

Appendix 4D and Half Year Report

31 DECEMBER 2019



CORPORATE UPDATE

SUMMARY:

5G Networks Limited (ASX: 5GN; the Company), provider of high-speed data networking, cloud and data centre services and managed services, is pleased to announce its 2020 Interim Financial Report and Commentary.

The Company's first half financial performance has been strong with the successful transition to higher margin annuity revenue streams delivering record growth in EBITDA and operating cashflows. The successful launch of the 5GN Indirect Channel and several strategic data centre acquisitions, coupled with continued fibre roll out and next generation cloud suite positions the Company well for continued growth.

Key highlights for the half year ended 31 December 2019 include:

- Significant EBITDA growth, with first half EBITDA of \$3.0 million¹, an increase of 236% on the previous period (H1FY19: \$0.9m).
- First half FY20 Revenue of \$25.4 million, 8% growth on the previous period (H1FY19: \$23.6m).
- EBITDA margin of 12% was at the top end of the Company's target range of 8-12%.
- Successful transition to higher margin annuity revenue with annuity revenue performance strengthened with 21% growth on the previous period and 8% higher than the first half of FY19.
- \$4.6m of new and re-signed revenue secured in the half demonstrates continued customer commitment and expansion of services; greater than 75% of revenue is contracted.
- Record first half operating cash flow of \$3.3 million, which includes \$586k of interest costs and is an increase of 58% on the previous half.
- Successful launch of the 5GN Indirect Channel including several new partner signings such as Servers Australia, one of Australia's largest hosting providers.
- Signed first customer to the 5GN fibre network in Sydney and connected our Sydney Data Centre (SDC) to several leading data centre providers across Sydney.
- Investment in cloud infrastructure to grow capacity by more than 25% and continued fibre roll out in Sydney and Melbourne CBD; next generation cloud suite developed for planned launch Q3FY20.
- Two Sydney Data Centre (SDC) acquisitions unlocks access to Sydney's technology growth corridor; total DC rack capacity is now 720+.
- Continued development of people and culture; supported by stable executive and management team.
- Extended industry experience of the board with appointment of Jason Ashton (ex-BigAir Group) during the period.
- Substantial cash balance of \$2.8m and an additional \$2.2m of available debt to fund targeted acquisitions.

¹ EBITDA before acquisition and non-recurring costs of \$191k and Share option costs of \$335k

HALF YEAR REPORT

1. COMPANY DETAILS

Name of entity: 5G Networks Limited

ABN: 30 163 312 025

Reporting period: Half year ended 31 December 2019

Previous corresponding period: Half year ended 31 December 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET:

				HY 31-Dec-19 (\$000)	HY 31-Dec-18 (\$000)
Revenue from ordinary activities	Up	8%	to	25,360	23,576
Profit/(Loss) before Interest, Tax, Depreciation and Amortisation (EBITDA)	Up	261%	to	2,486	689
Net loss for the period attributable to members	Up	67%	to	(475)	(1,460)

COMMENTARY

Reported revenue for the first half FY20 Revenue was \$25.4 million, representing 8% growth on the previous period (H1FY19: \$23.6m). EBITDA for the period was \$2.5 million, representing an increase of 261% on the previous period (H1FY19: \$0.7m). Normalised EBITDA before acquisition and non-recurring costs of \$191k and share option costs of \$335k was \$3.0 million. Net Loss for the period was \$0.475 million, a significant reduction from the previous period (H1FY19: Loss \$1.46 million).

The Company's strong financial performance was as a result of the successful transition to higher margin annuity revenue, with 21% growth on the previous period and 8% higher than the first half of FY19. The Company secured \$4.6m of new and re-signed revenue in the half, demonstrating continued customer commitment and expansion of services. As at 31 December 2019, greater than 75% of revenue is contracted.

During the period, the Company continued to execute on its strategic growth plan; successfully launching the 5GN Indirect Channel including several new partner signings such as Servers Australia, one of Australia's largest hosting providers. The first customer was signed to the 5GN fibre network in Sydney and our Sydney Data Centre (SDC) was connected to several leading data centre providers across Sydney.

The Company continued its investment in cloud infrastructure to grow capacity by more than 25% and the continued fibre roll out in Sydney and Melbourne CBD. In addition, the next generation cloud suite continues to be developed for planned launch in Q3FY20. Finally, two Sydney Data Centre (SDC) acquisitions during the period unlocks access to Sydney's technology growth corridor, with total DC rack capacity now more than 720.

