be higher than those as at the previous financial year end due to greater sales activity around calendar year end. The balance of inventories as at 31 December 2018 was \$22,137,000.

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**10. Intangible assets**

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$000</b>	<b>\$000</b>
Software assets	924	979
Goodwill – refer note 16	2,427	1,946
Customer relationships	95	167
Supplier relationships	3,298	3,545
	<b>6,744</b>	<b>6,637</b>

Software assets represent the group's ERP system which was implemented from 1 July 2018. This asset is being amortised over its useful life of 10 years. Customer relationships and supplier relationships represent intangible assets separately identified and valued as part of the acquisition of Turn Left Distribution in September 2018 (refer note 16). These assets are being amortised over their assessed useful lives of 2 and 8 years respectively.

Additional goodwill of \$481,000 was recognised on completion of the business combination transaction described in note 16. There were no other changes in goodwill balances during the half-year.

**11. Trade and other payables**

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$000</b>	<b>\$000</b>
Trade payables	11,632	6,088
Rebate and incentive liability	3,783	2,641
Right of return liability <sup>^</sup>	1,919	1,587
Contingent consideration payable*	303	1,172
Other payables and accrued expenses	947	870
	<b>18,584</b>	<b>12,358</b>

\* An earn-out payment of \$1,000,000 was paid in August 2019 in respect of the Turn Left Distribution Pty Ltd acquisition completed in the comparative half-year. Refer Note 5 for further details of this earn-out arrangement. Refer Note 16 for details of new earn-out arrangements arising from a business combination completed during the half-year

<sup>^</sup> An associated right to returned goods asset is recognised in other current assets, representing the expected value of goods to be returned by customers in future periods.

As disclosed in note 3, December trade balances are generally expected to be higher than those as at the previous financial year end due to greater sales activity around calendar year end. The balance of trade and other payables at 31 December 2018 was \$18,181,000.

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**12. Interest bearing loans and borrowings**

	Interest Rate %	Maturity	Dec 2019 \$000	June 2019 \$000
Business finance				
	4.47	1 July 2019	-	104
	4.47	3 July 2019	-	305
	4.72	5 July 2019	-	322
	4.43	8 July 2019	-	194
	4.43	8 July 2019	-	115
	4.71	11 July 2019	-	265
	4.71	12 July 2019	-	837
	4.42	12 July 2019	-	394
	4.42	12 July 2019	-	15
	4.32	22 July 2019	-	357
	4.32	22 July 2019	-	398
	4.32	22 July 2019	-	222
	4.24	30 July 2019	-	49
	3.92	3 January 2020	286	-
	3.93	3 January 2020	511	-
	3.94	6 January 2020	344	-
	3.89	10 January 2020	386	-
	3.93	13 January 2020	479	-
	3.93	13 January 2020	365	-
	3.93	17 January 2020	30	-
	3.92	31 January 2020	575	-
	3.92	31 January 2020	278	-
	3.92	31 January 2020	243	-
Invoice finance	4.14	Various	11,422	4,940
Business loan*	4.22	26 June 2021	1,849	361
			<b>16,768</b>	<b>8,878</b>
Business loan (non current)	4.22	26 June 2021	-	1,639
			-	<b>1,639</b>

\* The draw-down of this facility was to fund the acquisition of Turn Left Distribution completed during the comparative half-year and related earn-out payments to vendors.

**Changes in facility terms**

In October 2019, the facility limit on the invoice finance facility was increased from \$10,000,000 to \$14,000,000.

The terms of all other facilities remain consistent with those as disclosed in note 17 of the group's annual financial statements for the year ended 30 June 2019.

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**12. Interest bearing loans and borrowings (cont'd)**

**Breach of covenant**

In October 2019 the group was notified that it had breached the interest coverage ratio on the above facilities. While fully reserving their rights in respect to the breach, the lender confirmed they remain supportive of the group as is also evident through its latest approval for the provision of additional funding through variation of the business finance agreement in October 2019.

As a consequence of the breach, the group no longer has the unconditional right to defer settlement of the business loan facility beyond twelve months of balance date, and accordingly the balance of this facility has been presented as a current liability at 31 December 2019.

**13. Contributed equity**

	Dec 2019 No. of shares	Dec 2019 \$000	Dec 2018 No. of shares	Dec 2018 \$000
Balance at 1 July	62,595,096	33,453	57,115,644	31,453
Shares issued – business combination	-	-	5,479,452	2,000
Balance at 31 December	<b>62,595,096</b>	<b>33,453</b>	<b>62,595,096</b>	<b>33,453</b>

**14. Share based payments**

**Long term incentive plan – employee options**

At 31 December 2019 a total of 2,400,000 employee share options were outstanding under the company's long-term incentive plan. Details of the options issued are as follows:

Options granted	1,587,500, 312,500 and 500,000
Grant date	29 November 2017, 17 April 2018 and 10 October 2018
Issue date	1 July 2018, 1 July 2018 and 10 October 2018
Consideration payable	\$Nil
Exercise price	\$0.28, \$0.375 and \$0.28
Last exercise date	5pm Brisbane time on the date which is 12 months subsequent to market release of FY2021 result.
Exercise conditions	Subject to the Plan Rules, an option cannot be exercised unless the Board acting reasonably is satisfied that the following conditions have been satisfied: <ul style="list-style-type: none"> <li>• The employee remains employed by the company</li> <li>• There is no outstanding breach of the terms of engagement with the Company.</li> <li>• No notice of termination of engagement has been either been given by the employee or received by the Company.</li> <li>• All performance hurdles have been met.</li> </ul>
Performance hurdles	Options will vest upon meeting various profit before tax performance hurdles over the financial years 2020 to 2022.

