

Cellnet navigates Covid-19 with a strong balance sheet and sales resurgence

- Net loss before tax of \$1.962m
- Positive operating EBITDA of \$372,000 under challenging conditions
- Increased focus on costs, down 22% year on year
- Strong balance sheet with \$6.9m cash at bank
- Enhanced free cash position of \$11.8m
- Strong start to new financial year, July 2020 unaudited profit up on prior year.

Trans-Tasman mobile accessories and gaming distributor Cellnet Group Limited (Cellnet or the Company) has announced an operating EBITDA of \$372,000 for the year ended 30 June 2020. After including one-off and other non-cash items, the net after tax loss was \$2.4 million. Operating EBITDA is reconciled to net loss after tax as follows:

	FY2020 \$000
Operating EBITDA	372
<i>Non-operational item adjustments:</i>	
Fair value gain on revalue of deferred consideration	172
Impairment of loan receivable from joint venture	(454)
Statutory EBITDA	90
Depreciation and amortisation	(569)
Amortisation of intangibles acquired through business combination	(638)
Finance costs	(845)
Profit/(loss) before tax	(1,962)
Income tax (expense)/benefit	(411)
Net profit/(loss) attributable to shareholders	(2,373)

The Company experienced a 13 per cent reduction in revenue year on year due to the impact on retail spending during the Covid-19 lockdowns in Australia and New Zealand since March. However, a 34% (year-on-year) surge in revenue in June 2020 and continued strong revenues in July are encouraging signs for the first quarter of the new financial year.

Operating EBITDA remained positive despite the challenges thrown up by Covid-19. Cellnet was able to partially offset the downturn in sales occurring at the height of the community lockdowns through strong attention to costs, and a focused drive in online opportunities combined with increased demand for gaming products from its Turn Left Distribution business into Australia. In February 2020, Cellnet also started supply of gaming products into the New Zealand market.

With strong trading performance over the last two months and support from its bank, Westpac, the Company has been able to draw on working capital funding through its invoice finance and trade finance facilities. As a result, the Company still has access to the \$5.03 million raised from its recent entitlement issue. These funds together with existing finance facilities now provide Cellnet with a healthy balance sheet and enhance free cash position (cash balances plus current drawable funds under borrowing facilities) of more than \$11.8 million as of 30 June 2020.

Cellnet was also assisted by lower employee, finance, rental, and warehousing costs, including reduced labour costs predominantly due to a voluntary 20 per cent wage cut in the June quarter, the JobKeeper benefit in Australia and wage subsidy in New Zealand.

With the appointment of Dave Clark as Chief Executive in July, Cellnet has undergone a transformational change. Mr. Clark says, “We have taken the opportunity to refocus on our core strengths and leverage gaming and online capabilities. Newly established roles now provide additional resources into key strategic areas. Significant year-on-year savings in fixed operating expenses have also been achieved and the Company is now more agile than ever and ready to capitalise on the opportunities ahead.”

July 2020 trading has exceeded expectations and recent improvements in operating costs had delivered positive earnings, with unaudited net profit for July 2020 up considerably year on year.

Mr. Clark said he expected the next generation of gaming consoles will launch towards the end of 2020, with Sony set to release its PlayStation 5 and Microsoft launching its new Xbox console. “Both releases are highly anticipated and will drive an uplift in new compatible gaming accessories and increased software releases from all major publishers.”

In the mobile segment, the next “super cycle” of smartphone evolution is on the horizon with the introduction of 5G technology. “This landmark shift heralds a new age in mobile devices, delivering ultra-fast data speeds to enable new categories including mobile gaming.”

Over the past two years Cellnet has diversified its categories and channels with acquisitions in gaming (Turn Left Distribution), power products (PowerGuard) and online digital sales channels (Performance Distribution). The acquisitions have outperformed during the Covid-19 pandemic due to increased online sales and demand for gaming and home office products.

The acquisitions coupled with further investment in 3SixT, Cellnet’s own market leading brand of mobile accessories, means that the Company is well placed for organic growth, offering a more diverse range of products to an increasing retail, business, and consumer customer base.

In addition, the Board and management remain acquisitive and are evaluating further opportunities that align with the company’s strategy.

ENDS

About Cellnet:

Established in 1992, Cellnet Group Limited is an Australian Public listed company (ASX: CLT) and a market leader in technology distribution with offices in Australia and New Zealand.

Cellnet listed on the Australian Stock Exchange in 1999 and now employs more than 70 staff across Australia and New Zealand.

Cellnet sources products and represent market leading brands of lifestyle technology including mobile accessories and gaming products into retail, business, and online channels.

In 2017 Wentronic Holdings GmbH acquired a majority shareholding in Cellnet Group. Wentronic distributes AV, IT and mobility accessories throughout Europe, Asia and Africa. The investment by Wentronic provides a strong strategic partnership whereby Cellnet and Wentronic can ensure products are sourced in the most cost-efficient manner.

In 2018 Cellnet diversified its product offering into the gaming market with the acquisition of Turn Left Distribution. In 2020 Cellnet acquired online specialist Performance Distribution to accelerate its digital capability.

Cellnet Group Limited
and its controlled entities

ABN: 97 010 721 749

Financial Report
Year Ended 30 June 2020

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Appendix 4E	A
Financial Report	B

Section A

Appendix 4E

Final Report

Results for announcement to the market

Name of Entity	Cellnet Group Limited
ABN	97 010 721 749
Reporting Period	Full-year ended 30 June 2020
Previous Corresponding Period	Full-year ended 30 June 2019

Results

	Reporting Period	Previous Corresponding Period	% Change Increase / (Decrease)
	\$000	\$000	
Revenue from contracts with customers from continuing operations	96,225	110,714	(13.09%)
Revenue from contracts with customers from ordinary activities	96,225	110,714	(13.09%)
Profit/(Loss) from ordinary activities after tax attributable to members	(2,373)	405	(685.93%)
Net Profit/(Loss) for the period attributable to members	(2,373)	405	(685.93%)

Dividends

	Amount per Security	Franked Amount per Security
Final dividend	Nil	N/A
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 not declared a final dividend for the current financial year.

Net Tangible Assets:

	30 June 2020	30 June 2019
Net tangible assets backing per share	6.80¢	21.27¢

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 2020.

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 (appointed 4 October 2018)

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 a Trustee of the Royal Botanic Garden & Domain Trust, and a non-executive director of Peak Resources, 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.

Michael Wendt

(Non-Executive Deputy Chairman)

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

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

Kevin Gilmore

B. Econ. MBA

(Non-Executive Director)

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.

Giles Karhan (appointed 9 June 2020)

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.

Cellnet Group Limited and its consolidated entities

Financial Report

Directors' Report (continued)

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.

Michael Reddie (resigned 1 May 2020)

LLB, BCom (Hons), Monash University

(Non-Executive Director)

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

Mr Reddie was a member of the Audit and Risk Committee.

Chris Barnes

B. Acc, CPA

(Current: Company Secretary and Chief Financial Officer; Former: Executive Director)

Mr Barnes has been with the Company since 2006. He holds a Bachelor of Accounting Degree and is CPA qualified. He was appointed to the Board 1 May 2020 and resigned as a Board member 9 June 2020, and continues in the role of Company Secretary and Chief Financial Officer.

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	131,159,372	-
T. Pearson	-	-
K. Gilmore	3,288,000	-
G. Karhan	-	-
B. Danos	-	-

Dividends

No dividend has been declared for the 2020 financial year (2019: nil).

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 for the 2020 financial year.

- Net loss before tax of \$1.962m
- Positive operating EBITDA of \$372,000 under challenging conditions
- Increased focus on costs, down 22% year on year
- Strong balance sheet with \$6.9m cash at bank
- Enhanced free cash position of \$11.8m
- Strong start to new financial year, July 2020 unaudited profit up on prior year.

