inabox GROUP

Preliminary Financial Report 2018

Inabox Group Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Inabox Group Limited
ABN:	32 161 873 187
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	12.2%	to	101,122
Loss from ordinary activities after tax attributable to the owners of Inabox Group Limited	down	NM*	to	(12,962)
Loss for the year attributable to the owners of Inabox Group Limited	down	NM*	to	(12,962)

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

Comments
*NM denotes not meaningful

The loss for the group after providing for income tax amounted to $12,962,000 (30 June 2017: profit of $86,000), including an impairment cost of $11,854,000 relating to the Direct business which was sold subsequent to the year end.

Refer to market announcement accompanying this report for further commentary in relation to the results for the financial year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(41.24)	(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 20 to the financial report for further details.

5. Audit qualification or review

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

The financial report is in the process of being audited.

6. Attachments

Details of attachments (if any):

The Preliminary Financial Report of Inabox Group Limited for the year ended 30 June 2018 is attached.

7. Signed

Signed ___________________________ Date: 31 August 2018

Damian Kay
Managing Director and Chief Executive Officer
Sydney

Inabox Group Limited

ABN 32 161 873 187

Preliminary Financial Report - 30 June 2018

Inabox Group Limited
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Inabox Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Revenue	2	101,122	90,105
Other income		68	508
Expenses			
Network expenses and related costs		(40,538)	(32,896)
Equipment cost and freight		(13,305)	(15,129)
Employee benefits expense		(33,021)	(29,553)
Depreciation and amortisation expense	3	(4,720)	(3,695)
Impairment of assets		(11,854)	-
Other expenses	3	(10,188)	(8,486)
Finance costs	3	(736)	(1,002)
Loss before income tax benefit		(13,172)	(148)
Income tax benefit	4	210	234
(Loss)/profit after income tax benefit for the year attributable to the owners of Inabox Group Limited		(12,962)	86
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Inabox Group Limited		(12,962)	86
		Cents	**Cents**
Basic earnings per share	22	(54.54)	0.40
Diluted earnings per share	22	(54.54)	0.40

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 30 June 2018

	Note	Consolidated 2018 (unaudited) $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	5	1,010	4,998
Trade and other receivables	6	10,654	11,446
Inventories		106	63
Income tax receivable		214	128
Other	7	2,390	1,624
Total current assets		14,374	18,259
Non-current assets			
Property, plant and equipment	8	3,329	3,914
Intangibles	9	11,677	22,909
Deferred tax	10	610	571
Total non-current assets		15,616	27,394
Total assets		29,990	45,653
Liabilities			
Current liabilities			
Trade and other payables	11	10,980	11,281
Employee benefits		2,589	3,307
Provisions	12	105	607
Borrowings	13	11,791	6,577
Deferred revenue		1,774	1,443
Total current liabilities		27,239	23,215
Non-current liabilities			
Borrowings	14	8	6,514
Employee benefits		503	871
Provisions	15	131	112
Other	16	255	240
Total non-current liabilities		897	7,737
Total liabilities		28,136	30,952
Net assets		1,854	14,701
Equity			
Issued capital	17	15,454	15,354
Reserves	18	(2,219)	(2,234)
Retained profits/(accumulated losses)		(11,381)	1,581
Total equity		1,854	14,701

As disclosed in note 13, the impairment of assets resulted in a technical breach of bank covenants arising after the year end which has led to the bank loans of $7,000,000 being reclassified as a current liability at 30 June 2018. Given the proximity of the sale of the Direct business to the release of results, the bank have not yet been able to formally respond, however they have indicated that the impairment charge will be excluded from the covenant calculations in line with the treatment of previous impairments.