5GN continues to execute and deliver on its strategic growth plan and deliver revenue and EBITDA growth, supported by its substantial cash balance of \$2.8m and an additional \$2.2m of available debt to fund targeted acquisitions.

3. DIVIDENDS:

	Amount per security (Cents)	Franked amount per security (Cents)
2019 Final dividend – paid 18 October 2019	1.0	1.0

The fully franked final dividend relates to the financial reporting period ended 30 June 2019.

CORPORATE UPDATE

4. NET TANGIBLE ASSETS

	Half year ended 31 December 2019 (Cents)	Half year ended 31 December 2018 (Cents)
Net tangible assets per ordinary security	0.93	(2.97)

5. CONTROL GAINED OVER ENTITIES

100% of Australian Pacific Data Centres Pty Ltd (APDC) was acquired on 19 September 2019.

6. LOSS OF CONTROL OVER ENTITIES

Not applicable.

7. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

8. AUDIT OF ACCOUNTS

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Financial report. The independent auditor's review report does not contain any modified opinion, emphasis of matter, or matter paragraph..

FUTURE DEVELOPMENTS

Nil

ATTACHMENTS

The Interim Report for 5G Networks Limited for the half-year ended 31 December 2019 is attached.

Signed



Joseph Demase
Managing Director
Melbourne
18 February 2020

5G Networks Limited

And Its Controlled Entities

INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

ABN 30 163 312 025



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CORPORATE DIRECTORY

DIRECTORS

Albert Cheok (Non-Executive Chairman)
Joseph Gangi (Non-Executive Director)
Jason Ashton (Non-Executive Director)
Joseph Demase (Managing Director)

REGISTERED OFFICE

Level 8
99 William Street
Melbourne VIC 3000
Telephone No: +1300 10 11 12

COMPANY NUMBER

ACN: 163 312 025

COUNTRY OF INCORPORATION

Australia

COMPANY DOMICILE AND LEGAL FORM

5G Networks Limited is the parent entity
and an Australian Company limited by shares

PRINCIPAL PLACES OF BUSINESS

Level 8
99 William Street
Melbourne VIC 3000

COMPANY SECRETARY

Glen Dymond

LEGAL ADVISERS

Cornwalls
Level 10, 114 William Street
Melbourne VIC 3000

AUDITORS

Grant Thornton Audit Pty Ltd
Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3000

SHARE REGISTER

Link Market Services Pty Limited
Level 12, 680 George Street
Sydney NSW 2000

ASX CODE

5GN

WEBSITE

www.5gnetworks.com.au

DIRECTORS' REPORT

The Directors present their report, together with the half year financial report, of the consolidated entity (referred to hereafter as the 'Group') consisting of 5G Networks Limited (referred to hereafter as "the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

DIRECTORS

The following persons were Directors of 5G Networks Limited during the period and up to the date of this report, unless otherwise stated:

- Albert Cheok (Non-Executive Chairman)
- Joseph Gangi (Non-Executive Director)
- Jason Ashton (Non-Executive Director, appointed 9 October 2019)
- Joseph Demase (Managing Director)

PRINCIPAL ACTIVITIES

The Group's principal activities during the period were:

- the supply of cloud-based solutions, managed services and network services
- the operation of fibre and wireless infrastructure and management of cloud computing environment
- the operation of data centre facilities

There have been no significant changes in the nature of these activities.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

On 19 September 2019 the Company completed the acquisition of Australian Pacific Data Centres Pty Ltd, the owner of a data centre in Pyrmont, Sydney. The acquisition provided further data centre rack capacity for the Group and connectivity to the Group's fibre network and customers in Sydney.

A review of the operations of the Group during the year and the results of those operations found that the revenue for the period was \$25.360 million (2018: \$23.576 million). The loss of the Group for the period after providing for income tax amounted to \$0.475 million (2018: \$1.46 million loss).

During the period, 1,800,000 ordinary shares were issued for total consideration of \$540,000 following the exercise of options, 187,500 ordinary shares were issued for total consideration of \$150,000 and 90,314 ordinary shares for total consideration of \$68,639 were issued pursuant to the Dividend Reinvestment Plan.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year, other than those reported in the Review of operations and financial results.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

On 12 February 2020 the Company announced that it had entered into an agreement to acquire a data centre in North Sydney. The purchase price is \$2 million to be funded from existing operating cashflow and cash reserves. The acquisition provides access to the rapidly growing North Sydney technology corridor and increases the company's data centre capacity to over 720 racks.