Cellnet has announced an operating EBITDA of \$372,000 for the year ended 30 June 2020. After including one-off and other non-cash items, the net after tax loss was \$2.4 million. Operating EBITDA is reconciled to net loss after tax as follows:

	FY2020 \$000	FY2019 \$000	Var \$000
Total revenue	96,225	110,714	(14,489)
Operating EBITDA	372	1,751	(1,379)
<i>Non-operational item adjustments:</i>			
Fair value increase to inventory acquired	-	(405)	405
Fair value gain on revalue of deferred consideration	172	683	(511)
Impairment of loan receivable from joint venture	(454)	-	(454)
Statutory EBITDA	90	2,028	(1,938)
Depreciation and amortisation	(569)	(228)	(341)
Amortisation of intangibles acquired through business combination	(638)	(531)	(107)
Finance costs	(845)	(915)	70
Profit/(loss) before tax	(1,962)	354	(2,316)
Income tax (expense)/benefit	(411)	51	(462)
Net profit/(loss) attributable to shareholders	(2,373)	405	(2,778)

The Company experienced a 13 per cent reduction in revenue year on year due to the impact on retail spending during the Covid-19 lockdowns in Australia and New Zealand since March. However, a 34% (year-on-year) surge in revenue in June 2020 and continued strong revenues in July are encouraging signs for the first quarter of new financial year.

Operating EBITDA remained positive despite the challenges thrown up by Covid-19. Cellnet was able to partially offset the downturn in sales occurring at the height of the community lockdowns through strong attention to costs, and a focused drive in online opportunities combined with increased demand for gaming products from its Turn Left Distribution business into Australia. In February 2020, Cellnet also started supply of gaming products into the New Zealand market.

With strong trading performance over the last two months and support from its bank, Westpac, the Company has been able to draw on working capital funding through its invoice finance and trade finance facilities. As a result, the Company still has access to the \$5.03 million raised from its recent entitlement issue. These funds together with existing finance facilities now provide Cellnet with a healthy balance sheet and enhanced free cash position (cash balances plus current drawable funds under borrowing facilities) of more than \$11.8 million as of 30 June 2020.

Cellnet Group Limited and its consolidated entities

Financial Report

Directors' Report (continued)

Cellnet was also assisted by lower employee, finance, rental, and warehousing costs, including reduced labour costs predominantly due to a voluntary 20 per cent wage cut in the June quarter, the JobKeeper benefit in Australia and wage subsidy in New Zealand.

Significant changes in the state of affairs

Other than as noted below, there have been no significant changes in the state of affairs of the company during or since the end of the financial year.

Issue of shares

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 have been offset against issued capital in equity.

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 1,587,500 share options over ordinary shares in the company on issue. No option holder has any rights under the terms of the instruments to participate in any other share issue of the company or any other entity. Details of these instruments are outlined as follows:

Grant Date	Vest Date	Expiry Date	Exercise Price (\$)	Opening	Granted	Forfeited	Exercised	Closing
29/11/2017	30/08/2020	30/08/2022	0.280	1,587,500	-	(312,500)	-	1,275,000
17/04/2018	30/08/2020	30/08/2022	0.375	312,500	-	-	-	312,500
10/10/2018	30/08/2020	30/08/2022	0.280	500,000	-	(500,000)	-	-

Cellnet Group Limited and its consolidated entities

Financial Report

Directors' Report (continued)

Indemnification and insurance of officers

Indemnification

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

Insurance premiums

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

Directors' meetings

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

Meetings						
	Board		Audit & Risk		Nomination & Remuneration	
	Held	Attended	Held	Attended	Held	Attended
M. Wendt	17	17	-	-	1	1
K. Gilmore	17	17	2	2	1	1
M. Reddie	13	13	2	2	-	-
T. Pearson	17	17	2	2	1	1
G. Karhan	2	2	-	-	-	-
C. Barnes	2	2	-	-	-	-

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, K. Gilmore

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

Cellnet Group Limited and its consolidated entities Financial Report

Directors' Report (continued)

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	
	2020	2019
	\$	\$
Taxation services	103,236	62,130

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)*.

Rounding

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

Auditor's independence declaration

The Auditor's independence declaration is set out on page 8 and forms part of the Directors' report for the financial year ended 30 June 2020.

Level 38, 345 Queen Street
Brisbane, QLD 4000

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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 2020, 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



DANIEL COLWELL
Partner

Brisbane, Queensland
31st August 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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Cellnet Group Limited and its consolidated entities

Financial Report

Directors' Report (continued)

Remuneration Report (audited)

This remuneration report for the year ended 30 June 2020 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 FY19 AGM

The FY19 remuneration report received positive shareholder support at the FY19 AGM with a vote of 99.5% 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) – Appointed 4 October 2018
M. Wendt	Director (Non-Executive)
K. Gilmore	Director (Non-Executive)
G. Karhan	Director (Non-Executive) – Appointed 9 June 2020
M. Reddie	Director (Non-Executive) – Retired 1 May 2020
C. Barnes	Director (Executive) – Appointed 1 May 2020, Retired 9 June 2020
A. Sparks	Director (Executive) – Retired 3 October 2018
B. Danos	Director (Non-Executive) – Retired 3 October 2018; Reappointed 1 July 2020

(ii) Executives

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

2. Remuneration at a glance

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

The Chairman's base fee is \$30,000 per annum (\$10,000 per annum for the months of July and August 2018) and Non-Executive Directors' base fees are presently \$30,000 per annum (\$10,000 per annum for the months of July and August 2018). Non-Executive Directors do not receive performance related remuneration. Non-executives may, at the discretion of the Remuneration Committee and subject to shareholder approval, receive compensation in the form of shares or share options. 875,000 shares are to be issued to a non-executive director, subject to shareholder approval at the forthcoming AGM, in respect of services provided in the current year. No share-based remuneration was issued to Non-Executive Directors during the comparative financial year.

Cellnet Group Limited and its consolidated entities

Directors' Report (continued)

Remuneration Report (audited) (continued)

5. Executive remuneration arrangements and the link to company performance

5.1 Fixed remuneration

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

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

Performance linked remuneration includes both STI and LTI and is designed to reward 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.

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

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

At the end of the financial year the Board assesses the actual performance of the group and the individual against their respective financial KPI's set at the beginning of the financial year. A percentage of the pre-determined maximum amount is only awarded where results are achieved of between 100% and 200%. No bonus is awarded where performance falls below 100%. Performance of beyond 200% is not awarded as it is capped. The following table outlines the proportion of the maximum STI that was earned and forfeited in relation to the 2020 financial year.

Name	Proportion of maximum STI earned in FY20	Proportion of maximum STI forfeited in FY20
A. Sparks (CEO – resigned 16 June 2020)	0%	100%
D. Clark (GM NZ 1 July 2019 – 15 June 2020. Appointed CEO 16 June 2020)	70%	30%
C. Barnes	0%	100%

No other executives were eligible to earn an STI in the 2020 financial year.

STI awards for 2019 and 2020 financial years

For the 2020 financial year, a total payment of \$53,893 was made which represents 100% of the total STI cash bonus previously accrued in that period which has vested to executives. For the 2019 financial year, no payment was made as no STI cash bonus was achieved for that period.

Cellnet Group Limited and its consolidated entities

Directors' Report (continued)

Remuneration Report (audited) (continued)

5.4 LTIs

Executive Share Option Plan

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

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

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

The plan may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding options issued under the plan at that time. The following table summarises the options issued to KMP in the 2019 and 2020 financial years.

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

Options are subject to successfully achieving profit before tax performance hurdles over the financial years 2019 to 2021.

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. 117,778 shares were issued under the plan in July 2020, for services provided in the 2020 financial year. No shares were issued under the LTI plan during the 2019 year.

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 are issued to executives. The rights deliver ordinary shares to executives (at no cost to the executive) where the performance hurdle in relation to those performance rights is met. Following the exercise of a Right, the Company must, within such time as the Board determines, issue or allocate ordinary shares. There are currently no rights issued to any executive under this plan (2019: nil).

Cellnet Group Limited and its consolidated entities

Directors' Report (continued)

Remuneration Report (audited) (continued)

5.5 STI structure

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

Improving the performance of the operations was the main focus in setting the financial year 2020 short-term incentive.

