inabox GROUP

Inabox Group Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Inabox Group Limited
ABN:	32 161 873 187
Reporting period:	For the half-year ended 31 December 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	23.6%	to	52,943
Loss from ordinary activities after tax attributable to the owners of Inabox Group Limited	down	433.4%	to	(1,617)
Loss for the half-year attributable to the owners of Inabox Group Limited	down	433.4%	to	(1,617)

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

Comments
The loss for the group after providing for income tax amounted to $1,617,000 (31 December 2016: profit of $485,000).

Refer to the attached directors' report for further commentary on the results.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(38.81)	(34.62)

4. Control gained over entities

On 3 November 2017, the group acquired 100% of the shares in Symmetry Networks Pty Ltd.

Refer note 12 to the interim report for further details.

5. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

6. Attachments

Details of attachments (if any):

The Interim Report of Inabox Group Limited for the half-year ended 31 December 2017 is attached.

7. Signed

Signed ___________________________ Date: 23 February 2018

Damian Kay
Managing Director and Chief Executive Officer
Sydney

Inabox Group Limited

ABN 32 161 873 187

Interim Report - 31 December 2017

Inabox Group Limited
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Inabox Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors
The following persons were directors of Inabox Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

David Rampa - Independent Chairman
Damian Kay
Garry Wayling
Tom Stianos

Principal activities
The Inabox Group provides managed IT, cloud and communication services to SME's across Australia either via channel partners or directly to SME customers managed through the national footprint of offices located in Capital cities and major regional centres. In addition, the group enables national retail brands to add telecommunication services to their consumer product offers. The group is uniquely positioned to leverage the roll-out of the NBN and assist SME clients in the migration of their communication and IT platforms from on-premise to the cloud.

Review of operations
The loss for the group after providing for income tax amounted to $1,617,000 (31 December 2016: profit of $485,000).

The following table summarises key reconciling items between underlying EBITDA (earnings before interest, tax, depreciation and amortisation) and statutory profit after tax:

	Consolidated	
	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue	52,943	42,819
Other income	-	265
Network expenses and related costs	(20,455)	(16,162)
Equipment cost and freight	(7,476)	(8,963)
Employee benefits expense	(16,791)	(12,137)
Other expenses	(5,780)	(3,250)
Less: interest revenue	(11)	(10)
Underlying EBITDA*	2,430	2,562
Depreciation and amortisation	(2,288)	(1,312)
Share based payments	(63)	-
Non recurring impairment expenses	(1,343)	-
Non recurring redundancy cost expenses	(350)	-
Non recurring HCS divestment expense	-	(104)
Finance costs	(355)	(335)
Interest revenue	11	10
Profit/(loss) before income tax	(1,958)	821
Income tax (expense)/benefit	341	(336)
Profit/(loss) after income tax	(1,617)	485

* EBITDA and underlying EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS which has been adjusted to eliminate the effects of tax, depreciation and amortisation, restructure and impairment expenses.

The group purchased Hostworks Pty Ltd on 15 February 2017, Logic Communications Pty Limited on 10 March 2017 and Symmetry Networks on 3 November 2017. The results of the group include the trading results of these entities.

In November 2017 the group issued a trading update indicating that the Hostworks business would perform below expectations due to a small number of customers rationalising their spend. This has resulted in the group recognising a number of costs in the period to December 2017. Given the anticipated reduction in margin, the carrying value of the customer contract and relationships was assessed for impairment which has resulted in an impairment charge of $1,108,000. The group also initiated a cost reduction program which will yield annual savings of $2,000,000. The implementation of the program required a significant number of staff redundancies to be made which have resulted in costs of $350,000 being recognised in the period to December 2017. The cost saving program also includes rationalising the number of brands used by the group which has resulted in the write-down of the brand value of Anittel $235,000.

Revenue for the six months to 31 December 2017 has increased to $52,943,000 (31 December 2016: $42,819,000). The key changes to revenue are outlined within the overview of business segments.

Overview of Business Segments
The group operates in 3 segments, direct, indirect and enablement.

The Direct segment includes the direct supply of telecommunications products and services, managed information technology services and cloud hosting services. The group currently utilises three brands within this segment, Anittel, Anittel Communications and Hostworks. However, following a cost review in November, the group have decided to consolidate its offering under the Hostworks brand.

