The Manager Companies
Company Announcements Office
ASX Limited
Level 4, Stock Exchange Centre
20 Bridge Street
Sydney NSW 2000

HALF YEAR RESULT – 31 DECEMBER 2018

The Company delivered an EBITDA operating result for the six months of $1.977M on revenue of $59.3M, $631K down period on period mainly as a result of the negative impact on margins caused by the decline in the Australian dollar in that period. Measures have been taken in December 2018 to mitigate this impact.

The deal to acquire Turn Left Distribution Pty Ltd (TLD) was successfully concluded in September 2018 and TLD contributed $255K to the group's underlying operating result for the period, on revenue of $7M. TLD continues to be expected to contribute positively to the group performance with strong growth being experienced in the Gaming category worldwide.

The underlying operational earnings for the group excluding non-cash and acquisition goodwill depreciation are therefore as follows:

	H1 2019 $'000	H1 2018 $'000
EBITDA operating result	1,977	2,608
Less: Depreciation and amortisation of operating assets	111	77
Less: Finance costs	373	325
Underlying operating profit before tax	**1,493**	**2,206**

As the company is in a tax loss position, it is not liable for tax payments at this time.

Revenue increased 20.8% overall and 6.5% excluding the acquisition of TLD revenues.

Earnings per share decreased to 0.97c at 31 Dec 2018 (2017 – 4.01c) impacted by lower operational earnings and non-cash, non-operational amortisation of intangibles acquired in TLD and income tax expense of 1.5c.

Net tangible assets per share decreased to 21.9c at 31 December 2018 (30 June 2018: 32c) as a result of the acquisition of Turn Left Distribution.

Cellnet continues to focus on a core set of brands together with developing its own Brand (3SixT) and increase its penetration into Telco and CE channel retailers, continuing to strengthen its market share in Australia and New Zealand. Turn Left likewise focuses on a core set of brands and enjoys a leading position with CE Retailers in Australia in the Gaming category.
The Group forms an important supply base to leading retailers and our Category Management capability continues to differentiate it from competitors with the result that it is in a position of strength within its markets.

Alan Sparks
Chief Executive Officer

Cellnet Group Limited
and its controlled entities

ABN: 97 010 721 749

Half-Year Financial Report
Period Ended 31 December 2018

	Section
Appendix 4D	**A**
Financial Report	**B**

Section A

Appendix 4D
HALF YEAR REPORT
Statutory Results

Name of Entity	Cellnet Group Limited
ABN	97 010 721 749
Reporting Period	Half-year ended 31 December 2018
Previous Corresponding Period	Half-year ended 31 December 2017

This information presented should be read in conjunction with the 30 June 2018 financial report.

Results for announcement to the market

	Reporting Period **$000**	**Previous Corresponding Period** **$000**	**% Change Increase / (Decrease)**
Revenues from ordinary activities	59,267	49,043	20.85
Profit from ordinary activities after tax attributable to members	586	2,206	(73.44)
Net Profit for the period attributable to members	586	2,206	(73.44)

For commentary on the results refer to the Directors' Report which forms part of the Half Year Report.

	Reporting Period	**Previous Corresponding Period**
Final Dividend	$782,439	$688,946
Amount per security	$0.0125	$0.0125
Franked amount per security	$0.0000	$0.00292
Record Date	21.09.2018	21.09.2017
Interim Dividends	-	-
Amount per Security	N/A	N/A
Franked Amount per Security	N/A	N/A
Record Date	N/A	N/A

NTA Backing

Net tangible assets backing per share	21.9¢	28.5¢

Additional Appendix 4D Disclosure Requirements

Nil.

Financial Information

This Appendix 4D should be read in conjunction with the Half Year Report for the half year ended 31 December 2018 as set out on pages 4 to 25.

Compliance Statement

This report is based on accounts that have been reviewed. The review report, which was not subject to audit dispute or qualification, is included in the interim financial report.

