CML Group

APPENDIX 4D

CML Group Limited

ABN: 88 098 952 277

Interim Report
For the Half Year ended 31 December 2019

Current Reporting Period
Six months to 31 December 2019

Previous Corresponding Period
Six months to 31 December 2018

CML Group

Appendix 4D

Half Year Report

Half Year ended 31 December 2019
(Previous corresponding period half year ended 31 December 2018)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

$A'000s

Revenue from ordinary activities	**Down**	**1%**	**to**	**$24,895**
Profit from ordinary activities after tax attributable to members	**Down**	**64%**	**to**	**$1,473**
Profit after tax attributable to members	**Down**	**64%**	**to**	**$1,473**
Adjusted profit after tax attributable to members	**Up**	**5%**	**to**	**$4,588**

DIVIDENDS

	Consolidated Group	
	31 Dec 2019 $ 000's	**31 Dec 2018 $ 000's**
Dividends paid or provided for during the period:		
Final 2019 fully franked ordinary dividend of 1.40 cents (2018: 0.75 cents) per share franked at the tax rate of 30% (2018: 30%)	2,819	1,508

Dividends (distributions)	Amount per security	Franked amount per security	Record date	Payment date
Final dividend 30 June 2019 (previous year)	1.40 cents	100%	16 September 2019	8 October 2019
Interim dividend 31 December 2019	Nil	N/A	N/A	N/A

Net profit after tax includes ($2.8m) of non-cash items relating to goodwill impairment on CML's legacy recruitment operations and amortisation of identifiable intangibles. In addition, CML has expensed ($0.3m) in M&A related costs for the period. **On an adjusted basis, CML's Net profit after tax for the period is $4.6m, up 5% on the corresponding period last year (1H'19: $4.4m).**

CML has informed shareholders of the terms of a Scheme of Arrangement with Consolidated Operations Group (COG) and competing non-binding indicative proposal from Scottish Pacific (Scotpac). If CML proceeds with a Scheme of Arrangement with either COG or Scotpac, the terms will include a 3 cents per share fully franked dividend, payable prior to Scheme implementation. To preserve cash for this scenario, CML will not pay an interim dividend relating to the 6 months ended 31 December 2019.

DIRECTORS' REPORT

The directors of CML Group Limited ("CML Group" or "the Company") submit herewith the financial report of the consolidated entity for the half year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors of the company during or since the end of the half year are:
Greg Riley – Non-Executive Chairman
Daniel Riley – Managing Director
Sue Healy – Non-Executive Director
Geoff Sam OAM – Non-Executive Director
Ilkka Tales – Non-Executive Director

Steve Shin - Company Secretary

Principal activities

The consolidated entity's principal activities during the half year were that of financial services.

During the period, CML Group acquired 100% of the ordinary shares in Classic Funding Group ("CFG") for the total consideration of $10.25m, which included Goodwill, plus loan book funding of circa $128m. CML Group entered into a Scheme Implementation Agreement ("SIA") with Consolidated Operations Group Limited ("COG"). CML Group has announced that its legacy recruitment operations will be discontinued in 2H'20 and has fully impaired $2.4m of goodwill in its balance sheet relating to this business.

Review of operations

CML is pleased to report a strong Half Year 2020 result, with key highlights as follows;

- Invoices funded up 9% to $912 million
- EBITDA (adjusted) up 1% to $10.2m
- NPATA up 5% to $4.6m
- EPS (underlying) up 4% to 2.26 cents per share

CML is pleased to report a strong financial result for the period, which has been achieved through improved new business momentum in invoice finance and continued growth in equipment finance. In addition, CML completed the acquisition of Classic Funding Group in November 2020, with approximately $0.2m contribution to NPATA for the period.

On an adjusted basis, after adding back M&A related expenses for the period ($0.3m) and non-cash amortisation and impairment of intangibles ($2.8m), net profit after tax for the period is $4.6m, up 5% on the previous corresponding period (1H'19: $4.4m).

During the period CML completed the acquisition of Classic Funding Group (CFG), which adds significant scale to the Equipment Finance division and adds further to scale in Invoice Finance. Pleasingly, CFG contributed approximately $0.2m to NPATA for the period and is expected to contribute at a higher rate in future periods as integration work is finalised and cost synergies fully realised.

