

**Cellnet Group Limited**  
and its controlled entities

**ABN: 97 010 721 749**

**Financial Report**  
**Year Ended 30 June 2021**

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**Appendix 4E**  
**Final Report**  
**Results for announcement to the market**

<b>Name of Entity</b>	Cellnet Group Limited
<b>ABN</b>	97 010 721 749
<b>Reporting Period</b>	Full-year ended 30 June 2021
<b>Previous Corresponding Period</b>	Full-year ended 30 June 2020

**Results**

	<b>Reporting Period</b>	<b>Previous Corresponding Period</b>	<b>% Change Increase / (Decrease)</b>
	<b>\$000</b>	<b>\$000</b>	
Revenue from contracts with customers from continuing operations	96,141	96,225	(0.09%)
Revenue from contracts with customers from ordinary activities	96,141	96,225	(0.09%)
Profit/(Loss) from ordinary activities after tax attributable to members	3,810	(2,373)	260.55%
Net Profit/(Loss) for the period attributable to members	3,810	(2,373)	260.55%

## Dividends

	Amount per Security	Franked Amount per Security
Final dividend	\$0.003	NIL
Previous year final dividend	Nil	N/A

## Commentary on Results:

Please refer to the attached commentary for a more detailed review of the Company.

## Commentary on Dividends:

The company has declared a final dividend of 0.3 cents per share for the current financial year.

## Net Tangible Assets:

	30 June 2021	30 June 2020
Net tangible assets backing per share	8.34¢	6.80¢

## Other Information:

Additional appendix 4E disclosure requirements can be found in the attached Financial report. This appendix 4E and financial report are based on accounts that have been audited. The audit report, which was unqualified, is included in the attached financial report.

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## Corporate Information

ABN 97 010 721 749

### **Directors**

T. Pearson (Independent Chairman)  
M. Wendt (Deputy Chairman)  
K. Gilmore  
B Danos  
G Karhan

### **Company Secretary**

C. Barnes

### **Principal Registered Office**

Cellnet Group Limited  
E1 / 5 Grevillea Place  
Brisbane Airport Qld 4008  
Phone: 1300 CELLNET  
Fax: 1800 CELLNET

### **Banker**

Westpac Banking Corporation  
260 Queen Street  
Brisbane QLD 4000

### **Auditor**

Pitcher Partners  
345 Queen Street  
Brisbane QLD 4000

### **Share Register**

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

### **Solicitors**

Reddie Lawyers  
Level 40, 140 William Street  
Melbourne 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: <http://www.cellnet.com.au/investorrelations/>

# **Cellnet Group Limited and its consolidated entities**

## **Financial Report**

### **Directors' Report**

Your Directors submit their report for the year ended 30 June 2021.

#### **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**

##### **Tony Pearson**

**B. Com (Management)**  
**(Non-Executive Chairman)**

Tony is an experienced international executive and company director, with over ten years' experience on ASX, Hong Kong, Toronto and not-for-profit boards. He is currently Chair of ASX listed Peak Resources, and a non-executive director of ASX listed Xanadu Mines, a Trustee of the Royal Botanic Garden & Domain Trust, and a non-executive director of Communicare, and the Foundation & Friends of the Botanic Gardens. Tony's prior non-executive appointments include as a Commissioner of the Independent Planning Commission, chair of White Ribbon, and non-executive director of Aspire Mining and the International Grammar School. Prior to this, Tony was Managing Director at HSBC.

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

##### **Kevin Gilmore**

**B. Econ. MBA**  
**(Non-Executive Director Deputy Chairman)**

Mr. Gilmore is the Managing Partner at Pegu Partners, a capital and strategy advisory firm. He has also held management positions with many multinational corporations such as General Electric, Shell Petroleum, Philips Electronics and Belkin where he gained extensive experience in strategy, business development and marketing

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

##### **Michael Wendt**

**(Non-Executive Director)**

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).

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Directors' Report (continued)

#### Giles Karhan

**B. Arts, Grad. Diploma Finance and Investment, MBA  
(Non-Executive Director)**

Mr Karhan has worked in operations, sales and marketing, and management roles across both equities and funds management for over 20 years. He has worked in both large Australian banks and wealth managers as well as in boutique funds management. He currently is founder and CEO of Rocking Horse Finance, which accelerates a company's growth prospects and supports cash flow by providing financing against eligible R&D. Mr Karhan is a keen entrepreneur and has invested in a number of innovative businesses over the past 10 years. He has a wide range of asset management experience with institutional and wholesale clients. Mr Karhan in the Chairman of the Audit and Risk Committee.

#### Brian. Danos (appointed 1 July 2020)

**B. Bus (Management)  
(Non-Executive Director)**

Mr. Danos is the Chief Operations Officer for Wentronic GmbH. He has held this position since September 2019 and leads the process, supply chain, quality control and international operations for Wentronic. From April 2015 until August 2019 he was the General Manager of Wentronic Asia Pacific, where he led the overall operations of the Asian region and directed Wentronic's offices in China in all sourcing and logistical operations. Prior to his joining Wentronic Asia Pacific 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 is currently a member of the Audit and Risk Committee.

#### 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.

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	129,658,107	-
T. Pearson	6,375,000	-
K. Gilmore	3,288,000	5,000,000
G. Karhan	-	-
B. Danos	-	-

### Dividends

A final dividend of 0.30 cents per share was declared on 25<sup>th</sup> August 2021 with a payment date of 11 November 2021. No dividend was declared for the 2020 financial year.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Directors' Report (continued)

#### Principal activities

The principal activities of the group are:

- Sourcing products and the distribution of market leading brands of lifestyle technology products including mobile phone, gaming, tablet and notebook/hybrid accessories into retail and business channels in Australia and New Zealand; and
- Fulfilment 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 Limited for the 2021 financial year.

- Profit after tax of \$3.81m, up \$6.18m year-on-year
- EBIT up 480% year-on-year to \$4.37m
- Full-year dividend declared of 0.30 cents per share
- Return on equity of 15.0%
- Strong balance sheet with \$7.0m cash at bank as of 30 June 2021
- All term debt fully repaid during financial year
- NTA 8.34 cents per share, 22.6% improvement year-on-year
- Basic earnings per share of 1.61 cents per share, up 3.85 cents per share year-on-year

The group reported a net profit after tax of \$3.81m for the year ending 30 June 2021, up \$6.18m on the corresponding prior year period.

The group's strategic decision to pivot its brand portfolio to meet market demand in high growth categories, including securing new brands on improved commercial terms contributed to the higher earnings performance. During the financial year Cellnet partnered with several new brands in high growth segments such as audio, imaging and gaming including Nacon, Stealth, Subsonic, Wave Audio, Soul Electronics, BlueAnt and Fujifilm.

The second half of the financial year was marked by significant challenges, including a softening of the local retail market, international shipping delays and product shortages due to global semiconductor supply constraints. Against this challenging backdrop, the group continued to generate additional profit, building on its strong first-half result to report the strongest full-year pre-tax profit result in 15 years.

During the first-half of the financial year the group fully repaid all its outstanding term loans, which has further strengthened Cellnet's financial position for the full year with cash held of \$7.0m on 30 June 2021.

Given the strong result, the board of directors has reinstated the Company's full year dividend, declared at 0.30 cents per share, a yield of approximately 4.4% on the Cellnet share price as of close of trading 24 August 2021. The final dividend will be paid on 11 November 2021, the record date for determining the entitlement for the final dividend is 21 October 2021.

#### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the company during or since the end of the financial year.



# Cellnet Group Limited and its consolidated entities

## Financial Report

### Directors' Report (continued)

#### Significant events after balance date

There are 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

#### 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 5,000,000 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.

Grant Date	Vest Date	Expiry Date	Exercise Price (\$)	Number of Options on Issue at Date of This Report
22/10/2020	19/11/2020	21/10/2022	0.03	1,000,000
22/10/2020	13/01/2021	21/10/2023	0.03	2,000,000
22/10/2020	23/02/2021	21/10/2025	0.03	2,000,000

During the financial year, the company issued a total of 10,000,000 ordinary shares on exercise of share options, at an exercise price of \$0.03. The total consideration paid on these shares was \$300,000, and no amount of consideration is unpaid.

#### 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.

#### 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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Directors' Report (continued)

#### 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						
	Board		Audit & Risk		Nomination & Remuneration	
	Held	Attended	Held	Attended	Held	Attended
M. Wendt	15	15	-	-	1	1
K. Gilmore	15	15	-	-	1	1
B. Danos	15	15	3	3	-	-
T. Pearson	15	15	3	3	1	1
G. Karhan	15	15	3	3	-	-

#### 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 and risk:** G. Karhan (Chairman), T. Pearson, B. Danos

**Nomination and remuneration:** M. Wendt (Chairman), T. Pearson, K. Gilmore

#### Non-audit services

Non-audit services were provided by the entity's current auditor, Pitcher Partners during the year. Pitcher Partners received or are due to receive the following amounts for the provision of non-audit services

	Consolidated	
	2021	2020
	\$	\$
Taxation services	110,590	103,236
Financial due diligence services	25,000	-
	135,590	103,236

The board of directors, in accordance with advice provided by the audit and risk committee, is 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 directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

#### Auditor's independence declaration

The Auditor's independence declaration is set out on page 18 and forms part of the Directors' report for the financial year ended 30 June 2021.

# Cellnet Group Limited and its consolidated entities Financial Report

## Directors' Report (continued)

### Remuneration Report (audited)

This remuneration report for the year ended 30 June 2021 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 FY20 AGM

The FY20 remuneration report received positive shareholder support at the FY20 AGM with a vote of 99.97% 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

#### (i) Directors

T. Pearson	Chairman (Non-Executive)
K. Gilmore	Deputy Chairman (Non-Executive)
M. Wendt	Director (Non-Executive)
G. Karhan	Director (Non-Executive) – Appointed 9 June 2020
B. Danos	Director (Non-Executive) – Appointed 1 July 2020
M. Reddie	Director (Non-Executive) – Retired 1 May 2020
C. Barnes	Director (Executive) – Appointed 1 May 2020, Retired 9 June 2020

#### (ii) Executives

D. Clark	Chief Executive Officer (appointed 16 June 2020) & General Manager - New Zealand
C. Barnes	Chief Financial Officer and Company Secretary
A. Sparks	Chief Executive Officer – Retired 16 June 2020

### 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, although may from time to time receive compensation in the form of shares or share options subject to the approvals outlined in section 4.

## **Cellnet Group Limited and its consolidated entities**

### **Directors' Report (continued) Remuneration Report (audited) (continued)**

#### **2. Remuneration at a glance (continued)**

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 group's performance including:
  - the group'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**

##### **Nomination and remuneration committee**

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

The nomination and 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;
- 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. Total Non-executive Director remuneration exceeded this limit in the 2021 financial year, due to options granted as detailed below. These options were approved by the shareholders at the AGM held on 22 October 2020.