Cellnet Group Limited
and its controlled entities
Half-Year Financial Report

Condensed Financial Report
for the Half-Year Ended
31 December 2018

Contents

Corporate Information

ABN 97 010 721 749

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

Company Secretary
C. Barnes

Principal Registered Office
Cellnet Group Limited
59-61 Qantas Drive
Eagle Farm QLD 4009
Phone: 1300 CELLNET
Fax: 1800 CELLNET

Banker
Westpac Banking Corporation
260 Queen Street
Brisbane QLD 4000

Auditor
Pitcher Partners
345 Queen Street
Brisbane QLD 4000
Phone: 07 3222 8444

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

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

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2018.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for the periods as detailed below:

M. Wendt (Chairman)
K. Gilmore
M. Reddie
T. Pearson (appointed 5 October 2018)
A. Sparks (retired 5 October 2018)
B. Danos (retired 5 October 2018)

Principal activities

The principal activities of the consolidated entity are:

Sourcing products and the distribution of market leading brands and lifestyle technology products and accessories for mobile phones, tablets and notebooks/hybrids into retail and business channels in Australia and New Zealand.

Review and results of operations

The Company delivered an EBITDA operating result for the six months of $1.977M on revenue of $59.3M, $631K down period on period mainly as a result of the negative impact on margins caused by the decline in the Australian dollar in that period.
Measures have been taken in December 2018 to mitigate this impact.

The deal to acquire Turn Left Distribution Pty Ltd (TLD) was successfully concluded in September 2018 and TLD contributed $255K to the group's underlying operating result for the period, on revenue of $7M. TLD continues to be expected to contribute positively to the group performance with strong growth being experienced in the Gaming category worldwide.

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Turn Left likewise focuses on a core set of brands and enjoys a leading position with CE Retailers in Australia in the Gaming category.
The Group forms an important supply base to leading retailers and our Category Management capability continues to differentiate it from competitors with the result that it is in a position of strength within its markets.

Dividends

A non-franked dividend of $0.0125 per share was declared on 17 August 2018. The dividend had a record date of 21 September 2018 and was paid to shareholders on 8 October 2018.

Rounding

The consolidated entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191. Amounts in the financial report and Directors' report have been rounded off to the nearest $1,000 unless otherwise stated.

Auditor's Independence Declaration

Attached is a copy of the Auditors Independence Declaration provided under Section 307C of the *Corporations Act 2001* in relation to the review of the half year ended 31 December 2018. This Auditors Independence Declaration forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.

____

Director
14 February 2019

PITCHER PARTNERS

Level 38, 345 Queen Street
Brisbane, Queensland 4000

Postal Address
GPO Box 1144
Brisbane, Queensland 4001

Tel +61 7 3222 8444
Fax +61 7 3221 7779
www.pitcher.com.au
info@pitcherpartners.com.au

Auditor's Independence Declaration

As lead auditor for the audit of Cellnet Group Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of APES 110: *Code of Ethics for Professional Accountants* in relation to the review.

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

PITCHER PARTNERS

DANIEL COLWELL
Partner

Brisbane, Queensland
14 February 2019

Interim consolidated statement of comprehensive income

For the six months ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $000	31 Dec 2017 $000
Continuing operations			
Sales of goods		59,223	48,961
Rendering of services		44	82
Revenue		59,267	49,043
Other income		41	2
Materials, packaging and consumables used		(46,716)	(37,162)
Depreciation and amortisation expense		(323)	(77)
Employee benefit expense		(5,702)	(4,914)
Finance costs		(373)	(325)
Freight expense		(1,492)	(1,392)
Occupancy expense		(313)	(271)
Warehousing expense		(2,032)	(1,537)
Other expense		(1,481)	(1,161)
Profit before income tax		**876**	**2,206**
Income tax (expense) / benefit	7	(290)	-
Profit for the period		**586**	**2,206**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		391	(288)
Total comprehensive income for the period		**977**	**1,918**
Earnings per share for profit attributable to the ordinary equity holders of the parent			
Basic earnings per share		0.97¢	4.01¢
Diluted earnings per share		0.97¢	4.01¢

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

Interim consolidated statement of financial position

As at 31 December 2018

	Note	Consolidated 31 Dec 2018 $000	Consolidated 30 Jun 2018 $000
ASSETS			
Current assets			
Cash and cash equivalents	8	2,640	2,253
Trade and other receivables		24,934	11,610
Inventories	9	22,137	10,421
Derivative financial instruments		154	38
Total current assets		**49,865**	**24,322**
Non-current assets			
Investment in associate		17	21
Receivables		426	260
Property, plant and equipment		331	136
Deferred tax assets		2,650	3,844
Intangible assets	10	6,988	757
Total non-current assets		**10,412**	**5,018**
TOTAL ASSETS		**60,277**	**29,340**
LIABILITIES			
Current liabilities			
Trade and other payables		18,181	4,915
Current tax liabilities		527	136
Provisions		2,953	665
Interest-bearing loans and borrowings	11	15,105	2,403
Total current liabilities		**36,766**	**8,119**
Non-current liabilities			
Provisions		160	55
Total non-current liabilities		**160**	**55**
TOTAL LIABILITIES		**36,926**	**8,174**
NET ASSETS		**23,351**	**21,166**
EQUITY			
Issued capital	12	33,453	31,453
Reserves		10,986	10,801
Accumulated losses		(21,088)	(21,088)
TOTAL EQUITY		**23,351**	**21,166**