On 12 February 2020 the Company granted 800,000 share options of its common stock to Directors under its Executive and Director Option Plan (ESOP) at an exercise price of \$0.80, subject to the satisfaction of service vesting conditions and expiry date of 3 years after grant.

No other matter or circumstances have arising since the end of the period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

DIRECTORS' REPORT

DIVIDENDS

During the period a 100% franked dividend of \$0.01 (1 cent) per ordinary share was paid in respect of the financial year ended 30 June 2019. There were no dividends declared in the half-year ended 31 December 2019 (2018: Nil).

ROUNDING OF AMOUNTS

The Group is a type of Company referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Board of Directors:



Albert Cheok
Chairman
18 February 2020

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration

To the Directors of 5G Networks Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of 5G Networks Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads "Grant Thornton".

Grant Thornton Audit Pty Ltd
Chartered Accountants

A handwritten signature in black ink that reads "M A Cunningham".

M A Cunningham
Partner – Audit & Assurance

Melbourne, 18 February 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Notes	Consolidated 6 months to 31 December 2019 \$000	Consolidated 6 months to 31 December 2018 \$000
Continuing operations			
Revenue	6	25,360	23,576
Other income		27	3
Network and data centre costs		(10,618)	(12,116) ¹
Other expenses		(1,364)	(697)
Rent and office expenses		(162)	(298)
Marketing and travel expenses		(207)	(139)
Employee benefits expenses		(9,996)	(8,992) ¹
Share based expenses		(335)	(203)
Acquisition costs		(191)	(440)
Depreciation and amortisation expenses		(2,277)	(1,649)
Finance costs		(712)	(505)
Loss before income tax		(475)	(1,460)
Income tax (expense)/benefit from continuing operations		-	-
Loss for the year		(475)	(1,460)
Other comprehensive Loss for the year, net of income tax		-	-
Total comprehensive Loss for the year		(475)	(1,460)
Total comprehensive profit for the year attributable to:			
Continuing operations		(475)	(1,460)
Earnings per share from continuing operations (cents per share):			
Basic earnings per share	7	(0.74)	(0.03)
Diluted earnings per share	7	(0.74)	(0.02)
Earnings per share attributable to the owners of 5G Networks Limited (cents per share):			
Basic earnings per share	7	(0.74)	(0.03)
Diluted earnings per share	7	(0.74)	(0.02)

¹ In the Profit and Loss Statement for half year ending 31 December 2018, \$2.924 million of employee benefits expenses were classified within network and data centre costs. the Group has decided to reclassify these costs within employee benefits expenses in FY20

The above Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
ASSETS			
Current assets			
Cash and cash equivalents		2,812	6,660
Trade and other receivables		2,915	3,981
Contract assets		378	629
Other current assets		2,093	1,205
Total current assets		8,198	12,475
Non-current assets			
Trade and other receivables		70	70
Property, plant and equipment	10	7,162	5,112
Right to use asset	11	12,432	14,142
Deferred tax asset	8	610	610
Intangible assets	12	15,721	13,370
Total non-current assets		35,995	33,304
TOTAL ASSETS		44,193	45,779
LIABILITIES			
Current liabilities			
Trade and other payables		5,175	3,610
Borrowings	13	2,081	1,873
Lease Liability	11	1,882	1,818
Employee benefits		1,467	2,179
Provision for income tax		213	172
Contract liabilities		1,328	1,241
Other liabilities		655	278
Total current liabilities		12,801	11,171
Non-current liabilities			
Borrowings	13	3,275	5,049
Lease Liability	11	11,313	12,853
Employee benefits		471	318
Total non-current liabilities		15,059	18,220
TOTAL LIABILITIES		27,860	29,391
NET ASSETS		16,333	16,388
EQUITY			
Issued capital		19,340	18,606
Reserves		3,037	2,351
Accumulated losses		(6,044)	(4,569)
TOTAL EQUITY		16,333	16,388

