

2018/19

**ANNUAL REPORT**

**cellnet**



**cellnet**

ABN 97 010 721 749

**Cellnet Group Limited**

59-61 Qantas Drive, Eagle Farm, QLD 4009 Australia

t: 1300 255 563 [www.cellnet.com.au](http://www.cellnet.com.au)

# CHAIRMAN'S REPORT

- Turnover up 27% - 8% from core business, 19% from Gaming acquisition
- Net profit attributable to shareholders amounted to \$405K
- Operating EBITDA \$1.75M
- Steps taken to significantly reduce future operating expenses
- Two key acquisitions – diversifying the business
- Cellnet transitioning into e-commerce world

Cellnet is pleased to provide the annual result for the year ending 30 June 2019. While the smartphone market has undergone somewhat of a revolution in the last 12-18 months and the A\$ has depreciated sharply in the past year, Cellnet has re-positioned the business for growth, while still delivering a profit to shareholders.

The group's balance sheet is in a strong position, and the ERP system has been modernised with the implementation of Infor.

Supply chain capability and efficiency have been significantly upgraded with the appointment of Sony DADC as the 3PL provider in Australia. This is expected to improve delivery times, accuracy, and further reducing costs.

Management has placed significant focus on future-proofing the business by diversifying across segments, predominantly through the acquisition of Turn Left Distribution (gaming) and Powerguard (power protection). This strategy increases Cellnet's insulation from a downturn across a particular segment or product and positions the company for exciting growth.

TLD is a leading distributor of gaming accessories and console games across multiple platforms, regions and

demographics. Games market analyst Newzoos is predicting phenomenal global market growth to continue, with the total games market estimated to grow from \$137.9 billion in 2018 to \$180.1 billion in 2021. TLD leaves Cellnet well placed to take advantage of the expected continuous growth.

Although occurring post-financial year-end, Cellnet also completed the acquisition of Powerguard, an established and respected surge protection and power distribution-board brand in the region stocked across several retailers including Harvey Norman. Powerguard is a low capex, high margin business with substantial growth prospects.

On the FY2019 result, Managing Director, Alan Sparks, said "Although down on last year, we are pleased to be able to produce a profitable result while transforming the business. We have reduced our cost base and moved into fast-growing areas which will provide us with diversification and future growth. I am excited about the future for Cellnet."



**Michael Wendt**  
Chairman, Cellnet Group Limited

# THE POWER AND IMPACT OF GAMING IN AUSTRALIA

Through Cellnet Group Ltd's acquisition of Turn Left Distribution, we continue to take advantage of Australia and New Zealand's explosive growth in games and gaming accessories.

In 2018, the total retail industry sales for gaming in Australia were \$4.03 Billion (2013: \$2.04 Billion) and by acquiring TLD, Cellnet has moved to diversify its business into relevant category adjacencies in this high growth area for our existing trading partners.

It provides Cellnet with the opportunity to lean on our distribution and category management expertise. This acquisition is a great fit for our current clients and a solid foundation for us to expand our reach.

Australians still play video games for fun, but this isn't the only reason. Games are increasingly appreciated for their diverse applications – people play to educate and upskill themselves, to stay socially and

emotionally connected, compete as a sport, as a motivator to stay fit, and to reduce stress.

Over the next several decades, population ageing will have a range of implications for Australia, including; health. Gaming for health will play an increasingly positive role as already, those aged 65+ (87 per cent of those surveyed) use video games as a tool for mental stimulation, and 81 per cent see it as a buffer against dementia.

Far from being a solitary endeavour, gaming is designed to be a shared experience and video games have influenced all aspects of society. Games leave a footprint in the home, workplace, and school. We play them not just to entertain ourselves, but to learn and to connect.



Devil May Cry 5 - 9.5/10 IGN

Resident Evil 2 - 9/10 IGN



Brand, J. E., Jervis, J., Huggins, P., & Wilson, T. (2019). *Digital Australia 2020*. Eveleigh, NSW: IGEA

# CELLNET WELCOMES POWERGUARD TO THE GROUP

Cellnet has completed the acquisition of Powerguard, an established and respected surge protection and power distribution-board brand in the region, stocked across several retailers including Harvey Norman.

PowerGuard is the innovator of the power protection industry. PowerGuard® began in 1983 as an independent design and manufacturing company, developing a unique range of protective products to meet the needs of consumers worldwide.

PowerGuard is a world leader in Electrical Power Protection, with a range of power protection products that include:

- Surge and Sag Voltage Limiting
- Power and Line Filters
- Telephone / Fax / Modem Protection
- Line Interactive and Standby UPS

PowerGuard® products are designed and engineered in Australia to the highest international standards, to significantly reduce damage to sensitive electrical and electronic equipment from spikes, surges, sags, EMI and RFI. The devices are available in formats to suit all international pin styles as well as DIN rail mounted hard-wired units.

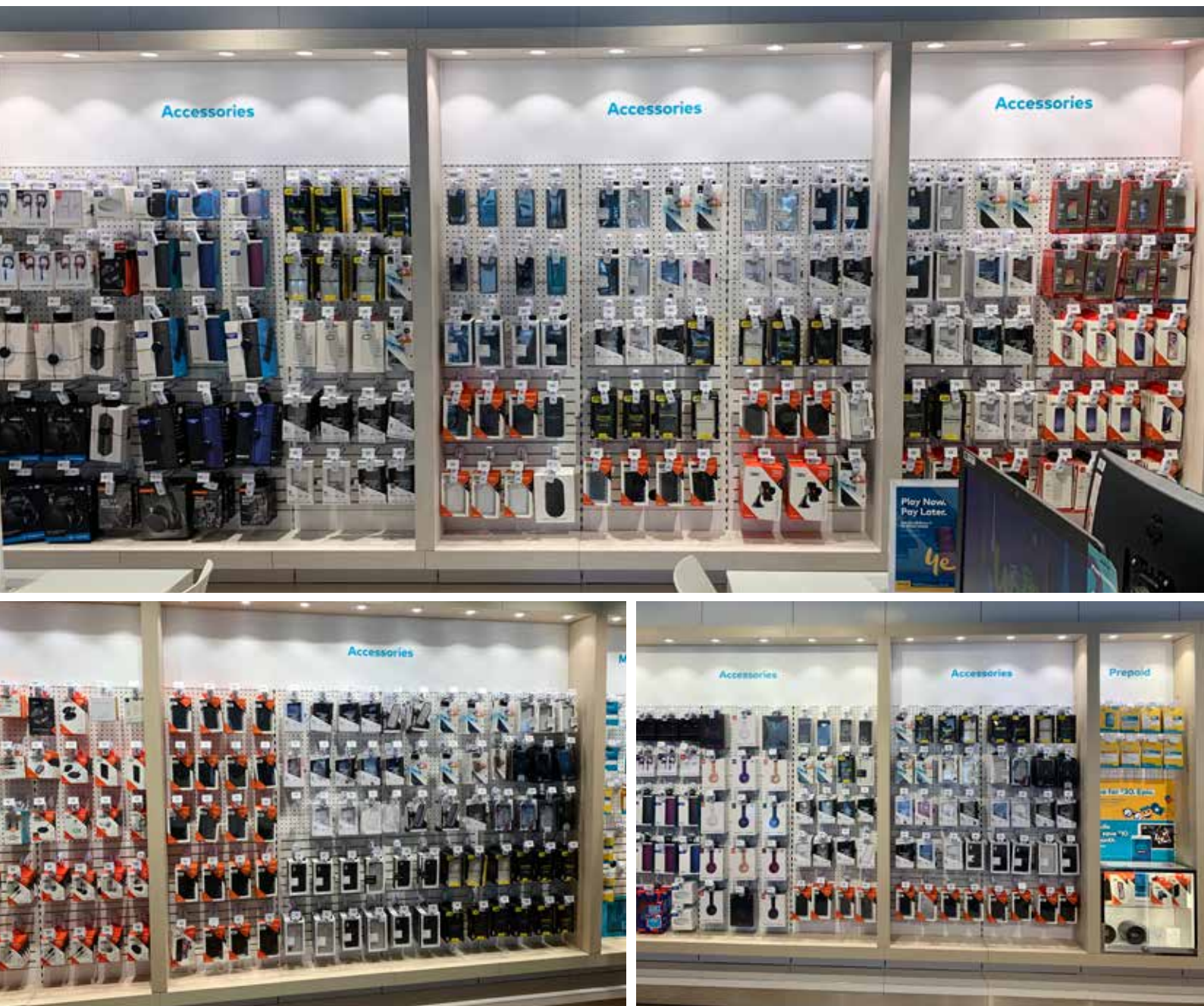
The company's success is based on commitment to produce products of consistent high quality. This commitment extends to ongoing research and development aimed at solving power supply problems worldwide.

The integrity and reputation of PowerGuard products has attracted a large diverse customer base from electrical manufacturers and contractors, to retail domestic sales and the personal computer and office equipment industry.



# CATEGORY MANAGEMENT SUCCESS

Cellnet continues to expertly practice their unique category management system with great success, focusing on delivering the maximum return on growth through structured planograms, consumer trends and analytics, brand/profit mix, training and merchandising.



# ICONIC BRANDS AND UNRIVALED EXPERTISE

## OUR BRANDS

3SIXT tech21 poly

ZAGG Otter BOX LIFEPROOF

mophie BRAVEN UAG

INCIPIO GRIFFIN incase

kate spade NEW YORK iBaby Gogogate2

Strontium q2power ENERGY WORLDWIDE goobay

ANUMAN CAPCOM COLLECTIVEMINDS

HYPERKIN PLAY WELL. LIVE WELL. KT KONAMI

KONTROL FREAK MAXIMUM GAMES next level RACING

Rising Star Games THRUSTMASTER steelseries

## BRAND PARTNERS

Apple b ULTIMATE EARS oppo

SAMSUNG SENNHEISER



CHANNEL PARTNERSHIPS



PRODUCT INNOVATION



TREND SPOTTING



CATEGORY MANAGEMENT



RETAIL SPACE MANAGEMENT



BUSINESS INTELLIGENCE



VENDOR MANAGED INVENTORY



ATTACHMENT & PRODUCT TRAINING



SCALE



DEVICE ACCESSORIES MARKET FOCUS



GAMING ACCESSORIES & SOFTWARE



POWER PROTECTION DISTRIBUTION

# CELLNET CONTINUES THE VALUABLE A4K PARTNERSHIP

In the year under review, Aspirations4Kids in Sport welcomed Cellnet back, for a second year, as a truly valued corporate partner.



Our partnership continues to go from strength to strength as together we work to achieve the goal of improving the lives of disadvantaged school students.

A commitment to A4K fund raising initiatives, A4K recipient gift donations, strategic business advice and funding guidance are just some of the ways that Cellnet offer A4K support. Cellnet clearly shares our dream of assisting more kids and their families facing hardship, disabilities, chronic illness and remote living issues to play their chosen sport. Daily, these kids face life challenges with a tenacity and resilience you simply can't teach. A love of sport is their common bond and the catalyst for enhancing their lives.

In a large part due to these valuable contributions, across a 12-month period A4K assisted more than 250 kids and their families. This was a 60% increase on the number of students supported from the previous year and this number will continue to grow in oncoming years.

I would like to take this opportunity to again thank Alan Sparks, Brett Perkins and all the Cellnet staff for believing in our organisation's work and supporting in such valuable ways.

We look forward to continuing this very important association.

Ian Healy  
Chair – Aspirations4Kids in Sport Ltd

## 2018 A4K CELEBRATION LUNCHEON



Funding generated by Cellnet not only assists disadvantaged Queensland families but it also assists to fund our annual Celebration Luncheon and 2019 Scholarship holder of the year.

Each year A4K celebrates the achievements of a small selection of recipient students that have met some unique challenges throughout the year, but still shown dedication and courage to acquit themselves well at a Queensland School Sport Championship or Carnival event.

The Celebration of Sport luncheon is held at the Queensland Cricketers' Club and in

attendance is the who's who of Queensland sport including Cate Campbell and Laura Geitz. In 2018 A4K awarded eight (8) Celebrations of Sport Awards, the Laura Geitz Spirit of Sport Award, the Kevin Brasch Teachers Award and the 2019 A4K Scholarship Award.

The Scholarship winner was Tianna Bloomfield. An Aspirations4Kids in Sport Scholarship Award recognises a nominee, who has demonstrated an outstanding effort to overcome an adversity to play their chosen sport, they also are great team people that give back to their communities.

### TIANNA'S STORY

Tianna is 15 Years of age and is a Year 10 student attending Northern Beaches State High School – Townsville in the Northern School Sport Region.

Tianna lives in a single parent household where her father cares for Tianna and is the carer for her sick uncle. She balances representative sport, family responsibilities, training sessions, umpiring and club netball.

She has been a member of the School Academic Mentoring Program for past 4 years.

A4K Funding assisted Tianna to attend the 16 – 19 years State Netball Championships at Boondall. She qualifies for A4K funding under the Financial Hardship cause.

She dreams of Playing for the Firebirds and then the Diamonds while studying to be a physiotherapist. One interesting fact on Tianna is she had her photo taken with Laura Geitz when she has visited Townsville and this even made the local paper.





# 3SIXT EYES 2025 SUSTAINABILITY GOALS

**3SIXT recognises the vital role that oceans and forests play in the health of people and the environment. As part of their commitment to conserve these valuable natural resources, they are working to reduce the environmental impact of the packaging**

3SIXT recognises the vital role that oceans and forests play in the health of people and the environment. As part of our commitment to conserve these valuable natural resources, we are working to reduce the environmental impact of our packaging, and have set out the following 2025 goals for more sustainable packaging:

- 100% of packaging will be either reusable, recyclable or compostable.
- At least 50% average recycled content across all packaging.
- 100% of virgin paper fibres will be from sustainably managed forest sources, including Forest Stewardship Council (FSC) certified.
- Problematic and unnecessary single-use plastic packaging will be phased out through design, innovation or introduction of alternatives.

In addition to complying with all local international laws and regulations relating to packaging, we will ensure that our packaging is fit-for-purpose, made from low impact materials, resource efficient, and reusable or recyclable at the end of its life.