CML has informed shareholders of the terms of a Scheme of Arrangement with Consolidated Operations Group (COG) and competing non-binding indicative proposal from Scottish Pacific (Scotpac). If CML proceeds with a Scheme of Arrangement with either COG or Scotpac, the terms will include a 3 cents per share fully franked dividend, payable prior to Scheme implementation. To preserve cash for this scenario, CML will not pay an interim dividend relating to the 6 months ended 31 December 2019

As at 31 December 2019, there was a surplus in net current assets to net current liability of $81.4m (June 2019: $57.5m).

Please refer to note 9 in the financial statements for more details of the consolidated entities borrowings.

CML Group

Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations Instrument 2016/191. Accordingly, certain amounts in the financial statements and directors' report have been rounded where appropriate to the nearest $1,000 unless otherwise specified.

Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year is provided with this report.

This report is signed in accordance with a resolution of the Board of Directors.

Daniel Riley
Managing Director
28th February 2020

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Auditor's Independence Declaration
To the Directors of CML Group Limited
ABN 88 098 952 277

In relation to the independent auditor's review of CML Group Limited and its Controlled Entities for the half year ended 31 December 2019, to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

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

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

John Gavljak
Partner

Pitcher Partners
Sydney

28 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated Group 31 Dec 2019 $ 000's	Consolidated Group 31 Dec 2018 $ 000's
Revenue	3	24,895	25,087
Expenditure			
Agency		(731)	(951)
Allowance for expected credit losses		(193)	(1,136)
Depreciation and amortisation	4	(775)	(558)
Employee - direct employees		(6,408)	(5,613)
Employee - on-hire staff		(3,156)	(3,627)
Finance - product related		(4,002)	(3,584)
Finance - corporate		(247)	(201)
Insurance		(1,028)	(1,100)
Legal		(1,000)	(562)
Marketing		(267)	(194)
Rent		-	(347)
IT		(459)	(227)
Impairment of goodwill – Zenith	8	(2,416)	-
Other		(1,747)	(1,139)
Total expenditure		(22,429)	(19,239)
Profit before Income Tax		2,466	5,848
Income tax expense		(993)	(1,891)
Profit for the half year		1,473	3,957
Profit attributable to members of the parent entity		1,473	3,957
Other comprehensive income		-	-
Total comprehensive income for the period		1,473	3,957
Earnings per Share:			
Basic earnings per share (cents)		0.73	2.17
Diluted earnings per share (cents)		0.69	2.07

CML Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated Group	
		31 Dec 2019	30 June 2019
		$000's	$000's
CURRENT ASSETS			
Cash and cash equivalents	5	31,182	21,082
Trade receivables – debtor finance	6	230,235	191,573
Trade and other receivables	6	2,497	685
Finance lease receivables	7	18,561	4,809
Other current assets		2,509	1,023
TOTAL CURRENT ASSETS		284,984	219,172
NON-CURRENT ASSETS			
Finance lease receivable	7	92,479	14,000
Plant and equipment		549	399
Right of use asset		1,172	-
Deferred tax assets		2,849	2,010
Intangible assets	8	26,695	15,567
TOTAL NON-CURRENT ASSETS		123,744	31,976
TOTAL ASSETS		408,728	251,148
CURRENT LIABILITIES			
Trade payables – debtor finance	6	96,312	87,772
Trade payables		7,578	2,068
Other current liabilities		112	49
Current lease liability		512	-
Current tax liabilities		2,231	2,618
Borrowings	9	95,992	68,464
Provisions - employees		893	693
TOTAL CURRENT LIABILITIES		203,630	161,664
NON-CURRENT LIABILITIES			
Borrowings	9	152,855	44,505
Non-current lease liability		815	97
Provisions - employees		238	83
TOTAL NON-CURRENT LIABILITIES		153,908	44,685
TOTAL LIABILITIES		357,538	206,349
NET ASSETS		51,190	44,799
EQUITY			
Issued capital	10	47,726	39,954
Retained profits		3,023	4,404
General reserve		441	441
TOTAL EQUITY		51,190	44,799