The Chairman's base fee for the financial year ended 30 June 2021 was \$50,000 (2020: \$30,000). Non-executive director base fees ranged from \$20,000 to \$30,000 during the financial year ended 30 June 2021 (2020: \$30,000). Non-executive directors do not receive performance related remuneration. Non-executive directors may, at the discretion of the Remuneration Committee and subject to shareholder approval, receive compensation in the form of shares or share options.

## Cellnet Group Limited and its consolidated entities

### Directors' Report (continued) Remuneration Report (audited) (continued)

#### 4. Non-executive director remuneration arrangements (continued)

In June 2020, the Chairman and two non-executive directors each agreed to reduce their base remuneration by \$15,000 per annum in return for options over ordinary shares in the company, as detailed below. Further, 875,000 ordinary shares were issued to the Chairman in October 2020 in respect of services provided in the 2020 financial year. These share-based remuneration arrangements were approved by the Company's shareholders at the 2020 AGM on 22 October 2020.

##### Terms and conditions of options granted during the year

15,000,000 options were granted to Non-executive Directors during the year, as described above. These options were subject to a market-based vesting condition, whereby the options would vest on the earlier of the Volume Weighted Average Price (VWAP) of the company's shares exceeding a target price for 5 consecutive days on which the shares are traded on the ASX, or 15 trading days regardless of whether shares trade on the ASX for consecutive trading days. For the purpose of these vesting conditions, the options were split into three tranches of 3,000,000, 6,000,000, and 6,000,000 options, with target share-prices of \$0.05, \$0.10 and \$0.15 respectively.

The grant date fair value per option of each of the three tranches granted during the year are \$0.2162, \$0.2178 and \$0.2175 respectively.

In addition, an option cannot be exercised unless the Board acting reasonably is satisfied that the following conditions have been satisfied:

- The option holders were also directors at the time when the relevant vesting condition was satisfied
- There is no outstanding breach of the terms of engagement with the company
- No notice of termination of engagement has been either given by the director or received by the company; and
- All vesting conditions have been satisfied.

The following table summarises the Non-executive Director options issued granted, exercised, or forfeited/lapsed during the financial year:

KMP	Grant Date	Expiry Date	Exercise Price	Opening Balance	No Granted	No. Forfeited	No Exercised	Closing balance
M Wendt	22/10/2020	21/10/2022	\$0.03	-	1,000,000	-	(1,000,000)	-
M Wendt	22/10/2020	21/10/2023	\$0.03	-	2,000,000	-	(2,000,000)	-
M Wendt	22/10/2020	21/10/2025	\$0.03	-	2,000,000	-	(2,000,000)	-
T Pearson	22/10/2020	21/10/2022	\$0.03	-	1,000,000	-	(1,000,000)	-
T Pearson	22/10/2020	21/10/2023	\$0.03	-	2,000,000	-	(2,000,000)	-
T Pearson	22/10/2020	21/10/2025	\$0.03	-	2,000,000	-	(2,000,000)	-
K Gilmore	22/10/2020	21/10/2022	\$0.03	-	1,000,000	-	-	1,000,000
K Gilmore	22/10/2020	21/10/2023	\$0.03	-	2,000,000	-	-	2,000,000
K Gilmore	22/10/2020	21/10/2025	\$0.03	-	2,000,000	-	-	2,000,000

All options outstanding as at 30 June 2021 are vested and exercisable. The full amount of the exercise price of \$0.03 was paid on options exercised during the period, and no amount of consideration is unpaid.

#### 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.

## Cellnet Group Limited and its consolidated entities

### Directors' Report (continued) Remuneration Report (audited) (continued)

#### 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 executives 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.

	Return on equity
Chief Executive Officer	100%
General Manager New Zealand	N/A
Chief Financial Officer	100%

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.

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. No bonus is awarded where performance falls below 90% of the return on equity target. Performance beyond 90% is uncapped, and there is therefore no maximum amount of STI that may be awarded.

The following table outlines the proportion of the agreed STI (as a percentage of base remuneration) that was earned and forfeited in relation to the 2021 financial year.

Name	Proportion of maximum STI earned in FY21	Proportion of maximum STI forfeited in FY21
D. Clark CEO	144%	0%
C. Barnes	144%	0%

No other executives were eligible to earn an STI in the 2021 financial year.

#### STI awards for 2020 and 2021 financial years

For the 2021 financial year, a total of \$217,478 has been accrued which represents 100% of the total STI cash bonus which has vested to executives, based on the table above. This will be paid in the 2022 financial year. For the 2020 financial year, a total payment of \$53,893 was made in the 2020 financial year which represents 100% of the total STI cash bonus previously accrued in that period which has 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.

## Cellnet Group Limited and its consolidated entities

### Directors' Report (continued) Remuneration Report (audited) (continued)

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.

### Executive Share Option Plan (continued)

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 Executive options issued granted, exercised, or forfeited/lapsed during the financial year.

KMP	Grant Date	Expiry Date	Exercise Price	Opening Balance	No. Granted	No. Forfeited	No Exercised	Closing balance
D. Clark	29/11/2017	30/08/2022	\$0.28	124,000	-	(124,000)	-	-
D. Clark	29/11/2017	30/08/2022	\$0.28	124,000	-	(124,000)	-	-
D. Clark	29/11/2017	30/08/2022	\$0.28	177,000	-	(177,000)	-	-
C. Barnes	29/11/2017	30/08/2022	\$0.28	124,000	-	(124,000)	-	-
C. Barnes	29/11/2017	30/08/2022	\$0.28	124,000	-	(124,000)	-	-
C. Barnes	29/11/2017	30/08/2022	\$0.28	177,000	-	(177,000)	-	-

Options granted to D. Clark and C. Barnes were subject to successfully achieving profit before tax performance hurdles over the financial years 2019 to 2021. The final measurement date for achievement of these performance hurdles was 30 June 2021. As the hurdles were not met, the options did not vest and were forfeited.

### 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.

### Performance Rights Plan

On 10 October 2018 at the Company's Annual General Meeting, shareholders approved a performance rights plan. Under this plan, performance rights (which may take the form of options or ordinary shares) are issued to executives. The rights deliver ordinary shares to senior management and Directors (at no cost to the senior management employee or Director) where the performance hurdle (where applicable) in relation to those performance rights is met.

875,000 shares were issued to the Chairman under the performance rights plan during the 2021 financial year. The shares, which were subject to shareholder approval at the company's AGM on 22 October 2020, were in respect of performance rendered during the 2020 financial year, and the value of the shares was included in the Chairman's remuneration for the financial year ended 30 June 2020. A further 117,778 shares were issued to the Chief Financial Officer under the plan in July 2020, for services provided in the 2020 financial year.

No securities were issued under the performance rights plan in the 2020 financial year.

### 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.

## Cellnet Group Limited and its consolidated entities

### Directors' Report (continued) Remuneration Report (audited) (continued)

#### 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.

Details	2021	2020	2019	2018	2017
Net profit / (loss) attributable to equity holders of the Company	\$3,810,000	(\$2,373,000)	\$405,000	\$5,982,000	\$2,035,000
Return on equity	15.0%	(10.98%)	1.9%	38.2%	15.0%
Dividends paid	-	-	\$782,439	\$688,946	\$649,325
Reduction (increase) of share capital	\$(336,000)	\$(4,936,000)	-	-	-
Change in share price	\$0.01	(\$0.19)	(\$0.17)	\$0.11	\$0.07

#### 5.7 Other benefits

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

## 6. Executive contractual arrangements

It is the group's policy that service contracts for executives 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 executive 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 executive termination payment provisions apply to all current executives, including the Chief Executive Officer. The standards contractual provisions are as follows:

Details	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.



**Cellnet Group Limited and its consolidated entities  
Financial Report**

**Directors' Report (continued)**

**Remuneration Report (audited) (continued)**

**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 executive officers are as follows:

Year	Salary & fees \$	Short-term			Post-Employment	Long-term benefits			Termination benefits	Total \$	% performance related	% Options/shares
		STI cash bonus \$	Motor Vehicle allowances \$	Non-monetary benefits \$	Superannuation benefits \$	Cash Incentives \$	Long Service Leave \$	Share-based payments \$	Termination/Retention Benefits \$			
<b>Non-executive directors</b>												
M. Wendt	2021	19,637	-	-	-	-	-	83,400	-	103,037	80.9	80.9
	2020	30,000	-	-	-	-	-	-	-	30,000	-	-
B. Danos	2021	20,000	-	-	-	-	-	-	-	20,000	-	-
	2020	-	-	-	-	-	-	-	-	-	-	-
K. Gilmore	2021	20,000	-	-	-	-	-	83,400	-	103,400	80.7	80.7
	2020	30,000	-	-	-	-	-	-	-	30,000	-	-
M. Reddie	2021	-	-	-	-	-	-	-	-	-	-	-
	2020	25,000	-	-	-	-	-	-	-	25,000	-	-
T. Pearson	2021	39,638	-	-	3,766	-	-	83,400	-	126,804	65.8	65.8
	2020	30,000	18,500 <sup>#</sup>	-	-	-	-	31,500 <sup>#</sup>	-	80,000	62.5	39.4
Giles Karhan	2021	30,000	-	-	-	-	-	-	-	30,000	-	-
	2020	2,500	-	-	-	-	-	-	-	2,500	-	-
<b>Total non-executive directors</b>	2021	129,275	-	-	3,766	-	-	250,200	-	383,241	65.3%	65.3%
	2020	117,500	18,500	-	-	-	-	31,500	-	167,500	18.81%	18.81%

<sup>#</sup> On 25 June 2020 the board approved a bonus of \$50,000 for Mr Pearson and \$8,000 for Mr Barnes in acknowledgement of their efforts in connection with the entitlement offer announced on 7 May 2020. The bonus relates to services provided prior to 30 June 2020, and there were no vesting conditions attached. A total of 117,778 shares were issued to Mr Barnes at an issue price of 3.6 cents per share in July 2020, while 875,000 shares were issued to Mr Pearson at an issue price of 3.6 cents per subsequent to shareholder approval at the company's AGM held on 22 October 2020, after allowing for withholding tax payable on the bonuses

Cellnet Group Limited and its consolidated entities  
Financial Report

Directors' Report (continued)

Remuneration Report (audited) (continued)

6.1 Directors' and executive officers' remuneration (continued)

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 payments \$	Termination/ Retention Benefits \$				
<b>Executives</b>													
D. Clark	2021	267,145	116,704	13,017	-	9,227	-	9,812	-	-	415,905	28.1	-
	2020	215,101	53,893	17,127	-	6,813	-	7,510	(2,055)	-	298,389	17.4	(0.7)
C. Barnes	2021	256,579	100,774	-	-	21,694	-	5,749	-	-	384,796	26.19-	-
	2020	206,528	4,240 <sup>#</sup>	-	-	20,136	-	5,609	1,705 <sup>#</sup>	-	238,218	2.5	0.7
A. Sparks	2021	-	-	-	-	-	-	-	-	-	-	-	-
	2020	279,848	-	-	-	22,181	-	5,224	(6,802)	112,785	413,236	(1.6)	(1.6)
<b>Total executives</b>	2021	523,724	217,478	13,017	-	30,921	-	15,561	-	-	800,701	27.2	-
	2020	701,477	58,133	17,127	-	49,130	-	17,343	(7,152)	112,785	948,843	5.4	(0.8)
<b>Total key management personnel</b>	2021	652,999	217,478	13,017	-	34,687	-	15,561	250,200	-	1,183,942	39.5	21.1
	2020	818,977	76,633	17,127	-	49,130	-	17,343	24,348	112,785	1,116,343	9.1	2.1

# On 25 June 2020 the board approved a bonus of \$50,000 for Mr Pearson and \$8,000 for Mr Barnes in acknowledgement of their efforts in connection with the entitlement offer announced on 7 May 2020. The bonus relates to services provided prior to 30 June 2020, and there were no vesting conditions attached. A total of 117,778 shares were issued to Mr Barnes at an issue price of 3.6 cents per share in July 2020, while 875,000 shares were issued to Mr Pearson at an issue price of 3.6 cents per subsequent to shareholder approval at the company's AGM held on 22 October 2020, after allowing for withholding tax payable on the bonuses.