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**14. Share based payments (cont'd)**

The fair value of the options granted was determined by management using an option pricing model. Expected volatility was determined based on historical stock price volatility over a period consistent with the life of the options. The table below summarises the key inputs into the valuation model for each tranche of options granted in the comparative half-year:

Tranche	Vesting Condition	Vesting Date	No. of Rights	Exercise Price \$	Expected Volatility %	Risk Free Rate %	Value per Option \$
Tranche 7	PBT	30/08/20	145,000	0.28	50	2.03	0.2162
Tranche 8	PBT	30/08/21	145,000	0.28	50	2.11	0.2178
Tranche 9	PBT	30/08/22	210,000	0.28	50	2.11	0.2175

The following table illustrates movements in the number of employee share options on issue during the half-year:

	Dec 2019 #	Weighted Average Exercise Price \$	Dec 2018 #	Weighted Average Exercise Price \$
Opening balance – 1 July	2,400,000	0.292	2,215,500	0.293
Granted during the half-year	-	-	500,000	0.28
Exercised during the half-year	-	-	-	-
Outstanding as at 31 December	<b>2,400,000</b>	<b>0.292</b>	<b>2,712,500</b>	<b>0.291</b>
Vested and exercisable	-	-	-	-

**15. Related party transactions**

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending 31 December 2019 and 31 December 2018.

	Purchases from related parties \$000	Sales to related parties \$000	Amounts owed by related parties \$000	Amounts owed to related parties \$000
<b>Entity with ultimate control over the consolidated entity:</b>				
Wentronic Asia Pacific	2019 4,283	46	-	2,080
Wentronic Asia Pacific	2018 8,244	-	98	2,592

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**16. Business combinations**

On 1 July 2019, the group completed the acquisition of 100% of the business assets of Service Smart Pty Ltd, being the business of designing, procuring the manufacture of, and distributing Powerguard branded products. The primary purpose of the acquisition was to expand the group's product offering. Details of the transactions were:

	<b>\$000</b>
Cash consideration paid	714
Fair value of contingent consideration	131
<b>Total consideration paid</b>	<b>845</b>
Less: Fair value of identifiable net assets acquired (see below)	(364)
<b>Goodwill recognised on acquisition</b>	<b>481</b>

The contingent consideration consists of contractual earn-out arrangements based on the financial performance of the Powerguard business over the FY20 and FY21 financial years. These arrangements grant the vendor an entitlement to 25% of the gross profit generated above a gross profit floor of \$600,000 per financial year.

The fair value of contingent consideration has been calculated based on a probability weighted assessment of management's expectations surrounding the performance targets outlined above. The group made an advance payment to the vendor equal to the fair value of the contingent consideration. The contingent consideration liability and the prepayment have not been offset on the statement of financial position and are included in trade and other payables and trade and other receivables respectively.

No amount of goodwill is expected to be deductible for tax purposes.

Assets and liabilities acquired as part of the transaction are set out below:

	<b>\$000</b>
Trade and other receivables	212
Inventory	192
Trade and other payables	(40)
<b>Fair value of net assets acquired</b>	<b>364</b>

Management have assessed the fair value of identifiable intangible assets acquired to be \$nil.

Since the acquisition date, the Powerguard business has recorded revenue of \$409,000 and a net loss before tax of \$30,000.

**Business combinations completed in the comparative period**

On 1 September 2018, the group acquired 100% of the share capital of Turn Left Distribution Pty Ltd, a software and accessories distributor focusing on the Australian and New Zealand markets. Details of this business combination were disclosed in note 23 of the group's annual financial statements for the year ended 30 June 2019.

**17. Events subsequent to balance date**

There are no matters or circumstances that have arisen since the end of this financial period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future periods.

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**Directors' declaration**

In accordance with a resolution of the Directors of Cellnet Group Limited, I declare that:

In the opinion of the Directors:

1. the financial statements and notes of the consolidated entity for the half year ended 31 December 2019 are in accordance with the *Corporations Act 2001* including:
  - (a) giving a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



*Director*  
17 February 2020

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## Independent Auditor's Review Report to the Members of Cellnet Group Limited

We have reviewed the accompanying half-year financial report of Cellnet Group Limited ("the Company") and its controlled entities ("the Group"), which comprises the interim consolidated statement of financial position as at 31 December 2019, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### *Directors' Responsibility for the Half-Year Financial Report*

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

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cellnet Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*Pitcher Partners*

PITCHER PARTNERS



DANIEL COLWELL  
Partner

Brisbane, Queensland  
17 February 2020