## 3SIXT'S SUSTAINABLE PACKAGING PRINCIPLES



Packaging will be minimised by removing any unnecessary components, and / or reducing the size, weight, thickness of individual components.



Packaging will be designed for reuse wherever possible, including distribution packaging.



All paper and board fibres must be recycled or produced from certified (Forest Stewardship Council (FSC)) sustainable forestry sources.

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# DIRECTORS' REPORT

## CORPORATE INFORMATION

### Directors

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

### Company Secretary

C. Barnes

### Principal Registered Office

Cellnet Group Limited  
59-61 Qantas Drive  
Eagle Farm QLD 4009  
Phone: 1300 255 563  
Fax: 1800 255 563

### Banker

Westpac Banking Corporation  
260 Queen Street  
Brisbane QLD 4000

### Auditor

Pitcher Partners  
345 Queen Street  
Brisbane QLD 4000

### Share Register

Link Market Services Ltd  
Level 15 ANZ Building  
324 Queen Street, Brisbane QLD 4000  
Phone: 1300 554 474

### Solicitors

Reddie Lawyers  
Level 2, 710 Collins Street  
Docklands VIC 3008

### Securities Exchange

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

### Corporate Governance

All corporate governance related matters and associated disclosures regarding the company, including the company's corporate governance statement, can be found on the company's website in the investor relations section at: [www.cellnet.com.au/investorrelations](http://www.cellnet.com.au/investorrelations)

# DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2019.

## Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

#### Michael Wendt

(Non-Executive Chairman)

Mr Wendt is the Chief Executive Officer of Wentronic Group, a market leading electronic accessory distributor that is headquartered in Braunschweig Germany. Wentronic employs over 200 people worldwide and has offices in Germany, Italy, and UK as well as in Honk Kong and China. Mr Wendt has over 26 years of experience in the international electronic accessory industry and has had roles in sales, marketing and human relations.

Mr Wendt is currently a member of the Remuneration and Nomination Committee (Chairman).

#### Tony Pearson *B. Bus (Management)*

(Non-Executive Director – appointed 4 October 2018)

Mr. Pearson is currently a Commissioner at the Independent Planning Commission, a NSW Government statutory authority. In addition, he is Chair of White Ribbon, a non-executive director of ASX listed Peak Resources and a Trustee of the Royal Botanic Gardens & Domain Trust. He has also recently held non-executive positions with Aspire Mining, Regnan Governance and Research, and the International Grammar School. Tony was previously a Managing Director at HSBC, and prior to this held senior executive roles with SouthGobi Resources and the Australian Securities & Investments Commission. Tony has been admitted as a Member of the Australian Institute of Company Directors, and holds a Bachelor of Commerce (with Merit) from the University of NSW.

Mr Pearson is currently a member of the Audit and Risk Committee (Chairman) and the Remuneration and Nomination Committee.

#### Kevin Gilmore *B. Econ. MBA*

(Non-Executive Director)

Mr Gilmore is the Managing Director of Wentronic International Pte Ltd. He has also held management positions with many multinational corporations such as General Electric, Shell Petroleum, Philips Electronics and Belkin where he has gained extensive experience in strategy, business development and marketing.

Mr Gilmore is currently a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

#### Michael Reddie *LLB, BCom (Hons), Monash University*

(Non-Executive Director)

Mr Reddie is an Australian Legal Practitioner and is a Director of Reddie Lawyers Pty Ltd. Mr Reddie was formerly a partner at a national law firm. Mr Reddie advises Australian and international clients in negotiated mergers and acquisitions, joint ventures, strategic alliances and corporate governance.

Mr Reddie is currently a member of the Audit and Risk Committee.

#### Alan Sparks *GAICD, CTA, CA (SA)*

(Executive Director – retired 3 October 2018)

Mr Sparks was appointed as the Chief Executive Officer of Cellnet on the 7th May 2014. Prior to his appointment Mr Sparks held senior executive roles with Philips Consumer Electronics, Carrier and Belkin. He has had over 40 years' experience in distribution, retail, business to business, technology and manufacturing companies where he has gained extensive experience in restructuring, building businesses and managing mergers, acquisitions and divestments.

Mr Sparks is a Chartered Accountant was a member of the Risk (Chairman) and Strategy Committees prior to his resignation from the board.

#### Brian Danos *B. Bus (Management)*

(Executive Director – retired 3 October 2018)

Mr Danos is the General Manager for Wentronic Asia Pacific Limited. He has held this position since April 2015 and he leads the overall operations of the Asian region and directs Wentronic's offices in China in all sourcing and logistical operations. Prior to his appointment to his current role Mr Danos held the position of Director of Marketing and Sales

with A&L International Holdings Limited, a Hong Kong based private label manufacturer. He has also held senior positions with Philips Consumer Electronic Accessories in both Europe and the USA.

Mr Danos was a member of the Remuneration and Strategy Committees prior to his departure from the board.

As at the date of this report, the interest of the directors (including their related parties) in the shares and options of Cellnet Group Limited were:

Director	Number of ordinary shares	Number of options/performance rights
M. Wendt	33,691,380	-
T. Pearson	-	-
K. Gilmore	400,000	-
M. Reddie	-	-

## Company Secretary

**Chris Barnes** *B. Acc, CPA*

(Company Secretary and Chief Financial Officer)

Mr Barnes has been with the Company since 2006. He holds a Bachelor of Accounting Degree and is CPA qualified.

## Dividends

No dividend has been declared for the 2019 financial year.

## Principal activities

The principal activities of the consolidated entity are:

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

## Operating and financial review

The Directors hereby present the results of Cellnet Group for the 2019 financial year.

Group revenue, including the effect of the Turn Left Distribution (TLD) acquisition, increased by 27% year on year, with existing Cellnet operations increasing by 8%.

Underlying profit is however down considerably when compared with last year.

The retail and smartphone market in Australasia is in a period of change with the global smartphone market maturing and growth of ecommerce disrupting traditional retail.

The depreciation of the Australian dollar during the year had a material impact on the cost of imported goods.

Pre-tax net profit from continuing operations amounted to \$354K (0.57c per share) (2018: \$3.2m or 5.6c per share).

	FY2019	FY2018	Var
Total revenue	110,714	87,506	23,208
<b>Operating EBITDA</b>	<b>1,751</b>	<b>3,956</b>	<b>(2,205)</b>
Non-operational item adjustments:			
Fair value increase to inventory acquired	(405)	-	(405)
Fair value gain on revalue of deferred consideration	683	-	683
<b>Statutory EBITDA</b>	<b>2,028</b>	<b>3,956</b>	<b>(1,928)</b>
Depreciation and amortisation	(228)	(177)	(51)
Amortisation of intangibles acquired through business combination	(531)	-	(531)
Finance costs	(915)	(612)	(303)
<b>Profit before tax</b>	<b>354</b>	<b>3,167</b>	<b>(2,813)</b>
Income tax benefit	51	2,815	(2,764)
<b>Net profit attributable to shareholders</b>	<b>405</b>	<b>5,982</b>	<b>(5,577)</b>

Net profit attributable to shareholders amounted to \$405K (0.66c per share) versus \$5.98m in 2018 (10.66c per share).

The Cellnet balance sheet remained healthy post the TLD acquisition, with a net tangible asset value per share of 21.2c (2018 - 32c).

Cognisant of the market dynamics at play, Cellnet has moved to diversify its business by acquiring relevant category adjacencies and building platforms to enhance its ecommerce capabilities. This is clearly demonstrated by the upgrade in its ERP and recent acquisitions of both Turn Left Distribution (TLD) and Powerguard.

Acquired during 2019, TLD is a leading distributor of gaming accessories and console games. Post financial year end an acquisition was also concluded for Powerguard, an established and respected surge protection and power distribution-board brand in the region.

Both acquisitions offer synergistic opportunities to Cellnet as its core portfolio also expands further into audio, connected devices and retail category management services.

To improve performance and offset the effect of reduced trading margins, the management team significantly reduced operating expenses including the leveraging of administration synergies between TLD and Cellnet.

The Group's 3rd Party Logistics' operations were also relocated and consolidated in Sydney in August 2019, to improve efficiency, customer experience and significantly reduce distribution costs.

Management has additionally hedged the Groups' foreign currency commitments until approximately February 2020 which is expected to provide stability to trading margins in the subsequent year.

Mobile and gaming technology continues to evolve and the industry expects positive benefits from the network rollout of 5G, which is expected to drive new sales of 5G compatible devices and drive mobile gaming. The next wave of gaming console releases from Microsoft and Sony in 2020 is expected to similarly provide strong momentum for new game releases and immersive audio accessories.

Cellnet remains well placed as a leader in mobility, gaming and technology products within the region and has established relationships and market reach with all major retailers and telcos.

The Board and management remain acquisitive. As such further acquisition opportunities which align with the company's strategy are currently being evaluated.

Market conditions are expected to remain subdued in the next year with continued disruption and consolidation in the industry ahead of 5G in 2020, the next super cycle.

Cellnet has positioned itself to be able to differentiate and navigate these conditions through its strengths in customer experience, leading international brands and its own brand, 3SIXT which is market leading and is expanding further internationally.

No dividend has been declared for the 2019 financial year.

## Significant changes in the state of affairs

During the current financial year the Company entered the gaming accessories market via the acquisition of Turn Left Distribution Pty Ltd.

## Significant events after balance date

### Acquisition of Powerguard business

On 1 July 2019, the group completed the acquisition of 100% of the business assets and intellectual property of Service Smart Pty Ltd, being the business of designing, procuring the manufacture of, and distributing Powerguard branded products. Purchase consideration includes cash of \$713,815 plus contingent consideration, which provides for earn-out payments to be made to the vendor of 25% of gross profit over an agreed forecast gross profit floor.

The accounting for this business combination is not completed as at the date of these financial statements, specifically the identification and valuation of acquired intangible assets and the valuation of contingent consideration. Accordingly, the group is unable to disclose the acquisition date fair value of the total consideration transferred, the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed, and the resultant goodwill recognised on the acquisition.

### Change in third party logistics provider

On 1 August the Company changed its third party logistics provider for the Australian business from CS Logistics Solutions to Sony DADC. Sony DADC is a highly efficient logistics services provider based in western Sydney.

## Likely developments

In respect of future strategy and future performance, the group is constantly reviewing the strategic value inherent in the business. In conjunction with this, the group will continue to pursue its trading activities to further improve on operational aspects to produce the most beneficial long term results for the shareholders of the Company.

## Share options

At the date of this report there were a total of 2,400,000 share options over ordinary shares in the company on issue. No option holder has any rights under the terms of the instruments to participate in any other share issue of the company or any other entity. Details of these instruments are outlined as follows:

### Options

Grant Date	Vest Date	Expiry Date	Exercise Price (\$)	Opening	Granted	Forfeited	Exercised	Closing
29/11/2017	30/08/2020	30/08/2022	0.280	1,900,000	-	(312,500)	-	1,587,500
17/04/2018	30/08/2020	30/08/2022	0.375	312,500	-	-	-	312,500
10/10/2018	30/08/2020	30/08/2022	0.280	-	500,000	-	-	500,000

### Performance rights

There are currently no performance rights issued to any KMP or employees of the company.

## Indemnification and insurance of officers

### Indemnification

The Company has agreed to indemnify the current and former Directors and Company Secretaries of its controlled entities for all liabilities to another person, other than the Company or a related body corporate that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### Insurance premiums

Insurance premiums have been paid in respect of Directors' and Officers' Liability Insurance. Insurance premiums paid for Directors insurance covers Directors whilst they are appointed as Directors of the Company and for a period of seven years after their resignation. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability insurance as such disclosure is prohibited under the terms of the contract.

## Directors' meetings

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

	Meetings of Committees		
	Board	Audit & Risk	Nomination & Remuneration
	Number of meetings held:		
	16	2	1
	Number of meetings attended:		
M. Wendt	16	-	1
K. Gilmore	16	2	1
M. Reddie	16	2	-
T. Pearson	10	1	1
A. Sparks	6	-	-
B. Danos	6	1	-

## Committee membership

As at the date of this report the Company had an Audit and Risk Committee, and a Nomination and Remuneration Committee. Members acting on the committees of the Board during the year were:

Audit & Risk	Nomination & Remuneration
T. Pearson (Chairman)	M. Wendt (Chairman)
M. Reddie	T. Pearson
K. Gilmore	K. Gilmore

In the prior financial year the Company had the following committees: audit committee, nomination and remuneration committee, strategy committee, and risk committee. These four committees were rationalised into the two separate committee detailed above.

## Non-audit services

The following non-audit services were provided by the entity's current auditor, Pitcher Partners during the year. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Pitcher Partners received or are due to receive the following amounts for the provision of non-audit services:

	Consolidated	
	2019 \$	2018 \$
Taxation Services	62,130	59,810

## Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## Auditor's independence declaration

The Auditor's independence declaration is set out on page 15 and forms part of the Directors' report for the financial year ended 30 June 2019.



## Auditor's independence declaration



Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors  
Cellnet Group Limited  
59-61 Qantas Drive  
EAGLE FARM QLD 4009

### Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 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*.

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

PITCHER PARTNERS

Daniel Colwell  
Partner  
Brisbane, Queensland  
26 August 2019

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation.

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



[pitcher.com.au](http://pitcher.com.au)

REN BODEN	MAURE NICHOLSON	JANIS EVANS	A FLU LAMPRECHT	BRETT HLAZDRICK	ANGEL BATTERS	SIMON CHUN	TOM SPATT	DANIEL COLWELL	FELICITY CHRISTON
ANGEL FOSCHER	PETER CAMENZULI	IAN JONES	NORMAN THUREICH	HARRICK FACE	COLLE WILKINSON	JEREMY JONES	JAMES WELLS	SOBETH COOPER	

## Remuneration Report (audited)

This remuneration report for the year ended 30 June 2019 outlines the remuneration arrangements of the group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308 (3C) of the Act. The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the parent.

### Remuneration report approval at FY18 AGM

The FY18 remuneration report received positive shareholder support at the FY18 AGM with a vote of 99.0% in favour.