# Cellnet Group Limited and its consolidated entities Financial Report

## Directors' Report (continued)

### Remuneration Report (audited) (continued)

#### 7. Additional statutory disclosures

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

##### Transactions and balances with related parties:

###### *Wentronic Holding GmbH*

Wentronic Holding GmbH and its associated entities hold 53.45% (2020: 56.64%) of the ordinary shares in Cellnet Group Limited. At 30 June 2021, the group had a receivable from Wentronic Holding GmbH of \$92,000 (2020: \$nil).

###### *Wentronic Asia Pacific Limited*

During the 2021 and 2020 financial years, the group enlisted the services of, or otherwise purchased inventory from, Wentronic Asia Pacific Limited (WAPL). WAPL is a wholly owned subsidiary of Wentronic Holding GmbH, the group's controlling shareholder. A function of WAPL is to source and purchase inventory through bulk buying arrangements with third party suppliers on behalf of the Wentronic Group.

Prior to 27 February 2020, WAPL sold inventory to the group at cost price plus a fee to cover WAPL's operating costs. The fee paid was approximately 9% of the gross amount of purchases paid in United States Dollars. Following 28 February 2020, and as announced to the ASX on 2 March 2020, the group started purchasing products directly from suppliers and now pays WAPL a 6% management / services fee for coordination of the purchasing and logistics function provided by WAPL under a service agreement between Cellnet Group Limited, Cellnet Limited and WAPL. During the 2020 financial year the group obtained an independent expert's report concluding that the transactions with WAPL prior to 27 February 2020 were fair and reasonable, and the purchasing arrangements prior to that date were ratified by the shareholders of Cellnet Group Limited at a general meeting held on 26 June 2020.

The total value of transactions with WAPL under these arrangements during the 2021 financial year was \$840,000 (2020: \$5,764,000). At 30 June 2021, the group had a total of \$9,000 owing to WAPL in respect of these arrangements (2020: \$5,000).

###### *Wentronic GmbH*

At 30 June 2021, the group had a receivable from Wentronic GmbH, a wholly owned subsidiary of Wentronic Holdings GmbH, of \$9,000 (2020: \$nil), arising from expense recharging arrangements.

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

During the year 2020 financial year, the group made loan contributions of \$26,000 to Wentronic International Pty Ltd, being a joint venture between the group and its controlling shareholder Wentronic Holding GmbH. The group held a 49% interest in this entity and the investment was equity accounted for on the group's balance sheet. The joint venture was dissolved during the 2020 financial year. The group's share of losses of the joint venture for the year ended 30 June 2020 was \$6,702. An impairment charge of \$454,000 was recognised in profit and loss for the year ended 30 June 2020 on write-off of loans extended to the joint venture on its dissolution.

##### Option/right holdings:

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

###### 2021

Director/ KMP	No. Held at 1/7/2020	No. Granted	No. forfeited	No. Exercised	No. Held at 30/6/2021	No. Vested & Exercisable
M. Wendt	-	5,000,000	-	(5,000,000)	-	-
B. Danos	-	-	-	-	-	-
K. Gilmore	-	5,000,000	-	-	5,000,000	5,000,000
T. Pearson	-	5,000,000	-	(5,000,000)	-	-
G. Karhan	-	-	-	-	-	-
C. Barnes	425,000	-	(425,000)	-	-	-
D. Clark	425,000	-	(425,000)	-	-	-

**Cellnet Group Limited and its consolidated entities  
Financial Report**

**Directors' Report (continued)**

**Remuneration Report (audited) (continued)**

2020

Director/ KMP	No. Held at 1/7/2019	No. Granted	No. Lapsed	No. Exercised	No. Held at 30/6/2020	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	-

**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.

2021

Director/ KMP	No. Held at 1/7/2020	No. Acquired – Bonus Shares	No. Acquired – On Market	No. Acquired – Exercise of Options	No. Disposed	Shareholding at date of appointment/ resignation	No. Held at 30/6/2021
M. Wendt	124,658,107	-	-	5,000,000	-	-	129,658,107
K. Gilmore	3,288,000	-	-	-	-	-	3,288,000
T. Pearson	-	875,000	500,000	5,000,000	-	-	6,375,000
G. Karhan	-	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-	-
C. Barnes	644,750	117,778	-	-	-	-	762,528
D. Clark	750,000	-	250,000	-	-	-	1,000,000

**Cellnet Group Limited and its consolidated entities  
Financial Report**

**Directors' Report (continued)**

**Remuneration Report (audited) (continued)**

2020

Director/ KMP	No. Held at 1/7/2019	No. Acquired – Rights Offer*	No. Acquired – On Market	No. Acquired – Exercise of Options	No. Disposed	Shareholder at date of appointment/ resignation	No. Held at 30/6/2020
M. Wendt	33,691,380	90,966,727	-	-	-	-	124,658,107
K. Gilmore	400,000	2,888,000	-	-	-	-	3,288,000
T. Pearson	-	-	-	-	-	-	-
M. Reddie	-	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-	-
A. Sparks	1,300,000	3,510,000	-	-	-	(4,810,000)	-
C. Barnes	322,375	322,042	-	-	-	-	644,750
D. Clark	500,000	500,000	-	-	(250,000)	-	750,000

\* All shares were acquired through the 2.7: 1 renounceable pro-rata entitlement offer announced on 7 May 2020. Acquisitions were on the same terms and conditions as other shareholders.

**END OF REMUNERATION REPORT**

This report is made with a resolution of the Directors:



Tony Pearson  
Chairman  
Signed at Brisbane on 25<sup>th</sup> August 2021

Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

**p.** +61 7 3222 8444

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

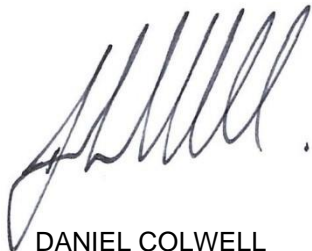
In relation to the independent audit for the year ended 30 June 2021, to the best of my knowledge and belief there have been:

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

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

*Pitcher Partners*

PITCHER PARTNERS



DANIEL COLWELL  
Partner

Brisbane, Queensland  
25<sup>th</sup> August 2021

**Cellnet Group Limited and its consolidated entities**  
**Financial Report**

**Statement of financial position**  
**As at 30 June 2021**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2021</b>	<b>2020</b>
		<b>\$000</b>	<b>\$000</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	<b>10</b>	6,999	6,936
Trade and other receivables	<b>11</b>	13,161	15,027
Inventories	<b>12</b>	17,700	15,377
Other current assets		1,566	1,409
Derivative financial instruments	<b>18</b>	-	37
<b>Total current assets</b>		<b>39,426</b>	<b>38,786</b>
<b>Non-current assets</b>			
Property, plant and equipment	<b>13</b>	293	299
Right of use asset	<b>19</b>	408	700
Deferred tax assets (net)	<b>8(c)</b>	2,815	2,750
Intangible assets	<b>14</b>	6,495	6,812
<b>Total non-current assets</b>		<b>10,011</b>	<b>10,561</b>
<b>TOTAL ASSETS</b>		<b>49,437</b>	<b>49,347</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	<b>15</b>	10,073	11,905
Provisions	<b>16</b>	860	768
Current tax liabilities	<b>8(c)</b>	49	33
Lease liability	<b>19</b>	229	360
Interest-bearing loans and borrowings	<b>17</b>	8,359	9,042
<b>Total current liabilities</b>		<b>19,570</b>	<b>22,108</b>
<b>Non-current liabilities</b>			
Provisions	<b>16</b>	69	168
Lease liability	<b>19</b>	252	420
Interest-bearing loans and borrowings	<b>17</b>	-	1,250
<b>Total non-current liabilities</b>		<b>321</b>	<b>1,838</b>
<b>TOTAL LIABILITIES</b>		<b>19,891</b>	<b>23,946</b>
<b>NET ASSETS</b>		<b>29,546</b>	<b>25,401</b>
<b>EQUITY</b>			
Issued capital	<b>20(a)</b>	38,725	38,389
Reserves	<b>20(b)</b>	14,282	10,473
Accumulated losses		(23,461)	(23,461)
<b>TOTAL EQUITY</b>		<b>29,546</b>	<b>25,401</b>

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

## Cellnet Group Limited and its consolidated entities Financial Report

### Statement of comprehensive income For the year ended 30 June 2021

		Consolidated	
	Note	2021 \$000	2020 \$000
<b>Revenue from contracts with customers</b>	<b>5</b>	<b>96,141</b>	<b>96,225</b>
Other income	6	517	172
Materials, packaging and consumables used		(72,527)	(78,113)
Depreciation and amortisation expense		(1,166)	(1,207)
Employee benefit expense		(10,238)	(9,827)
Finance costs		(754)	(845)
Freight expense		(2,137)	(2,719)
Occupancy expense		(142)	(213)
Warehousing expense		(2,797)	(2,525)
Other expense		(3,087)	(2,910)
<b>Profit / (loss) before income tax</b>		<b>3,810</b>	<b>(1,962)</b>
Income tax (expense) / benefit	8(a)	-	(411)
<b>Net profit / (loss) for the period</b>	<b>7</b>	<b>3,810</b>	<b>(2,373)</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation		(251)	(152)
<b>Total comprehensive income / (loss) for the period</b>		<b>3,559</b>	<b>(2,525)</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share (cents per share)	9	1.61	(2.28)
Diluted earnings per share (cents per share)	9	1.58	(2.28)