Refer to note 20 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 year ended 30 June 2018

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 benefit for the year	-	-	86	86
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	86	86
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 17)	3,832	-	-	3,832
Share-based payments	-	95	-	95
Dividends paid (note 19)	-	-	(341)	(341)
Balance at 30 June 2017	15,354	(2,234)	1,581	14,701

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 year	-	-	(12,962)	(12,962)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(12,962)	(12,962)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 17)	100	-	-	100
Share-based payments	-	15	-	15
Balance at 30 June 2018	15,454	(2,219)	(11,381)	1,854

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 year ended 30 June 2018

	Note	Consolidated 2018 (unaudited) $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		112,329	101,189
Payments to suppliers and employees (inclusive of GST)		(108,260)	(96,309)
Interest received		26	18
Other income		68	508
Interest and other finance costs paid		(670)	(945)
Income taxes paid		(19)	(305)
Net cash from operating activities	21	3,474	4,156
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	20	(499)	(5,634)
Payments to vendors for prior year business combination		(2,140)	-
Payments for property, plant and equipment		(901)	(387)
Payments for intangibles		(2,780)	(3,200)
Payments for security deposits		(247)	(90)
Proceeds from release of security deposits		15	24
Proceeds from settlement of assets classified as held for sale		-	3,250
Net cash used in investing activities		(6,552)	(6,037)
Cash flows from financing activities			
Proceeds from issue of shares	17	-	4,000
Share issue transaction costs	17	-	(240)
Proceeds from borrowings		1,123	8,401
Repayment of borrowings		(3,417)	(7,790)
Dividends paid	19	-	(341)
Net cash from/(used in) financing activities		(2,294)	4,030
Net increase/(decrease) in cash and cash equivalents		(5,372)	2,149
Cash and cash equivalents at the beginning of the financial year		4,998	2,849
Cash and cash equivalents at the end of the financial year	5	(374)	4,998

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

Note 1. Operating segments

Identification of reportable operating segments
The group's operating segment is 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.

The group was organised into three operating segments as follows:

Direct	Provides IT products and services, telecommunication services and cloud based services to Australian businesses;
Indirect	Provides end to end white labelled telecommunication wholesale solutions to Retail Service Providers who predominantly service small to medium sized businesses; and
Enablement	Provides 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 reflects revenue less direct costs less allocation of specific segment expenses.

The CODM does not review segment assets and liabilities.

Operating segment information

Consolidated - 2018 (unaudited)	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	48,174	45,049	7,873	-	101,096
Other revenue	-	-	-	26	26
Total revenue	48,174	45,049	7,873	26	101,122
Net contribution	8,701	9,249	4,353	-	22,303
Impairment of assets					(11,854)
Interest revenue					26
Other income					68
Other employee benefits expense					(8,613)
Depreciation and amortisation expense					(4,720)
Other expenses					(9,646)
Finance costs					(736)
Loss before income tax benefit					(13,172)
Income tax benefit					210
Loss after income tax benefit					(12,962)

The above contribution is shown before allocation of certain group costs. On a fully allocated cost basis the Direct segment was loss making before income tax. The relevant unallocated costs will now be borne by the buyer of the Direct business.

Note 1. Operating segments (continued)

Consolidated - 2017	Direct $'000	Indirect $'000	Enablement $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	42,671	42,514	4,902	-	90,087
Other revenue	-	-	-	18	18
Total revenue	42,671	42,514	4,902	18	90,105
Net contribution	8,805	8,498	2,784	-	20,087
Interest revenue					18
Other income					508
Other employee benefits expense					(7,761)
Depreciation and amortisation expense					(3,695)
Other expenses					(8,303)
Finance costs					(1,002)
Loss before income tax benefit					(148)
Income tax benefit					234
Profit after income tax benefit					86

Note 2. Revenue

	Consolidated	
	2018 (unaudited) $'000	**2017 $'000**
Sales revenue		
Communications and hosting revenue	61,015	49,075
Enablement revenue	7,873	4,902
Other sales revenue	7	23
IT products and services revenue	32,201	36,087
	101,096	90,087
Other revenue		
Interest	26	18
Revenue	101,122	90,105

Note 3. Expenses

	Consolidated 2018 (unaudited) $'000	2017 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	133	56
Motor vehicles	53	24
Computer and office equipment	1,902	1,104
Hosted unified communications equipment	23	23
Total depreciation	2,111	1,207
Amortisation		
Customer contracts and relationships	1,370	1,493
Software and capitalised development	1,239	995
Total amortisation	2,609	2,488
Total depreciation and amortisation	4,720	3,695
Other expense consists of the following expenses:		
Rental expense and associated outgoings	3,856	2,682
Audit and tax fees	475	323
IT and network expenses	1,132	1,124
Legal and professional fees	1,142	1,028
Impairment of receivables	550	478
Marketing and incentives	877	711
Other expenses	2,156	2,140
Total other expenses	10,188	8,486
Finance costs		
Interest and finance charges paid/payable	736	1,002
Superannuation expense		
Defined contribution superannuation expense	2,434	2,057
Share-based payments expense		
Share-based payments expense	15	95