The Indirect segment operates under its brands Telcoinabox, iVox and Neural Networks, to provide telecommunications services for resale, together with unbranded operational support and billing services to its resellers (known as Retail Service providers ('RSP').

The third business segment is referred to as Enablement, in which the group provides networks, systems, operational support and billing services, and software development (with or without the resale of telecommunications products and services) to established consumer brands seeking to offer telecommunications to their customers.

Direct – Telecommunications and IT Services Supply
The group has grown both revenue and net contribution of the Direct segment during the period. Revenue grew to $26,235,000 (31 December 2016: $18,612,000) and net contribution was $4,732,000 (31 December 2016: $3,495,000). The purchase of Hostworks Pty Ltd has increased the reported revenue by $8,369,000, however, this has been partially offset by a reduction in revenue following the sale of the HCS business described below.

On 30 June 2016, the group divested the business supplying enterprise managed services to the Tasmanian Government, via the Cisco Hosted Collaboration Suite platform (‘HCS business’). The managed services have been migrated to the new provider which has resulted in a $1,573,000 reduction in revenue within the Direct segment in the 6 month period to 31 December 2017.

Under the Anittel brand, the group provides managed telecommunications services and information technology products and consulting services throughout Australia. The group continues to re-contract with its largest information technology consulting service customers for extended fixed contract terms and has increased revenue both through organic growth and through acquisition by $1,258,000. This was offset by a reduction in revenue from lower margin hardware products of $1,345,000 as the industry moves away from on-premise equipment to cloud based services.

In addition, the group has grown its direct retail telecommunications business, both through organic growth and through acquisition. The customer contracts with a significant retail service provider was migrated from the indirect to the direct segment due to the acquisition of the underlying customer contracts. This resulted in a revenue increase of $618,000 within the direct channel, and further growth of $301,000 was driven by the sales of Hosted Voice products. The Group expects to achieve further organic growth as a result of cross-selling direct telecommunications services to customers which obtain managed telecommunications services and information technology consulting services.

Indirect – Wholesale Telecommunication Supply
The channel continues to generate recurring revenue from retail service providers ('RSPs') and holds long term contracts with RSPs to underpin the sustainability of this revenue. The group increased the number of contracted RSPs during the year to 453. However, the revenue in the period was stable at $22,018,000 (31 December 2016: $22,063,000) due to the reallocation of revenue between segments offsetting the underlying growth.

Growth was driven from migrating established RSP from existing service providers to the group. The period to December 2017 reflects only a partial year of this growth hence further growth is expected in the second half of the year This growth was offset by migrating the customer contracts with three retail service providers from the indirect to the direct segment due to the acquisition of the underlying customer contracts in the period to 31 December 2016. This resulted in a revenue reduction of $465,000 within the indirect channel.

Enablement – Supporting Established Consumer Brands
The group generates revenue from the enablement segment by providing networks, systems, operational support and billing services, and software development to established consumer brands seeking to offer telecommunications to their customers.

During the period to 31 December 2017, the group experienced an increase in revenue in this segment to $4,679,000 (31 December 2016: $2,134,000) due to an uplift in software development income and hardware revenue following the announcement that the group will provide white label services for Telstra wholesale. In addition, revenue also increased in relation to development and services for existing clients. Hardware revenue generates a lower margin than the other revenues in this segment which reduced the overall percentage margin within the segment.

Rounding of amounts
The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

David Rampa
Chairman

Damian Kay
Managing Director and Chief Executive Officer

23 February 2018
Sydney

Ernst & Young
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Auditor's Independence Declaration to the Directors of Inabox Group Limited

As lead auditor for the review of Inabox Group Limited for the half-year ended 31 December 2017, 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 review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Julian M. O'Brien
Partner
Sydney
23 February 2018

Inabox Group Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Revenue	4	52,943	42,819
Other income		-	265
Expenses			
Network expenses and related costs		(20,455)	(16,162)
Equipment cost and freight		(7,476)	(8,963)
Employee benefits expense		(16,854)	(12,137)
Redundancy costs		(350)	-
Depreciation and amortisation expense		(2,288)	(1,312)
Impairment of assets		(1,343)	-
Other expenses		(5,780)	(3,354)
Finance costs		(355)	(335)
Profit/(loss) before income tax (expense)/benefit		(1,958)	821
Income tax (expense)/benefit		341	(336)
Profit/(loss) after income tax (expense)/benefit for the half-year attributable to the owners of Inabox Group Limited		(1,617)	485
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Inabox Group Limited		(1,617)	485
		Cents	**Cents**
Basic earnings per share	13	(6.82)	2.42
Diluted earnings per share	13	(6.82)	2.39