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



**Cellnet Group Limited and its consolidated entities  
Financial Report**

**Statement of changes in equity  
For the year ended 30 June 2021**

	Share capital	Reserve for own shares	Foreign Currency translation reserve	Share based payment reserve	Reserve for profits	Accumulated Losses	Total equity
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2020	38,389	(25)	(339)	1,695	9,142	(23,461)	25,401
Profit for the period	-	-	-	-	-	3,810	3,810
Foreign currency translation	-	-	(251)	-	-	-	(251)
Total comprehensive profit for the period	-	-	(251)	-	-	3,810	3,559
Transfers to/from reserves	-	-	-	-	3,810	(3,810)	-
<i>Transactions with owners in their capacity as owners:</i>							
Issue of shares	336	-	-	-	-	-	336
Share based payments	-	-	-	250	-	-	250
Dividends paid	-	-	-	-	-	-	-
<b>Balance as at 30 June 2021</b>	<b>38,725</b>	<b>(25)</b>	<b>(590)</b>	<b>1,945</b>	<b>12,952</b>	<b>(23,461)</b>	<b>29,546</b>
At 1 July 2019	33,453	(25)	(187)	1,711	9,142	(21,088)	23,006
Loss for the period	-	-	-	-	-	(2,373)	(2,373)
Foreign currency translation	-	-	(152)	-	-	-	(152)
Total comprehensive income for the period	-	-	(152)	-	-	(2,373)	(2,525)
Transfers to/from reserves							
<i>Transactions with owners in their capacity as owners:</i>							
Issue of shares	5,070	-	-	-	-	-	5,070
Share issue costs	(134)	-	-	-	-	-	(134)
Share based payments	-	-	-	(16)	-	-	(16)
<b>Balance as at 30 June 2020</b>	<b>38,389</b>	<b>(25)</b>	<b>(339)</b>	<b>1,695</b>	<b>9,142</b>	<b>(23,461)</b>	<b>25,401</b>

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

**Cellnet Group Limited and its consolidated entities  
Financial Report**

**Statement of cash flows  
For the year ended 30 June 2021**

	Note	Consolidated	
		2021 \$000	2020 \$000
<b>Cash flows from / (used in) operating activities</b>			
Receipts from customers (inclusive of GST)		107,253	108,874
Payments to suppliers and employees (inclusive of GST)		(103,848)	(104,240)
Income tax paid		(51)	(197)
Interest paid		(560)	(812)
<b>Net cash flows from / (used in) operating activities</b>	<b>30</b>	<b>2,794</b>	<b>3,625</b>
<b>Cash flows used in investing activities</b>			
Loans to associates		-	(26)
Payment for acquisition of businesses, net of cash acquired	<b>23</b>	-	(1,001)
Purchase of property, plant and equipment		(64)	(87)
Payments for purchase of intangibles		(341)	(24)
Lease incentives received		-	71
Payment of contingent consideration	<b>4</b>	-	(1,131)
<b>Net cash flows used in investing activities</b>		<b>(405)</b>	<b>(2,198)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares	<b>20</b>	300	5,070
Share issue costs	<b>20</b>	-	(191)
Principal repayments on leases	<b>19</b>	(445)	(353)
Proceeds from borrowings	<b>17</b>	26,509	28,738
Repayment of borrowings	<b>17</b>	(28,442)	(28,963)
Dividends		-	-
<b>Net cash flows (used in) / from financing activities</b>		<b>(2,078)</b>	<b>4,301</b>
<b>Net increase in cash and cash equivalents</b>		<b>311</b>	<b>5,728</b>
Net foreign exchange differences		(248)	(103)
Cash and cash equivalents at beginning of period		6,936	1,311
<b>Cash and cash equivalents at end of period</b>	<b>10</b>	<b>6,999</b>	<b>6,936</b>

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

# Cellnet Group Limited and its consolidated entities Financial Report

## 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 2021 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 25<sup>th</sup> August 2021. 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 consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial report is presented in Australian dollars and has been prepared on the historical cost basis, except for derivative financial instruments and contingent consideration liabilities 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. Refer to note 2(v) for further information on the critical accounting estimates and judgements made in the preparation of these financial statements.

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*

No new or revised accounting standards considered as having a material effect on the group have become effective for the first time in preparing this financial report.

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

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of these new and amended pronouncements. The directors have assessed that none of these standards will have a material impact on the group's financial statements in the period of initial application.

##### (iii) *IFRIC final agenda decisions not yet adopted*

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, *Configuration or customisation costs in a cloud computing arrangement*. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### (b) New accounting standards and interpretations

The group's accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the consolidated statement of financial position. The adoption of this agenda decision could result in a reclassification of these intangible assets to either a prepaid asset in the consolidated statement of financial position and/or recognition as an expense in the consolidated statement of comprehensive income, impacting both the current and/or prior periods presented.

As at 30 June 2021:

- The group has not adopted this IFRIC agenda decision. The impact of the change is not reasonably estimable as the group has yet to complete its assessment of the impact of the IFRIC agenda decision. The group expects to adopt this IFRIC agenda decision in its half-year financial statements as at and for the half-year ended 31 December 2021.
- Intangible assets relating to cloud computing arrangements with a written down value of \$0.922m have been capitalised on the consolidated statement of financial position and are subject to this detailed assessment. The group recognised total amortisation expenditure of \$0.121m in respect of these assets for the financial year ended 30 June 2021 (2020: \$0.119m) and capital additions to these assets during the year totalled \$0.159m (2020: \$0.024m).
- The group's preliminary analysis indicates that the impact may be material

The group has had regard to ASIC media release 21-129MR *ASIC highlights focus areas for 30 June 2021 financial reports under COVID-19 conditions* in making the above disclosures.

#### (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 group has subsidiaries with functional currencies of New Zealand dollars and United States dollars. The results of these subsidiaries which are translated to the presentation currency as described in (iii) below.

##### (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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

##### (d) Foreign currency (continued)

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

The assets and liabilities of foreign operations are translated to Australian dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

##### (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 (other current assets in the statement of financial position) 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 date.

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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

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

###### *Disaggregation of revenue*

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. Required disaggregation disclosures under AASB 15 are made within note 5.

##### (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

Information regarding fair value measurements made by the group is included in note 4.

##### (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.

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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

##### (h) Receivables (continued)

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.

##### (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, useful life and depreciation method applied to an asset are reassessed at least annually. An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

##### (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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

##### (l) Intangible assets (continued)

###### (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, and customer and supplier relationships acquired through business combination transactions.

###### (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.



# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

**(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.

**(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 applying the effective interest method.

**(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 21 for further details).

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

##### (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

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

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

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

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

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

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

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

##### (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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

##### (t) Income tax (continued)

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.

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.

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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

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

Management discusses 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 (net assets acquired) and Note 4 (fair value of contingent consideration). 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*

The group completes an impairment assessment on cash-generating units to which goodwill is allocated on an annual basis, or otherwise where there are indicators that CGU assets may be impaired. This assessment involves comparison of the value-in-use of a 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, days stock on hand (based on recent sales data), and future sales forecasts in determining the required provision against inventory at an individual product level. Note 7 discloses the amount of stock which has been scrapped throughout the course of the year, or which 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 21. The accounting estimates and assumptions relating to equity-settled share-based payments will have no impact on the carrying amounts of assets and liabilities, or on profit or loss, within the next annual reporting period.

##### *Recovery of deferred tax assets*

Deferred tax assets are recognised for tax losses and deductible temporary differences to the extent that management considers that it is probable that future taxable profits will be available to utilise temporary differences and recognised tax losses. 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. Significant judgement was required to determine the amount of deferred tax assets that can be recognised, based upon the probability weighted forecasts of future taxable profits over the next three years.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 2. Significant accounting policies (continued)

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

*Expected credit loss allowances on trade receivables*

The group recognises an allowance for expected credit losses on its trade receivables. The basis for determination of this allowance is as described in note 2(h). There are a number of assumptions made in the determination of the allowance for expected credit losses, which are outlined in detail in note 11.

**(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.

**(x) Government grants**

Government grants are recognised when there is reasonable certainty that the grant will be received and all grant conditions are met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to depreciable assets are credited to deferred income and are recognised in profit or loss over the period and in the proportions in which depreciation expense on those assets is recognised.

Government grants include amounts received or receivable under the Australian Federal Government's JobKeeper Payment Scheme, and the New Zealand Federal Government's Job Subsidy Scheme, which provides a temporary subsidy to eligible businesses significantly affected by coronavirus (COVID-19). Wage subsidies received have been offset against the related employee benefits expense in the statement of comprehensive income. The amount of these subsidies received during the year has been disclosed in note 7.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### 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, lease liabilities 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.

	Note	2021 \$000	2020 \$000
Cash and cash equivalents	10	6,999	6,936
Interest bearing loans and borrowings	17	(8,359)	(10,292)
		<b>(1,360)</b>	<b>(3,356)</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 2021, 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)		Net assets higher / (lower)	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Consolidated				
+1% (100 basis points) (2020: 1%)	(10)	(23)	(10)	(23)
-0.5% (50 basis points) (2020: 0.5%)	5	12	5	12

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

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 3. Financial risk management objectives and policies (continued)

##### 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:

	2021 US \$000	2020 US \$000
Financial assets		
Trade and other receivables	98	244
	98	244
Financial liabilities		
Trade and other payables	(2,359)	(1,608)
Forward foreign currency contracts*	(118)	(3,949)
	(2,477)	(5,557)
<b>Net exposure</b>	<b>(2,379)</b>	<b>(5,313)</b>

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

At 30 June 2021, 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)	
	2021 \$000	2020 \$000	2021 \$000	2020 \$000
Consolidated				
AUD / USD +10% (2019: +10%)	206	579	206	579
AUD / USD -10% (2019: -10%)	(251)	(707)	(251)	(707)

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.

# Cellnet Group Limited and its consolidated entities

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#### 3. Financial risk management objectives and policies (continued)

##### 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. Wherever possible the group also insures debtors that have an approved credit limit of greater than \$5,000 through trade credit insurance. Where possible 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 both the financial liabilities and lease 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.

Maturity analysis of financial assets, financial liabilities and lease liabilities based on management's expectation is presented below.

	Note	2021				
		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	6,999	-	-	-	-
Trade and other receivables	11	13,161	13,161	13,161	-	-
Derivative financial instruments	18	-	-	-	-	-
		<b>20,160</b>	<b>13,161</b>	<b>13,161</b>	-	-
<b>Financial liabilities</b>						
Trade and other payables	15	(10,073)	(10,073)	(10,073)	-	-
Interest bearing loans and borrowings	17	(8,359)	(8,359)	(8,359)	-	-
		<b>(18,432)</b>	<b>(18,432)</b>	<b>(18,432)</b>	-	-
<b>Lease liabilities</b>		<b>(481)</b>	<b>(512)</b>	<b>(186)</b>	<b>(59)</b>	<b>(267)</b>
<b>Net inflow / (outflow)</b>		<b>1,247</b>	<b>(5,783)</b>	<b>(5,457)</b>	<b>(59)</b>	<b>(267)</b>
<b>2020</b>						
		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	6,936	-	-	-	-
Trade and other receivables	11	15,027	15,027	15,027	-	-
Derivative financial instruments	18	37	37	37	-	-
		<b>22,000</b>	<b>15,064</b>	<b>15,064</b>	-	-
<b>Financial liabilities</b>						
Trade and other payables	15	(11,905)	(11,905)	-	-	-
Interest bearing loans and borrowings	17	(10,292)	(10,374)	(8,897)	(227)	(1,250)
		<b>(22,197)</b>	<b>(22,279)</b>	<b>(8,897)</b>	<b>(227)</b>	<b>(1,250)</b>
<b>Lease liabilities</b>		<b>(780)</b>	<b>(842)</b>	<b>(225)</b>	<b>(166)</b>	<b>(451)</b>
<b>Net inflow / (outflow)</b>		<b>(977)</b>	<b>(8,057)</b>	<b>(5,942)</b>	<b>(393)</b>	<b>(1,701)</b>



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#### 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.