Note 4. Income tax benefit

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Income tax benefit		
Current tax	(56)	59
Deferred tax - origination and reversal of temporary differences	(143)	(20)
Adjustment recognised for prior periods	(11)	(273)
Aggregate income tax benefit	(210)	(234)
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets (note 10)	(143)	(20)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(13,172)	(148)
Tax at the statutory tax rate of 30%	(3,952)	(44)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	3,154	-
Non-deductable expenses	96	75
Amortisation of intangibles	459	286
	(243)	317
Adjustment recognised for prior periods	(11)	(273)
Current year tax losses not recognised	44	-
Research and development claims	-	(278)
Income tax benefit	(210)	(234)

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Amounts credited directly to equity		
Deferred tax assets (note 10)	-	(72)

Note 5. Current assets - cash and cash equivalents

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Cash on hand and at bank	1,010	4,998

Reconciliation to cash and cash equivalents at the end of the financial year
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	1,010	4,998
Bank overdraft (note 13)	(1,384)	-
Balance as per statement of cash flows	(374)	4,998

Note 6. Current assets - trade and other receivables

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Trade receivables	9,356	10,573
Less: Provision for impairment of receivables	(337)	(456)
	9,019	10,117
Other receivables	1,635	1,329
	10,654	11,446

The ageing of the impaired receivables provided for above are as follows:

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
0 to 3 months overdue	-	165
Over 3 months overdue	337	291
	337	456

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Opening balance	456	136
Additional provisions recognised	292	485
Receivables written off during the year as uncollectable	(411)	(165)
Closing balance	337	456

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $1,476,000 as at 30 June 2018 ($1,724,000 as at 30 June 2017).

The group did not consider a credit risk existed on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
0 to 6 months overdue	1,476	1,724

Note 7. Current assets - other

	Consolidated 2018 (unaudited) $'000	2017 $'000
Prepayments	1,523	914
Security deposits	842	595
Loan to service providers	25	115
	2,390	1,624

Note 8. Non-current assets - property, plant and equipment

	Consolidated 2018 (unaudited) $'000	2017 $'000
Leasehold improvements - at cost	799	359
Less: Accumulated depreciation	(403)	(293)
	396	66
Motor vehicles - at cost	192	192
Less: Accumulated depreciation	(143)	(90)
	49	102
Computer and office equipment - at cost	19,544	18,017
Less: Accumulated depreciation	(16,660)	(14,298)
	2,884	3,719
Hosted unified communications hardware - at cost	116	116
Less: Accumulated depreciation	(116)	(89)
	-	27
	3,329	3,914

Consolidated	Leasehold improve-ments $'000	Motor vehicles $'000	Computer and office equipment $'000	Hosted unified comm-unications hardware $'000	Total $'000
Balance at 1 July 2016	72	48	1,897	50	2,067
Additions	20	60	666	-	746
Additions through business combinations (note 20)	30	18	2,291	-	2,339
Disposals	-	-	(31)	-	(31)
Depreciation expense	(56)	(24)	(1,104)	(23)	(1,207)
Balance at 30 June 2017	66	102	3,719	27	3,914
Additions	463	-	1,073	-	1,536
Disposals	-	-	(6)	(4)	(10)
Depreciation expense	(133)	(53)	(1,902)	(23)	(2,111)
Balance at 30 June 2018	396	49	2,884	-	3,329

Note 9. Non-current assets - intangibles

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Goodwill - at cost	14,397	14,044
Less: Impairment	(10,510)	-
	3,887	14,044
Patents, trademarks and brands - at cost	577	577
Less: Impairment	(235)	-
	342	577
Customer contracts and relationships - at cost	6,335	7,394
Less: Accumulated amortisation	(2,990)	(2,851)
Less: Impairment	(1,108)	-
	2,237	4,543
Software and capitalised development - at cost	9,354	6,649
Less: Accumulated amortisation	(4,143)	(2,904)
	5,211	3,745
	11,677	22,909