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Issued Capital \$000	Share Based Payment Reserve \$000	Profit Reserve \$000	Accumulated Losses \$000	Total Equity \$000
Balance at 1 July 2019	18,606	2,351	1,000	(5,569)	16,388
Loss for the period	-	-	-	(475)	(475)
Total comprehensive Loss for the period	-	-	-	(475)	(475)
Transactions with owners in their capacity as owners:					
Shares issued on exercise of Options	540	-	-	-	540
Shares issued pursuant to Dividend Reinvestment Plan	69	-	-	-	69
Shares issued to directors	150	-	-	-	150
Share issue costs	(25)	-	-	-	(25)
	734	-	-	-	734
Dividend Paid	-	-	(649)	-	(649)
Performance Rights and Share Options Issued	-	335	-	-	335
Balance at 31 December 2019	19,340	2,686	351	(6,044)	16,333
Balance at 1 July 2018	8,775	134	-	(428)	8,481
Loss for the period	-	-	-	(1,460)	(1,460)
Total comprehensive Loss for the period	-	-	-	(1,460)	(1,460)
Transactions with owners in their capacity as owners:					
Shares issued on conversion of convertible notes	500	-	-	-	500
Share issue costs	(13)	-	-	-	(13)
	487	-	-	-	487
Performance Rights and Share Options Issued	-	203	-	-	203
Balance at 31 December 2018	9,262	337	-	(1,888)	7,711

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

	Notes	Consolidated 6 months to 31 December 2019 \$000	Consolidated 6 months to 31 December 2018 \$000
Cash flows from operating activities			
Receipts from customers		28,078	22,753
Payments to suppliers and employees		(24,235)	(20,918) ²
Interest received		27	3
Interest paid		(586)	(505)
R&D Tax concession received		-	501
Net cash flows from operating activities	9B	3,284	1,834
Cash flows from investing activities			
Net cash on Purchase of Anittel/Hostworks group		-	(1,700)
Net cash on Purchase of Australian Pacific Data Centres	14A	(3,197)	-
Purchase of property, plant and equipment		(1,341)	(398)
Net cash flows used in investing activities		(4,538)	(2,098)
Cash flows from financing activities			
Proceeds from issue of shares		150	500
Proceeds from issue of options		540	-
Proceeds from issue of convertible notes		-	500
Proceeds from borrowings		879	3,442
Repayment of loan agreements/convertible notes		-	(500)
Repayment of borrowings		(2,641)	(3,610)
Payment of capital raising costs		(25)	(180)
Payment of financing costs		-	(13)
Capital lease payments		(917)	(421) ²
Dividends paid		(580)	-
Net cash flows used in financing activities		(2,594)	(282)
Net increase/(decrease) in cash and cash equivalents		(3,848)	(546)
Cash and cash equivalents at beginning of period		6,660	3,357
Cash and cash equivalents at end of period	9	2,812	2,811

² According to AASB 16, cash payments for the principal portion of the lease liability shall be classified within financing activities. The consolidated cash flow statement for half year ending 31 December 2018 classified these payments within operating activities; therefore, \$421k cash payments for capital lease are reclassified from operating activities to financing activities to comply with the standard.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

1. CORPORATE INFORMATION

5G Networks Limited is a listed public company limited by shares, incorporated and domiciled in Australia. The consolidated financial report of the Group as at and for the half year ended 31 December 2019 comprises 5G Networks Limited and the entities it controlled at the end of, or during, the period.

Operations and Principal Activity

The Group's principal activities during the year were:

- the supply of cloud-based solutions, managed services and network services
- the operation of fibre and wireless infrastructure and management of cloud computing environment
- the operation of data centre facilities

Registered Office and Principal Place of Business

Level 8, 99 William Street, Melbourne VIC 3000

2. BASIS OF PREPARATION

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, applicable Accounting Standards, including AASB 134 Interim Financial Reporting and other mandatory professional reporting requirements. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard AASB 134 Interim Financial Reporting.

The consolidated interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the Group as the annual financial report.

The consolidated interim financial report should be read in conjunction with the consolidated annual financial report as at 30 June 2019, together with any public announcements made by the Company during the half-year ended 31 December 2019 in accordance with continuous disclosure requirements under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The Interim Financial Statements were authorised for issue, in accordance with a resolution of the Directors on 18 February 2020.

Going Concern

The financial report for the half-year ended 31 December 2019 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the half-year ended 31 December 2019 the Group recorded a loss after tax of \$0.475 million (2018: Loss of \$1.46 million), operating cash inflow of \$3.284 million (2018: inflow of \$1.834 million), financing cash outflow of \$2.594 million (2018: outflow of \$0.282 million), and a deficit of current assets to current liabilities of \$4.603 million (2018: deficit of \$0.974 million). At period end the Group had \$2.812 million of cash on hand and available debt facilities of \$2.2 million.