	<b>Note</b>	<b>Carrying amount 2021</b>	<b>Fair value 2021</b>	<b>Carrying amount 2020</b>	<b>Fair value 2020</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<i>Amortised cost</i>					
Cash and cash equivalents	10	6,999	6,699	6,936	6,936
Trade and other receivables	11	13,161	13,161	15,027	15,027
Trade and other payables	15	(10,073)	(10,073)	(11,905)	(11,905)
Borrowings	17	(8,359)	(8,359)	(10,292)	(10,292)
<i>Fair value through profit or loss</i>					
Contingent consideration payable	15	-	-	495	495
Derivative financial instruments	18	-	-	37	37
		<b>1,728</b>	<b>1,728</b>	<b>(197)</b>	<b>(197)</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 below. 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). Details of the assumptions made in valuing contingent consideration liabilities in respect of business combinations described in note 23 are as follows:

#### Powerguard

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

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#### 4. Fair Value Measurement (continued)

At the conclusion of the earn-out period, being 30 June 2021, the group has assessed that the earn-out targets as described above have not been met and the liability has been valued at \$nil as at 30 June 2021, resulting in a gain on remeasurement of the contingent liability in the current financial year of \$131,000, being the value of the contingent consideration liability recognised as at the comparative balance date of 30 June 2020.

The fair value of the contingent consideration liability at both the acquisition date and at 30 June 2020 was \$131,000. This amount was prepaid at the acquisition date and was recognised as both a liability and prepayment at 30 June 2020. The valuation of contingent consideration allowed for gross profit margins of \$0.8m and \$1m respectively for the FY20 and FY21 earn-out periods. At 30 June 2020 it was estimated that reasonably possible changes in these assumptions may result in an increase or decrease in the fair value of the contingent consideration liability of up to \$131,000.

##### ***Performance Distribution***

Contingent consideration consisted of contractual earn-out arrangements amounting to 35% of net profit before tax generated by the acquired business for a three year period subsequent to the acquisition date of 1 April 2020.

On 18 March 2021, the group entered into an agreement with the former owner of the Performance Distribution business whereby a payment of \$100,000 was made by the group in full and final settlement of any future contingent consideration liability payable under the business acquisition agreement. As a result of this arrangement, the contingent consideration liability has been derecognised and a gain on settlement of the liability amounting to \$264,000 has been recorded in profit and loss.

The fair value of the contingent consideration liability at both the acquisition date and at 30 June 2020 was \$364,000, which allowed for net profit before tax over the earn-out period of \$1.115m, discounted at a rate of 4.5%. At 30 June 2020 it was estimated that reasonably possible changes in these assumptions may result in an increase or decrease in the fair value of the contingent consideration liability by \$73,000.

#### 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.

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**5. Operating segments (continued)**

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

June 2021	Cellnet \$'000	Turn Left \$'000	Corporate and Eliminations \$'000	Total \$'000
Australia	56,541	23,307	-	79,848
New Zealand	16,293	-	-	16,293
<b>Total Revenue from contracts with customers</b>	<b>72,834</b>	<b>23,307</b>	<b>-</b>	<b>96,141</b>
Other income	22	-	495	517
<b>Profit before tax</b>	<b>1,675</b>	<b>1,758</b>	<b>377</b>	<b>3,810</b>
Segment assets	34,076	13,449	1,912	49,437
Segment liabilities	16,037	3,854	-	19,891
June 2020	Cellnet \$'000	Turn Left \$'000	Corporate and Eliminations \$'000	Total \$'000
Australia	64,566	18,320	-	82,876
New Zealand	13,339	-	-	13,339
<b>Total Revenue from contracts with customers</b>	<b>77,905</b>	<b>18,320</b>	<b>-</b>	<b>96,225</b>
Other income	-	-	172	172
<b>Profit before tax</b>	<b>(1,851)</b>	<b>15</b>	<b>(126)</b>	<b>(1,962)</b>
Segment assets	34,710	11,105	3,532	49,347
Segment liabilities	17,834	4,368	1,744	23,946

**6. Other income**

	2021 \$000	2020 \$000
Fair value gain on revaluation of contingent consideration payable	495	172
Other income	22	-
<b>Total other revenue</b>	<b>517</b>	<b>172</b>

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

	2021	2020
	\$000	\$000
Increase / (decrease) in credit loss allowance	819	149
Loss on scrapping of / provisioning for obsolete inventory	1,801	2,751
Rent expense on short-term leases	-	113
Depreciation of right-of-use assets	438	362
Interest expense on lease liabilities	31	40
Government grants – wage subsidies <sup>1</sup>	(667)	(424)
Defined contribution employee superannuation expense	579	618
Share-based payments expense/(income)	250	(16)
Write-off of investment / receivables from associate	-	454
Fair value (gains) / losses on FX derivatives	-	109
Net foreign exchange losses/(gains)	(321)	(1,384)

<sup>1</sup> During the year the group received \$581,700 under the Australian government's JobKeeper wage subsidy scheme, and \$85,406 under the New Zealand government's wage subsidy scheme. These amounts have been offset against employee benefits expense in the statement of comprehensive income.

#### 8. Income Tax

	2021	2020
	\$000	\$000
<b>(a) Income tax expense / (benefit)</b>		
The major components of income tax are:		
Current income tax charge	65	80
Prior year under/over provision – current tax	-	(31)
Deferred income tax charge	(65)	362
<b>Total income tax expense/(benefit) reported in net income</b>	<b>-</b>	<b>411</b>

#### (b) Numerical reconciliation between aggregate tax expense / (benefit) recognised in net income and tax expense / (benefit) calculated per the statutory income tax rate

A reconciliation between tax expense / (benefit) and the product of accounting profit / (loss) before income tax multiplied by the group's applicable income tax rate is as follows:

Accounting profit/(loss) before tax	3,810	(1,962)
At the parent entity's statutory income tax rate 30% (2020: 30%)	1,143	(589)
Adjustments in respect of income tax of previous years	-	(31)
Entertainment	9	16
Share-based payments	75	(5)
Effect of lower tax rate in New Zealand (28%)	(3)	1
Fair value gain on revaluation of contingent consideration payable	(149)	(52)
Other	-	140
Recognition of previously unrecognised tax losses	(1,075)	-
De-recognition of deferred tax assets for tax losses	-	445
Current year losses not recognised	-	486
<b>Aggregate income tax expense / (benefit)</b>	<b>-</b>	<b>411</b>

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**8. Income Tax (continued)**

**(c) Recognised deferred tax assets and liabilities**

	Consolidated			
	2021 \$000	2021 \$000	2020 \$000	2020 \$000
	Current tax liability	Deferred tax asset	Current tax liability	Deferred tax asset
Opening balance	(33)	2,750	(185)	3,055
Tax paid	51	-	197	-
Charged to income / (expense)	(65)	65	(80)	(362)
Charged to equity	-	-	-	57
Prior year over / (under) provision	-	-	31	-
FX translation	(2)	-	4	-
<b>Closing balance</b>	<b>(49)</b>	<b>2,815</b>	<b>(33)</b>	<b>2,750</b>

Deferred income tax at 30 June relates to the following:

	2021 \$000	2020 \$000
<i>Net deferred tax assets</i>		
Allowance for expected credit losses	296	52
Right of return liabilities (net of right to returned goods asset)	167	119
Lease liabilities (net of right-of-use assets)	22	24
Employee provisions	270	278
Foreign exchange differences	-	(18)
Sundry accruals	721	506
Other	33	67
Inventory	1,082	-
Intangible assets	(873)	(991)
Tax losses carried forward	1,097	2,713
<b>Net deferred tax asset</b>	<b>2,815</b>	<b>2,750</b>

At 30 June 2021, the group has assessed that deferred tax assets recognised above relating to carried forward tax losses of the Australian tax consolidated group are recoverable. This assessment is based on forecast taxable profits over a three year period, and a history of profits arising in all but one (2020) of the last seven financial years.

**(d) Tax losses not recognised**

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 \$2,349,603 (Tax effected: \$704,881) (2020: \$5,932,482 (Tax effected: \$1,779,745) which are available indefinitely for offset against future gains subject to meeting the relevant statutory tests.

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#### 9. Earnings per share

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

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

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
<i>For basic earnings per share:</i>		
Profit / (Loss) from continuing operations	3,810	(2,373)
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>3,810</b>	<b>(2,373)</b>
<i>For diluted earnings per share:</i>		
Profit / (loss) from continuing operations	3,810	(2,373)
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>3,810</b>	<b>(2,373)</b>

**(b) Weighted average number of shares**

	<b>2021</b>	<b>2020</b>
	<b>No. 000</b>	<b>No. 000</b>
Weighted average number of shares (basic) at 30 June	236,008	105,907
<b>Weighted average number of shares adjusted for effect of dilution</b>	<b>240,629</b>	<b>105,907</b>

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

**(c) Earnings per share**

Basic earnings per share (cents per share)	1.61	(2.24)
Diluted earnings per share (cents per share)	1.58	(2.24)

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

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Cash at bank and in hand	6,999	6,936
	<b>6,999</b>	<b>6,936</b>

Cash and funds held at bank earns interest at floating rates based on daily bank deposit rates.

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

	2021 \$000	2020 \$000
Receivables from contracts with customers	13,283	13,875
Allowances for expected credit losses	(993)	(176)
	<b>12,290</b>	<b>13,699</b>
Other receivables and prepayments	871	1,328
<b>Carrying amount of trade and other receivables</b>	<b>13,161</b>	<b>15,027</b>

##### (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 2021 and 30 June 2020 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 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 2021 and 30 June 2020.

	Current \$000	0-30 days past due \$000	31-60 days past due \$000	Over 60 days past due \$000	Other* \$000	Total \$000
<b>30 June 2021</b>						
Expected loss rates	0.05%	1.01%	2.00%	12.82%	23.79%	3.56%
Gross carrying amount	6,298	1,657	487	1,723	3,118	13,283
<b>Loss allowance</b>	<b>3</b>	<b>17</b>	<b>10</b>	<b>221</b>	<b>742</b>	<b>993</b>
<b>30 June 2020</b>						
Expected loss rates	0.06%	1.49%	2.42%	16.70%	-	1.27%
Gross carrying amount	9,248	734	387	898	2,608	13,875
Loss allowance	6	11	9	150	-	176

\* There is a significant concentration of credit risk within a single customer account balance, which has different characteristics to the remainder of the groups trade receivables. For this reason the gross carrying value of this receivable and the related credit loss allowance have been disclosed separate from the group's other receivables from contracts with customers.