Consolidated	Goodwill* $'000	Patents, trademarks and brands $'000	Customer contracts and relationships* $'000	Software and capitalised development $'000	Total $'000
Balance at 1 July 2016	8,780	377	2,512	2,420	14,089
Additions	-	-	1,602	1,598	3,200
Additions through business combinations (note 20)	5,264	200	1,922	722	8,108
Amortisation expense	-	-	(1,493)	(995)	(2,488)
Balance at 30 June 2017	14,044	577	4,543	3,745	22,909
Additions	-	-	70	2,710	2,780
Additions through business combinations (note 20)	355	-	348	-	703
Disposals	-	-	(247)	(5)	(252)
Impairment of assets	(10,512)	(235)	(1,107)	-	(11,854)
Amortisation expense	-	-	(1,370)	(1,239)	(2,609)
Balance at 30 June 2018	3,887	342	2,237	5,211	11,677

* Refer note 20 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Impairment of goodwill
The directors and management strategically reviewed the operations of the Direct business to unlock more value for shareholders and as a result of this review, the group made a decision after the reporting date to sell its Direct business consisting of the subsidiaries Hostworks Pty Ltd, Anittel Pty Ltd and Logic Communications Pty Ltd. Due to arm's length offers being received, the recoverable amount of the Direct business segment was valued at fair value less cost of disposal. The carrying value was therefore written down to recoverable amount and an impairment charge of $10,512,000 was expensed to profit or loss during the year ended 30 June 2018.

Note 9. Non-current assets - intangibles (continued)

Impairment of patents, trademarks and brands
Due to the increase in cross-selling products within the same segment and the desire to cut costs, the group took the decision to rationalise its brands and ceased using the Anittel brand. The carrying value of $235,000 was expensed to profit or loss during the year ended 30 June 2018..

Impairment of customer contracts and relationships
On 9 November 2017, the group issued a trading update indicating that the group's Hostworks business was performing below expectations. This was 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's value-in-use calculations indicated that the recoverable amount was above carrying amount. As a result, an impairment charge of $1,107,000 was expensed to profit or loss during the year ended 30 June 2018.

Note 10. Non-current assets - deferred tax

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued expenses and provisions	1,514	1,535
Prepayments	(40)	-
Tangible and intangible assets	(962)	(1,226)
	512	309
Amounts recognised in equity:		
Cost of capital raising	98	262
Deferred tax asset	610	571
Movements:		
Opening balance	571	552
Credited to profit or loss (note 4)	143	20
Credited to equity (note 4)	-	72
Additions through business combinations (note 20)	(104)	(73)
Closing balance	610	571

Refer note 20 for the finalisation of prior period business combinations which has resulted in comparatives being adjusted.

Note 11. Current liabilities - trade and other payables

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
Trade payables	7,725	6,188
Due to service providers	262	159
Accrued expenses	2,564	3,257
Deferred consideration payable	-	1,057
Other payables	429	620
	10,980	11,281

Note 12. Current liabilities - provisions

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
Lease make-good	105	500
Onerous lease	-	107
	105	607

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the group at the end of the respective lease terms.

Onerous lease
The provision represents the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2018 (unaudited)	Lease make-good $'000	Onerous lease $'000
Carrying amount at the start of the year	500	107
Amounts transferred from non-current	105	-
Amounts used	(139)	(107)
Unused amounts reversed	(361)	-
Carrying amount at the end of the year	105	-

Note 13. Current liabilities - borrowings

	Consolidated 2018 (unaudited) $'000	2017 $'000
Bank overdraft	1,384	-
Bank loans*	7,000	-
Amex facility	1,491	1,351
Credit card facility	42	59
Vendor loan**	417	1,500
Unamortised borrowing costs	(66)	-
Lease liability	1,523	3,667
	11,791	6,577

* As discussed in note 9, the group impaired its goodwill by $10,512,000. This has resulted in a technical breach of its banking covenants. Therefore in accordance with the accounting standards, as the group did not have an unconditional right to defer the settlement, bank loans of $7,000,000 have now been classified as current. As described in the footnote to the balance sheet, the bank have indicated the impairment charge will be excluded from the covenant calculations, consistent with the treatment of previous impairments. The group are awaiting formal confirmation of this position. The net proceeds from the sale of the Direct business will be applied to reduce the bank loans subsequent to the year-end.