For the purposes of this report, the term “executive” includes the executive directors, senior executives, general managers and secretaries of the group and the term “director” refers to non-executive directors only.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements and the link to company performance
6. Executive contractual arrangements
7. Additional statutory disclosures

### 1. Individual key management personnel disclosures

#### Key management personnel

<b>(i) Directors</b>	
M. Wendt	Chairman (Non-Executive)
M. Reddie	Director (Non-Executive)
K. Gilmore	Director (Non-Executive)
T. Pearson	Director (Non-Executive) – Appointed 4 October 2018
A. Sparks	Director (Executive) – Retired 3 October 2018
B. Danos	Director (Non-Executive) – Retired 3 October 2018
<b>(ii) Executives</b>	
A. Sparks	Chief Executive Officer
D. Clark	General Manager - New Zealand
C. Barnes	Chief Financial Officer and Company Secretary

### 2. Remuneration at a glance

Remuneration levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced executives. The Board as necessary obtains independent advice on the appropriateness of remuneration packages of the group given trends in comparative companies both locally and internationally and the objectives of the Company’s remuneration strategy. Non-Executive Directors receive a fixed fee for their services.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel’s ability to control performance;
- the consolidated entity’s performance including:
  - the consolidated entity’s earnings; and
  - the growth in share price and delivering of constant returns on shareholder wealth;
- the amount of incentives within each key management person’s remuneration.

Remuneration packages include a mix of fixed and variable remuneration including short and long-term performance-based incentives.

### 3. Board oversight of remuneration

#### Remuneration committee

The remuneration committee is responsible for making recommendations to the board on the remuneration arrangements of directors and executives.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of non-executive directors and executives on a periodic basis by reference to the relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

#### Remuneration strategy

Cellnet Group Limited's remuneration strategy is designed to attract, motivate and retain employees and non-executive directors by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- are aligned to the group's business strategy;
- offer competitive remuneration benchmarked against the external market; and
- provides strong linkage between the individual and the performance and rewards of the group.

#### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### 4. Non-executive director remuneration arrangements

Total remuneration for all Non-Executive Directors, last voted upon by shareholders at the 1999 AGM, is not to exceed \$300,000 per annum.

The Chairman's base fee is \$30,000 per annum (\$10,000 per annum for the 2017 financial year and the months of July and August 2018) and Non-Executive Directors' base fees are presently \$30,000 per annum (\$10,000 per annum for the 2017 financial year and the months of July and August 2018). Non-Executive Directors do not receive performance related remuneration. Non-executives may, at the discretion of the

Remuneration Committee and subject to shareholder approval, receive compensation in the form of share options. No options were issued to Non-Executive Directors during the current or comparative financial years.

### 5. Executive remuneration arrangements and the link to company performance

#### 5.1 Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Board.

#### 5.2 Variable remuneration – short term incentive (STI) and long term incentive (LTI)

Performance linked remuneration includes both STI and LTI and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The STI is an 'at risk' bonus provided in the form of cash.

#### 5.3 STI bonus

The group operates an annual STI program that applies to executives and awards a cash bonus subject to the attainment of clearly defined group, business unit and individual measures. Actual STI payments awarded to each executive depends on the extent to which specific targets set at the beginning of each 12 months are met. The targets consist of a number of key performance indicators (KPIs) covering financial and non-financial, corporate and individual measures of performance. A summary of these measures and weightings are set out below.

	Net Cash Position	EBITDA
Chief Executive Officer	30%	70%
General Manager New Zealand	30%	70%
Chief Financial Officer	30%	70%

These performance indicators were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long-term value.

## Remuneration Report (audited) *continued*

At the end of the financial year the Board assesses the actual performance of the group and the individual against their respective financial KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is only awarded where results are achieved of between 100% and 200%. No bonus is awarded where performance falls below 100%. Performance of beyond 200% is not awarded as it is capped. The following table outlines the proportion of the maximum STI that was earned and forfeited in relation to the 2019 financial year.

	Proportion of maximum STI earned in FY19	Proportion of maximum STI forfeited in FY19
A. Sparks	0%	100%
D. Clark	0%	100%
C. Barnes	0%	100%

No other members of the Company's key management personnel were eligible to earn an STI in the 2019 financial year.

### STI awards for 2018 and 2019 financial years

For the 2019 financial year, a total payment of \$0 was made which represents 100% of the total STI cash bonus previously accrued in that period which has vested to executives. For the 2018 financial year, a total payment of \$208,868 was made which represented 100% of the total STI cash bonus previously accrued in that period which had vested to executives.

### 5.4 LTIs

#### Executive Share Option Plan

The Board has established an Executive Share Option Plan which is designed to provide incentives to the Executives of the group. The plan was approved by shareholders at the Annual General Meeting held on 18 December 2007.

Under the plan the Board has the discretion to issue options to Executives as long as the issue does not result in the Executive owning or controlling the exercise of voting power attached to 5% or more of all shares then on issue. Each option is convertible to one ordinary share. The exercise price of the option is determined by the Board.

The rules governing the operation of the plan may be amended, waived or modified, at any time by resolution of the Board provided there is no reduction of rights to Executives in the plan. If an amendment reduces the rights of Executives in the plan, it requires written consent of three-quarters of affected Executives.

The plan may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding options issued under the plan at that time. The following table summarises the options issued to KMP in the 2018 and 2019 financial years.

KMP	Grant Date	No. Granted	Exercise Price (\$)	No. Forfeited	No. Vested	Closing Vested
A. Sparks	10/10/2018	166,667	\$0.28	30/08/2020	-	166,667
A. Sparks	10/10/2018	166,667	\$0.28	30/08/2021	-	166,667
A. Sparks	10/10/2018	166,666	\$0.28	30/08/2022	-	166,666
D. Clark	29/11/2017	124,000	\$0.28	30/08/2020	-	124,000
D. Clark	29/11/2017	124,000	\$0.28	30/08/2021	-	124,000
D. Clark	29/11/2017	177,000	\$0.28	30/08/2022	-	177,000
C. Barnes	29/11/2017	124,000	\$0.28	30/08/2020	-	124,000
C. Barnes	29/11/2017	124,000	\$0.28	30/08/2021	-	124,000
C. Barnes	29/11/2017	177,000	\$0.28	30/08/2022	-	177,000

Options are subject to successfully achieving profit before tax performance hurdles over the financial years 2019 to 2021. The 500,000 options granted to the Chief Executive Officer are on the same terms as those granted to executives above, and were subject to approval at the company's 2018 annual general meeting. The grant date of these options is therefore the date of the AGM.

#### LTI Plan

The Board has established a Long Term Incentive Plan which is designed to provide incentives to the Executives of the group. The plan was approved by shareholders at the Annual General Meeting held on 18 December 2007.

The purpose and rules of the plan are the same as the Executive Share Option Plan described above, except that there is no prohibition on issuing shares if it would result in an Executive owning (legally or beneficially) or controlling the exercise of voting power attached to 5% or more of all shares then on issue. No shares were issued under the LTI plan during the 2019 year (2018: Nil).

#### Performance Rights Plan

On 24 October 2014 at the Company's Annual General Meeting, shareholders approved a performance rights plan. Under this plan, performance rights are issued to key management personnel. The rights deliver ordinary shares to key management personnel (at no cost to the executive) where the performance hurdle in relation to those performance rights is met. Following the exercise of a Right, the Company must, within such time as the Board determines, issue or allocate ordinary shares. There are currently no rights issued to any KMP under this plan (2018: nil).

### 5.5 STI structure

The Board considers that the above performance-linked remuneration structure is appropriate at this time. It provides both short-term focus on operating performance and longer term focus on share price growth.

Improving the performance of the operations was the main focus in setting the financial year 2019 short-term incentive.

### 5.6 Consequences of performance on shareholder wealth

In considering the group's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and previous financial years.

	2019	2018	2017	2016	2015
Net profit/(loss) attributable to equity holders of the Company	\$405,000	\$5,982,000	\$2,035,000	\$1,748,000	\$1,649,000
Dividends paid	\$782,439	\$688,946	\$649,325	\$557,071	-
Reduction of share capital	-	-	-	\$746,000	-
Change in share price	(\$0.165)	\$0.105	\$0.07	-	\$0.03

### 5.7 Other benefits

During the current and prior year, there were no non-cash bonuses or benefits provided to key management personnel.

## Remuneration Report (audited) *continued*

### 6. Executive contractual arrangements

It is the group's policy that service contracts for key management personnel are unlimited in term but capable of termination as per the relevant period of notice and that the group retains the right to terminate the contract immediately, by making payment that is commensurate with pay in lieu of notice.

The service contract outlines the components of remuneration paid to the key management person but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

Standard KMP termination payment provisions apply to all current members of the KMP, including the Chief Executive Officer. The standards KMP provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer initiated termination	3 months	3 months	Pro-rated for time and performance	Pro-rated for time and performance
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited
Employee initiated termination	3 months	3 months	Pro-rated for time and performance	Pro-rated for time and performance

#### 6.1 Directors' and executive officers' remuneration

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any director (whether executive or otherwise). Remuneration of Directors and KMP are as follows:

	Year	Short Term \$				Post Employment \$	Long Term Benefits \$				Termination Benefits	Total	% Performance Related	% Options/Rights
		Salary & Fees	STI Cash Bonus	Motor Vehicle Allowances	Non Monetary benefits	Superannuation Benefits	Cash Incentives	Long Service Leave	Share-based Payment	Termination/Retention Benefits				
<b>Non-executive directors</b>														
M. Wendt	2019	26,667	-	-	-	-	-	-	-	-	-	26,667	-	-
	2018	10,000	-	-	-	-	-	-	-	-	-	10,000	-	-
B. Danos	2019	4,167	-	-	-	-	-	-	-	-	-	4,167	-	-
	2018	10,000	-	-	-	-	-	-	-	-	-	10,000	-	-
K. Gilmore	2019	26,667	-	-	-	-	-	-	-	-	-	26,667	-	-
	2018	10,000	-	-	-	-	-	-	-	-	-	10,000	-	-
M. Reddie	2019	26,667	-	-	-	-	-	-	-	-	-	26,667	-	-
	2018	10,000	-	-	-	-	-	-	-	-	-	10,000	-	-
T. Pearson	2019	22,117	-	-	-	-	-	-	-	-	-	22,117	-	-
	2018	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total non-executive directors</b>	2019	106,285	-	-	-	-	-	-	-	-	-	106,285	-	-
	2018	40,000	-	-	-	-	-	-	-	-	-	40,000	-	-

6.1 Directors' and executive officers' remuneration (*continued*)

Year	Short Term \$				Post Employment \$	Long Term Benefits \$				Total	% Performance Related	% Options/Rights	
	Salary & Fees	STI Cash Bonus	Motor Vehicle Allowances	Non Monetary benefits		Cash Incentives	Long Service Leave	Share-based Payment	Termination/ Retention Benefits				
<b>Other key management personnel</b>													
A. Sparks	2019	291,936	-	-	-	21,402	-	26,924	3,276	-	<b>343,538</b>	1.0	1.0
	2018	264,211	60,904	-	-	26,478	-	-	1,299	-	<b>352,892</b>	17.6	0.4
D. Clark	2019	218,680	-	17,709	-	9,230	-	17,813	(945)	-	<b>262,487</b>	(0.4)	(0.4)
	2018	184,961	98,814	17,366	-	9,916	-	11,128	3,025	-	<b>325,210</b>	31.3	0.9
C. Barnes	2019	225,071	-	-	-	20,531	-	4,259	(945)	-	<b>248,916</b>	(0.4)	(0.4)
	2018	207,439	49,151	-	-	25,166	-	2,643	3,025	-	<b>287,424</b>	18.2	1.1
<b>Total (Executive &amp; KMP)</b>	<b>2019</b>	<b>735,687</b>	<b>-</b>	<b>17,709</b>	<b>-</b>	<b>51,163</b>	<b>-</b>	<b>48,996</b>	<b>1,386</b>	<b>-</b>	<b>854,941</b>	<b>0.2</b>	<b>0.2</b>
	2018	656,611	208,869	17,366	-	61,560	-	13,771	7,349	-	965,526	22.4	0.8
<b>Total (Directors &amp; KMP)</b>	<b>2019</b>	<b>841,972</b>	<b>-</b>	<b>17,709</b>	<b>-</b>	<b>51,163</b>	<b>-</b>	<b>48,996</b>	<b>1,386</b>	<b>-</b>	<b>961,226</b>	<b>0.1</b>	<b>0.1</b>
	2018	696,611	208,869	17,366	-	61,560	-	13,771	7,349	-	1,005,526	21.5	0.7

## 7. Additional statutory disclosures

This section sets out the additional disclosures required under the *Corporations Act 2001*.

## Transactions with related parties

During the 2019 financial year, Cellnet purchased inventory from Wentronic Asia Pacific, a fellow subsidiary of Wentronic Holding GmbH, to the value of \$12,291,000 (2018: \$11,452,000). As at 30 June 2019 Cellnet has an outstanding balance payable to Wentronic Asia Pacific to the value of \$475,000 (2018: 767,000)

## Joint venture with entity with ultimate control over the group

During the 2019 financial year, the Group provided net loan funding of USD 100,000 (AUD 133,040) (2018: USD 200,000 (AUD 259,302)) to Wentronic International Pte Ltd, being a joint venture between the group and its controlling shareholder Wentronic Holding GmbH. The balance of the loan receivable from the joint venture as at 30 June 2019 is \$427,777 (30 June 2018: \$259,302). Cellnet Group Limited's share of losses of the joint venture for the year was \$5,827 (2018 share of profits: \$9,576).