The closing loss allowances for receivables from contracts with customers as at 30 June 2021 reconcile to the opening loss allowance as follows:

	2021 \$000	2020 \$000
<b>At 1 July</b>	176	164
Increase in loss allowances recognised in profit or loss	819	149
Receivables written off during the year as uncollectable	(2)	(137)
<b>At 30 June</b>	<b>993</b>	<b>176</b>

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**12. Current assets – inventories**

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Stock on hand	19,561	18,646
Less: provision for obsolescence	(1,861)	(3,269)
<b>Total inventories at the lower of cost and net realisable value</b>	<b>17,700</b>	<b>15,377</b>

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

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

	<b>Leasehold improvements</b>	<b>Plant &amp; Equipment</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>For the year ended 30 June 2021</b>			
At 1 July 2020 net of accumulated depreciation and impairment	95	204	299
Additions	-	64	64
Disposals	-	-	-
Depreciation charge for the year	(14)	(56)	(70)
<b>At 30 June 2021 net of accumulated depreciation and impairment</b>	<b>81</b>	<b>212</b>	<b>293</b>
<b>At 30 June 2021</b>			
Cost	527	7,247	7,757
Accumulated depreciation and impairment	(446)	(7,035)	(7,464)
<b>Net carrying amount</b>	<b>81</b>	<b>212</b>	<b>293</b>
<b>For the year ended 30 June 2020</b>			
At 1 July 2019 net of accumulated depreciation and impairment	54	246	300
Additions	47	40	87
Disposals	-	-	-
Depreciation charge for the year	(6)	(82)	(88)
<b>At 30 June 2020 net of accumulated depreciation and impairment</b>	<b>95</b>	<b>204</b>	<b>299</b>
<b>At 30 June 2020</b>			
Cost	527	7,183	7,710
Accumulated depreciation and impairment	(432)	(6,979)	(7,411)
<b>Net carrying amount</b>	<b>95</b>	<b>204</b>	<b>299</b>



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**14. Non-current assets - intangible assets**

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Software	1,086	884
Goodwill	2,854	2,854
Customer relationships	-	24
Supplier relationships	2,555	3,050
<b>Net carrying amount</b>	<b>6,495</b>	<b>6,812</b>

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

	<b>Software \$000</b>	<b>Goodwill \$000</b>	<b>Customer Relationships \$000</b>	<b>Supplier Relationships \$000s</b>	<b>Total \$000</b>
<b>For the year ended 30 June 2021</b>					
Written down value at 1 July	884	2,854	24	3,050	6,812
Additions	341	-	-	-	341
Amortisation charge for the year	(139)	-	(24)	(495)	(658)
<b>Written down value at 30 June 2021</b>	<b>1,086</b>	<b>2,854</b>	<b>-</b>	<b>2,555</b>	<b>6,495</b>
<b>At 30 June 2021</b>					
Cost	1,548	2,854	286	3,957	8,645
Accumulated amortisation and impairment	(462)	-	(286)	(1,402)	(2,150)
<b>Net carrying amount</b>	<b>1,086</b>	<b>2,854</b>	<b>-</b>	<b>2,555</b>	<b>6,495</b>
<b>For the year ended 30 June 2020</b>					
Written down value at 1 July	979	1,946	167	3,545	6,637
Additions	24	-	-	-	24
Additions through business combinations (note 23)	-	908	-	-	908
Amortisation charge for the year	(119)	-	(143)	(495)	(757)
<b>Written down value at 30 June 2020</b>	<b>884</b>	<b>2,854</b>	<b>24</b>	<b>3,050</b>	<b>6,812</b>
<b>At 30 June 2020</b>					
Cost	1,207	2,854	286	3,957	8,304
Accumulated amortisation and impairment	(323)	-	(262)	(907)	(1,492)
<b>Net carrying amount</b>	<b>884</b>	<b>2,854</b>	<b>24</b>	<b>3,050</b>	<b>6,812</b>

Software, customer relationships and supplier relationships are amortised over useful lives of 10, 2 and 8 years respectively (2020: 10, 2 & 8 years). Remaining useful lives at 30 June 2021 for these assets are 7.6, zero, and 5.2 years respectively (2020: 7.4, 0.2 and 6.2).

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#### 14. Non-current assets - intangible assets (continued)

##### (b) Impairment testing

At each balance date, the group completes an impairment assessment for each cash-generating unit (CGU) to which goodwill is allocated. Where indicators of impairment are present for other CGUs, these CGUs are also tested for impairment. As the carrying value of the group's net assets exceeds its market capitalisation, the group recorded a loss for the year, and operations continue to be affected to varying degrees by the impact of the COVID-19 pandemic on consumer demand, impairment indicators are deemed to be present for each CGU within the group at balance date and each has been tested for impairment. The recoverable amount of each CGU has been determined as its value-in-use. Value-in-use is determined as the present value of future CGU cash flows. In calculating value-in-use, the group has projected cash flows over a 5 year period, based on the board approved budget/forecast for FY22.

The results of the impairment assessments completed indicated that value-in-use of each CGU exceeds the CGU carrying value. The table below summarises the key assumptions applied in testing CGUs for impairment:

2021	Goodwill allocated to CGU (\$'000)	EBITDA (\$'000)	Average Annual Revenue growth rate	Terminal growth rate	Pre-tax discount rate
<b>Cash-generating unit</b>					
Cellnet Australia	481	2,907	3%	2%	16%
Cellnet New Zealand	-	1,736	2%	2%	16%
Turn Left Distribution	1,946	1,296	3%	2%	16%
Cellnet Online	427	10	16%	2%	16%

For the Cellnet Australia, Turn Left Distribution, and Cellnet Online CGUs, the following reasonably possible changes in the EBITDA assumption would have resulted in an impairment charge being recognised at 30 June 2021:

2021	Change in EBITDA Required for Impairment (\$'000)
<b>Cash-generating unit</b>	
Cellnet Australia	(150)
Turn Left Distribution	(155)
Cellnet Online	(54)

Further, an increase in the discount rate applied for the Cellnet Australia CGU by 70 basis points would have resulted in an impairment charge being recognised for this CGU at 30 June 2021. No reasonably possible change in any of the assumptions above for the New Zealand CGU would result in an impairment of the carrying value of this CGU at 30 June 2021.

The following assumptions were applied in the impairment assessment completed as at the comparative balance date:

2020	Goodwill allocated to CGU (\$'000)	EBITDA (\$'000)	Average Annual Revenue growth rate	Terminal growth rate	Pre-tax discount rate
<b>Cash-generating unit</b>					
Cellnet Australia	-	1,931	2%	2%	18%
Cellnet New Zealand	-	1,223	2%	2%	18%
Turn Left Distribution	1,946	1,243	3%	2%	18%
Powerguard*	481	1,066	2%	2%	18%
Cellnet Online	427	1,221	14.7%	2%	18%

\* the Powerguard CGU has been reallocated to the Cellnet Australia CGU at 30 June 2021

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### Notes to the financial statements

#### 14. Non-current assets - intangible assets (continued)

##### (b) Impairment testing (continued)

For the Cellnet Australia, Cellnet New Zealand, and Turn Left Distribution CGUs, the following reasonably possible changes in the EBITDA assumption would have resulted in an impairment charge being recognised at 30 June 2020:

<b>2020</b>	<b>Change in EBITDA Required</b>
<b>Cash-generating unit</b>	<b>for Impairment (\$'000)</b>
Cellnet Australia	(452)
Cellnet New Zealand	(643)
Turn Left Distribution	(380)

No reasonably possible change in any of the assumptions above for the Powerguard or Cellnet Online CGUs would have resulted in an impairment charge being recognised against the CGUs at 30 June 2020.

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

	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Trade payables	4,083	5,656
Rebate and incentive liability	2,646	3,072
Right of return liability <sup>#</sup>	2,127	1,810
Contingent consideration payable <sup>^</sup>	-	495
Other payables and accrued expenses	1,217	872
	<b>10,073</b>	<b>11,905</b>

<sup>^</sup> refer note 4 for reconciliation of movements in contingent consideration payable, and description of how fair value has been determined.

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

#### 16. Provisions

<b>Current</b>	<b>2021</b>	<b>2020</b>
	<b>\$000</b>	<b>\$000</b>
Provision for long-service leave	339	248
Provision for annual leave	521	520
	<b>860</b>	<b>768</b>
<b>Non-Current</b>		
Provision for long-service leave	69	168
	<b>69</b>	<b>168</b>

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 17. Interest bearing loans and borrowings

<i>Current</i>	Weighted average interest Rate %	Maturity	2021 \$000	2020 \$000
a) Business Finance	3.06	6 - 29 July 2021	2,846	-
	3.14	6 – 29 July 2020	-	2,128
b) Invoice Finance	3.29	Various	5,513	6,542
c) Business loan	5.06	6 July 2021	-	372
			<b>8,359</b>	<b>9,042</b>
<i>Non-Current</i>				
c) Business loan	5.06	6 July 2021	-	1,250
			-	<b>1,250</b>

#### (a) \$3,500,000 Business finance facility

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 2021, the company has drawn down \$2,846,000 (2020: \$2,128,000) under its trade finance – imports facility. 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.

#### (b) \$17,000,000 Invoice finance facility

This is a facility for terms of trade. The total limit of the facility is \$17,000,000 (2020: \$17,000,000). As at 30 June 2021, \$5,513,000 was outstanding under this facility (2020: \$6,542,000). Amounts owing under the facility are matched to the trade terms of the underlying financed transaction up to a maximum of 60 days. Subsequent to balance date, the limit under this facility has been reduced to \$15,000,000.

#### (c) \$2,000,000 Business loan facility

The business loan facility was provided to fund the acquisition and initial working capital requirements of Turn Left Distribution Pty Ltd. The facility required monthly principal and interest repayments of \$37,800 and the facility had an expiry date of 6 July 2021. The loan was fully repaid in December 2020 and as a result there is \$nil owing as at 30 June 2021 (2020: 1,622,000)

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.

#### Reconciliation of changes in borrowings to related financing cash flows per the statement of cash flows

There were no non-cash movements in borrowings during the current or prior financial years. Changes in the borrowings arising from cash flows are as disclosed in the statement of cash flows.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 18. Derivative Financial Instruments

	2021 \$000	2020 \$000
<b>Current</b>		
Forward foreign currency exchange contracts	-	37
	<b>-</b>	<b>37</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. Leases

##### (a) Right-of-use assets

All of the group's right-of-use assets relate to leases of premises. Reconciliation of changes in the carrying amount of right-of-use assets during the period is as follows:

	2021 \$000	2020 \$000
Opening value as at 1 July	700	268
Additions	146	865
Lease incentives received	-	(71)
Depreciation	(438)	(362)
<b>Closing value at 30 June</b>	<b>408</b>	<b>700</b>
<b>At 30 June</b>		
Cost	1,006	1,062
Accumulated depreciation	(598)	(362)
<b>Net carrying amount</b>	<b>408</b>	<b>700</b>

##### (a) Lease liabilities

Opening value as at 1 July	780	268
Additions (non-cash)	146	865
Principal repayments (cash outflow)	(445)	(353)
<b>Closing value at 30 June</b>	<b>481</b>	<b>780</b>
<b>At 30 June</b>		
Current	229	360
Non-current	252	420
<b>Total lease liability</b>	<b>481</b>	<b>780</b>

During the year, the group entered into 1 year extensions on two existing leases in Sydney. During the comparative year ended 30 June 2020, the group entered into a 5 year lease of a new head office premises in Brisbane and a 2 year lease extension on its existing lease arrangement in Auckland. These non-cash financing activities resulted in an increase in lease liabilities of \$146,000 (2020: \$865,000) on initial recognition.