The Directors regularly monitor the Group's cash position and on an on-going basis consider a number of strategic and operational plans and initiatives to ensure that adequate funding continues to be available for the Group to meet its business objectives. The Directors have taken the factors above into consideration and determined that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable and the Directors consider the going concern basis of preparation to be appropriate for this Financial Report.

Rounding of Amounts

The Group is a type of Company referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2019. There were no new accounting policies adopted during the period. Accordingly, the accounting policies included in the Group's last annual financial statements for the year ended 30 June 2019 are the relevant policies for the purposes of comparatives.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management judgement, estimates and assumptions applied in the interim financial statements are the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results.

5. OPERATING SEGMENTS AND PRODUCT LINES

The Chief Operating Decision Makers ("CODM") considers that the business has one reportable segment, being IT and Telecommunications and one geographic location being Australia. Therefore, all segment assets and liabilities, and the segment result, relate to one business segment and consequently no detailed segment analysis has been prepared.

6. REVENUE

The revenue breakdown by service for the half year ended 31 December 2019 is shown below:

	6 months to 31 December 2019 \$000	6 months to 31 December 2018 \$000
Revenue by service		
Network & Voice	3,859	3,515
Data Centres	3,203	1,557
Hardware & Software	4,721	6,559
Managed Services	6,591	6,131
Cloud Services	6,986	5,814
Total Revenue	25,360	23,576

7. EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS amounts are calculated by dividing net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The following represents the share data used in the EPS computations:

	6 months to 31 December 2019 \$000	6 months to 31 December 2018 \$000
Weighted average number of ordinary shares for basic earnings per share	64,300	50,509
Effect of Dilution:		
Weighted average of share options, performance rights	16,565	9,343
Weighted average number of ordinary shares adjusted for the effect of dilution	80,865	59,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

8. TAX

	Consolidated December 2019 \$000	Consolidated December 2018 \$000
(a) Income tax expense		-
Loss before income tax expense	(475)	(1,460)
Tax benefit at the statutory tax rate of 30% (2018: 27.5%)	143	(438)
Tax effect amounts which are not deductible in calculating taxable income:		
R&D subsidy	-	-
Share issue costs	-	(4)
Expense on performance rights	(101)	61
Acquisition costs	14	132
Other non-deductible expenses	(13)	2
Temporary Differences not brought into account	(16)	-
Unrecognised losses	(27)	247
Income tax (expense)/benefit	-	-

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed or, failing that, the same business test is passed. The taxation benefits of tax losses and temporary difference not brought to account will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and
- (iii) no change in tax legislation adversely affects the consolidated entity in realising the benefits from deducting the losses

	Consolidated December 2019 \$000	Consolidated June 2019 \$000
(b) Income tax expense		
Current Tax	-	-
Deferred tax - origination and reversal of temporary differences	-	-
Aggregate Income Tax Expense	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

8. TAX (CONTINUED)

	Consolidated December 2019 \$000	Consolidated June 2019 \$000
(c) Deferred tax asset		
Deferred tax asset is comprised of the following temporary differences:		
Provision for annual leave and long service leave	644	644
Accruals not yet deductible for tax	65	65
Tax losses not yet utilised	100	100
	809	809

	Consolidated December 2019 \$000	Consolidated June 2019 \$000
(d) Deferred tax liabilities		
Deferred tax liabilities is comprised of the following temporary differences:		
Immediately deductible prepayments - Closing balance	(153)	(153)
Income earned not yet invoiced	(46)	(46)
	(199)	(199)
Net DTA/DTL	610	610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

9. CASH AND CASH EQUIVALENTS

A. Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash at bank and in hand net of bank overdrafts.