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

Inabox Group Limited
Statement of financial position
As at 31 December 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Assets			
Current assets			
Cash and cash equivalents		747	4,998
Trade and other receivables		12,832	11,446
Inventories		368	63
Income tax receivable		255	128
Other		1,704	1,624
Total current assets		15,906	18,259
Non-current assets			
Property, plant and equipment		3,717	3,914
Intangibles	5	22,491	22,909
Deferred tax		847	571
Total non-current assets		27,055	27,394
Total assets		42,961	45,653
Liabilities			
Current liabilities			
Trade and other payables	6	12,531	11,281
Borrowings	7	3,695	6,577
Employee benefits		2,682	3,307
Provisions		523	607
Deferred revenue		1,391	1,443
Total current liabilities		20,822	23,215
Non-current liabilities			
Borrowings	8	7,867	6,514
Employee benefits		656	871
Provisions		89	112
Other		280	240
Total non-current liabilities		8,892	7,737
Total liabilities		29,714	30,952
Net assets		13,247	14,701
Equity			
Issued capital	9	15,454	15,354
Reserves		(2,171)	(2,234)
Retained profits/(accumulated losses)		(36)	1,581
Total equity		13,247	14,701

Refer to note 12 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

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

Inabox Group Limited
Statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	11,522	(2,329)	1,836	11,029
Profit after income tax expense for the half-year	-	-	485	485
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	485	485
Transactions with owners in their capacity as owners:				
Dividends paid (note 10)	-	-	(341)	(341)
Balance at 31 December 2016	11,522	(2,329)	1,980	11,173

Consolidated	Issued capital $'000	Reserves $'000	Retained profits/(accumulated losses) $'000	Total equity $'000
Balance at 1 July 2017	15,354	(2,234)	1,581	14,701
Loss after income tax benefit for the half-year	-	-	(1,617)	(1,617)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,617)	(1,617)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 9)	100	-	-	100
Share-based payments	-	63	-	63
Balance at 31 December 2017	15,454	(2,171)	(36)	13,247

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

Inabox Group Limited
Statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		56,789	48,992
Payments to suppliers and employees (inclusive of GST)		(55,232)	(45,908)
Interest received		11	10
Interest and other finance costs paid		(294)	(319)
Income taxes paid		(316)	(93)
Net cash from operating activities		958	2,682
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	12	(499)	-
Payments to vendors for prior year business combination		(1,387)	-
Payments for property, plant and equipment		(837)	(210)
Payments for intangibles	5	(1,482)	(2,004)
Payments for security deposits		(133)	-
Proceeds from release of security deposits		40	10
Loans to service providers		-	51
Payments for assets classified as held for sale		-	(359)
Net cash used in investing activities		(4,298)	(2,512)
Cash flows from financing activities			
Proceeds from borrowings		1,572	760
Repayment of borrowings		(3,055)	(1,415)
Dividends paid	10	-	(341)
Net cash used in financing activities		(1,483)	(996)
Net decrease in cash and cash equivalents		(4,823)	(826)
Cash and cash equivalents at the beginning of the financial half-year		4,998	2,849
Cash and cash equivalents at the end of the financial half-year		175	2,023

The balance at the end of the financial half-year of $175,000 (31 December 2016: $2,023,000) is the net amount of cash at bank of $747,000 less the bank overdraft of $572,000 (31 December 2016: Cash at bank of $2,113,000 less the bank overdraft of $90,000)

Note 1. General information

The financial statements cover Inabox Group Limited as a group consisting of Inabox Group Limited (the 'Company') and the entities it controlled at the end of, or during, the half-year (the 'group'). The financial statements are presented in Australian dollars, which is Inabox Group Limited's functional and presentation currency.