## Option/right holdings

This table below details the number of options or rights over ordinary shares in the company held by directors, KMP or their related parties:

Director/KMP	No. Held at 1/7/2018	No. Granted	No. Lapsed	No. Exercised	No. Held at 30/6/19	No. Vested & Exercisable
M. Wendt	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-
K. Gilmore	-	-	-	-	-	-
M. Reddie	-	-	-	-	-	-
T. Pearson	-	-	-	-	-	-
A. Sparks	-	500,000	-	-	500,000	-
C. Barnes	425,000	-	-	-	425,000	-
D. Clark	425,000	-	-	-	425,000	-

## Remuneration Report (audited) *continued*

Director/KMP	No. Held at 1/7/2017	No. Granted	No. Lapsed	No. Exercised	No. Held at 30/6/18	No. Vested & Exercisable
M. Wendt	1,600,000	-	-	(1,600,000)	-	-
B. Danos	400,000	-	(400,000)	-	-	-
K. Gilmore	400,000	-	-	(400,000)	-	-
M. Reddie	-	-	-	-	-	-
A. Sparks	1,157,000	-	-	(1,157,000)	-	-
C. Barnes	267,000	425,000	-	(267,000)	425,000	-
D. Clark	445,000	425,000	-	(445,000)	425,000	-

### Shareholdings

The table below details the number of ordinary shares in the company held by directors, KMP or their related parties. Unless otherwise stated, shares were acquired on-market.

Director/KMP	No. Held at 1/7/2018	No. Acquired - On Market	No. Acquired - Exercise of Options	No. Disposed	Shareholder at date of appointment/resignation	No. Held at 30/6/19
M. Wendt	33,691,380	-	-	-	-	33,691,380
K. Gilmore	400,000	-	-	-	-	400,000
T. Pearson	-	-	-	-	-	-
M. Reddie	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-
A. Sparks	1,300,000	-	-	-	-	1,300,000
C. Barnes	322,708	-	-	-	-	322,708
D. Clark	500,000	-	-	-	-	500,000

Director/KMP	No. Held at 1/7/2017	No. Acquired - On Market	No. Acquired - Exercise of Options	No. Disposed	Shareholder at date of appointment/resignation	No. Held at 30/6/18
M. Wendt	34,991,380	-	1,600,000	(2,900,000)	-	33,691,380
K. Gilmore	-	-	400,000	-	-	400,000
M. Reddie	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-
A. Sparks	143,000	-	1,157,000	-	-	1,300,000
C. Barnes	55,000	-	267,000	-	-	322,708
D. Clark	55,000	-	445,000	-	-	500,000

### End of Remuneration Report

This report is made with a resolution of the Directors:



**Michael Wendt**  
Chairman

Signed at Brisbane on 26 August 2019



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# FINANCIAL REPORT

# FINANCIAL REPORT

## Statement of financial position

As at 30 June 2019	Note	Consolidated	
		2019 \$000	2018 Restated* \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	1,311	2,253
Trade and other receivables	11	16,285	14,378
Inventories	12	18,232	10,421
Other current assets		1,056	1,029
Current tax assets		25	-
Derivative financial instruments	18	146	38
<b>Total current assets</b>		<b>37,055</b>	<b>28,119</b>
<b>Non-current assets</b>			
Receivables from associates		428	260
Investment in associates		7	21
Property, plant and equipment	13	300	136
Deferred tax assets (net)	8(c)	3,055	3,844
Intangible assets	14	6,637	757
<b>Total non-current assets</b>		<b>10,427</b>	<b>5,018</b>
<b>TOTAL ASSETS</b>		<b>47,482</b>	<b>33,137</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	12,358	8,712
Provisions	16	1,266	665
Current tax liabilities	8(c)	185	136
Interest-bearing loans and borrowings	17	8,878	2,403
<b>Total current liabilities</b>		<b>22,687</b>	<b>11,916</b>
<b>Non-current liabilities</b>			
Provisions	16	150	55
Interest-bearing loans and borrowings	17	1,639	-
<b>Total non-current liabilities</b>		<b>1,789</b>	<b>55</b>
<b>TOTAL LIABILITIES</b>		<b>24,476</b>	<b>11,971</b>
<b>NET ASSETS</b>		<b>23,006</b>	<b>21,166</b>
<b>EQUITY</b>			
Issued capital	19(a)	33,453	31,453
Reserves	19(b)	10,641	10,801
Accumulated losses		(21,088)	(21,088)
<b>TOTAL EQUITY</b>		<b>23,006</b>	<b>21,166</b>

\*Refer to note 2(b) for details regarding the restatement of comparatives as a result of the initial application of a new accounting standard. The above statement of financial position should be read in conjunction with the accompanying notes.

## Statement of comprehensive income

For the year ended 30 June 2019	Note	Consolidated	
		2019	2018
		\$000	\$000
<b>Revenue from contracts with customers</b>		<b>110,714</b>	<b>87,506</b>
Other income	6	682	13
Materials, packaging and consumables used		(87,186)	(66,035)
Depreciation and amortisation expense		(759)	(177)
Employee benefit expense		(11,979)	(9,508)
Finance costs		(915)	(612)
Freight expense		(2,897)	(2,144)
Occupancy expense		(645)	(539)
Warehousing expense		(3,954)	(2,782)
Other expense		(2,707)	(2,555)
<b>Profit/(loss) from continuing operations before income tax</b>	<b>7</b>	<b>354</b>	<b>3,167</b>
Income tax expense	8(a)	51	2,815
<b>Net profit/(loss) for the period</b>		<b>405</b>	<b>5,982</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation		219	(362)
<b>Total comprehensive income for the period</b>		<b>624</b>	<b>5,620</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share (cents per share)	9	0.66	10.66
Diluted earnings per share (cents per share)	9	0.66	10.66
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share (cents per share)	9	0.66	10.66
Diluted earnings per share (cents per share)	9	0.66	10.66

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

## Statement of changes in equity

	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
<b>At 1 July 2018</b>	<b>31,453</b>	<b>(25)</b>	<b>(406)</b>	<b>1,713</b>	<b>9,519</b>	<b>(21,088)</b>	<b>21,166</b>
Profit for the period	-	-	-	-	-	405	405
Foreign currency translation	-	-	219	-	-	-	219
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>219</b>	<b>-</b>	<b>-</b>	<b>405</b>	<b>624</b>
Transfers to/from reserves	-	-	-	-	405	(405)	-

### Transactions with owners in their capacity as owners:

Issues of shares	2,000	-	-	-	-	-	2,000
Share based payments	-	-	-	(2)	-	-	(2)
Dividends paid	-	-	-	-	(782)	-	(782)
<b>Balance as at 30 June 2019</b>	<b>33,453</b>	<b>(25)</b>	<b>(187)</b>	<b>1,711</b>	<b>9,142</b>	<b>(21,088)</b>	<b>23,006</b>

<b>At 1 July 2017</b>	<b>30,953</b>	<b>(25)</b>	<b>(44)</b>	<b>1,631</b>	<b>4,226</b>	<b>(21,088)</b>	<b>15,653</b>
Loss for the period	-	-	-	-	-	5,982	5,982
Foreign currency translation	-	-	(362)	-	-	-	(362)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(362)</b>	<b>-</b>	<b>-</b>	<b>5,982</b>	<b>5,620</b>
Transfers to/from reserves	-	-	-	-	5,982	(5,982)	-

### Transactions with owners in their capacity as owners:

Share based payments	-	-	-	82	-	-	82
Issue of shares	500	-	-	-	-	-	500
Dividends paid	-	-	-	-	(689)	-	(689)
<b>Balance as at 30 June 2018</b>	<b>31,453</b>	<b>(25)</b>	<b>(406)</b>	<b>1,713</b>	<b>9,519</b>	<b>(21,088)</b>	<b>21,166</b>

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

## Statement of cash flows

	Note	Consolidated	
		2019	2018
For the year ended 30 June 2019		\$000	\$000
<b>Cash flows from / (used in) operating activities</b>			
Receipts from customers (inclusive of GST)		122,322	98,899
Payments to suppliers and employees (inclusive of GST)		(126,401)	(92,332)
Income tax paid		(463)	(46)
Interest paid		(697)	(473)
<b>Net cash flows / (used in) operating activities</b>	<b>30</b>	<b>(5,239)</b>	<b>6,048</b>
<b>Cash flows used in investing activities</b>			
Interest received	6	5	3
Loans to associates		(168)	(259)
Payment for acquisition of subsidiaries, net of cash acquired	23	(2,578)	-
Purchase of property, plant and equipment	13	(76)	(37)
Payments for purchase of intangibles	14	(331)	(748)
<b>Net cash flows from / (used in) investing activities</b>		<b>(3,148)</b>	<b>(1,041)</b>
<b>Cash flows from / (used in) financing activities</b>			
Exercise of options		-	500
Proceeds from borrowings		34,534	31,889
Repayment of borrowings		(26,420)	(35,812)
Dividends		(782)	(689)
<b>Net cash flows from / (used in) financing activities</b>		<b>7,332</b>	<b>(4,112)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,056)</b>	<b>895</b>
Net foreign exchange differences		114	(147)
Cash and cash equivalents at beginning of period		2,253	1,505
<b>Cash and cash equivalents at end of period</b>	<b>10</b>	<b>1,311</b>	<b>2,253</b>

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

# Notes to the financial statements

## 1. Corporate Information

Cellnet Group Limited (the 'Company') is a company limited by shares and incorporated in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as the 'group' or the 'consolidated entity'). The company is a for-profit entity for the purpose of preparing these financial statements. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company.

The financial report was authorised for issue by the Directors on 26 August 2019. The nature of the operations and principal activities of the group are described in the directors' report.

## 2. Significant accounting policies

### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is presented in Australian dollars and has been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

### (b) New accounting standards and interpretations

#### (i) Application of new accounting standards

AASB 15 *Revenue from Contracts with Customers*, and AASB 9 *Financial Instruments*, are applicable to the group for the first time in the current financial year. Neither of the standards has had a material impact on current or historical profit and loss recorded within the group's financial statements, consistent with the assessment of likely impact disclosed in the group's 30 June 2018 financial statements. The group has made changes necessary to comply with the requirements of the new standards, specifically:

- The group has applied the simplified approach to determining an allowance for expected credit losses on trade receivables, as prescribed under AASB 9;
- Required disaggregation disclosures under AASB 15 are made within note 5. The group's sole material source of revenue is the sale of goods to customers. The nature of contracts with customers for sale of goods is consistent across the group; and
- The group has reclassified comparative balances within the statement of financial position relating to refund (rebate and incentive) and right of return liabilities and right to returned goods assets for consistency with current period classification. These amounts were considered in deriving revenue recognised under the previously applicable accounting standards (that is, there has been no adjustment to the amount of revenue recognised as a result of the application of the new standard) however were formerly classified within trade and other receivables. The resultant adjustments to comparative balances are shown in the table below:



Financial Statement Line Item	2018 Previously Reported (\$'000)	Change (\$'000)	2018 Restated (\$'000)
Trade and other receivables	11,610	2,768	14,378
Other current assets	-	1,029	1,029
<b>Total current assets</b>	<b>24,322</b>	<b>3,797</b>	<b>28,119</b>
<b>Total assets</b>	<b>29,340</b>	<b>3,797</b>	<b>33,137</b>
Trade and other payables	4,915	3,797	8,712
<b>Total current liabilities</b>	<b>8,119</b>	<b>3,797</b>	<b>11,916</b>
<b>Total liabilities</b>	<b>8,174</b>	<b>3,797</b>	<b>11,971</b>

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

Relevant accounting standards and interpretations that have been issued or amended but are not yet effective and have not been adopted for the year are as follows, incorporating the Director's assessment of the likely impact of the standards on the amounts and disclosures within the financial statements in the period of initial application.

AASB 16 *Leases* – The new standard, which will become effective for the first time in the group's 30 June 2020 financial statements, will replace AASB 117: *Leases* and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- Right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis; and
- Lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

Based on the group's current leasing arrangements the new standard will not have a material impact on the group's financial statements. This will be re-assessed in future periods based on changes to the group's leases.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Cellnet Group Ltd and its subsidiaries (as outlined in note 25) as at and for the year ended 30 June each year (the group or the consolidated entity). Interests in associates are equity accounted and are not part of the group. Subsidiaries are all those entities over which the group has control. The group controls an entity where it has power over the entity, exposure or rights to variable returns from its involvement with the entity, and for which it has the ability to use its power over the entity to affect the amount of its returns.

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

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Functional and presentation currency

Both the functional and presentation currency of Cellnet Group Limited and its Australian subsidiaries are Australian dollars (\$). The functional currencies of the New Zealand and Hong Kong subsidiaries are New Zealand dollars and United States dollars respectively, which are translated to the presentation currency as described in (iii) below.

## Notes to the financial statements

### 2. Significant accounting policies *continued*

#### (ii) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to Australian dollars at the foreign exchange rate ruling at reporting date. Foreign exchange differences arising on translation are recognised in net income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### (iii) Financial statements of foreign operations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

#### (e) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic

circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

#### (f) Revenue from contracts with customers

Revenue from the sale of goods is recognised at the point in time when control of the products has transferred, being when the products are delivered to the customer.

Products are typically sold with an attaching contractual or constructive entitlement to rebates and other incentive arrangements. As such, revenue from the sale of goods is recognised based on the price specified in the contract (i.e. the gross sale price) net of the estimated rebates and incentives. Accumulated experience is used to estimate and provide for the rebates and incentives, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected rebates and incentives payable to customers in relation to sales made until the end of the reporting period.

In addition, products sold by the group carry a right of return. A refund liability (included in trade and other payables) and a right to returned goods asset are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at an operating segment level (expected value method). Because the percentage of sales returns has been steady for a number of years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting period.

Sales are made with credit terms of 60 days or less; as such no element of financing is deemed present in sales of goods made to customers. The group does not generally receive funds in advance

of providing goods nor provide goods in advance of contractual entitlement to invoice the customer.

#### (g) Financial instruments

##### (i) Financial assets

Initial recognition and measurement

Financial assets within the scope of AASB 9 *Financial Instruments* are classified as at amortised cost, at fair value through profit and loss, or at fair value through other comprehensive income. The group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the profit or loss, on the basis of both the group's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. The group's financial assets include cash and short term deposits (amortised cost), trade and other receivables (amortised cost), and derivative financial instruments (fair value through profit and loss).