5.6 Consequences of performance on shareholder wealth

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

Details	2020	2019	2018	2017	2016
Net profit / (loss) attributable to equity holders of the Company	(\$2,373,000)	\$405,000	\$5,982,000	\$2,035,000	\$1,748,000
Dividends paid	-	\$782,439	\$688,946	\$649,325	\$557,071
Reduction (increase) of share capital	\$(4,936,000)	-	-	-	\$746,000
Change in share price	(\$0.189)	(\$0.165)	\$0.105	\$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	Short-term				Post-Employment	Long-term benefits		Termination benefits	Total	% performance related	% Options/shares	
		Salary & fees \$	STI cash bonus \$	Motor Vehicle allowances \$	Non-monetary benefits \$	Superannuation benefits \$	Cash Incentives \$	Long Service Leave \$	Share-based payments \$				Termination/Retention Benefits \$
Non-executive directors													
M. Wendt	2020	30,000	-	-	-	-	-	-	-	-	30,000	-	-
	2019	26,667	-	-	-	-	-	-	-	-	26,667	-	-
B. Danos	2020	-	-	-	-	-	-	-	-	-	-	-	-
	2019	4,167	-	-	-	-	-	-	-	-	4,167	-	-
K. Gilmore	2020	30,000	-	-	-	-	-	-	-	-	30,000	-	-
	2019	26,667	-	-	-	-	-	-	-	-	26,667	-	-
M. Reddie	2020	25,000	-	-	-	-	-	-	-	-	25,000	-	-
	2019	26,667	-	-	-	-	-	-	-	-	26,667	-	-
T. Pearson	2020	30,000	18,500 [#]	-	-	-	-	-	31,500 [#]	-	80,000	62.50	62.5
	2019	22,117	-	-	-	-	-	-	-	-	22,117	-	-
Giles Karhan	2020	2,500	-	-	-	-	-	-	-	-	2,500	-	-
	2019	-	-	-	-	-	-	-	-	-	22,117	-	-
Total non-executive directors	2020	117,500	18,500	-	-	-	-	-	31,500	-	167,500	-	-
	2019	106,285	-	-	-	-	-	-	-	-	106,285	-	-

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	Cash Incentives	Long-term benefits		Termination benefits	Total	% performance related	% Options/ rights
		Salary & fees	STI cash bonus	Motor Vehicle allowances	Superannuation benefits		Long Service Leave	Share-based payments	Termination/ Retention Benefits			
		\$	\$	\$	\$	\$	\$	\$	\$	\$		
Executives												
A. Sparks	2020	279,848	-	-	22,181	-	5,224	(6,802)	112,785	413,236	(1.6)	(1.6)
	2019	291,936	-	-	21,402	-	26,924	3,276	-	343,538	1.0	1.0
D. Clark	2020	215,101	53,893	17,127	6,813	-	7,510	(2,055)	-	298,389	17.4	(0.7)
	2019	218,680	-	17,709	9,230	-	17,813	(945)	-	262,487	(0.4)	(0.4)
C. Barnes	2020	206,528	4,240 [#]	-	20,136	-	5,609	1,705 [#]	-	238,218	2.5	0.7
	2019	225,071	-	-	20,531	-	4,259	(945)	-	248,916	(0.4)	(0.4)
Total executives	2020	701,477	58,133	17,127	49,130	-	17,343	(7,152)	112,785	948,843	5.4	(0.8)
	2019	735,687	-	17,709	51,163	-	48,996	1,386	-	854,941	0.2	0.2
Total key management personnel	2020	818,977	76,633	17,127	49,130	-	17,343	24,348	112,785	1,116,343	9.1	2.1
	2019	841,972	-	17,709	51,163	-	48,996	1,386	-	961,226	0.1	0.1

[#] 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 are no outstanding vesting conditions. 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 will be issued to Mr Pearson at an issue price of 3.6 cents per share subject to approval at the forthcoming AGM, 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 with related parties:

Wentronic Holding GmbH and its associated entities hold 56.64% (2019: 53.82%) of the ordinary shares in Cellnet Group Limited. During the 2020 financial year, Cellnet purchased inventory from Wentronic Asia Pacific Limited ('WAPL'), a fellow subsidiary of Wentronic Holding GmbH, to the value of \$5,764,000 (2019: \$12,291,000). As at 30 June 2020 Cellnet has an outstanding balance payable to Wentronic Asia Pacific to the value of \$5,178 (2019: 475,000).

Prior to 27 February 2020, WAPL sold inventory to Cellnet 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, Cellnet 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 year Cellnet obtained an independent expert's report concluding that the transactions with WAPL prior to 27 February 2020 were fair and reasonable. The purchasing arrangements prior to that date were ratified by shareholders on 26 June 2020.

Joint venture with entity with ultimate control over the group

During the year, the group made loan contributions of \$26,000 (2019: \$168,000) 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 year. The group's share of losses of the joint venture for the year ended 30 June 2020 was \$6,702 (2019: \$5,827). 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.

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:

2020

Director/ KMP	No. Held at 1/7/2019	No. Granted	No. forfeited	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	-

2019

Director/ KMP	No. Held at 1/7/2018	No. Granted	No. Lapsed	No. Exercised	No. Held at 30/6/2019	No. Vested & Exercisable
M. Wendt	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-
K. Gilmore	-	-	-	-	-	-
M. Reddie	-	-	-	-	-	-
A. Sparks	-	500,000	-	-	500,000	-
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)

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.

2020

Director/ KMP	No. Held at 1/7/2019	No. Acquired	No. Acquired – Exercise of Options	No. Disposed	Shareholding at date of appointment /resignation	No. Held at 30/6/2020
M. Wendt	40,192,645	90,966,727*	-	-	-	131,159,372
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.

2019

Director/ KMP	No. Held at 1/7/2018	No. Acquired	No. Acquired – Exercise of Options	No. Disposed	Shareholder at date of appointment /resignation	No. Held at 30/6/2019
M. Wendt	40,192,645	-	-	-	-	40,192,645
K. Gilmore	400,000	-	-	-	-	400,000
T. Pearson	-	-	-	-	-	-
M. Reddie	-	-	-	-	-	-
B. Danos	-	-	-	-	-	-
A. Sparks	1,300,000	-	-	-	-	1,300,000
C. Barnes	322,708	-	-	-	-	322,708
D. Clark	500,000	-	-	-	-	500,000

END OF REMUNERATION REPORT

This report is made with a resolution of the Directors:



Tony Pearson
Chairman

Signed at Brisbane on 31 August 2020

Cellnet Group Limited and its consolidated entities
Financial Report

Statement of financial position

As at 30 June 2020

		Consolidated	
	<i>Note</i>	2020	2019
		\$000	\$000
ASSETS			
Current assets			
Cash and cash equivalents	10	6,936	1,311
Trade and other receivables	11	15,027	16,285
Inventories	12	15,377	18,232
Other current assets		1,409	1,056
Current tax assets		-	25
Derivative financial instruments	18	37	146
Total current assets		38,786	37,055
Non-current assets			
Receivables from associates		-	428
Investment in associates		-	7
Property, plant and equipment	13	299	300
Right of use asset	19	700	-
Deferred tax assets (net)	8(c)	2,750	3,055
Intangible assets	14	6,812	6,637
Total non-current assets		10,561	10,427
TOTAL ASSETS		49,347	47,482
LIABILITIES			
Current liabilities			
Trade and other payables	15	11,905	12,358
Provisions	16	768	1,266
Current tax liabilities	8(c)	33	185
Lease liability	19	360	-
Interest-bearing loans and borrowings	17	9,042	8,878
Total current liabilities		22,108	22,687
Non-current liabilities			
Provisions	16	168	150
Lease liability	19	420	-
Interest-bearing loans and borrowings	17	1,250	1,639
Total non-current liabilities		1,838	1,789
TOTAL LIABILITIES		23,946	24,476
NET ASSETS		25,401	23,006
EQUITY			
Issued capital	20(a)	38,389	33,453
Reserves	20(b)	10,473	10,641
Accumulated losses		(23,461)	(21,088)
TOTAL EQUITY		25,401	23,006

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 2020

		Consolidated	
	Note	2020	2019
		\$000	\$000
Revenue from contracts with customers	5	96,225	110,714
Other income	6	172	682
Materials, packaging and consumables used		(78,113)	(87,186)
Depreciation and amortisation expense		(1,207)	(759)
Employee benefit expense		(9,827)	(11,979)
Finance costs		(845)	(915)
Freight expense		(2,719)	(2,897)
Occupancy expense		(213)	(645)
Warehousing expense		(2,525)	(3,954)
Other expense		(2,910)	(2,707)
Profit / (loss) from continuing operations before income tax		(1,962)	354
Income tax (expense) / benefit	8(a)	(411)	51
Net profit / (loss) for the period		(2,373)	405
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(152)	219
Total comprehensive income / (loss) for the period		(2,525)	624
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	9	(2.28)	0.47
Diluted earnings per share (cents per share)	9	(2.28)	0.47
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents per share)	9	(2.24)	0.47
Diluted earnings per share (cents per share)	9	(2.24)	0.47