Inabox Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 10, 9 Hunter Street
Sydney NSW 2000

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 February 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial half-year ended 31 December 2017 and are not expected to have any significant impact for the full financial year ending 30 June 2018.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

For the financial half-year, the group made a loss after tax of $1,617,000 (31 December 2016: Profit after tax of $485,000) and had net cash inflow from operating activities of $958,000 (31 December 2016: $2,682,000). As at 31 December 2017, the group had a net current liability of $4,916,000 (30 June 2017: $4,956,000).

The net liability position of the group includes a number of items which do not result in immediate cash outflows such as accrued leave balances for employees and provisions for income billed in advance.

Management’s cash flow forecasts based on projected activity and business volumes indicate that the group will be able to pay its creditors as and when due for at least 12 months from the date of approval of the financial statements, and no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 31 December 2017. Accordingly, these financial statements have been prepared on a going concern basis.

Operating cash flows are forecast to improve in the second half of the financial year driven by the addition of new retail service providers and a cost reduction program which was implemented in November 2017 and resulted in a reduction in staff numbers. As disclosed in note 8, the group has undrawn credit lines following refinancing with Commonwealth Bank of Australia in December 2017 which included an increase in the overdraft facility. The new facility is subject to a three year term from the date of funding.

Note 3. Operating segments

Identification of reportable operating segments
The group's operating segments are based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Types of products and services
The group is organised into three operating segments as follows:

Direct	Providing IT products and services, telecommunication services and cloud based services to Australian businesses
Indirect	Providing end-to-end white labelled wholesale solutions to Retail Service Providers who predominantly service the small to medium sized business segment
Enablement	Providing customers who have a mass market customer base the ability to offer telecommunications products to their consumer customer base

The CODM is provided with information on a net contribution level. Net contribution represents revenue less direct costs less allocation of specific segment expenses.

The CODM does not review segment assets and liabilities.

Operating segment information

Consolidated - 31 Dec 2017	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	26,235	22,018	4,679	-	52,932
Other revenue	-	-	-	11	11
Total revenue	26,235	22,018	4,679	11	52,943
Net contribution	4,732	4,323	2,480	-	11,535
Interest revenue					11
Other employee benefit expenses					(4,223)
Depreciation and amortisation					(2,288)
Other expenses					(5,295)
Finance costs					(355)
Impairment of assets					(1,343)
Loss before income tax benefit					(1,958)
Income tax benefit					341
Loss after income tax benefit					(1,617)

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2016	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	18,612	22,063	2,134	-	42,809
Other revenue	-	-	-	10	10
Total revenue	18,612	22,063	2,134	10	42,819
Net contribution	3,495	4,039	1,321	-	8,855
Interest revenue					10
Other income					265
Other employee benefit expenses					(3,393)
Depreciation and amortisation					(1,312)
Other expenses					(3,269)
Finance costs					(335)
Profit before income tax expense					821
Income tax expense					(336)
Profit after income tax expense					485

Note 4. Revenue

	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Sales revenue		
Communications revenue	32,665	23,313
Enablement revenue	4,679	2,134
Commissions	-	1
Other revenue	4	12
IT products and services revenue	15,584	17,349
	52,932	42,809
Other revenue		
Interest	11	10
Revenue	52,943	42,819

Note 5. Non-current assets - intangibles

	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Goodwill - at cost	14,407	14,044
Patents, trademarks and brands - at cost	577	577
Less: Impairment	(235)	-
	342	577
Customer contracts and relationships - at cost	7,798	7,394
Less: Accumulated amortisation	(3,573)	(2,851)
Less: Impairment	(1,108)	-
	3,117	4,543
Software and capitalised development - at cost	8,193	6,943
Less: Accumulated amortisation	(3,568)	(3,198)
	4,625	3,745
	22,491	22,909

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

Consolidated	Goodwill* $'000	Patents, trademarks and brands $'000	Customer contracts and relationships* $'000	Software and capitalised development $'000	Total $'000
Balance at 1 July 2017	14,044	577	4,543	3,745	22,909
Additions	-	-	70	1,412	1,482
Additions through business combinations (note 12)	363	-	334	-	697
Impairment of assets	-	(235)	(1,108)	-	(1,343)
Amortisation expense	-	-	(722)	(532)	(1,254)
Balance at 31 December 2017	14,407	342	3,117	4,625	22,491