##### (ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of AASB 9 *Financial Instruments* are classified as at amortised cost, at fair value through profit and loss, or as derivatives designated as hedging instruments as appropriate. The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair values plus, in the case of loans and borrowings, directly attributable transaction costs. The group's financial liabilities include trade and other payables (amortised cost), and contingent consideration payable (fair value through profit and loss)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

##### (iii) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deductions for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Using reference to current fair value of another instrument that is substantially the same; and
- Applying a discount cash flow analysis or other valuation models.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date

#### (h) Receivables

Receivables from contracts with customers, loans, and other receivables are stated at their amortised cost less allowances for expected credit losses. Receivables from contracts with customers are recognised at the time the goods are delivered to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Other receivables are recognised when the entity becomes party to the contractual provisions of the asset.

## Notes to the financial statements

### 2. Significant accounting policies *continued*

The group applies the simplified expected credit loss model prescribed in AASB 9 to determine an allowance for expected credit losses on its receivables from contracts with customers and its other receivables. Under this approach, the lifetime expected credit losses are estimated using a provision matrix based on historical rates of losses observed on similar assets, as adjusted for the group's forecasts of future economic conditions. The measurement of expected credit losses reflects the group's 'expected rate of loss', which is a product of the probability of default and the loss given default, and its 'exposure at default', which is typically the carrying amount of the relevant asset. In determining the allowance for expected credit losses, the group has consideration to expected recoveries through collateral or trade credit insurance arrangements. The group has identified contractual payments more than 90 days past due as default events for the purpose of measuring expected credit losses. These default events have been selected based on the company's historical experience. Receivables are written off when they exceed 150 days past due and have been submitted to the group's trade credit insurer for processing.

Previous Accounting policy for impairment of trade receivables

In the prior year, in accordance with AASB 139 Financial Instruments: Recognition and Measurement the impairment of trade receivables was assessed based on the incurred loss model. Collectability of trade receivables was reviewed on an ongoing basis at a customer level. Individual debts that were known to be uncollectable were written off when identified. An impairment provision was recognised when there was objective evidence that the group would not be able to collect the receivable.

#### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is calculated using the average cost method and includes direct and allocated costs

incurred in acquiring the inventories and bringing them to their present location and condition. A provision is recognised when there is objective evidence that the group will not be able to sell the inventory at normal reseller pricing.

#### (j) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise of cash at bank and in hand and short term deposits with a maturity of 60 days or less that are readily convertible to known amounts of cash and which are subject to insignificant risks of change in values.

#### (k) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (m)). Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to net income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	3–5 years
Plant and equipment	2–3 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

#### (l) Intangible assets

##### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

## (ii) Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (m)). The group's other intangible assets represent software assets purchased by the entity or developed by a third party.

## (iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

## (iv) Amortisation

Amortisation is charged to net income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance date. Other intangible assets are amortised from the date they are available for use over their estimated useful lives.

**(m) Impairment**

The carrying amounts of the group's property, plant and equipment and intangible assets, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in net income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the

carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

## Calculation of recoverable amount

The recoverable amount of property, plant and equipment and intangible assets is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset relates.

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(n) Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on average between 30 day and 45 day terms. They represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## Notes to the financial statements

### 2. Significant accounting policies *continued*

#### (o) Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value of the consideration received less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in net income over the period of the borrowings on an effective interest basis.

#### (p) Provisions and employee leave benefits

##### (i) Provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

##### (ii) Long-term service benefits

The group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior

periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to high quality corporate bonds at the balance date which have maturity dates approximating the terms of the group's obligations.

##### (iii) Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be wholly settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, and are calculated using undiscounted amounts based on remuneration wage and salary rates that the group expects to pay as at reporting date including related on-costs, such as worker's remuneration insurance and payroll tax. Amounts not expected to be wholly settled within 12 months are carried at a net present value determined in the same manner as long service leave benefits described in note 2(m)(ii). Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### (q) Share based payment transactions

The group provides incentives to KMP in the form of share based payments. There are currently share based payment plans in place for the KMP. The cost of share based payments with KMP is measured by reference to the fair value of the equity instrument at the date at which they are granted (refer note 20 for further details).

#### (r) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (s) Leases

#### (i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in net income as an integral part of the total lease expense and spread over the lease term.

#### (ii) Finance leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in net income.

### (t) Income tax

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

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for - initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on

the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

#### Tax consolidation

The Company and its wholly-owned Australian resident subsidiaries have formed a tax-consolidated entity with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated entity is Cellnet Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated entity are recognised in the separate financial statements of the members of the tax-consolidated entity using the 'separate taxpayer' within the consolidated entity approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts in the separate financial statements of each entity and the tax values applied under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses or unused tax credits of the subsidiaries are assumed by the head entity in the tax consolidated entity and are recognised as amounts payable / (receivable) to / (from) other entities in the tax-consolidated entity in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

## Notes to the financial statements

### 2. Significant accounting policies *continued*

The Company recognises deferred tax assets arising from unused tax losses and unused tax credits of the tax-consolidated entity to the extent that it is probable that future taxable profits of the tax-consolidated entity will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses and unused tax credits as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

#### Nature of tax funding arrangements

The head entity, in conjunction with other members of the tax-consolidated entity, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated entity in respect of tax amounts. The tax funding arrangements require payments to / (from) the head entity equal to the current tax liability / (asset) assumed by the head entity and any tax-loss or tax credit related deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity payable / (receivable) equal in amount to the tax liability / (asset) assumed. The inter-entity payable / (receivable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

#### (u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash

flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

#### (v) Critical accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the group's critical accounting judgements and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Revenue recognition

As described in note 2(f) revenue is recognised net of expected sales returns, incentives and rebates offered to customers. Management applies the expected value method in making estimates of the amounts of incentives and rebates outstanding and the value of expected returns (including any associated right to returned goods asset) as at balance date based on customer trading and claim history, the terms of underlying contractual arrangements, and historical rates of product return. Such estimates involve the use of management's judgement and the actual amount of incentives and rebates settled, and products returned, may vary from the amounts accrued at balance date.

#### Valuation of consideration paid and net assets acquired in business combinations

Consideration paid and net assets acquired in business combination transactions are recognised at their acquisition date fair values, as outlined in Note 23. The most significant judgements and assumptions are made in determining the fair value of identifiable intangible assets (customer and supplier relationships) and contingent consideration payable. These assumptions include forecast cash flows (including growth rates), probability weightings applied to different earn-out scenarios, customer and supplier attrition rates, contributory asset charges and discount rates.



#### Impairment assessment for cash-generating units containing goodwill

The group completes an impairment assessment on cash-generating units to which goodwill is allocated on an annual basis or where there are indicators that CGU assets may be impaired. This assessment involves comparison of the value-in-use of the cash-generating unit to its carrying value. There are a number of assumptions made in the determination of value-in-use, which are outlined in detail in note 14(b).

#### Impairment losses for stock on hand

The group's inventory is exposed to a risk of obsolescence. A provision for obsolescence is raised where there is evidence suggesting that the net realisable value of inventory is less than its cost to the group. Management relies on inventory ageing data and future sales forecasts in determining the required provision against inventory at an individual product level.

Note 7 discloses the amount of stock that has been scrapped throughout the course of the year, or has been written down to net realisable value in accordance with the policy outlined in note 2 (i).

#### Share based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management using a binomial model. The related assumptions are detailed in note 20. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

#### Recovery of deferred tax assets

Deferred tax assets are recognised for tax losses and deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise temporary differences and recognised tax losses. Significant

judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next three years together with future tax planning strategies. Where the group has made a taxable loss in the current or preceding year, a deferred tax asset for carry forward tax losses is only recognised to the extent that there is convincing other evidence that sufficient taxable profit will be available against which the recognised unused tax losses can be utilised.

#### (w) Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Potential ordinary shares shall be treated as dilutive when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

## Notes to the financial statements

### 3. Financial risk management objectives and policies

The group's principal financial instruments comprise of receivables, payables, cash and short-term deposits, interest bearing loans and forward foreign currency contracts.

#### Risk exposures and responses

The group manages its exposure to key financial risks, including interest and currency risk in accordance with the group's financial risk management policy. The objective of this policy is to support the delivery of the group's financial targets whilst protecting future financial security.

The group enters into derivative transactions, principally forward currency exchange contracts. The purpose is to manage the currency risks arising from the group's operations. The main risks arising from the group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessment of market forecasts for interest rate and foreign exchange prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through using future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Audit & Risk Committees under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for forward currency contracts, credit allowances and future cash flow forecast projections.

#### Interest rate risk

The group's exposure to market interest rates relates solely to the group's short-term cash deposits and interest bearing loans and borrowings as disclosed in note 10 and 17.

		2019	2018
	Note	\$000	\$000
Cash and cash equivalents	10	1,311	2,253
Interest bearing loans and borrowings	17	(10,517)	(2,403)
		<b>(9,206)</b>	<b>(150)</b>

The group frequently analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2019, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and net assets would have been affected as follows:

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2019	2018	2019	2018
Consolidated	\$000	\$000	\$000	\$000
+1% (100 basis points) (2018: 1%)	(64)	(1)	(64)	(1)
-0.5% (50 basis points) (2018: 0.5%)	32	1	32	1

The movements in profit are due to higher / lower cash receipts / payments from variable rate net interest bearing balances.

### Foreign currency risk

The group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Australian dollars. The currencies giving rise to risk are primarily U.S dollars and New Zealand dollars.

The group enters into forward foreign exchange contracts to hedge certain anticipated purchase commitments denominated in foreign currencies (principally U.S dollars). The terms of these commitments are no more than 45 days. It is the group's policy not to enter into forward contracts until a firm commitment is in place.

The group has subsidiaries with function currencies of New Zealand and United States dollars. There are currently no hedges in place to mitigate the foreign currency risk for these subsidiaries.

Entering into forward foreign currency exchange contracts minimises the risk of sharp fluctuations in foreign exchange rates and allows for better cash flow management in relation to paying international suppliers. At balance date, the group had the following exposure to US\$ foreign currency that is not designated as cash flow hedges:

	2019	2018
	USD \$000	USD \$000
<b>Financial assets</b>		
Trade and other receivables	428	96
	<b>428</b>	<b>96</b>
<b>Financial liabilities</b>		
Trade and other payables	(2,622)	(1,313)
Forward foreign currency contracts*	(16,931)	(740)
	<b>(19,553)</b>	<b>(2,053)</b>
<b>Net exposure</b>	<b>(19,125)</b>	<b>(1,957)</b>

\*Denotes the amount of USD to be exchanged at the forward exchange rate.

At 30 June 2019, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post-tax profit and other comprehensive income would have been affected as follows:

	Post tax profit higher/(lower)		Net assets higher/(lower)	
	2019	2018	2019	2018
<b>Consolidated</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
AUD / USD +10% (2018: +10%)	1,919	170	1,919	170
AUD / USD -10% (2018: -10%)	(2,346)	(207)	(2,346)	(207)

Significant assumptions: - The reasonably possible movement was calculated by taking the USD spot rate as at balance date, moving the spot rate by the reasonably possible movements and then re-converting the USD into AUD with the 'new spot rate'. This amount was then tax effected. This methodology reflects the translation methodology undertaken by the group.

### Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets of the group is the carrying amount, net of any allowance for expected credit losses, as disclosed in the maturity analysis table below. The group mitigates this risk by adopting procedures whereby it only deals with creditworthy customers. The group also insures debtors that have an approved credit limit of greater than \$5,000 through trade credit insurance. Trade receivables that are greater than \$5,000 are insured up to 90% of the approved credit limit, with a \$5,000 excess payable per claim. Details regarding the determination of the allowance for expected credit losses are contained in note 11(a).

### Liquidity risk

Liquidity risk arises from the financial liabilities of the group and the group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due. The group's objective is to maintain a balance between continuity of at cash funding and short-term fixed cash deposits. The group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a daily basis.

## Notes to the financial statements

### 3. Financial risk management objectives and policies *continued*

Maturity analysis of financial assets and financial liabilities based on management's expectation.

	Note	2019				
		Carrying Value \$000	Total contractual cash flows	6 months or less	6–12 months	1–5 years
<b>Financial assets</b>						
Cash and cash equivalents	10	1,311	1,311	1,311	-	-
Trade and other receivables	11	16,285	16,285	16,285	-	-
Derivative financial instruments	18	146	146	146	-	-
		<b>17,742</b>	<b>17,742</b>	<b>17,742</b>	-	-
<b>Financial liabilities</b>						
Trade and other payables	15	(12,358)	(12,358)	(12,358)	-	-
Interest bearing loans and borrowings	17	(10,517)	(10,686)	(8,745)	(227)	(1,714)
		<b>(22,875)</b>	<b>(23,044)</b>	<b>(21,103)</b>	<b>(227)</b>	<b>(1,714)</b>
<b>Net inflow</b>		<b>1,874</b>	<b>1,874</b>	-	-	-

		2018				
		Carrying Value \$000	Total contractual cash flows	6 months or less	6–12 months	1–5 years
<b>Financial assets</b>						
Cash and cash equivalents	10	1,411	1,411	-	-	-
Trade and other receivables	11	10,044	10,044	-	-	-
Derivative financial instruments	18	143	143	-	-	-
		<b>11,598</b>	<b>11,598</b>	-	-	-
<b>Financial liabilities</b>						
Trade and other payables	15	(6,913)	(6,913)	-	-	-
Interest bearing loans and borrowings	17	(763)	(763)	-	-	-
		<b>(7,676)</b>	<b>(7,676)</b>	-	-	-
<b>Net inflow</b>		<b>3,922</b>	<b>3,922</b>	-	-	-

### 4. Fair Value Measurement

The fair values together with the carrying amounts of financial assets and financial liabilities shown in the statement of financial position are outlined in the table below. For short term trade receivables and payables with a maturity date of less than one year, the carrying amount, as adjusted for any allowances for impairment, is deemed to reflect the fair value.

	Note	2019		2018	
		Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
<b>Amortised cost</b>					
Cash and cash equivalents	10	1,311	1,311	2,253	2,253
Trade and other receivables	11	16,285	16,285	14,378	14,378
Trade and other payables	15	(11,186)	(11,186)	(8,712)	(8,712)
Borrowings	17	(10,517)	(10,517)	(2,403)	(2,403)
<b>Fair value through profit or loss</b>					
Contingent consideration payable	15	(1,172)	(1,172)	-	-
Derivative financial instruments	18	146	146	38	38
		<b>(3,961)</b>	<b>(3,961)</b>	<b>5,554</b>	<b>5,554</b>

### Fair value hierarchy

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 financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.
- Level 2:** The fair value of financial instruments 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.