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

Interim consolidated statement of changes in equity

For the six months ended 31 December 2018

	Share capital $000	Reserve for own shares $000	Foreign currency translation reserve $000	Share based payment reserve $000	Reserve for profits $000	Accumu-lated losses $000	Total Equity $000
At 1 July 2018	31,453	(25)	(406)	1,713	9,519	(21,088)	21,166
Profit for the period	-	-	-	-	-	586	586
Foreign currency translation	-	-	391	-	-	-	391
Total comprehensive income for the half year	-	-	391	-	-	586	977
Transactions with owners in their capacity as owners:							
Transfers to / from reserves	-	-	-	-	586	(586)	-
Share based payments	-	-	-	(10)	-	-	(10)
Issue of shares	2,000	-	-	-	-	-	2,000
Dividends paid	-	-	-	-	(782)	-	(782)
Balance at 31 December 2018	**33,453**	**(25)**	**(15)**	**1,703**	**9,323**	**(21,088)**	**23,351**
At 1 July 2017	30,953	(25)	(44)	1,631	4,226	(21,088)	15,653
Profit for the period	-	-	-	-	-	2,206	2,206
Foreign currency translation	-	-	(288)	-	-	-	(288)
Total comprehensive income for the half year	-	-	(288)	-	-	2,206	1,918
Transactions with owners in their capacity as owners:							
Transfers to / from reserves	-	-	-	-	2,206	(2,206)	-
Share based payments	-	-	-	65	-	-	65
Exercise of options	500	-	-	-	-	-	500
Dividends paid	-	-	-	-	(689)	-	(689)
Balance at 31 December 2017	**31,453**	**(25)**	**(332)**	**1,696**	**5,743**	**(21,088)**	**17,447**

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

Interim consolidated statement of cash flows

For the six months ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $000	31 Dec 2017 $000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		54,386	46,727
Payments to suppliers and employees (inclusive of GST)		(62,834)	(48,112)
Interest paid		(264)	(256)
Net cash flows used in operating activities		**(8,712)**	**(1,641)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(48)	(29)
Purchase of intangibles		(305)	(187)
Payment for acquisition of subsidiaries, net of cash acquired		(2,578)	-
Loans to associates		(166)	-
Interest received		-	2
Net cash flows used in investing activities		**(3,097)**	**(214)**
Cash flows from financing activities			
Payment of dividend		(782)	(689)
Proceeds from exercise of options		-	500
Proceeds from borrowings		27,325	16,295
Repayment of borrowings		(14,623)	(14,361)
Net cash flows from financing activities		**11,920**	**1,745**
Net increase / (decrease) in cash and cash equivalents		111	(110)
Cash and cash equivalents at beginning of period		2,253	1,505
Net foreign exchange differences		276	(121)
Cash and cash equivalents at end of period	8	**2,640**	**1,274**

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

Notes to the Financial Statement

For the six months ended 31 December 2018

1. Corporate Information

Cellnet Group Limited (the "Company") is a company domiciled in Australia whose shares are publicly traded. The interim condensed consolidated financial statements of the Company as at and for the half-year ended 31 December 2018 comprise the results of the Company and its subsidiaries (together referred to as the "consolidated entity").

The interim condensed consolidated financial statements of the consolidated entity for the six months ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 14 February 2019.

The interim condensed consolidated financial statements of the consolidated entity as at and for the half-year ended 31 December 2018 are available upon request from the Company's registered office at 59-61 Qantas Drive, Eagle Farm QLD 4009 or at www.cellnet.com.au.

2. Basis of preparation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2018 have been prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2018.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those adopted in the Group's annual report for the year ended 30 June 2018.

New Accounting Standards

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

- Required disaggregation disclosures under AASB 15 are made within Note 4. The Group's sole material source of revenue is the sale of goods to customers. The nature of contracts with customers for sale of goods is consistent across the group; and
- The Group has applied the simplified approach to determining an allowance for expected credit losses on trade receivables, as prescribed under AASB 9.