* Refer note 12 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Impairment of intangible assets
On 9 November 2017, the group issued a trading update indicating that the group's Hostworks business will perform below expectations for the year ending 30 June 2018. This change to the outlook for Hostworks is due to a small number of enterprise clients rationalising their services or declaring their intention to move their services away. As a result, the group has considered whether there is any indication that individual assets or cash generating units (CGUs) may be impaired and where indications exist the group has tested those assets or CGUs for impairment. The direct CGU, which includes the Hostworks business is forecast to continue to grow despite the reduction in Hostworks revenue driven by increased cross-selling of hosted voice and cloud products and the launch of a cloud product specifically for small and medium enterprise clients. In addition, the Direct CGU has been able to realise increased synergies by combining the national operations centres of the Hostworks and Anittel businesses. The value of the Hostworks customer relationships has been impaired to reflect a decrease in the expected margins to be realised from those acquired customers.

The group has recognised an impairment charge in the Direct segment of $1,108,000 included in the statement of profit and loss. Due to the increase in cross-selling products within the same segment and the desire to cut costs, the group has taken the decision to rationalise its brands and cease using the Anittel brand. The carrying value of $235,000 has been written off in the period to 31 December 2017 which is in the statement of profit and loss.

Note 6. Current liabilities - trade and other payables

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Trade payables	8,803	6,188
Due to service providers	983	159
Accrued expenses	2,331	3,257
Deferred consideration payable	253	1,057
Other payables	161	620
	12,531	11,281

Note 7. Current liabilities - borrowings

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank overdraft	572	-
Amex facility	1,490	1,351
Credit card facility	49	59
Vendor loan*	917	1,500
Lease liability	667	3,667
	3,695	6,577

*Refer note 12 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted. Following the revision to the purchase price for Hostworks Pty Ltd, the terms of the vendor loan were also renegotiated with the seller. The loan is now repayable in 12 equal monthly instalments commencing December 2017.

Note 8. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank loans	7,000	6,000
Unamortised borrowing costs	(97)	(132)
Lease liability	964	646
	7,867	6,514

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	31 Dec 2017 $'000	30 Jun 2017 $'000
Bank overdraft	572	-
Bank loans	7,000	6,000
Lease liability	1,631	4,313
	9,203	10,313

Note 8. Non-current liabilities - borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Total facilities		
Bank overdraft	1,800	1,500
Bank loans	7,000	6,000
Amex facility	1,500	1,500
Credit card facility	500	500
Lease liability	3,000	9,830
Supplier credit facility	2,750	2,750
Vendor loan	917	1,500
	17,467	23,580
Used at the reporting date		
Bank overdraft	572	-
Bank loans	7,000	6,000
Amex facility	1,490	1,351
Credit card facility	49	59
Lease liability	1,631	4,313
Supplier credit facility	1,099	334
Vendor loan	917	1,500
	12,758	13,557
Unused at the reporting date		
Bank overdraft	1,228	1,500
Bank loans	-	-
Amex facility	10	149
Credit card facility	451	441
Lease liability	1,369	5,517
Supplier credit facility	1,651	2,416
Vendor loan	-	-
	4,709	10,023

Note 9. Equity - issued capital

	Consolidated 31 Dec 2017 Shares	Consolidated 30 Jun 2017 Shares	Consolidated 31 Dec 2017 $'000	Consolidated 30 Jun 2017 $'000
Ordinary shares - fully paid	23,818,129	23,706,894	15,454	15,354

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2017	23,706,894	15,354
Shares issued on acquisition of Symmetry Networks Pty Ltd (Refer note 12)	15 December 2017	111,235	100
Balance	31 December 2017	23,818,129	15,454

Share buy-back
There is no current on-market share buy-back.

Note 10. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated 31 Dec 2017 $'000	Consolidated 31 Dec 2016 $'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share paid on 28 October 2016	-	341

Note 11. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The carrying value of borrowings also approximates fair value since they are subject to variable interest rate.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities. The fair value of the lease liability is calculated to be $1,700,000 (30 June 2017: $4,494,000).

Note 12. Business combinations

Symmetry Networks Pty Ltd (current period)
On 3 November 2017, the group acquired 100% of the shares in Symmetry Networks Pty Ltd ('Symmetry') for the total consideration transferred of $600,000. Symmetry is a managed services provider specialising in supplying hosted voice products to corporate customers. The acquisition of the Symmetry business is expected to accelerate the group's strategic direction to increase revenue in high margin products. The goodwill of $363,000 represents the value of expected synergies and growth arising from the acquisition.