The only balances on the group's balance sheet which is measured at fair value are forward foreign exchange contracts (refer note 18), and contingent consideration payable (refer note 15). The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date. Such fair value measurement is included in level 2, as it is based on an observable input.

The fair value of contingent consideration is calculated based on a probability weighted assessment of management's expectations surrounding the performance targets outlined in note 23. Key inputs into the valuation include scenario probability factors which are determined based on forecast future cash flows and margins, which are unobservable (Level 3 inputs). The group has adopted a probability factors of 100% and 20% in respect of earn-out payments for FY19 and FY20 as defined in note 23, and probability factors of 0% for incentive and overperformance 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 \$785,000 respectively.

The fair value of the contingent consideration payable measured at acquisition was \$1,855,000 (Note 23). Subsequent changes in the fair value of the contingent consideration payable, totalling \$683,000 (Note 7) have been recognised in profit and loss, resulting in a closing contingent consideration payable of \$1,172,000 (Note 15).

## Notes to the financial statements

### 5. Operating segments

#### 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, distributions methods and similar economic and regulatory environments in Australia and New Zealand.

The Turn Left Distribution business acquired during the year is considered to be a separate reportable segment.

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

	Cellnet	Turn Left Distribution	Corporate and Eliminations	Total
June 2019	\$000	\$000	\$000	\$000
Australia	77,507	16,606	-	94,113
New Zealand	16,597	4	-	16,601
<b>Total revenue from contracts with customers</b>	<b>94,104</b>	<b>16,610</b>	<b>-</b>	<b>110,714</b>
<b>EBITDA operating result</b>	<b>1,328</b>	<b>429</b>	<b>(6)</b>	<b>1,751</b>
Less non-operational expenses				
Fair value increase to inventory acquired in Turn Left & sold during the period*	-	(406)	-	(406)
Fair value gain on revaluation of contingent consideration payable**	-	-	683	683
<b>EBITDA</b>	<b>1,328</b>	<b>23</b>	<b>677</b>	<b>2,028</b>
Depreciation and amortisation	(95)	(24)	(109)	(228)
Amortisation of intangibles acquired through business combination***	-	(531)	-	(531)
Finance costs	(893)	(22)	-	(915)
<b>Profit before tax</b>	<b>340</b>	<b>(554)</b>	<b>568</b>	<b>354</b>
Other income	5	-	677	682
Segment assets	32,588	10,713	4,181	47,482
Segment liabilities	17,807	3,498	3,171	24,476

\*EBITDA for the year includes a non-recurring expenditure of \$406,000 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. Further detail relating to the \$406,000 acquisition accounting fair value adjustment to inventory acquired from Turn Left is included at Note 23. \*\*EBITDA for the year includes non-recurring income of \$683,000 included in other income in profit or loss that represents the fair value gain on revaluation of the contingent consideration payable recognised on acquisition of Turn Left, as described in note 4. \*\*\*Non-cash amortisation of customer relationship and supplier relationship intangibles acquired in the business combination of Turn Left Distribution Pty Ltd for the period ended.

	Cellnet \$000	Turn Left Distribution \$000	Corporate and Eliminations \$000	Total \$000
<b>June 2018</b>				
Australia	70,153	-	-	70,153
New Zealand	17,353	-	-	17,353
<b>Total revenue</b>	<b>87,506</b>	<b>-</b>	<b>-</b>	<b>87,506</b>
<b>EBITDA</b>	<b>3,956</b>	<b>-</b>	<b>-</b>	<b>3,956</b>
Depreciation and amortisation	(150)	-	(27)	(177)
Finance costs	(612)	-	-	(612)
<b>Profit before tax</b>	<b>3,194</b>	<b>-</b>	<b>(27)</b>	<b>3,167</b>
Other income	3	-	10	13
Segment assets	32,350	-	787	33,137
Segment liabilities	11,971	-	-	11,971

## 6. Other income

	2019 \$000	2018 \$000
Interest	5	3
Share of profits of associates	(6)	10
Fair value gain on revaluation of contingent consideration payable	683	-
<b>Total other revenue</b>	<b>682</b>	<b>13</b>

## 7. Items included in profit/(loss)

	2019 \$000	2018 \$000
Bad debts expense / (recoveries)	(141)	51
Loss on scrapping of / provisioning for obsolete inventory	1,407	659
Minimum lease payments – operating leases	528	433
Share-based payments expense/ (income)	(2)	82
Fair value (gains) / losses on FX derivatives	(108)	(38)
Net foreign exchange losses/(gains)	(277)	372

## Notes to the financial statements

### 8. Income Tax

	2019	2018
	\$000	\$000
<b>(a) Income tax (expense) / benefit</b>		
<i>The major components to income tax are:</i>		
Current income tax charge	130	137
Prior year under / over provision – current tax	5	(37)
Prior year under / over provision – deferred tax	22	36
Deferred income tax charge	(208)	(2,951)
<b>Total income tax (expense) / benefit reported in net income</b>	<b>(51)</b>	<b>(2,815)</b>

**(b) Numerical reconciliation between aggregate tax expense / (benefit) recognised in net income and tax expense calculated per the statutory income tax rate. A reconciliation between tax expense / (benefit) and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:**

Accounting profit before tax from continuing operations	354	3,167
<b>Total accounting profit before income tax</b>	<b>354</b>	<b>3,167</b>
At the parent entity's statutory income tax rate 30% (2018: 30%)	106	950
Adjustments in respect of income tax of previous years	27	(1)
Entertainment	23	29
Share-based payments	(1)	25
Effect of lower tax rate in New Zealand (28%)	(4)	(9)
Fair value gain on revaluation of contingent consideration payable	(205)	-
Other	3	(3)
Recognition of previously unrecognised deferred tax assets	-	(3,803)
Current year losses not recognised	-	(3)
<b>Aggregate income tax expense / (benefit)</b>	<b>(51)</b>	<b>(2,815)</b>

	Consolidated			
	2019	2019	2018	2018
	\$000	\$000	\$000	\$000
<b>(c) Recognised deferred tax assets and liabilities</b>	<b>Current income tax</b>	<b>Deferred income tax</b>	<b>Current income tax</b>	<b>Deferred income tax</b>
Opening balance	(136)	3,844	(82)	930
Business combinations	(351)	(975)	-	-
Tax paid	437	-	46	-
Charged to income / (expense)	(130)	208	(137)	2,951
Prior year over / (under) provision	(5)	(22)	37	(36)
FX translation	-	-	-	(1)
<b>Closing balance</b>	<b>(185)</b>	<b>3,055</b>	<b>(136)</b>	<b>3,844</b>

*Amounts recognised in the statement of financial position:*

Current tax liability	(185)	-	(136)	-
Deferred tax asset	-	3,055	-	3,844
Deferred tax liability	-	-	-	-
	<b>(185)</b>	<b>3,055</b>	<b>(136)</b>	<b>3,844</b>



Deferred income tax at 30 June relates to the following:

	2019	2018
	\$000	\$000
<b>Net deferred tax assets</b>		
Allowance for expected credit losses	48	23
Right of return liabilities (net of right to returned goods asset)	159	30
Employee provisions	423	213
Foreign exchange differences	(42)	(11)
Sundry accruals	375	238
Other	30	87
Inventory	17	3,264
Intangible assets	(1,113)	-
Tax losses carried forward	3,158	-
<b>Net deferred tax asset</b>	<b>3,055</b>	<b>3,844</b>

As at 30 June 2019, the group has net deferred tax assets relating to timing differences and tax losses totalling \$3,055,000 (2018: \$3,844,000). Management has recognised deferred tax assets on the basis that achievement of profit before tax within the period that deferred tax assets are expected to reverse (that is, the next 3-5 years) is probable.

#### (d) Tax losses

The group has gross tax losses, stated in the reporting currency of Australian dollars, for which no deferred tax asset is recognised on the statement of financial position of \$nil (2018: \$7,408,237) which are available indefinitely for offset against future gains subject to meeting the relevant statutory tests.

## 9. Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

	2019	2018
	\$000	\$000

### (a) Earnings used in calculating earnings per share

#### For basic earnings per share

Profit / (Loss) from continuing operations	405	5,982
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>405</b>	<b>5,982</b>

#### For diluted earnings per share

Profit / (loss) from continuing operations	405	5,982
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>405</b>	<b>5,982</b>

### (b) Weighted average number of shares

Weighted average number of shares (basic) at 30 June	61,559	56,077
<b>Weighted average number of shares adjusted for effect of dilution</b>	<b>61,559</b>	<b>56,077</b>

Potential ordinary shares under option and restricted shares are considered non-dilutive where the current share price is lower than the exercise price.

	2019	2018
	\$000	\$000

### (c) Earnings per share

Basic earnings per share (cents per share)	0.66	10.66
Diluted earnings per share (cents per share)	0.66	10.66

## Notes to the financial statements

### 10. Current assets – cash and cash equivalents

	2019	2018
	\$000	\$000
Cash at bank and in hand	1,311	1,903
Funds held by bank (note 22)	-	350
	<b>1,311</b>	<b>2,253</b>

Cash and funds held at bank earns interest at floating rates based on daily bank deposit rates. Funds held by banks represent monies pledged to fulfill financial guarantee collateral requirements.

### 11. Current assets – trade and other receivables

	2019	2018
	\$000	Restated*
	\$000	\$000
Receivables from contracts with customers	15,516	13,942
Allowances for expected credit losses <sup>(a)</sup>	(164)	(78)
	<b>15,352</b>	<b>13,864</b>
Other receivables and prepayments	933	514
<b>Carrying amount of trade and other receivables</b>	<b>16,285</b>	<b>14,378</b>

\*Refer note 2(b) for details regarding the restatement of comparatives as a result of the initial application of a new accounting standard.

#### (a) Allowance for expected credit losses

As described in note 2(h), the group applies the simplified expected credit loss model prescribed in AASB 9 to determine an allowance for expected credit losses on its receivables from contracts with customers. To measure the expected credit losses, receivables from contracts with customers have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles for sales over a 4-5 year period prior to 30 June 2019 and 1 July 2018 respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking macroeconomic factors affecting the ability of customers to settle the receivables. The group has identified retail trade industry output growth (GDP) and retail sector gross margin trends as the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The tables below show the calculation of the expected credit loss provision for receivables from contracts with customers at both 30 June 2019 and 1 July 2018.

	Current	0-30 days past due	31-60 days past due	Over 60 days past due	Total
	\$000	\$000	\$000	\$000	\$000
<b>30 June 2019</b>					
Expected loss rates	0.04%	0.20%	0.50%	3.75%	1.05%
Gross carrying amount	9,643	1,470	258	4,145	15,516
<b>Loss allowance</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>156</b>	<b>164</b>
<b>1 July 2018</b>					
Expected loss rates	0.04%	0.20%	0.50%	3.75%	0.41%
Gross carrying amount	10,203	1,842	655	1,242	13,942
<b>Loss allowance</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>47</b>	<b>58</b>

The closing loss allowances for receivables from contracts with customers as at 30 June 2019 reconcile to the opening loss allowance as follows:

	2019	2018
	\$000	\$000
<b>At 1 July – calculated under AASB 139</b>	78	118
Adjustment on initial application of AASB 9	(20)	-
Receivables written off during the year as uncollectable	113	51
Increase in loss allowances recognised in profit or loss	(7)	(91)
<b>At 30 June</b>	<b>164</b>	<b>78</b>

## 12. Current assets – inventories

	2019	2018
	\$000	\$000
Stock on hand	19,998	11,674
Less: provision for obsolescence	(1,766)	(1,253)
<b>Total inventories at the lower of cost and net realisable value</b>	<b>18,232</b>	<b>10,421</b>

## 13. Non-current assets – property, plant and equipment

Reconciliation of the carrying amounts at the beginning and end of the period.

	Leasehold improvements	Plant & Equipment	Total
	\$000	\$000	\$000
<b>For the year ended 30 June 2019</b>			
At 1 July 2018 net of accumulated depreciation and impairment	3	133	136
Additions	-	76	76
Additions via business combinations	62	145	207
Disposals	-	-	-
Depreciation charge for the year	(11)	(108)	(119)
<b>At 30 June 2019 net of accumulated depreciation and impairment</b>	<b>54</b>	<b>246</b>	<b>300</b>
<b>At 30 June 2019</b>			
Cost	480	7,145	7,625
Accumulated depreciation and impairment	(426)	(6,899)	(7,325)
<b>Net carrying amount</b>	<b>54</b>	<b>246</b>	<b>300</b>

## Notes to the financial statements

### 13. Non-current assets – property, plant and equipment *continued*

#### For the year ended 30 June 2018

At 1 July 2017 net of accumulated depreciation and impairment	32	217	249
Additions	1	36	37
Disposals	-	-	-
Depreciation charge for the year	(30)	(120)	(150)
<b>At 30 June 2018 net of accumulated depreciation and impairment</b>	<b>3</b>	<b>133</b>	<b>136</b>

#### At 30 June 2018

Cost	410	6,898	7,308
Accumulated depreciation and impairment	(407)	(6,765)	(7,172)
<b>Net carrying amount</b>	<b>3</b>	<b>133</b>	<b>136</b>

### 14. Non-current assets - intangible assets

	2019	2018
	\$000	\$000
Software assets	979	757
Goodwill (refer note 23)	1,946	-
Customer relationships (refer note 23)	167	-
Supplier relationships (refer note 23)	3,545	-
<b>Closing Balance</b>	<b>6,637</b>	<b>757</b>

#### (a) Movements in intangible asset balances during the year

	Software	Goodwill	Customer Relationships	Supplier Relationships	Total
	\$000	\$000	\$000	\$000	\$000
Written down value at 1 July	757	-	-	-	757
Additions	331	-	-	-	331
Additions through business combinations	-	1,946	286	3,957	6,189
Amortisation charge for the year	(109)	-	(119)	(412)	(640)
<b>Written down value at 30 June 2019</b>	<b>979</b>	<b>1,946</b>	<b>167</b>	<b>3,545</b>	<b>6,637</b>

#### 30 June 2019

Cost	1,183	1,946	286	3,957	7,372
Accumulated depreciation and impairment	(204)	-	(119)	(412)	(735)
<b>Net carrying amount</b>	<b>979</b>	<b>1,946</b>	<b>167</b>	<b>3,545</b>	<b>6,637</b>

	Software	Goodwill	Customer Relationships	Supplier Relationships	Total
For the year ended 30 June 2018	\$000	\$000	\$000	\$000	\$000
Written down value at 1 July	36	-	-	-	36
Additions	748	-	-	-	748
Additions through business combinations	-	-	-	-	-
Amortisation charge for the year	(27)	-	-	-	(27)
<b>Written down value at 30 June 2018</b>	<b>757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>757</b>
<b>30 June 2019</b>					
Cost	851	-	-	-	851
Accumulated depreciation and impairment	(94)	-	-	-	(94)
<b>Net carrying amount</b>	<b>757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>757</b>

**(b) Impairment testing**

At each balance date, the group completes an impairment assessment for each cash-generating unit (CGU) to which goodwill is allocated. All of the group's goodwill is allocated to the Turn Left Distribution ("Turn Left") CGU. The recoverable amount of the Turn Left CGU, being its value in use, was calculated based on the present value of future cash flow projections over a five year period including a terminal value calculation. The group applied an average revenue growth rate of 9% over the five year forecast period, a pre-tax discount rate of 18%, and a terminal growth rate of 2.00%. The results of the impairment assessment indicated that the value-in-use of the CGU exceeds its carrying value. No reasonably possible change in the above assumptions would have resulted in an impairment of the CGU carrying value at 30 June 2019.