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated 31 December 2019 \$000	Consolidated 31 December 2018 \$000
Cash at bank and in hand	1,812	1,703
Term deposit	1,000	1,108
Net cash and cash equivalents	2,812	2,811

B. Reconciliation of loss after tax to net cash flows from operating activities

	Consolidated 31 December 2019 \$000	Consolidated 31 December 2018 \$000
Loss after income tax	(475)	(1,460)
Non-cash flows in profit:		
Depreciation	2,277	1,649
Movement in leave liability	(361)	(109)
Movement in share option reserve	335	203
<i>Changes in assets and liabilities net of effects of purchases and disposals of controlled entities:</i>		
Decrease in trade and other receivables	922	(290)
Increase in other assets	(279)	76
Increase in intangibles	(24)	-
Increase in trade and other payables	1,470	1,750
Decrease in employee benefits	77	188
Increase in other liabilities	(658)	(173)
Net cash from operating activities	3,284	1,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
Plant and equipment		
At cost	9,663	7,696
Accumulated depreciation	(3,982)	(3,015)
	5,681	4,681
Leasehold improvements		
At cost	2,418	735
Accumulated depreciation	(937)	(304)
	1,481	431
Total property, plant and equipment	7,162	5,112

Reconciliations

Reconciliations of the written down values at the beginning and end of the current period are set out below:

	Leasehold Improvements \$000	Plant & Equipment \$000	Total \$000
Year ended 31 December 2019			
Cost			
Balance at the beginning of the year	735	7,696	8,431
Assets acquired in the business acquisition	1,643	257	1,900
Additions	54	1,710	1,893
Disposals	(14)	-	(14)
Closing value at 31 December 2019	2,418	9,663	12,081
Accumulated depreciation			
Balance at the beginning of the year	(304)	(3,015)	(3,319)
Assets acquired in the business acquisition	(543)	(115)	(658)
Depreciation	(100)	(852)	(952)
Disposals	10	-	10
Closing value at 31 December 2019	(937)	(3,982)	(4,919)
Net carrying value	1,481	5,681	7,162

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

11. LEASE ASSETS AND LIABILITIES

Right to use assets

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
Right to use assets		
At cost	15,131	15,984
Accumulated depreciation	(2,699)	(1,842)
Total right to use assets	12,432	14,142

Reconciliations

Reconciliations of the written down values at the beginning and end of the current period are set out below:

	Total \$000
Half-year ended 31 December 2019	
Cost	
Balance at the beginning of the period	15,984
Assets acquired in the business acquisition	1,107
Additions	658
Disposals	(2,618)
Closing value at 31 December 2019	15,131
Accumulated depreciation	
Balance at the beginning of the period	(1,842)
Assets acquired in the business acquisition	-
Depreciation	(1,305)
Disposals	448
Closing value at 31 December 2019	(2,699)
Net carrying value	12,432

Lease liabilities

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
Current		
Obligations under property leases	1,821	1,668
Obligations under equipment leases	61	150
	1,882	1,818
Non-current		
Obligations under property leases	11,313	12,853
	11,313	12,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

12. INTANGIBLE ASSETS

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
Goodwill		
Cost	15,721	13,370
Net carrying value	15,721	13,370
Total intangibles	15,721	13,370

Reconciliations

	Goodwill \$000	Total \$000
Period ended 31 December 2019		
Balance at the beginning of the year	13,370	13,370
Additions – Anittel Pty Ltd	24	24
Additions – Australian Pacific Data Centres Pty Ltd	2,327	2,327
Closing value at 31 December 2019	15,721	15,721
Year ended 30 June 2019		
Balance at the beginning of the year	6,842	6,842
Additions – Anittel Pty Ltd	2,714	2,714
Additions – Melbourne Data Centres Pty Ltd	3,814	3,814
Closing value at 30 June 2019	13,370	13,370

Impairment Disclosures and Testing of Goodwill

All Goodwill is allocated to the Group's one cash generating unit (CGU) being IT & telecommunications.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. These calculations use the present value of cash flow projections over a 5 year period plus a terminal value calculation, with growth rates based on a two year budget approved by management with a growth rate of 2.5% for year 3 onwards.

The Discount rate has been based upon an estimate of the entity's weighted average cost of capital, being 12%.

Impairment Charge of Goodwill

As a result of the impairment testing and evaluation, the Group has determined that the carrying value of Goodwill does not exceed their value-in-use, and no impairment charge is required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

13. BORROWINGS

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
Current		
<i>At amortised cost:</i>		
Obligations under bank loan ¹	239	304
Obligations under vendor finance	1	9
Obligations to vendors of MDC	1,491	1,491
Obligations to vendors of APDC	350	-
Obligations under lease fit out incentive	-	69
	2,081	1,873
Non-current		
<i>At amortised cost:</i>		
Obligations under bank loan ¹	2,348	3,476
Obligations to vendors of MDC	927	1,349
Obligations under lease fit out incentive	-	224
	3,275	5,049

Security arrangements

¹ The bank loans are from the Commonwealth Bank of Australia and they are secured with a fixed charge over particular assets and a floating charge over other collateral.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

14. BUSINESS ACQUISITION

Australian Pacific Data Centres Pty Ltd

On 19 September 2019, the Company announced the completion of the acquisition of 100% of the shares of Australian Pacific Data Centres Pty Ltd ("APDC").