The acquired business contributed revenues of $145,000 and a profit after tax of $25,000 to the group for the period from 3 November 2017 to 31 December 2017. If the acquisition had occurred on 1 July 2017, the contributions for the period 1 July 2017 to 31 December 2017 would have been revenues of $456,000 and profit after tax of $80,000.

The purchase price allocation of the acquisition is provisional at 31 December 2017 while the group seeks to obtain further information in relation to the underlying customer contracts.

Details of the current year acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	1
Trade and other receivables	2
Customer contracts and relationships	334
Deferred tax liability	(100)
Net assets acquired	237
Goodwill	363
Acquisition-date fair value of the total consideration transferred	600
Representing:	
Cash paid or payable to vendor	500
Inabox Group Limited shares issued to vendor	100
	600
Acquisition costs expensed to profit or loss	5

Note 12. Business combinations (continued)

Business combinations in the previous year
The values identified in relation to the acquisition of Hostworks Group Pty Ltd ('Hostworks') and Logic Communications Pty Ltd ('Logic Communications') as at 30 June 2017 were provisional and have now been finalised.

The 30 June 2017 comparative information has been restated to reflect the following adjustments to the provisional amounts.

Hostworks
In November 2017, the basis of certain purchase price adjustments was agreed with the vendor. As a result, the consideration payable to vendors was reduced by $500,000 from $7,616,000 to $7,116,000. The valuation of customer relationships was finalised resulting in a decrease in other intangible assets by $233,000 and the associated increase in deferred tax asset by $70,000. Further information provided by the vendor also resulted in an increase in employee benefits liability of $303,000.

As a result of the above items, goodwill arising on Hostworks acquisition decreased by $113,000 to $4,295,000.

Logic Communications
The basis of working capital adjustments was finalised with the vendor resulting in a total consideration paid of $1,255,000, an increase of $62,000 over the provisional value. As a result, goodwill arising on the Logic Communications acquisition increased by $62,000 to $969,000.

There was no material impact of the above adjustments on the comparative period statement of profit or loss and other comprehensive income or the opening retained earnings. The fair value table below and the comparative year statement of financial position as at 30 June 2017 have been adjusted accordingly.

Note 12. Business combinations (continued)

Details of the comparative period acquisition are as follows:

	Hostworks Fair value $'000	Logic Communi-cations Fair value $'000	Total Fair value $'000
Cash and cash equivalents	1	100	101
Trade receivables	1,600	115	1,715
Prepayments	196	14	210
Other current assets	-	88	88
Plant and equipment	2,160	179	2,339
Other intangible assets	2,145	700	2,845
Deferred tax asset	70	-	70
Trade payables	(552)	(173)	(725)
Other payables	(249)	(81)	(330)
Provision for income tax	-	(94)	(94)
Deferred tax liability	-	(142)	(142)
Employee benefits	(1,940)	(255)	(2,195)
Lease make good provision	(500)	(40)	(540)
Lease liability	-	(82)	(82)
Other liabilities	(189)	(43)	(232)
Net assets acquired	2,742	286	3,028
Goodwill	4,295	969	5,264
Acquisition-date fair value of the total consideration transferred	7,037	1,255	8,292
Representing:			
Cash paid or payable to vendor	5,000	735	5,735
Deferred consideration	537	520	1,057
Vendor loan payable	1,500	-	1,500
	7,037	1,255	8,292

Note 13. Earnings per share

	Consolidated 31 Dec 2017 $'000	 31 Dec 2016 $'000
Profit/(loss) after income tax attributable to the owners of Inabox Group Limited	(1,617)	485
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	23,717,171	20,070,530
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	196,758
Weighted average number of ordinary shares used in calculating diluted earnings per share	23,717,171	20,267,288
	Cents	**Cents**
Basic earnings per share	(6.82)	2.42
Diluted earnings per share	(6.82)	2.39

Note 14. Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

David Rampa
Chairman

Damian Kay
Managing Director and Chief Executive Officer

23 February 2018
Sydney

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Inabox Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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 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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2017 and its consolidated financial 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*.

Ernst & Young

Ernst & Young

Julian M. O'Brien
Partner
Sydney
23 February 2018