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Share Capital	Reserves	Accumulated Profit /(Losses)	Total Equity
	$ 000's	$ 000's	$ 000's	$ 000's
Balance at 1 July 2018	39,787	441	(54)	40,174
Total comprehensive income	-		4,370	4,370
Transactions with owners in their capacity as owners: -				
Dividend paid or provided for the period	-	-	(1,508)	(1,508)
Issue of Ordinary Shares	103	-	-	103
Balance at 31 December 2018	39,890	441	2,808	43,139
Balance at 30 June 2019	39,954	441	4,404	44,799
Adoption of AASB 16	-	-	(35)	(35)
Restated balance at 1 July 2019	39,954	441	4,369	44,764
Total comprehensive income	-	-	1,473	1,473
Transactions with owners in their capacity as owners: -				
Dividend paid or provided for the period	-	-	(2,819)	(2,819)
Issue of Ordinary Shares	7,772	-	-	7,772
Balance at 31 December 2019	47,726	441	3,023	51,190

CML Group

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated Group	
		31 Dec 2019	**31 Dec 2018**
		$ 000's	**$ 000's**
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		27,069	27,868
Payments to suppliers and employees		(20,015)	(16,307)
Interest received		261	95
Finance costs		(5,159)	(3,610)
Income tax paid		(1,042)	(1,108)
Net cash provided by operating activities		**1,114**	**6,938**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(11)	(83)
Payments for IT development		(80)	-
Proceeds from client receivables		1,253	9,938
Payments from / (payments to) equipment lease receivables		2,336	(4,952)
Cash paid on acquisition of subsidiary	12	(11,000)	-
Net cash provided (used in) / by investing activities		**(7,502)**	**4,903**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowings		17,058	-
Repayment of borrowings		(8,614)	(4,451)
Repayment of lease liability		(240)	-
Proceeds from issue of shares		7,772	-
Dividends paid		(2,819)	(1,405)
Net cash provided by / (used in) financing activities		**13,157**	**(5,856)**
Net increase in cash held		6,769	5,985
Cash at the beginning of the half year		24,413	15,678
Cash at the end of the half year	5	**31,182**	**21,663**

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. This interim financial report is intended to provide users with an update on the latest annual financial statements of CML Group Limited and its controlled entities (referred to as "the consolidated group" or "the Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this interim financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half year. CML Group Limited is a for-profit entity for the purpose of preparing the financial statements.

The half-year financial report was authorised for issue by the directors on 28th February 2020.

Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2019 annual financial report for the financial year ended 30 June 2019, except for the accounting policy on leases described below which has changed as a result of the adoption of AASB 16 Leases. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

AASB 16: Leases

AASB 16 replaces AASB 117 Leases and introduces a single lessee accounting model that requires 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 cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

(a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for on a cost basis unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:

   i. investment property, the lessee applies the fair value model in AASB 140 Investment Property to the right-of-use asset; or

   ii. property, plant or equipment, the lessee applies the revaluation model in AASB 116 Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and

lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the Group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (therefore, at 1 July 2019). Accordingly, comparative information has not been restated.

The Group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to recognise each right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application;
- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value;

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

AASB 16: Leases - continued

- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to exclude initial direct costs from the measurement of each right-of-use asset at the date of initial application; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of $1,406,000 (referred to in these financial statements as “Right of use asset”) and corresponding lease liabilities with an aggregate carrying amount of $1,567,000. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 3.23%.

The following is a reconciliation of non-cancellable operating lease commitments disclosed at the end of the prior reporting period (as at 30 June 2019) to the aggregate carrying amount of lease liabilities recognised at the date of the initial application (as at 1 July 2019):

	$000’s
Aggregate non-cancellable operating lease commitments at 30 June 2019	1,992
Less: lease payments previously included in non-cancellable lease commitments for leases with remaining terms of less than 12 months and leases of low value assets	(43)
Less: impact of discounting lease payments to their present value at 1 July 2019	(382)
Carrying amount of lease liabilities recognised at 1 July 2019	1,567

Further details of the Group’s accounting policy for leases, for the half-year period ended 31 December 2019, is as follows:

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Group, and an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability), less accumulated amortisation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e. the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Group’s incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e. the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

Critical Accounting Estimates and Judgements

The critical estimates and judgements are consistent with those applied and disclosed in the June 2019 annual report.

Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Corporations Instrument 2016/191. Accordingly, certain amounts in the financial statements have been rounded off where appropriate to the nearest $1,000, unless otherwise specified.

2. OPERATING SEGMENTS

Identification of reportable segments

The Group is managed primarily based on product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following: -

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or services;
- any external regulatory requirements.