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

	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 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 loss 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)
Dividends paid	-	-	-	-	-	-	-
Balance as at 30 June 2020	38,389	(25)	(339)	1,695	9,142	(23,461)	25,401
At 1 July 2018	31,453	(25)	(406)	1,713	9,519	(21,088)	21,166
Profit for the period	-	-	-	-	-	405	405
Foreign currency translation	-	-	219	-	-	-	219
Total comprehensive income for the period	-	-	219	-	-	405	624
Transfers to/from reserves	-	-	-	-	405	(405)	-
<i>Transactions with owners in their capacity as owners:</i>							
Share based payments	2,000	-	-	-	-	-	2,000
Issue of shares	-	-	-	(2)	-	-	(2)
Dividends paid	-	-	-	-	(782)	-	(782)
Balance as at 30 June 2019	33,453	(25)	(187)	1,711	9,142	(21,088)	23,006

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 2020

		Consolidated	
	Note	2020	2019
		\$000	\$000
Cash flows from / (used in) operating activities			
Receipts from customers (inclusive of GST)		108,874	122,322
Payments to suppliers and employees (inclusive of GST)		(104,240)	(126,401)
Income tax paid		(197)	(463)
Interest paid		(812)	(697)
Net cash flows from / (used in) operating activities	30	3,625	(5,239)
Cash flows used in investing activities			
Interest received	6	-	5
Loans to associates		(26)	(168)
Payment for acquisition of businesses, net of cash acquired	23	(1,001)	(2,578)
Purchase of property, plant and equipment		(87)	(76)
Payments for purchase of intangibles		(24)	(331)
Lease incentives received		71	-
Payment of contingent consideration	4	(1,131)	-
Net cash flows used in investing activities		(2,198)	(3,148)
Cash flows from financing activities			
Proceeds from issuance of shares	20	5,070	-
Share issue costs	20	(191)	-
Principal repayments on leases	19	(353)	-
Proceeds from borrowings	17	28,738	34,534
Repayment of borrowings	17	(28,963)	(26,420)
Dividends		-	(782)
Net cash flows from financing activities		4,301	7,332
Net increase / (decrease) in cash and cash equivalents		5,728	(1,056)
Net foreign exchange differences		(103)	114
Cash and cash equivalents at beginning of period		1,311	2,253
Cash and cash equivalents at end of period	10	6,936	1,311

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 2020 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 31 August 2020. The nature of the operations and principal activities of the group are described in the directors' report.

2. Significant accounting policies

(a) Basis of preparation

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

The financial report is presented in Australian dollars and has been prepared on the historical cost basis, except for derivative financial instruments 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.

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

(b) New accounting standards and interpretations

(i) *Application of new accounting standards*

AASB 16 *Leases* is applicable to the group for the first time in preparing these financial statements. The group has applied the modified retrospective approach permitted under AASB 16 to account for the initial application of the standard, meaning that comparative balances have not been restated. Rather, the reclassifications and adjustments arising from initial application of the new leasing standard are recognised in the opening balance sheet on 1 July 2019. On initial application, the group made an election to measure right-of-use assets for all leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to each lease recognised on the balance sheet at 30 June 2019. As a result of this election, there was no impact on accumulated losses or reserves from applying the new standard for the first time.

The group used the following practical expedients permitted by the standard in applying AASB 16 for the first time:

- The use of a single discount rate for a portfolio of leases with reasonably similar characteristics; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group has relied on its assessment made applying previously applicable accounting standards and interpretations.

Cellnet Group Limited and its consolidated entities

Financial Report

Notes to the financial statements

2. Significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied in the measurement of the lease liabilities was 5.0%.

The table below provides a reconciliation of the operating lease commitments as at 30 June 2019, and the carrying value of the lease liabilities as at 1 July 2019:

	\$000
<i>Operating lease commitments disclosed as at 30 June 2019</i>	
Less than one year	227
Between one and five years	99
Total operating lease commitments as at 30 June 2019	326
Discounted using the lessee's incremental borrowing rate at the date of initial application	319
Less: Leases with a contractual maturity date of less than 12 months from the date of initial application	(51)
Lease liability recognised as at 1 July 2019	268
Of which are:	
Current lease liabilities	169
Non-current lease liabilities	99
	268

The group's right-of-use assets relate entirely to leases of premises. The carrying value of right-of-use assets recognised at 1 July 2019 was \$268,000.

The only financial statement line items affected by the initial application of the new standard were current and non-current lease liabilities and right-of-use assets, which were impacted in the amounts disclosed above.

Revised lease accounting policies under AASB 16 are disclosed in note 1(s).

(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.

(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.

Cellnet Group Limited and its consolidated entities

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Notes to the financial statements

2. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

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

(d) Foreign currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Financial statements of foreign operations

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.

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)

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 period.

Sales are made with credit terms of 60 days or less; as such no element of financing is deemed present in sales of goods made to customers. The group does not generally receive funds in advance of providing goods nor provide goods in advance of contractual entitlement to invoice the customer.

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.

Cellnet Group Limited and its consolidated entities

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Notes to the financial statements

2. Significant accounting policies (continued)

(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. 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.

Cellnet Group Limited and its consolidated entities

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Notes to the financial statements

2. Significant accounting policies (continued)

(l) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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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 with any difference between cost and redemption value being recognised in net income over the period of the borrowings on an effective interest basis.

(p) Provisions and employee leave benefits

(i) Provisions

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

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

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

(ii) Long-term service benefits

The group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to high quality corporate bonds at the balance date which have maturity dates approximating the terms of the group's obligations.

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

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

(q) Share based payment transactions

The group provides incentives to KMP in the form of share based payments. There are currently share based payment plans in place for the KMP. The cost of share based payments with KMP is measured by reference to the fair value of the equity instrument at the date at which they are granted (refer note 21 for further details).

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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

Accounting policy from 1 July 2019

From 1 July 2019, 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.

Accounting policy for comparative year ended 30 June 2019

(i) Operating lease payments

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

(ii) Finance leases

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

Cellnet Group Limited and its consolidated entities

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Notes to the financial statements

2. Significant accounting policies (continued)

(t) Income tax

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

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

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

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

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.

Cellnet Group Limited and its consolidated entities

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Notes to the financial statements

2. Significant accounting policies (continued)

(u) Goods and services tax

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

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

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

(v) Critical accounting estimates and judgements

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

Revenue recognition

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

Valuation of consideration paid and net assets acquired in business combinations

Consideration paid and net assets acquired in business combination transactions are recognised at their acquisition date fair values, as outlined in Note 23 (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 containing goodwill

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

Impairment losses for stock on hand

The group's inventory is exposed to a risk of obsolescence. A provision for obsolescence is raised where there is evidence suggesting that the net realisable value of inventory is less than its cost to the group. Management relies on inventory ageing data, 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.

The group's revenues declined in the last quarter of the financial year as a result of government imposed restrictions following the onset of the COVID-19 pandemic, with a degree of uncertainty prevailing regarding potential future restrictions and implications of the pandemic on end consumer demand. This has resulted in an increase in the risk of obsolescence in stock holdings at 30 June 2020 and therefore an increase in the provision for inventory obsolescence recognised, which is disclosed in note 12.

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Notes to the financial statements

2. Significant accounting policies (continued)

(v) Critical accounting estimates and judgements (continued)

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 would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Recovery of deferred tax assets

Deferred tax assets are recognised for tax losses and deductible temporary differences 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.

(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	2020 \$000	2019 \$000
Cash and cash equivalents	10	6,936	1,311
Interest bearing loans and borrowings	17	(10,292)	(10,517)
		(3,356)	(9,206)

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 2020, 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)	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
Consolidated				
+1% (100 basis points) (2019: 1%)	(23)	(64)	(23)	(64)
-0.5% (50 basis points) (2019: 0.5%)	12	32	12	32

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
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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:

	2020	2019
	US \$000	US \$000
Financial assets		
Trade and other receivables	244	428
	244	428
Financial liabilities		
Trade and other payables	(1,608)	(2,622)
Forward foreign currency contracts*	(3,949)	(16,931)
	(5,557)	(19,553)
Net exposure	(5,313)	(19,125)

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

At 30 June 2020, 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		Net assets	
	higher / (lower)		higher / (lower)	
	2020	2019	2020	2019
	\$000	\$000	\$000	\$000
Consolidated				
AUD / USD +10% (2019: +10%)	579	1,919	579	1,919
AUD / USD -10% (2019: -10%)	(707)	(2,346)	(707)	(2,346)

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.