# Cellnet Group Limited and its consolidated entities

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### Notes to the financial statements

#### 20. Contributed equity and reserves

##### (a) Share Capital

	2021	2020
	No. of shares	No. of shares
Ordinary shares on issue at 1 July	231,601,856	62,595,096
Shares issued – renounceable entitlement offer	-	169,006,760
Shares issued – bonus shares	992,778	-
Shares issued – exercise of options (note 21)	10,000,000	-
Ordinary shares on issue 30 June	<b>242,594,634</b>	<b>231,601,856</b>

	2021	2020
	\$000	\$000
Share capital at 1 July	38,389	33,453
Shares issued – renounceable entitlement offer	-	5,070
Share issue costs, net of tax	-	(134)
Shares issued – exercise of options	300	-
Shares issued – bonus shares	36	-
Share capital at 30 June	<b>38,725</b>	<b>38,389</b>

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

##### **Bonus shares**

On 25 June 2020, the board approved a bonus of \$50,000 for the chairman and \$8,000 for the CFO in acknowledgement of their efforts in connection with the entitlement offer announced on 7 May 2020. A total of 992,778 shares were issued during the period at an issue price of 3.6 cents per share, after allowing for withholding tax payable on the bonus.

##### **Renounceable Entitlement Offer**

On 7 May 2020, the group announced an accelerated renounceable pro-rata (2.7 for 1) entitlement offer to raise a total of \$5.07m. The offer consisted of both a fully subscribed institutional component and a fully underwritten retail component.

The institutional offer extended to the controlling shareholder of the company, Wentronic Holding GmbH, was fully subscribed with 90,966,727 shares issued at an issue price of \$0.03 per share on 12 May 2020, raising a total of \$2.73m.

A total of 78,040,033 shares were issued on 5 June 2020 on completion of the retail offer, raising a total of \$2.34m.

Share issue costs of \$134,000 (net of tax) were incurred and were offset against issued capital in equity.

##### (b) Reserves

	2021	2020
	\$000	\$000
Translation reserve	(590)	(339)
Reserve for own shares	(25)	(25)
Reserve for profit	12,952	9,142
Share based payment reserve	1,945	1,695
	<b>14,282</b>	<b>10,473</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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 20. Contributed equity and reserves (continued)

##### 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 2021 the group held 18,209 of the Company's shares (2020: 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 franked dividend payments in accordance with Australian taxation requirements for franked 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. 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 2021 and 2020 were as follows:

	2021	2020
	\$000	\$000
Net Assets	29,546	25,401
Total Assets	49,437	49,347
<b>Capital adequacy ratio</b>	<b>60%</b>	<b>51%</b>

#### 21. Share based payments

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

At 30 June 2021, no share options were outstanding under the company's long-term incentive plan (2020: 1,587,500). Details of the options issued are as follows:

Options granted	1,587,500, 312,500 and 500,000 (totalling 2,400,000)
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.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 21. Share based payments (continued)

##### (a) Long term incentive plan – employee options (continued)

Exercise conditions	Subject to the Plan Rules, an option cannot be exercised unless the Board acting reasonably is satisfied that the following conditions have been satisfied: <ul style="list-style-type: none"> <li>The employee remains employed by the company</li> <li>There is no outstanding breach of the terms of engagement with the Company.</li> <li>No notice of termination of engagement has been either been given by the employee or received by the Company.</li> <li>All performance hurdles have been met.</li> </ul>
Performance hurdles	Options will vest upon meeting various profit before tax performance hurdles over the financial years 2019 to 2021.

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

	2021 Number of options	Weighted Average Exercise Price \$	2020 Number of options	Weighted Average Exercise Price \$
Opening balance	1,587,500	0.315	2,400,000	0.292
Lapsed - vesting conditions not satisfied	(1,275,000)	0.315	-	-
Forfeited - employee departure	(312,500)	0.315	(812,500)	0.280
Outstanding as at 30 June	-	-	1,587,500	0.315
Vested and exercisable	-	-	-	--

##### (b) Non-executive Director options

At the Annual General Meeting held on 22 October 2020 shareholders approved the issue of options to non-executive directors of the company, as consideration for the directors agreeing to forego cash payments for all or part of their director fees during the 2021 financial year. Details of the options issued are as follows:

Options granted	15,000,000
Grant date	22 October 2020
Issue date	22 October 2020
Consideration payable	\$Nil
Exercise price	\$0.03
Expiry date	21 October 2022 (3,000,000 options), 21 October 2023 (6,000,000 options) and 21 October 2025 (6,000,000 options)
Exercise conditions	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 option holders were also directors at the time when the relevant vesting condition was satisfied</li> <li>There is no outstanding breach of the terms of engagement with Company.</li> <li>No notice of termination of engagement has been either been given by director or received by the Company.</li> <li>All vesting conditions have been satisfied.</li> </ul>



# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 21. Share based payments (continued)

##### (b) Non-executive Director options (continued)

Vesting conditions	Each tranche will vest on the earliest to occur of the Volume Weighted Average Price (VWAP) of the company's shares exceeding a target price: <ul style="list-style-type: none"> <li>for 5 consecutive trading days on which shares are traded on the ASX;</li> <li>15 trading days regardless of whether shares trade on the ASX consecutive trading days.</li> </ul>
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As the vesting conditions above are market conditions, these were taken into consideration in deriving the grant date fair value of the options. Provided that the Directors remain in service with the company over the life of the options, the grant date fair value of the options will be recognised in full as an expense regardless of whether the market-based vesting conditions are satisfied.

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

Tranche	Vesting (Target) Price	Life (years)	No. of Options	Exercise Price \$	Expected Volatility %	Risk Free Rate %	Value per Option \$
Tranche 1	\$0.05	2	3,000,000	0.03	50	0.26	0.2162
Tranche 2	\$0.10	3	6,000,000	0.03	50	0.28	0.2178
Tranche 3	\$0.15	5	6,000,000	0.03	50	0.45	0.2175

The share price at the grant date was \$0.052. The following table illustrates movements in the number of director share options on issue during the year:

	2021 #	Weighted Average Exercise Price \$	2020 #	Weighted Average Exercise Price \$
Opening balance – 1 July	-	-	-	-
Granted during the year	15,000,000	0.03	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(10,000,000)	0.03	-	-
Outstanding as at 30 June	5,000,000	0.03	-	-
Vested and exercisable	5,000,000	0.03	-	-

All options vested during the year. All outstanding options remain exercisable as at 30 June 2021.

The group has recognised share-based payments expense of \$250,200 in respect of these options during the year (2020: \$nil).

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 22. Financial guarantees

The group has provided financial guarantees in respect of rental leasing arrangements disclosed in Note 19. 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.

	2021 \$000	2020 \$000
Bank guarantees provided – rental leases	37	37
Standby letters of credit	94	1,594

#### 23. Business combinations

No business acquisitions were completed during the financial year ended 30 June 2021. The following disclosures are made in respect of business combinations which occurred during the comparative financial year ended 30 June 2020.

##### **Powerguard**

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

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

Refer to note 4 for a description of the contingent consideration arrangement and details of how the fair value of the contingent consideration liability has been determined at the acquisition date and as at each of 30 June 2020 and 30 June 2021.

Goodwill represents the access to products obtained in the transaction. 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
Trade and other receivables	212
Inventory	192
Trade and other payables	(40)
<b>Fair value of net assets acquired</b>	<b>364</b>

Management assessed the fair value of identifiable intangible assets acquired to be \$nil. Between the acquisition date and the comparative balance date ended 30 June 2020, the Powerguard business recorded revenue of \$1,374,000 and net profit before tax of \$192,000.

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 23. Business combinations (continued)

##### *Performance Distribution*

On 1 April 2020, the group completed the acquisition of 100% of the business assets of Performance Distribution (AUS) Pty Ltd and Performance Distribution Limited, being an ecommerce and distribution business with comparable product ranges to those sold by the existing Cellnet business. The primary purpose of the acquisition was to create alternative pathways to market for the group's product offering. Details of the transactions were:

	<b>\$000</b>
Cash consideration paid	287
Fair value of contingent consideration	364
<b>Total consideration paid</b>	<b>651</b>
Less: Fair value of identifiable net assets acquired (see below)	(224)
<b>Goodwill recognised on acquisition</b>	<b>427</b>

Management assessed the fair value of identifiable intangible assets acquired to be \$nil. Between the acquisition date and the comparative balance date ended 30 June 2020, the Performance Distribution business recorded revenue of \$384,000 and net profit before tax of \$272,000.

Refer to note 4 for a description of the contingent consideration arrangement and details of how the fair value of the contingent consideration liability has been determined at the acquisition date and as at each of 30 June 2020 and 30 June 2021.

Goodwill represents the established selling platforms within the acquired business. No amount of goodwill is expected to be deductible for tax purposes.

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

	<b>\$000</b>
Inventory	240
Employee provisions	(16)
<b>Fair value of net assets acquired</b>	<b>224</b>

#### 24. Key management personnel remuneration

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	883,494	912,737
Post-employment benefits	34,687	49,130
Termination benefits	-	112,785
Long-term employee benefits	265,761	41,691
<b>Total compensation</b>	<b>1,183,942</b>	<b>1,116,343</b>

# Cellnet Group Limited and its consolidated entities

## Financial Report

### Notes to the financial statements

#### 25. Related party disclosure

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

Name	Country of incorporation	% Equity interest	
		2021	2020
Cellnet Group Limited (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	100
3SixT Pty Ltd (formerly Cellnet Online Pty Ltd)	Australia	100	100
3SixT Limited	Hong Kong	100	100

#### Entity with ultimate control over the group

Wentronic Holding GmbH and its associated entities holds 53.45% (2020: 54.64%) of the ordinary shares in Cellnet Group Limited.

At 30 June 2021, the group had a receivable from Wentronic Holding GmbH of \$92,000 (2020: \$nil).

#### Transactions and balances with entities under common control

##### *Wentronic Asia Pacific Limited*

During the 2021 and 2020 financial years, the group enlisted the services of, or otherwise purchased inventory from, Wentronic Asia Pacific Limited (WAPL). WAPL is a wholly owned subsidiary of Wentronic Holding GmbH, Cellnet's controlling shareholder. A function of WAPL is to source and purchase inventory through bulk buying arrangements with third party suppliers on behalf of the Wentronic Group.

Prior to 27 February 2020, WAPL sold inventory to the group at cost price plus a fee to cover WAPL's operating costs. The fee paid was approximately 9% of the gross amount of purchases paid in United States Dollars. Following 28 February 2020, and as announced to the ASX on 2 March 2020, the group started purchasing products directly from suppliers and now pays WAPL a 6% management / services fee for coordination of the purchasing and logistics function provided by WAPL under a service agreement between Cellnet Group Limited, Cellnet Limited and WAPL. During the 2020 financial year the group obtained an independent expert's report concluding that the transactions with WAPL prior to 27 February 2020 were fair and reasonable, and the purchasing arrangements prior to that date were ratified by the group's shareholders at a general meeting held on 26 June 2020.