** Refer note 20 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 being repaid in 12 equal monthly instalments from December 2017.

Note 14. Non-current liabilities - Borrowings

	Consolidated 2018 (unaudited) $'000	2017 $'000
Bank loans	-	6,000
Unamortised borrowing costs	-	(132)
Lease liability	8	646
	8	6,514

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

	Consolidated 2018 (unaudited) $'000	2017 $'000
Bank overdraft	1,384	-
Bank loans	7,000	6,000
Lease liability	1,531	4,313
	9,915	10,313

Note 14. Non-current liabilities - Borrowings (continued)

The group has the following debt facilities:

Bank overdraft and loans
The group has the following banking facilities with Commonwealth Bank of Australia ('CBA') which was updated on 23 June 2018:
- Overdraft facility of $1,800,000;
- Market rate loan of $7,000,000.

The bank facilities are guaranteed and secured by the group providing a first ranking charge over all present and subsequently acquired property.

Amex facility
The group has a corporate credit card with American Express ('Amex') for $1,500,000.

Credit card facility
The group has a CBA corporate charge card with a limit of $500,000.

Lease facilities
The group has the following leasing arrangements:
- Equipment leasing facility with Cisco Capital (Australia) Pty Ltd for $15,000; and
- Equipment leasing facility with CBA for $3,000,000. This has been reduced from the previous limit of $7,000,000.

The lease liabilities are effectively secured against the leased assets which are recognised in the statement of financial position and which would revert to the lessor in the event of default.

The lease period generally varies between two to five years which is determined based on the estimated useful life of the leased equipment.

Supplier credit
The group has a supplier credit facility with Wells Fargo International Finance (Australia) Pty Ltd (previously known as GE Commercial Corporation Australia Pty Ltd) for $2,750,000.

Note 15. Non-current liabilities - provisions

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
Lease make-good	131	112

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2018 (unaudited)	Lease make-good $'000
Carrying amount at the start of the year	112
Additional provisions recognised	164
Amounts transferred to current	(105)
Unused amounts reversed	(40)
Carrying amount at the end of the year	131

Note 16. Non-current liabilities - other

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Service provider security deposit	255	240

Note 17. Equity - issued capital

	Consolidated 2018 (unaudited) Shares	2017 Shares	2018 (unaudited) $'000	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 2016	20,070,530	11,522
Issue of shares	2 March 2017	3,636,364	4,000
Share issue transaction costs, net of tax		-	(168)
Balance	30 June 2017	23,706,894	15,354
Shares issued on acquisition of Symmetry Networks Pty Ltd (Refer note 20)	15 December 2017	111,235	100
Balance	30 June 2018	23,818,129	15,454

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There was no on-market buy-back of Inabox Group Limited shares.

Note 18. Equity - reserves

	Consolidated 2018 (unaudited) $'000	Consolidated 2017 $'000
Capital reserve	(2,366)	(2,366)
Share-based payment reserve	147	132
	(2,219)	(2,234)

Capital reserve
The reserve is used to recognise contributions from, or to, Telcoinabox Pty Limited and its controlled subsidiaries by shareholders.

Note 18. Equity - reserves (continued)

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Capital reserve $'000	Share-based payment reserve $'000	Total $'000
Balance at 1 July 2016	(2,366)	37	(2,329)
Share-based payments	-	95	95
Balance at 30 June 2017	(2,366)	132	(2,234)
Share-based payments	-	15	15
Balance at 30 June 2018	(2,366)	147	(2,219)

Note 19. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2018 (unaudited) $'000	2017 $'000
Final dividend for the year ended 30 June 2016 of 1.7 cents per ordinary share	-	341

Franking credits

	Consolidated 2018 (unaudited) $'000	2017 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	3,115	3,084

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 20. Business combinations

Symmetry Networks Pty Ltd (current year)
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 $355,000 represents the value of expected synergies and growth arising from the acquisition.

Note 20. Business combinations (continued)

The acquired business contributed revenues of $557,000 and a profit after tax of $89,000 to the group for the period from 3 November 2017 to 30 June 2018. If the acquisition had occurred on 1 July 2017, the contributions for the period 1 July 2017 to 30 June 2018 would have been revenues of $836,000 and profit after tax of $133,000.