The Pyrmont Data Centre has capacity for over 150 racks with current utilisation at 30%; future expansion is also available. This Tier 3 designed data centre was purpose built to leverage the highest standards of security and access control and features annualised contracted revenue of \$1.7m per annum.

The acquisition met the definition of a business combination in accordance with AASB 3 Business Combinations. As such, the entity purchased has been consolidated from the date of acquisition.

The consideration for the acquisition was made up of:

	\$000
Cash consideration paid	3,730
Cash consideration payable	350
Total consideration	4,080
The provisional fair value of the net assets acquired were:	
Cash and cash equivalents	533
Trade and other receivables	157
Inventory	58
Property, plant & equipment	1,261
Accruals	(111)
Employee benefits	(2)
Revenue in advance	(143)
Right to use assets	1,107
Lease liability	(1,007)
Make good liability	(100)
Provisional fair value of the net assets of APDC	(1,753)
Provisional Goodwill on acquisition	2,327

A. Reconciliation of Net Cash on Purchase of Australian Pacific Data Centres

	\$000
Cash consideration paid	(3,730)
Cash acquired	533
Net Cash on Purchase of Australian Pacific Data Centres	(3,197)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

15. ISSUED CAPITAL

	Consolidated 31 December 2019 \$000	Consolidated 30 June 2019 \$000
(a) Issued and paid-up capital		
Ordinary Shares fully paid	19,340	18,606
(b) Movement in ordinary shares on issue	No.	\$000
Balance at 1 July 2019	63,501,484	18,606
Issue of ordinary shares on exercise of unlisted options ¹	1,400,000	420
Issue of ordinary shares on exercise of unlisted options ²	400,000	120
Issue of ordinary shares ³	187,500	150
issue of ordinary shares under Dividend Reinvestment Plan ⁴	90,314	68
Share issue costs	-	(24)
At 31 December 2019	65,579,298	19,340

¹ On 13 September 2019 1,400,000 Shares were issued at \$0.30 upon unlisted options being exercised

² On 3 October 2019 400,000 Shares were issued at \$0.30 upon unlisted options being exercised

³ On 9 October 2019 187,500 shares were issued at \$0.80

⁴ On 18 October 2019 90,314 shares were issued under the Dividend Reinvestment Plan at \$0.76

16. DIVIDENDS

During the period a 100% franked dividend of \$0.01 (1 cent) per ordinary share was paid in respect of the financial year ended 30 June 2019. There were no dividends declared in the half-year ended 31 December 2019 (2018: Nil).

17. COMMITMENTS AND CONTINGENCIES

The Group has no commitments or contingencies as at 31 December 2019 (31 December 2018: Nil)

18. SUBSEQUENT EVENTS

On 12 February 2020 the Company announced that it had entered into an agreement to acquire a data centre in North Sydney. The purchase price is \$2 million to be funded from existing operating cashflow and cash reserves. The acquisition provides access to the rapidly growing North Sydney technology corridor and increases the company's data centre capacity to over 720 racks.

On 12 February 2020 the Company granted 800,000 share options of its common stock to Directors under its Executive and Director Option Plan (ESOP) at an exercise price of \$0.80, subject to the satisfaction of service vesting conditions and expiry date of 3 years after grant.

No other matters or circumstances have arisen since the end of the period 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 financial years.

DIRECTORS' DECLARATION

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

In the directors' opinion:

- (a) The financial statements and notes of 5G Networks Limited for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory reporting requirements; and

- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the board of directors



Joseph Demase
Managing Director
Melbourne
18 February 2020

INDEPENDENT AUDITORS REVIEW REPORT



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Independent Auditor's Review Report

To the Members of 5G Networks Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of 5G Networks Limited and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of 5G Networks Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 5G Networks Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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INDEPENDENT AUDITORS REVIEW REPORT



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

Independence

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

A stylized, handwritten signature of Grant Thornton in black ink.

Grant Thornton Audit Pty Ltd
Chartered Accountants

A handwritten signature of M A Cunningham in black ink.

M A Cunningham
Partner – Audit & Assurance

Melbourne, 18 February 2020