The total value of transactions with WAPL under these arrangements during the 2021 financial year was \$840,000 (2020: \$5,764,000). At 30 June 2021, the group had a total of \$9,000 owing to WAPL in respect of these arrangements (2020: \$5,000).

##### *Wentronic GmbH*

At 30 June 2021, the group had a receivable from Wentronic GmbH, a wholly owned subsidiary of Wentronic Holdings GmbH, of \$9,000 (2020: \$nil), arising from expense recharging arrangements.

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

During the year 2020 financial year, the group made loan contributions of \$26,000 to Wentronic International Pty Ltd, being a joint venture between the group and its controlling shareholder Wentronic Holding GmbH. The group held a 49% interest in this entity and the investment was equity accounted for on the group's balance sheet. The joint venture was dissolved during the 2020 financial year. The group's share of losses of the joint venture for the

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### Notes to the financial statements

year ended 30 June 2020 was \$6,702. An impairment charge of \$454,000 was recognised in profit and loss for the year ended 30 June 2020 (refer note 7) on write-off of loans extended to the joint venture on its dissolution.

#### 26. Subsequent events

There are 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.

#### 27. Parent entity information

	2021 \$000	2020 \$000
Current assets	29,146	28,785
Total assets	42,860	42,700
Current liabilities	(18,614)	(20,031)
Total liabilities	(18,928)	(21,809)
<b>Net assets</b>	<b>23,929</b>	<b>20,891</b>
Issued capital	38,725	38,389
Retained earnings / (accumulated losses)	(27,240)	(27,240)
Reserve for own shares	(25)	(25)
Reserve for profits	10,524	8,072
Reserve for share based payment	1,945	1,695
<b>Total shareholder's equity</b>	<b>23,929</b>	<b>20,891</b>
Profit / (loss) of the parent entity after tax	2,452	(2,446)
<b>Total comprehensive income of the parent entity</b>	<b>2,452</b>	<b>(2,446)</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 2021 (2020: Nil).

#### 28. Auditors' remuneration

	2021 \$	2020 \$
Amounts received or due and receivable by the auditors (Pitcher Partners) for:		
<i>Audit services</i>		
Audit or review of the financial report of the entity and any other entity in the group	112,000	89,000
<i>Non-audit services</i>		
Taxation compliance services in relation to the entity and any other entity in the group	110,590	103,236
Financial due diligence	25,000	-
	<b>247,590</b>	<b>192,236</b>

#### 29. Dividend franking account

##### Franking credit balance

The amount of franking credits available for the subsequent financial year are \$nil (2020: \$nil).

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## Financial Report

### Notes to the financial statements

#### 30. Cash flow statement reconciliation

	2021 \$000	2020 \$000
Reconciliation of net profit after tax to net cash flows from operations:		
Net profit / (loss)	3,810	(2,373)
<i>Adjustments for:</i>		
Depreciation and amortisation	1,166	1,207
Impairment of joint venture loan	-	454
Share based payments expense / (benefit)	286	(16)
Share of (profits) / losses of associates	-	7
Fair value gain on revaluation of contingent consideration payable	(495)	(172)
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	1,879	1,561
(Increase) / decrease in right to returned goods asset	(158)	(357)
(Increase) / decrease in inventories	(2,330)	3,258
(Increase) / decrease in current tax asset	-	25
(Increase) / decrease in deferred tax assets	(65)	361
(Decrease) / increase in trade and other payables	(1,346)	205
(Decrease) / increase in provisions	(6)	(492)
(Decrease) / increase in current tax liability	16	(152)
Change in other financial instruments	37	109
<b>Net cash from operating activities</b>	<b>2,794</b>	<b>3,625</b>

## Cellnet Group Limited and its consolidated entities Financial Report

### 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 consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its 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 2021.

On behalf of the Board



Tony Pearson  
Chairman  
Brisbane  
25<sup>th</sup> August 2021

## 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 2021, 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 2021 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 (including Independence Standards)* ("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.

#### *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**
**How our audit addressed the key audit matter**
**Impairment testing for non-current assets**
**Refer to note 14 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 carrying value of the Group's net assets exceeded the Group's market capitalisation, which is an indicator that non-current assets may be impaired. Certain cash-generating units (CGUs) with the Group also performed below budget expectations for the year, with operations continuing to be impacted by the ongoing COVID-19 pandemic, with these results also considered an indicator of potential impairment within those CGUs.

Impairment testing for non-current assets is a key audit matter due to the high degree of management estimation and assumptions (as disclosed in notes 2(v) and 14) made by the Group, specifically those relating to EBITDA, average annual revenue growth rate, discount rates and terminal growth rates used in the determination of discounted cash flows.

Our procedures included, amongst others:

- Understanding and evaluating the design and implementation of the relevant controls over impairment of non-current assets;
- Assessing management's determination of the Group's 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 2022 financial year;
- Evaluating whether the forecasts used in value-in-use calculations include reasonable expectations regarding the impact of COVID-19 on the business over the forecast period;
- Checking the mathematical accuracy of the impairment testing model and its consistency with the requirements of AASB 136;
- Assessing the reasonableness of significant estimates and assumptions used for the impairment assessment, in particular, those relating to the EBITDA, average annual revenue growth rate, discount rate and terminal growth rates used in the cash flow forecasts;
- Evaluating the impact of sensitivities in respect of reasonable changes to forecast cash flows, discount rates, and growth rates used in management's impairment testing calculations; and
- Assessing the adequacy of disclosures.

**Recoverability of deferred tax assets**
**Refer to note 8 Income tax and note 2(v) Critical accounting estimates and judgements**

At 30 June 2021, the Group has a total of \$2.815m of deferred tax assets recognised on its balance sheet.

Australian Accounting Standards require deferred tax assets to be recognised to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits.

Recoverability of deferred tax assets is a key audit matter due to the high degree of estimation and assumptions (as disclosed in notes 2(v) and 8) made by the Group concerning forecast taxable profits

Our procedures included, amongst others:

- Understanding and evaluating the design and implementation of the relevant controls in place for assessing the recoverability of deferred tax assets;
- Obtaining management's forecast of taxable income for the next 3 years and agreeing the FY22 forecast to the latest Board approved budget;
- Performing procedures over forecast information as outlined above in response to the key audit matter regarding impairment testing for non-current assets, noting that the same baseline forecasts for the Group's CGUs are used in management's assessment regarding recoverability of deferred tax assets;
- Checking the mathematical accuracy of management's calculation of forecast taxable profit; and
- Assessing the adequacy of disclosures.

## Valuation of inventory

### Refer to note 12 Inventories and note 2(v) Critical accounting estimates and judgements

The Group held inventory of \$17.700m at 30 June 2021. The valuation of inventory is a key audit matter for the following reasons:

- Retailer demand continues to be subdued in some segments serviced by the Group in Australia and New Zealand as a result of the COVID-19 pandemic, with prevailing uncertainty in future consumer demand for these markets;
- Uncertainty surrounding the availability of vendor support for obsolete stock;
- A large portion of the Group's inventory is considered to be at risk of obsolescence due to its attachment to electronic and telecommunications devices, such as smartphone handsets;
- Delays in the rollout of the Group's online strategy.
- Management judgements and assumptions applied in deriving the provision for obsolescence.

As a result of the above conditions we considered valuation of inventory to be a key audit matter.

Our procedures included, amongst others:

- Understanding and evaluation of the design and implementation of the relevant controls over the determination of the provision for inventory obsolescence;
- Evaluating the appropriateness of the Group's obsolescence model, including the basis for obsolescence triggers and the percentage write-downs applied at each trigger point;
- Confirming the methodology applied for providing for inventory obsolescence is consistent with that applied in previous reporting periods, adjusted where necessary for changes in assumptions based on actual and forecast demand;
- Testing the net realisable value of a sample of inventory items through subsequent sales transactions, and confirming results of this testing align with assumptions applied in the obsolescence model;
- Performing trend analysis of changes in the obsolescence provision by product over the past 12 months, and confirming trends correlate with age of related product technology;
- Vouching vendor funding commitments obtained to documented agreement of terms; and
- Assessing the adequacy of disclosures.

## 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 as prescribed under AASB 15 *Revenue from Contracts with Customers*.

Rebate and incentive arrangements offered by the Group vary and are customer specific. These obligations are established either in contract or through principal of constructive obligation based on customary business practice, and the associated refund liabilities are estimated based on past practice, sales volumes and customer claim history.

The expected reversal of sales through customers exercising their right of return is estimated based on historical rates of return. Due to the variety of contractual terms with customers and the degree of management 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.

Our procedures included, amongst others:

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

### *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 2021, 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 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 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, actions to eliminate threats or safeguards applied.

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.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included on pages 8 to 18 of the directors' report for the year ended 30 June 2021. In our opinion, the Remuneration Report of Cellnet Group Limited, for the year ended 30 June 2021, 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



DANIEL COLWELL  
Partner

Brisbane, Queensland

25<sup>th</sup> August 2021

**Cellnet Group Limited and its consolidated entities**  
**Financial Report**

**ASX Additional information**

As at 23 August 2021

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 shares held	% of capital held
Wentronic Holding Gmbh	118,738,107	48.95%
Michael Wendt	10,920,000	4.50%
Thundering Heard Pty Ltd	9,990,508	4.12%
Faraday Capital Pty Ltd	7,435,269	3.06%
Mr Tony Masahiro Pearson	6,375,000	2.63%
BNP Paribas Nominees Pty Six Ltd	5,500,000	2.27%
Velkov Funds Management Pty Ltd	4,400,000	1.81%
EDP Investments	4,109,589	1.69%
HSBC Custody Nominees (Australia) Limited	3,288,000	1.36%
Cuzzilla Family Super	2,000,000	0.82%
Chemical Trustee Ltd	1,820,000	0.75%
Mr Lachlan Wilson	1,785,577	0.74%
Philadelphia Investments Pty Ltd	1,650,274	0.68%
Mr Jonathon Matthews	1,565,249	0.65%
Mr Rob Peebles	1,437,371	0.59%
Hallion Wing Young Superannuation Fund	1,376,300	0.57%
LB Campos Pty Limited	1,369,863	0.56%
Maplewest Pty Ltd	1,298,997	0.54%
Axford Family Superannuation Fund	1,210,000	0.50%
Lilyfield Holdings Pty Ltd	1,002,500	0.41%
<b>Top 20 Holders</b>	<b>187,272,604</b>	<b>77.20%</b>
All other holders	55,322,030	22.80%
<b>All holders</b>	<b>242,594,634</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	118,738,107

**Distribution of equity security holders**

Category	No of holders
1 – 1000	107
1,001 – 5,000	322
5,001 – 10,000	136
10,001 – 50,000	203
50,001 – 100,000	76
100,001 and over	145

The number of shareholders holding less than a marketable parcel of ordinary shares is 508.

Options held over ordinary shares 5,000,000.