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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.

		2020				
	Note	Carrying Value \$000	Total contractual cash flows	6 months or less	6 – 12 months	1 – 5 years
Financial assets						
Cash and cash equivalents	10	6,936	6,936	-	-	-
Trade and other receivables	11	15,027	15,027	-	-	-
Derivative financial instruments	18	37	37	-	-	-
		22,000	22,000	-	-	-
Financial liabilities						
Trade and other payables	15	(11,905)	(11,905)	-	-	-
Interest bearing loans and borrowings	17	(10,292)	(10,374)	(8,897)	(227)	(1,250)
		(22,197)	(22,279)	(8,897)	(227)	(1,250)
Lease liabilities		(780)	(842)	(225)	(166)	(451)
Net inflow / (outflow)		(977)	(1,121)	(9,122)	(393)	(1,701)
		2019				
		Carrying Value \$000	Total contractual cash flows	6 months or less	6 – 12 months	1 – 5 years
Liquid financial assets						
Cash and cash equivalents	10	1,311	1,311	1,311	-	-
Trade and other receivables	11	16,285	16,285	16,285	-	-
	18	146	146	146	-	-
		17,742	17,742	17,742	-	-
Financial liabilities						
Trade and other payables	15	(12,358)	(12,358)	(12,358)	-	-
Interest bearing loans and borrowings	17	(10,517)	(10,686)	(8,745)	(227)	(1,714)
		(22,875)	(23,044)	(21,103)	(227)	(1,714)
Net inflow / (outflow)		(5,133)	(5,302)	(3,361)	(227)	(1,714)

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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.

	<i>Note</i>	Carrying amount 2020 \$000	Fair value 2020 \$000	Carrying amount 2019 \$000	Fair value 2019 \$000
<i>Amortised cost</i>					
Cash and cash equivalents	10	6,936	6,936	1,311	1,311
Trade and other receivables	11	15,027	15,027	16,285	16,285
Trade and other payables	15	(11,905)	(11,905)	(11,186)	(11,186)
Borrowings	17	(10,292)	(10,292)	(10,517)	(10,517)
<i>Fair value through profit or loss</i>					
Contingent consideration payable	15	-	-	(1,172)	(1,172)
Derivative financial instruments	18	37	37	146	146
		(197)	(197)	(3,961)	(3,961)

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:

Turn Left Distribution (TLD)

The contingent consideration consists of contractual earn-out, over-performance and incentive payment arrangements based on the financial performance of TLD over the FY19 and FY20 financial years. These are summarised as follows:

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4. Fair Value Measurement (continued)

Earn-out: From \$0.8m up to \$1m per annum where gross profit on sales of software in FY19 and FY20 is between \$1.6m and \$2.0m.

Over-performance: 25% of cumulative gross profit on sales of software over the earn-out period (i.e. FY19-FY20) where gross profit for this period exceeds \$4.0m, uncapped in amount.

Incentive: 25% of all net profit over the earn-out period (i.e. FY19-FY20) where net profit (less any earn-out and over-performance payments) exceeds \$4.0m, uncapped in amount.

At 30 June 2019, the group adopted probability factors of 100% and 20% in respect of earn-out payments for FY19 and FY20, and probability factors of 0% for incentive and overperformance payments. The fair value of the contingent consideration liability at 30 June 2019 was \$1,172,000 (note 15). A payment of \$1m was made during FY20 in respect of earn-out entitlement arising on FY19 performance. At the conclusion of the earn-out period, being 30 June 2020, the group has assessed that remaining earn-out targets as described above have not been met and the liability has been valued at \$nil as at 30 June 2020, resulting in a gain on remeasurement of the contingent consideration liability in the current financial year of \$172,000 (note 6).

Powerguard

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

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 is recognised as both a liability and prepayment at 30 June 2020. The valuation of contingent consideration allows for gross profit margins of \$0.8m and \$1m respectively for the FY19 and FY20 earn-out periods. 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 consists 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.

The fair value of the contingent consideration liability at both the acquisition date and at 30 June 2020 was \$364,000, which allows for net profit before tax over the earn-out period of \$1.115m, discounted at a rate of 4.5%. 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 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
Total Revenue from contracts with customers	77,905	18,320	-	96,225
Other income	-	-	172	172
Profit before tax	(1,851)	15	(126)	(1,962)
Segment assets	34,710	11,105	3,532	49,347
Segment liabilities	17,834	4,368	1,744	23,946
June 2019	Cellnet \$'000	Turn Left \$'000	Corporate and Eliminations \$'000	Total \$'000
Australia	77,507	16,606	-	94,113
New Zealand	16,597	4	-	16,601
Total Revenue from contracts with customers	94,104	16,610	-	110,714
Other income	5	-	677	682
Profit before tax	340	(554)	568	354
Segment assets	32,588	10,713	4,181	47,482
Segment liabilities	17,807	3,498	3,171	24,476

6. Other income

	2020 \$000	2019 \$000
Interest	-	5
Share of profits of associates	-	(6)
Fair value gain on revaluation of contingent consideration payable	172	683
Total other revenue	172	682

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7. Items included in profit/(loss)

	2020	2019
	\$000	\$000
Bad debts expense / (recoveries)	-	(254)
Increase / (decrease) in credit loss allowance	149	113
Loss on scrapping of / provisioning for obsolete inventory	2,751	1,407
Minimum lease payments – operating leases	-	528
Rent expense on short-term leases	113	-
Depreciation of right-of-use assets	362	-
Interest expense on lease liabilities	40	-
Government grants – wage subsidies ¹	424	-
Defined contribution employee superannuation expense	618	722
Share-based payments expense/(income)	(16)	(2)
Write-off of investment / receivables from associate	454	-
Fair value (gains) / losses on FX derivatives	109	(108)
Net foreign exchange losses/(gains)	(1,384)	(277)

1 During the year the group received \$297,000 under the Australian government's JobKeeper wage subsidy scheme, and \$126,735 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

	2020	2019
	\$000	\$000
(a) Income tax expense / (benefit)		
The major components of income tax are:		
Current income tax charge	80	130
Prior year under/over provision – current tax	(31)	5
Prior year under/over provision – deferred tax	-	22
Deferred income tax charge	362	(208)
Total income tax expense/(benefit) reported in net income	411	(51)

(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	(1,962)	354
At the parent entity's statutory income tax rate 30% (2019: 30%)	(589)	106
Adjustments in respect of income tax of previous years	(31)	27
Entertainment	16	23
Share-based payments	(5)	(1)
Effect of lower tax rate in New Zealand (28%)	1	(4)
Fair value gain on revaluation of contingent consideration payable	(52)	(205)
Other	140	3
De-recognition of deferred tax assets for tax losses	445	-
Current year losses not recognised	486	-
Aggregate income tax expense / (benefit)	411	(51)

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8. Income Tax (continued)

(c) Recognised deferred tax assets and liabilities

	Consolidated			
	2020 \$000	2020 \$000	2019 \$000	2019 \$000
	Current tax liability	Deferred tax asset	Current tax liability	Deferred tax asset
Opening balance	(185)	3,055	(136)	3,844
Business combinations	-	-	(351)	(975)
Tax paid	197	-	437	-
Charged to income / (expense)	(80)	(362)	(130)	208
Charged to equity	-	57	-	-
Prior year over / (under) provision	31	-	(5)	(22)
FX translation	4	-	-	-
Closing balance	(33)	2,750	(185)	3,055

Deferred income tax at 30 June relates to the following:

	2020 \$000	2020 \$000
<i>Net deferred tax assets</i>		
Allowance for expected credit losses	52	48
Right of return liabilities (net of right to returned goods asset)	119	159
Lease liabilities (net of right-of-use assets)	24	-
Employee provisions	278	423
Foreign exchange differences	(18)	(42)
Sundry accruals	506	375
Other	67	30
Inventory	-	17
Intangible assets	(991)	(1,113)
Tax losses carried forward	2,713	3,158
Net deferred tax asset	2,750	3,055

The group suffered a taxable loss on its Australian tax consolidated operations for the year ended 30 June 2020. At 30 June 2020, 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 a probability weighted assessment of forecast taxable profits of \$2.713m over a three year period, and a history of taxable profits arising in years prior to the current financial year. As a result of this assessment, \$445,000 in deferred tax assets relating to carried forward tax losses was de-recognised at 30 June 2020. In addition, no deferred tax asset has been recognised for tax losses incurred in the current period.