Types of products and services by segment

(i) Finance
Refers to 'factoring' or 'invoice finance' which provides an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from the customer (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume.

(ii) Equipment Finance
Refers to equipment finance for both new and old equipment. This includes sale-back of owned or partially owned equipment, private sales and mid-term refinancing.

(iii) Other Services
Refers to employment solutions including labour sourcing and project management.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions
There are no material inter-segment transactions.

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS – continued

(c) Segment assets / liabilities
The nature of the business is such that assets and liabilities are used across all segments and cannot be identified as relating to a specific segment. Therefore, assets and liabilities are not allocated, and segment details of assets and liabilities are not provided to the chief operating decision marker.

The net book value of total assets is $408.7m (30 June 2019: $251.1m) per the consolidated statement of financial position. All assets are based in Australia. The net value of liabilities is $357.5m (30 June 2019: $206m) per the consolidated statement of financial position.

(d) Unallocated items
The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense
- Deferred tax assets and liabilities
- Intangible assets
- Interest costs and interest income
- Depreciation and amortization

Segment performance

(e) Segment information

	Finance	Equipment Finance	Other services	Unallocated/ Corporate	Total
Six months ended 31 December 2019	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Invoice Purchased	*910,314*	-	-	-	*910,314*
Segment revenue	17,144	3,889	3,730	132	24,895
Adjusted Profit/(Loss) before income tax from continuing operations	8,634	1,968	479	(901)	10,180

	Finance	Equipment Finance	Other services	Unallocated/ Corporate	Total
Six months ended 31 December 2018	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**	**$ 000's**
Invoice Purchased	*838,302*	-	-	-	*838,302*
Segment revenue	19,463	1,397	4,132	95	25,087
Adjusted Profit/(Loss) before income tax from continuing operations	10,136	404	429	(873)	10,096

The Board assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains / (losses) on financial instruments. Interest income and expenditure are also not allocated to segments. A reconciliation of adjusted profit before income tax to profit before income tax is provided as follows: -

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS – continued

(e) Segment information - continued

	31 Dec 2019 $000's	31 Dec 2018 $000's
Adjusted profit before income tax from continuing operations	10,180	10,096
Depreciation and amortisation	(362)	(145)
Amortisation – customer relationships	(413)	(413)
Impairment of goodwill	(2,416)	-
Interest costs	(4,249)	(3,785)
Interest income	133	95
Merger and acquisition related costs – CFG and COG	(407)	-
Profit before income tax from continuing operations	2,466	5,848

3. REVENUE

	31 Dec 2019 $000's	31 Dec 2018 $000's
Revenue from continuing operations		
Services		
Finance	17,014	19,463
Equipment Finance	4,019	1,397
Other services – Revenue from contracts with customers	3,729	4,133
Other revenue		
Interest received	133	94
Total revenue	24,895	25,087

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NOTES TO THE FINANCIAL STATEMENTS

4. DEPRECIATION AND AMORTISATION

	31 Dec 2019	31 Dec 2018
	$000's	$000's
Depreciation and amortisation expense	(128)	(145)
Amortisation – leases AASB 16	(234)	-
Amortisation - customer relationships	(413)	(413)
Total	(775)	(558)

5. CASH AND CASH EQUIVALENTS

	31 Dec 2019	30 June 2019
	$ 000's	$ 000's
Cash at bank and on hand	31,182	21,082
	31,182	21,082

6. TRADE RECEIVABLES

	31 Dec 2019	30 Jun 2019
	$ 000's	$ 000's
Trade receivables – debtor finance	235,820	196,770
Less: Allowance for expected credit losses	(5,585)	(5,197)
	230,235	191,573
Trade and other receivables	2,497	685
	2,497	685
Client Receivables		
Trade receivables – debtor finance	235,820	196,770
Less: Trade payables – debtor finance	(96,312)	(87,772)
Client Receivables	139,508	108,998
Less: Allowance for expected credit losses	(5,585)	(5,197)
Net Client Receivables	133,923	103,801

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NOTES TO THE FINANCIAL STATEMENTS