**15. Current liabilities – trade and other payables**

	2019	2018 Restated*
	\$000	\$000
Trade payables	6,088	3,443
Rebate and incentive liability	2,641	2,668
Right of return liability#	1,587	1,129
Contingent consideration payable^	1,172	-
Other payables and accrued expenses	870	1,472
	<b>12,358</b>	<b>8,712</b>

\*Refer note 2(b) for details regarding the restatement of comparatives as a result of the initial application of a new accounting standard. ^Refer note 5 for reconciliation of movements in the fair value of contingent consideration payable. #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.

**16. Provisions**

	2019	2018
	\$000	\$000
<b>Current</b>		
Provision for long-service leave	889	140
Liability for annual leave and employee provisions	377	525
	<b>1,266</b>	<b>665</b>
<b>Non-Current</b>		
Liability for long-service leave	150	55
	<b>150</b>	<b>55</b>

## Notes to the financial statements

### 17. Interest bearing loans and borrowings

Current			
Interest Rate	Maturity	2019	2018
%		\$000	\$000
<b>Business Finance</b>			
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	-
5.11	2 July 2018	-	376
5.11	2 July 2018	-	24
5.11	2 July 2018	-	387
5.11	2 July 2018	-	552
5.11	2 July 2018	-	21
5.09	12 July 2018	-	97
5.09	13 July 2018	-	162
5.20	16 July 2018	-	127
5.20	23 July 2018	-	372
5.12	25 July 2018	-	132
5.12	27 July 2018	-	153
<b>Invoice Finance</b>			
4.72	Various	4,940	-
<b>Business loan</b>			
5.06	26 June 2021	361	-
		<b>8,878</b>	<b>2,403</b>
<b>Non-current</b>			
<b>Business loan</b>			
5.06	26 June 2021	1,639	-
		<b>1,639</b>	-

#### \$3,500,000 Business finance

This facility consists of three individual facilities, namely surrendered bills of lading, trade finance-imports and special documentary import letters of credit. The

combined limit of \$3,500,000 applies across these individual facilities. As at 30 June 2019, the company has drawn down \$3,577,000 (2018: \$2,403,000) under its trade finance – imports facility. The facility was therefore overdrawn at 30 June 2019 by \$77,000, with the facility being reduced below the limit on 1 July 2019. This facility is subject to annual review, and individual trade finance drawdowns under the facility as at balance date mature on the dates disclosed above.

#### \$10,000,000 Invoice finance

This is a facility for terms of trade. The total limit of the facility is \$10,000,000. As at 30 June 2019, \$4,940,000 was outstanding under this facility (2018: \$Nil). Amounts owing under the facility are matched to the trade terms of the underlying financed transaction up to a maximum of 60 days.

#### \$2,000,000 Business loan

The business loan facility was provided to fund the acquisition and initial working capital requirements of Turn Left Distribution Pty Ltd. The facility requires monthly principal and interest repayments of \$37,800 and has an expiry date of 24 June 2021.

All facilities above are secured by a general security agreement given by Cellnet Group Limited and Turn Left Distribution Pty Ltd over all existing and future assets and undertakings.

### 18. Derivative Financial Instruments

	2019	2018
	\$000	\$000
<b>Current</b>		
Forward foreign currency exchange contracts	146	38
	<b>146</b>	<b>38</b>

Forward foreign currency exchange contracts are carried at fair value at balance date. Changes in the fair value of forward foreign currency exchange contracts that economically hedge monetary assets and liabilities in foreign currencies are recognised in profit or loss. Both the changes in fair value of the forward contracts

and the foreign exchange gains and losses relating to the monetary items are recognised as part of materials, packaging and consumables used expenditure in the statement of comprehensive income, and are included in foreign currency gains or losses disclosed in note 7.

## 19. Contributed equity and reserves

	2019	2018
	No. of shares	No. of shares
<b>(a) Share capital</b>		
Ordinary shares on issue at 1 July	57,115,644	52,301,977
Shares issued – exercise of options	-	2,000,000
Shares issued – business combination (Note 23)	5,479,452	2,813,667
<b>Ordinary shares on issue at 30 June</b>	<b>62,595,096</b>	<b>57,115,644</b>

Fully paid ordinary shares carry one vote per share and carry the right to receive a dividend.

	2019	2018
	\$000	\$000
Share capital at 1 July	31,453	30,953
Shares issued – exercise of options	-	500
Shares issued – business combination (Note 23)	2,000	-
<b>Ordinary shares on issue</b>	<b>33,453</b>	<b>31,453</b>

	2019	2018
	\$000	\$000
<b>(b) Reserves</b>		
Translation reserve	(187)	(406)
Reserve for own shares	(25)	(25)
Reserve for profit	9,142	9,519
Share based payment reserve	1,711	1,713
	<b>10,641</b>	<b>10,801</b>

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currency is different to the presentation currency of the reporting entity.

### Reserve for own shares

The reserve for own shares represents the cost of shares held by an equity remuneration plan that the group is required to include in the financial report. At 30 June 2019 the group held 18,209 of the Company's shares (2018: 18,209). This reserve will be reversed against share capital when the underlying shares are exercised under performance rights. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments.

### Reserve for profit

Profits are transferred to the reserve for profits to facilitate future dividend payments in accordance with Australian taxation requirements for dividend payments to be sourced from profits.

### Share based payment reserve

The share based payment reserve is used to recognise the value of equity-settled share based payments to employees.

### (c) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management adjusts the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares.

## Notes to the financial statements

### 19. Contributed equity and reserves *continued*

Management monitors capital through the capital adequacy ratio (net assets/total assets). The target for the group's capital adequacy ratio is between 40% and 60%. The capital adequacy ratios based on continuing operations at 30 June 2019 and 2018 were as follows:

	2019	2018
	\$000	\$000
Net assets	23,006	21,166
Total assets	47,482	33,137
<b>Capital adequacy ratio</b>	<b>48%</b>	<b>64%</b>

### 20. Share based payments

#### (a) Long term incentive plan - performance rights

There were no rights issued under the group's performance rights plan during the year. The following table illustrates movements in the number of performance rights on issue during the current and comparative periods.

	2019	Weighted Avg. Exercise Price	2018	Weighted Avg. Exercise Price
	\$	\$	\$	\$
Opening balance	-	-	2,813,667	-
Granted during the year	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(2,813,667)	-
<b>Outstanding as at 30 June</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Vested and exercisable	-	-	-	-

Total share-based payments expenditure of \$nil (2018: 62,223) was recognised in respect of performance rights during the year. All performance rights were exercised during the 2018 financial year.

#### (b) Long term incentive plan – Director options

In the comparative year, the group had options on issue that were granted to non-executive Directors. These options were exercised in October 2017. No new options have been granted to non-executive directors during the year. Movements in non-executive director options on issue during the current and comparative periods are summarised as follows:

These options were exercised in October 2017. Movements in Director options on issue during the year are summarised as follows:

	2019	Weighted Avg. Exercise Price	2018	Weighted Avg. Exercise Price
	\$	\$	\$	\$
Opening balance	-	-	2,400,000	0.25
Granted during the year	-	-	-	-
Forfeited	-	-	(400,000)	0.25
Exercised	-	-	(2,000,000)	0.25
<b>Outstanding as at 30 June</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Vested and exercisable	-	-	-	-

#### (c) Long term incentive plan – employee options

On 19 October 2017 the Board resolved to issue additional new options to key management personnel under the group's long-term incentive plan. The terms of the options were agreed with the employees on 29 November 2017 (1,900,000 options) and 17 April 2018 (312,500 options), being the accounting grant dates, however options were not issued to employees until 1 July 2018. A further 500,000 options were granted to the CEO subject to shareholder approval, which was received at the Annual General Meeting held on 10 October 2018. The accounting grant date for these options was therefore 10 October 2018. Details of the options issued are as follows:



Options granted	1,900,000, 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 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 2019 to 2021.

The fair value of the options granted was determined by management using a binomial 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:

Tranche	Vesting Condition	Vesting Date	No. of Options	Exercise Price \$	Expected Volatility %	Risk Free Rate %	Value per option
Tranche 1	PBT	30/08/20	554,000	0.280	50	1.86	0.0835
Tranche 2	PBT	30/08/21	554,000	0.280	50	1.98	0.0900
Tranche 3	PBT	30/06/22	792,000	0.280	50	2.09	0.0942
Tranche 4	PBT	30/08/20	91,000	0.375	50	2.22	0.0931
Tranche 5	PBT	30/08/21	91,000	0.375	50	2.22	0.1036
Tranche 6	PBT	30/06/22	130,500	0.375	50	2.22	0.1104
Tranche 7	PBT	30/08/20	145,000	0.280	50	2.03	0.2162
Tranche 8	PBT	30/08/21	145,000	0.280	50	2.11	0.2178
Tranche 9	PBT	30/08/22	210,000	0.280	50	2.11	0.2175

An assumed dividend yield of 5% was applied in each of the valuations above. The following table illustrates movements in the number of employee share options on issue during the year:

	2019	Weighted Average Exercise Price	2018	Weighted Average Exercise Price
	\$	\$	\$	\$
Opening balance	2,212,500	0.293	-	-
Granted during the period	500,000	0.280	2,212,500	0.293
Forfeited during the period	(312,500)	0.280	-	-
<b>Outstanding as at 30 June</b>	<b>2,400,000</b>	<b>0.292</b>	<b>2,212,500</b>	<b>0.293</b>
Vested and exercisable	-	-	-	-

## Notes to the financial statements

### 21. Commitments and contingencies

#### Commitments

The group has entered into commercial leases on office and warehouse facilities. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Lease payments generally comprise a base amount plus an incremental contingent rental which is based on movements in the Consumer Price Index.

Future minimum rentals payable under non-cancellable operating leases at 30 June 2019 are payable as follows and are inclusive of any revenue received from third parties that are sub leasing premises which the group is lessee of the head lease of the associated facility:

	2019	2018
	\$000	\$000
Less than one year	227	278
Between one and five years	99	56
	<b>326</b>	<b>334</b>

### 22. Financial guarantees

The group has provided financial guarantees in respect of rental leasing arrangements disclosed in Note 21. The group's financier has also provided performance guarantees in the form of standby letters of credit to the group's suppliers. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required.

	2019	2018
	\$000	\$000
Bank guarantees provided – rental leases	130	130
Standby letters of credit	1,000	-

### 23. Business combinations

On 1 September 2018, the group acquired 100% of the share capital of Turn Left Distribution Pty Ltd ("TLD"), a software and accessories distributor focusing on the Australian and New Zealand markets. The primary purpose of the acquisition was to expand the group's product offering. Details of the transactions were:

	\$000
Cash consideration paid	4,000
Shares issued	2,000
Fair value of contingent consideration	1,855
<b>Total consideration paid</b>	<b>7,855</b>
Less: Fair value of identifiable net assets acquired (see below)	(5,909)
<b>Goodwill recognised on acquisition</b>	<b>1,946</b>

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 FY19 or FY20 is between \$1.6m and \$2.0m. This is assessed separately in each relevant period.
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 contingent consideration was calculated based on a probability weighted assessment of management's expectations surrounding the performance targets outlined above. The range of outcomes (gross earn-out payments) estimated in deriving this value was \$0 to \$3m. The contingent consideration was recognised as a financial liability at fair value through profit or loss as at the acquisition date.

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:

	\$000
Cash and cash equivalents	1,422
Trade and other receivables	2,934
Inventory	2,434
Other current assets	318
Property, plant and equipment	207
Intangible assets – customer relationships	286
Intangible assets – supplier relationships	3,957
Trade and other payables	(4,343)
Provisions	(331)
Net deferred tax liability	(975)
<b>Fair value of net assets acquired</b>	<b>5,909</b>

The gross carrying value of acquired trade and other receivables was \$2.934m. A refund liability of \$1.536m and a right of return liability of \$0.349m were recognised, which represent management's best estimate of the contractual cash flows not expected to be collected.

The amount of revenue and profit/(loss) before tax of TLD since the acquisition date are reported in note 5. If the results of TLD were consolidated from the start of the financial year, revenue for the year would have been \$115.988m while profit before tax would have been \$0.606m.

The fair value (market selling price less costs to sell) of inventory was \$0.406m higher than its carrying value (lower of cost or NRV) at the acquisition date. As a result, materials, packaging and consumables expenditure reported in profit or loss for the year includes \$0.406m, representing the non-recurring reversal of the fair value adjustment upon sale of the inventory acquired from TLD during the current period.