(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 \$3,467,319 (Tax effected: \$1,040,196) (2019: \$nil) 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

	2020	2019
	\$000	\$000
<i>For basic earnings per share:</i>		
Profit / (Loss) from continuing operations	(2,373)	405
Net profit/(loss) attributable to ordinary equity holders	(2,373)	405
<i>For diluted earnings per share:</i>		
Profit / (loss) from continuing operations	(2,373)	405
Net profit/(loss) attributable to ordinary equity holders	(2,373)	405

(b) Weighted average number of shares

	2020	2019
	No. 000	No. 000
Weighted average number of shares (basic) at 30 June	105,907	86,935
Weighted average number of shares adjusted for effect of dilution	105,907	86,935

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

The weighted average number of shares used in the calculation of basic and diluted ordinary shares for both the current and comparative periods has been adjusted for the bonus element in the entitlement offer completed during the year. Refer to note 20 for details of this offer. The bonus element represents the discount of the offer price under the entitlement offer to the fair value of shares on issue immediately prior to the close of the offer.

The previously reported weighted average number of ordinary shares for 2019 was 61,559,000 and earnings per share was 0.66c, for both ordinary and diluted earnings per share.

(c) Earnings per share

Basic earnings per share (cents per share)	(2.24)	0.47
Diluted earnings per share (cents per share)	(2.24)	0.47

10. Current assets - cash and cash equivalents

	2020	2019
	\$000	\$000
Cash at bank and in hand	6,936	1,311
	6,936	1,311

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

	2020	2019
	\$000	\$000
Receivables from contracts with customers	13,875	15,516
Allowances for expected credit losses	(176)	(164)
	13,699	15,352
Other receivables and prepayments	1,328	933
Carrying amount of trade and other receivables	15,027	16,285

(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 2020 and 30 June 2019 respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking macroeconomic factors affecting the ability of customers to settle the receivables. The group has identified retail trade industry output growth (GDP) and retail sector gross margin trends as the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The tables below show the calculation of the expected credit loss provision for receivables from contracts with customers at both 30 June 2020 and 30 June 2019.

	Current	0-30 days	31-60 days	Over 60	Total
	\$000	past due	past due	days past	\$000
	\$000	\$000	\$000	due	
	\$000	\$000	\$000	\$000	
30 June 2020					
Expected loss rates	0.06%	1.19%	2.42%	4.96%	1.27%
Gross carrying amount	9,582	880	387	3,026	13,875
Loss allowance	6	11	9	150	176
30 June 2019					
Expected loss rates	0.04%	0.20%	0.50%	3.75%	1.05%
Gross carrying amount	9,643	1,470	258	4,145	15,516
Loss allowance	4	3	1	156	164

The closing loss allowances for receivables from contracts with customers as at 30 June 2020 reconcile to the opening loss allowance as follows:

	2020	2019
	\$000	\$000
At 1 July	164	78
Adjustment on initial application of AASB 9	-	(20)
Increase in loss allowances recognised in profit or loss	149	113
Receivables written off during the year as uncollectable	(137)	(7)
At 30 June	176	164

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12. Current assets – inventories

	2020	2019
	\$000	\$000
Stock on hand	18,646	19,998
Less: provision for obsolescence	(3,269)	(1,766)
Total inventories at the lower of cost and net realisable value	15,377	18,232

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

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

For the year ended 30 June 2020

At 1 July 2019 net of accumulated depreciation and impairment

Additions

Disposals

Depreciation charge for the year

At 30 June 2020 net of accumulated depreciation and impairment

At 30 June 2020

Cost

Accumulated depreciation and impairment

Net carrying amount

Leasehold improvements	Plant & Equipment	Total
\$000	\$000	\$000
54	246	300
47	40	87
-	-	-
(6)	(82)	(88)
95	204	299
527	7,183	7,710
(432)	(6,979)	(7,411)
95	204	299

For the year ended 30 June 2019

At 1 July 2018 net of accumulated depreciation and impairment

Additions

Disposals

Depreciation charge for the year

At 30 June 2019 net of accumulated depreciation and impairment

At 30 June 2019

Cost

Accumulated depreciation and impairment

Net carrying amount

Leasehold improvements	Plant & Equipment	Total
\$000	\$000s	\$000
3	133	136
-	76	76
62	145	207
(11)	(108)	(119)
54	246	300
480	7,145	7,625
(426)	(6,899)	(7,325)
54	246	300

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14. Non-current assets - intangible assets

	2020	2019
	\$000	\$000
Software	884	979
Goodwill	2,854	1,946
Customer relationships	24	167
Supplier relationships	3,050	3,545
Net carrying amount	6,812	6,637

(a) Movements in intangible asset balances during the year

	Software \$000	Goodwill \$000	Customer Relationships \$000	Supplier Relationships \$000s	Total \$000
For the year ended 30 June 2020					
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)
Written down value at 30 June 2020	884	2,854	24	3,050	6,812
At 30 June 2020					
Cost	1,207	2,854	286	3,957	8,304
Accumulated amortisation and impairment	(323)	-	(262)	(907)	(1,492)
Net carrying amount	884	2,854	24	3,050	6,812
	Software \$000	Goodwill \$000	Customer Relationships \$000	Supplier Relationships \$000s	Total \$000
For the year ended 30 June 2019					
Written down value at 1 July	757	-	-	-	757
Additions	331	-	-	-	331
Additions through business combinations (note 23)	-	1,946	286	3,957	6,189
Amortisation charge for the year	(109)	-	(119)	(412)	(640)
Written down value at 30 June 2018	979	1,946	167	3,545	6,637
At 30 June 2019					
Cost	1,183	1,946	286	3,957	7,372
Accumulated amortisation and impairment	(204)	-	(119)	(412)	(735)
Net carrying amount	979	1,946	167	3,545	6,637

Software, customer relationships and supplier relationships are amortised over useful lives of 10, 2 and 8 years respectively (2019: 10, 2 & 8 years). Remaining useful lives at 30 June 2020 for these assets are 7.41, 0.17, and 6.17 years respectively (2019: 8.41, 1.17 and 7.17).

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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 FY21.

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:

Cash-generating unit	Goodwill allocated to CGU (\$'000)	EBITDA (\$'000)	Average Annual Revenue growth rate	Terminal growth rate	Pre-tax discount rate
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%
Performance Distribution	427	1,221	14.7%	2%	20%

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:

Cash-generating unit	Change in EBITDA Required for Impairment (\$'000)
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 Performance Distribution CGUs would result in an impairment of the carrying value of these CGUs at 30 June 2020.

At the comparative balance date, only the Turn Left Distribution CGU was tested for impairment, as the entire balance of the group's goodwill at 30 June 2019 was allocated to this CGU. The following assumptions were applied in this assessment:

Cash-generating unit	Goodwill allocated to CGU (\$'000)	EBITDA (\$'000)	Average Annual Revenue growth rate	Terminal growth rate	Pre-tax discount rate
Turn Left Distribution	1,946	1,017	9%	2%	18%

No reasonably possible changes in these assumptions would have resulted in an impairment of the CGU carrying value at 30 June 2019.

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15. Current liabilities – trade and other payables

	2020	2019
	\$000	\$000
Trade payables	5,656	6,088
Rebate and incentive liability	3,072	2,641
Right of return liability [#]	1,810	1,587
Contingent consideration payable [^]	495	1,172
Other payables and accrued expenses	872	870
	11,905	12,358

[^] refer note 4 for reconciliation of movements in contingent consideration payable, and description of how fair value has been determined.

[#] 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

Current	2020	2019
	\$000	\$000
Provision for long-service leave	248	377
Provision for annual leave	520	889
	768	1,266
Non-Current		
Provision for long-service leave	168	150
	168	150

17. Interest bearing loans and borrowings

Current	Weighted average interest Rate	Maturity	2020	2019
	%		\$000	\$000
a) Business Finance	3.14	6 - 29 July 2020	2,128	-
	4.51	1 - 30 July 2019	-	3,577
b) Invoice Finance				
	4.72	Various	6,542	4,940
c) Business loan				
	5.06	6 July 2021	372	361
			9,042	8,878
Non-Current				
c) Business loan				
	5.06	6 July 2021	1,250	1,639
			1,250	1,639

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17. Interest bearing loans and borrowings (continued)

(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 2020, the company has drawn down \$2,128,000 (2019: \$3,577,000) under its trade finance – imports facility. The facility was overdrawn at 30 June 2019 by \$77,000, with the facility being reduced below the limit on 1 July 2019. This facility is subject to annual review, and individual trade finance drawdowns under the facility as at balance date mature on the dates disclosed above.