7. FINANCE LEASE RECEIVABLES

	31 Dec 2019	30 Jun 2019
	$000's	$000's
Current:		
Finance lease receivables	24,615	8,217
Allowance for expected credit losses	(454)	(124)
Unamortised loan brokerage fees	297	257
Unamortised loan transaction fees	(971)	(280)
Unamortised interest receivable	(4,926)	(3,261)
Total Current	18,561	4,809
Non-Current:		
Finance lease receivables	112,440	18,806
Allowance for expected credit losses	(2,169)	(362)
Unamortised loan brokerage fees	654	596
Unamortised loan transaction fees	(4,935)	(572)
Unamortised interest receivable	(13,511)	(4,468)
Total Non-Current	92,479	14,000
Grand Total	111,040	18,809

NOTES TO THE FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

	Note	31 Dec 2019	30 Jun 2019
		$000's	$000's
Goodwill:			
Opening net book balance		12,890	14,540
Acquisitions – Classic Funding Group	12	12,199	-
Goodwill from Classic Funding Group	12	1,712	-
Impairment of goodwill attributed to Zenith Management Services Pty Ltd		(2,416)	-
Adjustment to prior year acquisition during the measurement period		-	(1,650)
Net book value		24,385	12,890
Trademarks:			
Opening net book balance		2,125	2,125
Net book value		2,125	2,125
Customer relationships:			
Opening net book balance		550	-
Adjustment to prior year acquisition during the measurement period		-	1,650
Amortisation		(413)	(1,100)
Net book value		137	550
Software development:			
Opening net book balance		2	52
Capitalised during the period		80	-
Amortisation		(34)	(50)
Net book value		48	2
Total		26,695	15,567

The comparative statement of profit or loss and other comprehensive income for the half year ended 31 December 2018 was adjusted for the amortisation of customer relationships for $413,000. This is as a result of the subsequent identification of the intangible assets following the finalisation of the purchase price allocation for the acquisition of 1st Cash Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS - continued

Intangible assets, other than goodwill and trademarks, have finite useful lives ranging from 18 months to 5 years. Amortisation is calculated according to the estimated remaining economic useful life of the asset.

Goodwill and trademarks have an indefinite life.

Goodwill, customer relationships and trademarks are comprised of:

- The acquisition of an independent contractors Agreement from Lex Brown with goodwill amounting to $175,000;
- The acquisition of Cash Flow Finance Australia Pty Ltd in Financial Year 2015 with goodwill amounting to $2,125,000;
- The acquisition of Cashflow Advantage Pty Ltd in Financial Year 2016 with goodwill amounting to $2,727,000 less $700,000 customer relationships identified from PPA exercise;
- The acquisition of 180 Group Pty Ltd in Financial Year 2016 with goodwill amounting to $6,334,000 less $1,700,000 customer relationships identified from PPA exercise; and
- The acquisition of 1st Cash Pty Ltd in Financial Year 2018 amounted to goodwill of $3,638,000 ($5,288,000 less $1,650,000 customer relationships identified from PPA exercise).
- The acquisition of Classic Funding Group in Financial Year 2020 amounted to goodwill of $12,199,000 (preliminary accounting).

(a) Impairment tests for goodwill and trademarks

The recoverable amount of goodwill and trademarks is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a 5 year period. The growth rate does not exceed the long-term average growth rate for the business in which the business operates.

The growth rate used is considered reasonable based on industry trends. The value in use calculations are based on budgeted results for the 2020 and actual results for the 2019 financial years.

Growth Rate		Discount Rate	
Dec 2019	June 2019	Dec 2019	June 2019
%	%	%	%
2.5	2.5	7.8	7.8

(b) Impairment Charge

Intangible assets have been tested for impairment at 31 December 2019 resulting impairment of goodwill in Zenith Management Services Pty Ltd of $2.4m. During the period, Zenith Management Services Pty Ltd lost the tender to renew a major contract with a government department. No other indicators of impairment were identified for finite life intangible assets.

(c) Impact of possible changes in key assumptions

If there was no budgeted growth rate, the Group would have not recognised an impairment of goodwill.

If the estimated cost of capital used in determining the discount rate for goodwill and trademarks had been 10% higher than managements' estimates of 7.8%, the Group would not have to recognise an impairment of goodwill and trademarks.