During the period from the acquisition date to 30 June 2019, the group has recognised amortisation expenditure on identifiable intangible assets acquired of \$0.531m. Customer and supplier relationship intangibles are amortised over their expected useful life to the group of 2 and 8 years respectively.

## 24. Key management personnel remuneration

	2019	2018
	\$	\$
Short-term employee benefits	859,681	922,846
Post-employment benefits	51,163	61,560
Long-term employee benefits	50,382	21,120
<b>Total compensation</b>	<b>961,226</b>	<b>1,005,526</b>

## 25. Related party disclosure

### Subsidiaries

The consolidated financial statements include the financial statements of Cellnet Group Ltd and the subsidiaries included in the following table:

Name	Country of incorporation	% of equity interest	
		2019	2018
Cellnet Group Ltd (Parent)	Australia	100	100
Cellnet Ltd	New Zealand	100	100
C&C Warehouse (Holdings) Pty Ltd	Australia	100	100
Regadget Pty Ltd	Australia	100	100
OYT Pty Ltd	Australia	100	100
Turn Left Distribution Pty Ltd	Australia	100	0
Cellnet Online Pty Ltd	Australia	100	100
3SIXT Limited	Hong Kong	100	100

## Notes to the financial statements

### 25. Related party disclosure *continued*

The following table provides the total amount of transactions which have been entered into with related parties during the twelve month periods ending 30 June 2019 and 30 June 2018.

	2019	2018
Entity with ultimate control over the group:	\$000	\$000
<b>Wentronic Asia Pacific</b>		
Interest paid on loans from related parties	-	-
Services from related parties	-	-
Purchases from related parties	12,291	11,452
Amounts owing to related parties for purchases	475	767

#### Entity with ultimate control over the group

Wentronic Holding GmbH holds 53.82% (2018: 56.19%) of the ordinary shares in Cellnet Group Limited.

#### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

#### Transactions with entities under common control

During the 2019 and 2018 financial years, Cellnet purchased inventory from Wentronic Asia Pacific, as disclosed in the table above. Wentronic Asia Pacific is a wholly owned subsidiary of Wentronic Holding GmbH.

#### Joint venture with entity with ultimate control over the group

During the year, the group made loan contributions of \$168,000 (2018: \$259,000) to Wentronic International Pty Ltd, being a joint venture between the group and its controlling shareholder Wentronic Holding GmbH. The group holds a 49% interest in this entity and the investment is equity accounted for on the group's balance sheet. The group's share of losses of the joint venture for the year ended 30 June 2019 was \$5,827 (2018: share of profits of \$9,576).

### 26. Subsequent events

Except as disclosed below, there were no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future periods.

#### Acquisition of Powerguard business

On 1 July 2019, the group completed the acquisition of 100% of the business assets and intellectual property of Service Smart Pty Ltd, being the business of designing, procuring the manufacture of, and distributing Powerguard branded products. Purchase consideration includes cash of \$713,815 plus contingent consideration, which provides for earn-out payments to be made to the vendor of 25% of gross profit over an agreed forecast gross profit floor.

The accounting for this business combination is not completed as at the date of these financial statements, specifically the identification and valuation of acquired intangible assets and the valuation of contingent consideration. Accordingly, the group is unable to disclose the acquisition date fair value of the total consideration transferred, the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed, and the resultant goodwill recognised on the acquisition.

The fair value of acquired receivables is \$172,222, which is also the gross contractual amount receivable. The group expects to collect all contractual cash flows from these receivables.

#### Change in third party logistics provider

On 1 August the Company changed its third party logistics provider for the Australian business from CS Logistics Solutions to Sony DADC. Sony DADC is highly efficient logistics services provider based in western Sydney.

## 27. Parent entity information

	2019	2018
	\$000	\$000
Current assets	27,751	20,623
Total assets	41,375	26,097
Current liabilities	(21,403)	(9,528)
Total liabilities	(23,193)	(9,528)
<b>Net assets</b>	<b>18,182</b>	<b>16,569</b>
Issued capital	33,453	31,453
Retained earnings / (accumulated losses)	(25,029)	(25,029)
Reserve for own shares	(25)	(25)
Reserve for profits	8,072	8,457
Reserve for share based payment	1,711	1,713
<b>Total shareholder's equity</b>	<b>18,182</b>	<b>16,569</b>
Profit / (loss) of the parent entity after tax	627	5,642
<b>Total comprehensive income of the parent entity</b>	<b>627</b>	<b>5,642</b>

The parent has not issued any guarantees in relation to the debts of its subsidiaries and has no contingent liabilities or contractual obligations as at 30 June 2019 (2018: Nil).

## 28. Auditors' remuneration

	2019	2018
	\$000	\$000
<b>Amounts received or due and receivable by the auditors for:</b>		
<b>Audit or review of the Financial Report of the entity and any other entity in the group</b>		
Pitcher Partners	95,000	77,000
<b>Taxation services in relation to the entity and any other entity in the group</b>		
Pitcher Partners	62,130	59,810
	<b>157,130</b>	<b>136,810</b>

## 29. Dividend franking account

### Franking credit balance

The amount of franking credits available for the subsequent financial year are \$nil (2018: \$nil).

## 30. Cash flow statement reconciliation

	Consolidated	
	2019	2018
	\$000	\$000
<b>Reconciliation of net profit after tax to net cash flows from operations:</b>		
Net profit / (loss)	405	5,982
<b>Adjustments for:</b>		
Depreciation and amortisation	759	177
Interest revenue classified as investing cash flow	(5)	(3)
Share based payments expense / (benefit)	(2)	82
Share of (profits) / losses of associates	5	(10)
Fair value gain on revaluation of contingent consideration payable	(683)	-
<b>Changes in assets and liabilities:</b>		
(Increase) / decrease in trade and other receivables	1,131	1,758
(Increase) / decrease in right to returned goods asset	293	-
(Increase) / decrease in inventories	(5,315)	2,742
(Increase) / decrease in current tax asset	(25)	-
(Increase) / decrease in deferred tax assets	(185)	(2,919)
(Decrease) / increase in trade and other payables	(1,915)	(1,682)
(Decrease) / increase in provisions	357	144
(Decrease) / increase in current tax liability	49	54
Change in other financial instruments	(108)	(277)
<b>Net cash from operating activities</b>	<b>(5,239)</b>	<b>6,048</b>

## Directors' declaration

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

In the opinion of the Directors:

- a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the company's financial position as at 30 June 2019 and of their performance for the year ended on that date;
  - ii) complying with Australian Accounting Standards and Corporations Regulations 2001;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a);
- c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2019.

On behalf of the Board



**Michael Wendt**  
**Chairman**

Brisbane  
26 August 2019



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

### Report on the Audit of the Financial Report

#### Opinion

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

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

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

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key audit matter**

**Acquisition of Turn Left Distribution Pty Ltd**

*Refer to note 23 Business combinations and note 2(v) Critical accounting estimates and judgements*

During the year the Group acquired 100% of the share capital of Turn Left Distribution Pty Ltd for the gross purchase consideration of \$7.855m. This was considered a significant acquisition for the Group.

Accounting for this transaction is a complex and judgemental exercise, requiring management to determine the fair value of consideration paid, assets acquired and liabilities assumed.

In particular, there is complexity in determining the fair value of contingent consideration and the allocation of total purchase consideration transferred to goodwill and other identifiable intangible assets, such as supplier and customer relationships.

Due to the significance of the acquisition and judgements required to estimate fair values to account for this transaction, it is considered a key audit matter.

**How our audit addressed the matter**

Our procedures included, amongst others:

- Obtaining an understanding of the relevant controls associated with identifying and accounting for business acquisitions within the financial statements;
- Reading the share sale and purchase agreement to understand key terms and conditions;
- Evaluating the independence, qualifications and competence of management’s expert engaged to estimate the fair value of the purchase consideration, identifiable assets acquired and liabilities assumed;
- Evaluating the appropriateness of the valuation methodology applied by management’s expert to determine the fair value of customer and supplier relationships acquired;
- Assessing the reasonableness of key inputs and assumptions applied in the valuation of contingent consideration, supplier relationships and customer relationships, in particular, the forecast cash flows, probability weightings applied to earn-out payout scenarios, customer and supplier attrition rates, contributory asset charges and discount rates; including comparison against external benchmarks, where available; and,
- Assessing the adequacy of disclosures.

**Key audit matter**

**Impairment testing for non-current assets**

*Refer to note 14 Non-current assets - intangible assets and note 2(v) Critical accounting estimates and judgements*

Impairment testing for goodwill is required to be completed annually under Australian Accounting Standard AASB 136 Impairment of Assets.

This standard also requires impairment testing to be conducted for other non-current assets where there is an indicator that those assets may be impaired. At the reporting date the Group’s carrying value of net assets exceeded the Group’s market capitalisation, which is an indicator that non-current assets may be impaired.

Impairment testing for non-current assets is a key audit matter due to the value of assets subject to impairment testing, and the high degree of estimation and assumptions (as disclosed in notes 2(v) and 14) required to be made by the Group, specifically concerning discounted cash flows.

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#### How our audit addressed the matter

Our procedures included, amongst others:

- Obtaining an understanding of the relevant controls to identify if indicators of impairment exist in respect of the Group's non-current assets;
- Assessing management's determination of the Group's Cash Generating Units (CGUs) based on our understanding of the nature of the Group's business and the identifiable groups of cash generating assets;
- Comparing the cash flow forecasts used in the value-in-use calculation to Board approved budgets for the 2020 financial year. We also compared the current year's forecast to actual results to assess the accuracy of the forecasting process;
- Checking the mathematical accuracy of the impairment testing model and its consistency with the requirements of AASB 136;
- Assessing the reasonableness of significant judgements and key estimates used for the impairment assessment, in particular, those relating to the discount rate and growth rates used in the cash flow forecasts;
- Corroborating management's growth rate assumptions with external information, where possible;
- Evaluating the impact of sensitivities in respect of changes in discount rates and growth rates used in management's impairment testing calculations; and
- Assessing the adequacy of disclosures.

#### Key audit matter

##### Revenue recognition – variable consideration

*Refer to note 2(v) Critical accounting estimates and judgements*

Revenue is recognised net of estimated incentives, rebates, and expected returns.

Rebate and incentive arrangements offered by the Group are varied and typically customer specific. These obligations are established either in contract or through principal of constructive obligation based on customary business practice. The expected reversal of sales through customers exercising their right of return is estimated based on historical rates of return. Due to the multitude and variety of contractual terms with customers and the degree of managerial judgement involved, the estimation of variable consideration in respect of these items is considered to be complex.

There is a risk that revenue could be misstated due to the level of estimation and judgement required in accounting for these obligations. As such, we considered revenue recognition to be a key audit matter.

#### How our audit addressed the matter

Our procedures included, amongst others:

- Obtaining an understanding of the controls over the recognition of rebates, incentives and rights of return, and evaluating the design and implementation of those controls;
- Evaluating the appropriateness of the Group's revenue recognition accounting policies;
- Assessing the accuracy of rebates and incentives recognised throughout the period based on the terms of underlying contractual or constructive obligations;
- Recalculating the valuation of refund liabilities for outstanding rebates and incentives having regard to contractual arrangements in place, sales volumes, and customer claim history.
- Assessing the calculation of the right of return liability and associated right to returned goods asset, including testing the accuracy of the historical rate of return applied and the valuation of the right to returned goods; and,
- Assessing the adequacy of disclosures.

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### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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

### *Responsibilities of the Directors for the Financial Report*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

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appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

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

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

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

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

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### **Report on the Remuneration Report**

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included on pages 16 to 22 of the directors' report for the year ended 30 June 2019. In our opinion, the Remuneration Report of Cellnet Group Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

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

PITCHER PARTNERS

A handwritten signature in black ink, appearing to read 'D. Colwell'.

DANIEL COLWELL  
Partner  
Brisbane, Queensland  
26 August 2019

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## ASX Additional information

### As at 23 August 2019

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

### Shareholdings

#### 20 largest shareholders

Name	Ordinary share held	% of capital held
Wentronic Holding Gmbh	32,091,380	51.27%
JEJ Group Limited	6,500,000	10.38%
EDP Investments	4,109,589	6.57%
Chemical Trustee Ltd	1,820,000	2.91%
Philadelphia Investments Pty Ltd	1,650,274	2.64%
Michael Wendt	1,600,000	2.56%
LB Campos Pty Limited	1,369,863	2.19%
Mr Alan Sparks	1,300,000	2.08%
TUP Pty Ltd	1,000,000	1.60%
Panic Super	1,000,000	1.60%
Mr Thien Dinh Nguyen	660,306	1.05%
Velkov Funds Management Pty Ltd	600,000	0.96%
Mr Dave Clark	500,000	0.80%
Mr Craig Kingshott	500,000	0.80%
Ms Amaya Margaret Brookman	480,943	0.77%
Kevin Gilmore	400,000	0.64%
Chris Barnes	322,708	0.52%
Tony Peck	300,000	0.48%
Mr Jonathon Matthews	214,134	0.34%
Dino 246 Pty Ltd	200,000	0.32%
<b>Top 20 holders</b>	<b>56,618,864</b>	<b>90.45%</b>
<b>All other holders</b>	<b>5,976,232</b>	<b>9.55%</b>
<b>All holders</b>	<b>62,595,096</b>	<b>100.00%</b>

### Substantial shareholders

The number of shares held by substantial shareholders and their associates, as advised in substantial holder notices given to the Company, are set out below:

Shareholder	Shares per notice
Wentronic Holding Gmbh	32,091,380
JEJ Group Limited	6,500,000
EDP Investments	4,109,589

### Distribution of equity security holders

Category	No. of holders
1 – 1000	96
1,001 – 5,000	367
5001 – 10,000	94
10,001 – 50,000	80
50,001 – 100,000	12
100,001 and over	31

The number of shareholders holding less than a marketable parcel of ordinary shares is 294.

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**cellnet**

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**Cellnet Group Limited**

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**cellnet**