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

This is a facility for terms of trade. The total limit of the facility is \$17,000,000 (2019: \$10,000,000). As at 30 June 2020, \$6,523,000 was outstanding under this facility (2019: \$4,940,000). Amounts owing under the facility are matched to the trade terms of the underlying financed transaction up to a maximum of 60 days.

(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 requires monthly principal and interest repayments of \$37,800 and the facility has an expiry date of 6 July 2021.

Undrawn facilities

The group has access to an additional business loan facility of \$2,000,000 for working capital finance purposes. The facility was undrawn as at 30 June 2020.

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.

18. Derivative Financial Instruments

	2020 \$000	2019 \$000
Current		
Forward foreign currency exchange contracts	37	146
	37	146

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.

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19. Leases

The following information relates to the current financial year only, and is presented in accordance with AASB 16 Leases (which was applied by the group for the first time in the current financial year). Refer to note 1(b) for transitional disclosures:

(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:

	2020
	\$000
Recognised on initial application of AASB 16 on 1 July 2019	268
Additions	865
Lease incentives received	(71)
Depreciation	(362)
Closing value at 30 June 2020	700

	2020
	\$000
At 30 June 2020	
Cost	1,062
Accumulated depreciation	(362)
Net carrying amount	700

(a) Lease liabilities

	2020
	\$000
Recognised on initial application of AASB 16 on 1 July 2019	268
Additions (non-cash)	865
Principal repayments (cash outflow)	(353)
Closing value at 30 June 2020	780

	2020
	\$000
At 30 June 2020	
Current	360
Non-current	420
Total lease liability	780

During the year 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 \$865,000 on initial recognition.

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20. Contributed equity and reserves

(a) Share Capital

	2020	2019
	No. of shares	No. of shares
Ordinary shares on issue at 1 July	62,595,096	57,115,644
Shares issued – renounceable entitlement offer	169,006,760	-
Shares issued – business combination (Note 23)	-	5,479,452
Ordinary shares on issue 30 June	231,601,856	62,595,096

	2020	2019
	\$000	\$000
Share capital at 1 July	33,453	31,453
Shares issued – renounceable entitlement offer	5,070	-
Share issue costs, net of tax	(134)	-
Shares issued – business combination (Note 23)	-	2,000
Share capital at 30 June	38,389	33,453

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

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 have been offset against issued capital in equity.

(b) Reserves

	2020	2019
	\$000	\$000
Translation reserve	(339)	(187)
Reserve for own shares	(25)	(25)
Reserve for profit	9,142	9,142
Share based payment reserve	1,695	1,711
	10,473	10,641

Translation reserve

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

Reserve for own shares

The reserve for own shares represents the cost of shares held by an equity remuneration plan that the group is required to include in the financial report. At 30 June 2020 the group held 18,209 of the Company's shares (2019: 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.

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20. Contributed equity and reserves (continued)

Reserve for profit

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

Share based payment reserve

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

(c) Capital management

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

Management adjusts the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares. 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 2020 and 2019 were as follows:

	2020 \$000	2019 \$000
Net Assets	25,401	23,006
Total Assets	49,347	47,482
Capital adequacy ratio	51%	48%

21. Share based payments

(a) Long term incentive plan –employee options

At 30 June 2020 a total of 1,587,500 employee share options were outstanding under the company's long-term incentive plan. Details of the options issued are as follows:

Options granted	1,900,000, 312,500 and 500,000
Grant date	29 November 2017, 17 April 2018 and 10 October 2018
Issue date	1 July 2018, 1 July 2018 and 10 October 2018
Consideration payable	\$Nil
Exercise price	\$0.28, \$0.375 and \$0.28
Last exercise date	5pm Brisbane time on the date which is 12 months subsequent to market release of FY2021 result.
Exercise conditions	<p>Subject to the Plan Rules, an option cannot be exercised unless the Board acting reasonably is satisfied that the following conditions have been satisfied:</p> <ul style="list-style-type: none"> The employee remains employed by the company There is no outstanding breach of the terms of engagement with the Company. No notice of termination of engagement has been either been given by the employee or received by the Company. All performance hurdles have been met.
Performance hurdles	Options will vest upon meeting various profit before tax performance hurdles over the financial years 2019 to 2021.

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21. Share based payments (continued)

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

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

Tranche	Vesting Condition	Vesting Date	No. of Options	Exercise Price \$	Expected Volatility %	Risk Free Rate %	Value per Option \$
Tranche 7	PBT	30/08/20	145,000	0.280	50	2.03	0.2162
Tranche 8	PBT	30/08/21	145,000	0.280	50	2.11	0.2178
Tranche 9	PBT	30/08/22	210,000	0.280	50	2.11	0.2175

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

	2020 Number of options	Weighted Average Exercise Price \$	2019 Number of options	Weighted Average Exercise Price \$
Opening balance	2,400,000	0.292	2,212,500	0.293
Granted during the period	-	-	500,000	0.280
Forfeited during the period	(812,500)	0.280	(312,500)	0.280
Outstanding as at 30 June	1,587,500	0.315	2,400,000	0.292
Vested and exercisable	-	-	-	-

(b) Long term incentive plan – KMP shares

On 25 June 2020 the board approved bonuses of \$58,000 for a non-executive director and the group's chief financial officer, 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 are no outstanding vesting conditions. A total of 117,778 shares were issued at an issue price of 3.6 cents per share in July 2020, while 875,000 shares will be issued at a future date at an issue price of 3.6 cents per share, subject to approval at the forthcoming AGM. The value of shares issued/to be issued represents the amount of bonus payments due after allowing for withholding tax payable on the bonuses

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.

	2020 \$000	2019 \$000
Bank guarantees provided – rental leases	37	130
Standby letters of credit	1,594	1,000

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23. Business combinations

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
Total consideration paid	845
Less: Fair value of identifiable net assets acquired (see below)	(364)
Goodwill recognised on acquisition	481

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 30 June 2020.

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)
Fair value of net assets acquired	364

Management have assessed the fair value of identifiable intangible assets acquired to be \$nil. Since the acquisition date, the Powerguard business has recorded revenue of \$1,374,000 and net profit before tax of \$192,000.

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:

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

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 30 June 2020.

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:

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23. Business combinations (continued)

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

Management have assessed the fair value of identifiable intangible assets acquired to be \$nil. Since the acquisition date, the Performance Distribution business has recorded revenue of \$384,000 and net profit before tax of \$272,000.

Turn Left Distribution

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

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

Refer to note 4 for a description of the contingent consideration arrangement and details of how the fair value of the contingent consideration liability was determined at the acquisition date, 30 June 2019 and 30 June 2020, and a reconciliation of changes in the fair value of the contingent consideration liability subsequent to the date of the business combination.

No amount of goodwill is expected to be deductible for tax purposes.

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

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

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

The amount of revenue and profit/(loss) before tax of TLD since the acquisition date are reported in note 5. If the results of TLD were consolidated from the start of the 2019 financial year, revenue for the 2019 financial year would have been \$115.988m while profit before tax would have been \$0.606m.

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24. Key management personnel remuneration

	2020	2019
	\$	\$
Short-term employee benefits	912,737	859,681
Post-employment benefits	49,130	51,163
Termination benefits	112,785	-
Long-term employee benefits	41,691	50,382
Total compensation	1,116,343	961,226

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	
		2020	2019
Cellnet Group Ltd (Parent)	Australia	100	100
Cellnet Ltd	New Zealand	100	100
C&C Warehouse (Holdings) Pty Ltd	Australia	100	100
Regadget Pty Ltd	Australia	100	100
OYT Pty Ltd	Australia	100	100
Turn Left Distribution Pty Ltd	Australia	100	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 56.64% (2019: 53.82%) of the ordinary shares in Cellnet Group Limited.