NOTES TO THE FINANCIAL STATEMENTS

9. BORROWINGS

	31 Dec 2019	30 Jun 2019
	$000's	$000's
CURRENT		
Unsecured:		
Receivables Financing Facility – Bank	69,758	68,431
Unsecured Loans – Insurance	733	33
Overdraft facility	490	-
Total	70,981	68,464
Secured:		
Senior Secured Corporate Bond	25,011	24,875
Total	25,011	24,875
Total current	95,992	93,339
NON-CURRENT		
Unsecured:		
Unsecured Corporate Bond	19,688	19,630
Receivables Financing Facility – Non-Bank	19,649	-
Total	39,337	19,630
Secured:		
Securitised warehouse facility	113,518	-
Total	113,518	-
Total non-current	152,855	19,630

Receivable Financing Facility - Bank
In April 2019, CML Group entered into $140m drawdown facility with an institutional bank at an average 3.6% interest rate. The facility is reviewed annually. The used portion of the facility amounted to $69.8m and unused portion of $70.2m at 31 Dec 2019.

Unsecured Loans – Insurance
In July 2019, CML Group entered into $1.6m insurance premium funding arrangement. The arrangement has fixed interest rate of 1.45% p.a. payable monthly in arrears to May 2020.

Overdraft and Securitised Warehouse Facilities
In November 2019, CML acquired overdraft and securitised warehouse facilities with an institutional bank through acquisition of Classic Funding Group. The overdraft facility has limit of $4m of which $0.5m was used as at 31 Dec 19. The warehouse facilities have a limit of $133.3m for equipment finance and $46.7m for receivable finance. Combined facilities have an average interest rate of 3.94%. The facilities are reviewed annually. The used portion of the facilities amounted to $95m for equipment finance and $19m for receivable finance as at 31 Dec 2019.

Unsecured Corporate Bond
In May 2018, CML Group raised $20m by issuing an unsecured Corporate Bond. The Unsecured Corporate Bond has fixed interest rate of 7.95% p.a. payable quarterly in arrears. The Bond has a maturity date of 30 May 2022.

Secured Corporate Bond
In May 2015, CML Group raised $25.0m by issuing a Senior Secured Corporate Bond at a floating coupon rate of 5.4% per annum plus the 30-day Bank Bill Swap Rate, payable monthly in arrears to May 2020.

NOTES TO THE FINANCIAL STATEMENTS

10. CONTRIBUTED EQUITY

	31 Dec 2019	30 Jun 2019	31 Dec 2019	30 Jun 2019
	No.	No.	$000's	$000's
Balance at beginning of the period	201,378,988	201,041,948	39,954	39,787
Shares issued or under issue during the period				
Ordinary shares @ 48 cents from right issue	15,831,764	-	7,599	-
Share issue from dividend reinvestment plan	361,305	337,040	173	167
	217,572,057	201,378,988	47,726	39,954

11. CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

The Group has gained 100% control of following entities during the period:

- Classic Funding Group Pty Ltd
- Classic Cash Flow Solutions Pty Ltd
- Classic Clean Energy Finance Pty Ltd
- Classic Finance Pty Ltd
- The Leasing Centre Pty Ltd
- CF Management Services Pty Ltd
- Classic Receivable Finance Trust
- Classic Equipment Finance Trust

NOTES TO THE FINANCIAL STATEMENTS

12. BUSINESS COMBINATIONS

On 1 November 2019, CML Group Limited acquired 100% of the ordinary shares of Classic Funding Group ("CFG") for the total consideration of $10.25m, which includes Goodwill, plus loan book funding of circa $128m.

The acquisition has accelerated CML's strategy to gain market share in Invoice Discounting and Equipment Finance. The acquisition has increased CML's Invoice Discounting and Equipment Finance Funds Advanced by ~5x. The addition of CFG's client base and experienced staff brings forward CML's strategy to build volume in Invoice Discounting and improved funding structure within the CFG Equipment Finance division and brings forward CML's plan to transition to significantly cheaper funding for its Equipment Finance product.

The acquired business contributed revenue of $2.28m and profit after tax of $0.23m for the period from 1 November 2019 to 31 December 2019.