The purchase price allocation of the acquisition is final at 30 June 2018.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	1
Trade and other receivables	2
Customer contracts	348
Deferred tax liability	(104)
Net assets acquired	247
Goodwill	355
Acquisition-date fair value of the total consideration transferred	602
Representing:	
Cash paid or payable to vendor	500
Inabox Group Limited shares issued to vendor	100
	600
Acquisition costs recorded in other expense	5

	Consolidated 2018 (unaudited) $'000
Cash used to acquire business, net of cash acquired:	
Cash paid to vendor	500
Less: cash and cash equivalents	(1)
Net cash used	499

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.

Note 20. Business combinations (continued)

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.

Details of the acquisitions 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
Property, plant and equipment	2,160	179	2,339
Other Intangible assets	2,144	700	2,844
Deferred tax asset	70	-	70
Trade payables	(551)	(173)	(724)
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
Cash used to acquire business, net of cash acquired:			
Cash paid to vendor	5,000	735	5,735
Less: cash and cash equivalents	(1)	(100)	(101)
Net cash used	4,999	635	5,634

Note 21. Cash flow information

Reconciliation of (loss)/profit after income tax to net cash from operating activities

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
(Loss)/profit after income tax benefit for the year	(12,962)	86
Adjustments for:		
Depreciation and amortisation	4,720	3,695
Impairment of intangibles	11,854	31
Write off of property, plant and equipment	10	-
Net loss on disposal of intangibles	252	-
Share-based payments	15	95
Finance cost - non-cash	66	57
Change in operating assets and liabilities:		
Decrease in trade and other receivables	792	2,056
Decrease/(increase) in inventories	(43)	15
Increase in income tax refund due	(86)	(128)
Increase in deferred tax assets	(39)	(20)
Decrease/(increase) in prepayments	(609)	58
Decrease in other operating assets	90	239
Increase/(decrease) in trade and other payables	(301)	442
Decrease in provision for income tax	-	(391)
Decrease in deferred tax liabilities	(104)	-
Decrease in employee benefits	(1,086)	(592)
Decrease in other provisions	(483)	(181)
Increase/(decrease) in other operating liabilities	1,388	(1,306)
Net cash from operating activities	3,474	4,156

Non-cash investing and financing activities

	Consolidated	
	2018 (unaudited) $'000	2017 $'000
Acquisition of plant and equipment by means of finance leases	635	359
Shares issued in relation to business combinations	100	-
	735	359

Note 21. Cash flow information (continued)

Changes in liabilities arising from financing activities

Consolidated	Bank loans $'000	Lease liability $'000	Other borrowings $'000	Total $'000
Balance at 1 July 2016	2,240	6,822	1,528	10,590
Net cash from/(used in) financing activities	3,760	(3,031)	(118)	611
Acquisition of plant and equipment by means of finance leases	-	359	-	359
Changes through business combinations (note 20)	-	82	-	82
Other changes	-	81	-	81
Balance at 30 June 2017	6,000	4,313	1,410	11,723
Net cash from/(used in) financing activities	1,000	(3,417)	123	(2,294)
Acquisition of plant and equipment by means of finance leases	-	635	-	635
Balance at 30 June 2018	7,000	1,531	1,533	10,064

Note 22. Earnings per share

	Consolidated 2018 (unaudited) $'000	2017 $'000
(Loss)/profit after income tax attributable to the owners of Inabox Group Limited	(12,962)	86

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	23,767,235	21,276,010
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	166,915
Weighted average number of ordinary shares used in calculating diluted earnings per share	23,767,235	21,442,925

	Cents	Cents
Basic earnings per share	(54.54)	0.40
Diluted earnings per share	(54.54)	0.40

Note 23. Events after the reporting period

On 3 August 2018, the group disposed of its Direct business operations to 5G Networks Limited for a total consideration of $5,700,000. After adjusting for working capital and debt like items, the cash consideration is $2,000,000. The net proceeds of the sale after transaction costs will be applied to the repayment of the group's debt facilities. 5G Networks also assumed $775,000 of leases relating to the Direct business and $732,000 of bank guarantee facilities as part of the transaction. As a result of the sale, the subsidiaries sold have also been withdrawn from the deed of cross guarantee and have also been removed from the Inabox tax consolidated group from the date of sale.

No other matter or circumstance has arisen since 30 June 2018 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.