The following table provides the total amount of transactions which have been entered into with related parties during the twelve month periods ending 30 June 2020 and 30 June 2019.

		Interest paid on loans from related parties \$000	Services from related parties \$000	Purchases from related parties \$000	Amounts owing to related parties for purchases \$000
Fellow subsidiaries of					
Wentronic Holdings GmbH:					
Wentronic Asia Pacific Limited	2020	-	-	5,764	5
Wentronic Asia Pacific Limited	2019	-	-	12,291	475

Transactions with entities under common control

During the 2020 and 2019 financial years, Cellnet purchased inventory from Wentronic Asia Pacific Limited (WAPL), as disclosed in the table above. WAPL is a wholly owned subsidiary of Wentronic Holding GmbH. A function of WAPL is to source and purchase inventory through bulk buying arrangements with third party suppliers on behalf of the Wentronic Group. WAPL sells inventory to Cellnet at cost price plus a fee to cover WAPL's operating costs. The fee paid is approximately 9% of the gross amount of purchases paid in United States Dollars.

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25. Related party disclosure (continued)

Transactions with entities under common control (continued)

Prior to 27 February 2020, WAPL sold inventory to Cellnet 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, Cellnet 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 year Cellnet 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 Cellnet's shareholders at a general meeting held on 26 June 2020.

Joint venture with entity with ultimate control over the group

During the year, the group made loan contributions of \$26,000 (2019: \$168,000) 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 year. The group's share of losses of the joint venture for the year ended 30 June 2020 was \$6,702 (2019: \$5,827). Loans extended to the joint venture of \$454,000 were impaired during the year, as disclosed in note 7.

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

	2020	2019
	\$000	\$000
Current assets	28,785	27,751
Total assets	42,700	41,375
Current liabilities	(20,031)	(21,403)
Total liabilities	(21,809)	(23,193)
Net assets	20,891	18,182
Issued capital	38,389	33,453
Retained earnings / (accumulated losses)	(27,240)	(25,029)
Reserve for own shares	(25)	(25)
Reserve for profits	8,072	8,072
Reserve for share based payment	1,695	1,711
Total shareholder's equity	20,891	18,182
Profit / (loss) of the parent entity after tax	(2,446)	627
Total comprehensive income of the parent entity	(2,446)	627

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 2020 (2019: Nil).

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28. Auditors' remuneration

	2020 \$	2019 \$
Amounts received or due and receivable by the auditors for:		
Audit or review of the financial report of the entity and any other entity in the group		
Pitcher Partners	89,000	95,000
Taxation services in relation to the entity and any other entity in the group		
Pitcher Partners	103,236	62,130
	192,236	157,130

29. Dividend franking account

Franking credit balance

The amount of franking credits available for the subsequent financial year are \$nil (2019: \$nil).

30. Cash flow statement reconciliation

	2020 \$000	2019 \$000
Reconciliation of net profit after tax to net cash flows from operations:		
Net profit / (loss)	(2,373)	405
<i>Adjustments for:</i>		
Depreciation and amortisation	1,207	759
Interest revenue classified as investing cash flow	-	(5)
Impairment of joint venture loan	454	-
Share based payments expense / (benefit)	(16)	(2)
Share of (profits) / losses of associates	7	5
Fair value gain on revaluation of contingent consideration payable	(172)	(683)
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	1,561	1,131
(Increase) / decrease in right to returned goods asset	(357)	293
(Increase) / decrease in inventories	3,258	(5,315)
(Increase) / decrease in current tax asset	25	(25)
(Increase) / decrease in deferred tax assets	361	(185)
(Decrease) / increase in trade and other payables	205	(1,915)
(Decrease) / increase in provisions	(492)	357
(Decrease) / increase in current tax liability	(152)	49
Change in other financial instruments	109	(108)
Net cash from operating activities	3,625	(5,239)

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Directors' declaration

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

In the opinion of the Directors:

- a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the company's financial position as at 30 June 2020 and of their performance for the year ended on that date;
 - ii) complying with Australian Accounting Standards and Corporations Regulations 2001;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a);
- c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2020.

On behalf of the Board



Tony Pearson
Chairman
Brisbane
31st August 2020

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 2020, 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 2020 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	
<p>Impairment testing for goodwill is required to be completed annually under Australian Accounting Standard AASB 136 <i>Impairment of Assets</i>.</p> <p>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. The negative and ongoing impact of the COVID-19 pandemic on FY20 results within the Cellnet Australia and Cellnet New Zealand cash-generating units (CGU) is also considered an indicator of potential impairment within those CGUs.</p> <p>Impairment testing for non-current assets is a key audit matter due to the high degree of estimation and assumptions (as disclosed in notes 2(v) and 14) made by the Group, specifically concerning discounted cash flows.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Understanding and evaluating the relevant controls to identify if indicators of impairment exist in respect of the Group's non-current assets; • Assessing management's determination of the Group's 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 2021 financial year; • Confirming that 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 discount rate and 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	
<p>At 30 June 2020, the Group has a total of \$2.750m of deferred tax assets recognised on its balance sheet, including \$2.713m that relate to carried forward tax losses of the Australian tax consolidated group.</p> <p>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.</p> <p>Recoverability of deferred tax assets is a key audit matter due to the taxable loss recorded by the Australian tax consolidated group for the current financial year, and high degree of estimation and assumptions (as disclosed in notes 2(v) and 8) made by the Group concerning forecast taxable profits.</p>	<p>We have assessed the Group's ability to utilise its deferred tax assets by:</p> <ul style="list-style-type: none"> • Understanding and evaluating 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 FY21 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 \$15.377m at 30 June 2020. The valuation of inventory is a key audit matter for the following reasons:

- Retailer demand in segments serviced by the Group in Australia and New Zealand has declined during the financial year as a result of the COVID-19 pandemic, with prevailing uncertainty in future consumer demand for these markets;
- 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; and
- There has been a reduction in vendor funding commitments for the sell-down of slow-moving stock.

Our procedures included, amongst others:

- Understanding and evaluation of 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 due to the COVID-19 pandemic;
- Verifying 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; and
- Vouching vendor funding commitments obtained to documented agreement of terms

Revenue recognition – variable consideration

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

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

Rebate and incentive arrangements offered by the Group vary and are customer specific. These obligations are established either in contract or through principal of constructive obligation based on customary business practice. The expected reversal of sales through customers exercising their right of return goods is estimated based on historical rates of return. Due to the variety of contractual terms with customers and the degree of 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 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, 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 2020, 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 9 to 17 of the directors' report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Cellnet Group Limited, for the year ended 30 June 2020, 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
PITCHER PARTNERS


DANIEL COLWELL
Partner

Brisbane, Queensland

31st August 2020

Cellnet Group Limited and its consolidated entities Financial Report

ASX Additional information

As at 14 August 2020

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	51.05%
Thundering Heard Pty Ltd	13,333,331	5.73%
Faraday Capital Pty Ltd	8,333,333	3.58%
Talento Holdings Pty Ltd	8,333,333	3.58%
Equitas Nominees Pty Limited	6,666,668	2.87%
JEJ Group Limited	6,500,000	2.79%
Michael Wendt	5,920,000	2.55%
Mr Lachlan Wilson	5,118,504	2.20%
Sparks Superannuation Investments Pty Ltd	4,810,000	2.07%
EDP Investments	4,109,589	1.77%
Velkov Funds Management Pty Ltd	3,600,000	1.55%
Kevin Gilmore	3,288,000	1.41%
Chemical Trustee Ltd	1,820,000	0.78%
Galvez Investments	1,734,271	0.75%
Device Co Pty Ltd	1,686,667	0.73%
Lax Capital Pty Ltd	1,666,667	0.72%
Ganeson-Eckhart Pty Ltd	1,666,667	0.72%
Brown Cairns Admin Services Pty Ltd	1,666,667	0.72%
Mr Nicholas Heim	1,667,667	0.72%
Philadelphia Investments Pty Ltd	1,650,274	0.71%
Top 20 Holders	202,308,745	86.99%
All other holders	30,269,884	13.01%
All holders	232,578,629	100.00%

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
Thundering Herd Pty Ltd	13,333,333

Distribution of equity security holders

Category	No of holders
1 – 1000	77
1,001 – 5,000	323
5,001 – 10,000	82
10,001 – 50,000	110
50,001 – 100,000	32
100,001 and over	75

The number of shareholders holding less than a marketable parcel of ordinary shares is 496.