	Note	Fair Value
		$000's
Trade receivables – debtor finance		57,886
Trade and other receivables		95
Finance lease receivables		99,309
Unamortised interest receivable		(3,329)
Property, plant & equipment		233
Goodwill	8	1,712
Other assets		3,885
Trade payables – debtor finance		(27,476)
Trade payables		(2,954)
Borrowings (to fund trade and finance lease receivables)		(128,214)
Employee liabilities		(427)
Other Liabilities		(2,671)
Net tangible liabilities assumed		(1,951)
Goodwill / other identifiable assets to be allocated prior to the completion of acquisition accounting	8	12,199
Total purchase consideration		10,248
Representing:		
Cash paid to vendor		11,000
Receivable from Vendor		(752)
Total purchase consideration		10,248
Acquisition costs expensed to profit and loss		44
Net consideration used		10,292

NOTES TO THE FINANCIAL STATEMENTS

12. BUSINESS COMBINATIONS - continued

Initial purchase consideration for Classic Funding Group was $11m including Goodwill. However, due to adjustments identified post acquisition, total purchase consideration has been decreased to $10.2m. There is $1.1m held in CML's solicitor's trust account and once the vendor agrees with the adjustments identified, the variance amount will be refunded to CML.

Due to the timing of the acquisitions, provisional amounts have been used in accounting for the business combinations. Provisional amounts recognised will be adjusted retrospectively during the measurement period which will end as soon as possible and not more than one year from the acquisition date, the maximum allowed under the standard. Goodwill is not expected to be deductible tax purpose.

13. EARNINGS PER SHARE

	31 Dec 2019	31 Dec 2018
	$000's	$000's
Profit after income tax attributable to the owners of CML Group Limited	1,473	4,370
	Cents	Cents
Basic earnings per share	0.73	2.17
Diluted earnings per share	0.69	2.07
	No.	No.
Weighted average number of ordinary shares in calculating basic earnings per share	203,086	201,138
Adjustments for calculations of diluted earnings per share:		
Options over ordinary shares	10,000	10,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	213,086	211,138

14. NET TANGIBLE ASSET BACKING

	31 Dec 2019	30 Jun 2019
Net tangible asset backing per ordinary security (cents)	10.72	14.52

15. DIVIDENDS

	31 Dec 2019	31 Dec 2018
	$ 000's	$ 000's
Dividends paid or provided for during the period:		
Final 2019 fully franked ordinary dividend of 1.40 cents (2018: 0.75 cents) per share franked at the tax rate of 30% (2018: 30%)	2,819	1,508

NOTES TO THE FINANCIAL STATEMENTS

16. EVENTS SUBSEQUENT TO REPORTING DATE

During the half year, CML Group entered into a Scheme Implementation Agreement ("SIA") with Consolidated Operations Group Limited ("COG").

On 4 February 2020, CML applied to the Federal Court of Australia for an order to postpone the Scheme Meeting of CML shareholders, which was scheduled for 5 February 2020. The basis for the postponement was for CML to advance negotiations with Scottish Pacific Group Limited (Scotpac) on a non-binding indicative offer received on 11 December 2019 to acquire 100% of the issued share capital of CML for total cash consideration of $0.60 per share and also to consider implications to the existing SIA with COG, resulting from COG's on-market purchase of CML shares on 29 January 2020.

On 12 February 2020, CML applied to the Court to seek a further adjournment of the Court proceedings. The adjournment was granted, with a new time to be fixed by the Court.

17. DETAILS OF ASSOCIATE OR JOINT VENTURES ENTITIES

The Group has no associate or joint venture entities.

18. FAIR VALUE

There are no assets or liabilities measured at fair value. The carrying amounts of cash and cash equivalents, trade and other receivables, other current assets, trade other payables and current borrowings are assumed to approximate their fair values due to their short-term nature. The carrying value of non-current borrowings from senior secured corporate bond approximates the fair value as it has variable interest rate that are at market rates.

CML Group

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of CML Group Limited, the directors of the company declare that:

1. In the directors' opinion, the financial statements and notes thereto, as set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

   b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds, at the date of this declaration, to believe that CML Group Limited will be able to pay its debts as and when they become due and payable.

Daniel Riley
Managing Director

Sydney, 28th February 2019

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Independent Auditor's Review Report
To the Members of CML Group Limited
ABN 88 098 952 277

Report on the Half Year Financial Report

We have reviewed the accompanying half-year financial report of CML Group Limited ("the Company") and its Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising CML Group Limited and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half Year Financial Report

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

Auditor's Responsibility

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

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of CML Group Limited is not in accordance with the *Corporations Act 2001*, including:

(i) giving true and fair view of the Consolidated Entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and

(ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001.*

John Gavljak
Partner

Pitcher Partners
Sydney

28 February 2020