AASB 16 Leases will have mandatory applicability to the Group from 1 July 2019. There have been no material changes in the Group's assessment of the likely impact of this standard on initial application, which was disclosed in the Group's 30 June 2018 financial statements.

3. Seasonality of operations

The consolidated entity's balance sheet is impacted by seasonality in sales. December trade balances are generally expected to be higher than those as at the previous financial year end due to greater sales activity around calendar year end. Users of the interim consolidated financial report may therefore benefit from reading this report in conjunction with the interim consolidated financial report for the half-year ended 31 December 2018.

4. Operating segment information

Identification of reportable segments

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (collectively the "chief operating decision maker") in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which products are sold. In previous years the group's Australian and New Zealand operating segments have been aggregated into one reportable segment based on the similar economic characteristics that existed between these two segments, and similarities in the nature of products, type and class of customer for these products, distribution methods and similar economic and regulatory environments in Australia and New Zealand.

During the six months ended 31 December 2018, management has reassessed the aggregation of the Australian and New Zealand operating segments and concluded that although similarities as described above do still exist, the operations of the two segments may not be sufficiently aligned so as to continue to satisfy the aggregation criteria. As a result, the group has reported separately segment information for the Australian and New Zealand segments in this half-year report, and represented comparative information on the same basis.

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

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

December 2018	**Cellnet $'000**	**Turn Left $'000**	**Corporate and Eliminations $'000**	**Total $'000**
Australia	43,323	7,039	-	50,362
New Zealand	8,901	4	-	8,905
Total Revenue	**52,224**	**7,043**	**-**	**59,267**
EBITDA operating result	**1,715**	**255**	**7**	**1,977**
Less non-operational expenses:				
Fair value increase to inventory acquired in Turn Left & sold during the period *	-	(405)	-	(405)
EBITDA	**1,715**	**(150)**	**7**	**1,572**
Depreciation and amortisation	(54)	(10)	(47)	(111)
Amortisation of intangibles acquired through business combination **	-	(212)	-	(212)
Finance costs	(369)	(4)	-	(373)
Profit before tax	**1,292**	**(376)**	**(40)**	**876**
Other income	34	-	7	41
Segment assets	43,619	12,516	4,142	60,277
Segment liabilities	28,809	3,735	4,382	36,926

4. Operating segment information (continued)

* EBITDA for the half-year includes a non-recurring expenditure of $405,000 included in materials, packaging and consumables used in profit or loss that represents the increase from the book value (lower of cost or NRV) to fair value (market selling price less costs to sell) of inventory acquired from Turn Left under AASB 3 *Business Combinations*. Further detail relating to the $405,000 acquisition accounting fair value adjustment to inventory acquired from Turn Left is included at Note 15.

** Non-cash amortisation of customer relationship and supplier relationship intangibles acquired in the business combination of Turn Left Distribution Pty Ltd for the period ended.

December 2017	**Cellnet $'000**	**Turn Left $'000**	**Corporate and Eliminations $'000**	**Total $'000**
Australia	39,820	-	-	39,820
New Zealand	9,223	-	-	9,223
Total Revenue	**49,043**	**-**	**-**	**49,043**
EBITDA	**2,608**	**-**	**-**	**2,608**
Depreciation and amortisation	(77)	-	-	(77)
Finance costs	(325)	-	-	(325)
Profit before tax	**2,206**	**-**	**-**	**2,206**
Other income	2	-	-	2
Segment assets	36,772	-	1,575	38,347
Segment liabilities	20,762	-	138	20,900

5. Fair value measurements

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 assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting period.

Level 2: The fair value of assets and liabilities 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 group holds forward foreign exchange contracts at fair value. The fair value of these financial instruments 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. At 31 December 2018 the group recognised an asset of $154,000 (30 June 2018: asset of $38,000) for forward exchange contracts held at balance date.

6. Dividends

The group paid an unfranked dividend of 1.25 cents per fully paid ordinary share, amounting to $782,438, on 8 October 2018. In the comparative half year ended 31 December 2017 the group paid a partially franked (23.36%) dividend of 1.25 cents per fully paid ordinary share, amounting to $688,946, on 6 October 2017.

7. Income tax expense

Numerical reconciliation of income tax benefit to prima facie tax payable:

	Dec 2018	Dec 2017
	$000	$000
Profit before income tax benefit / (expense)	876	2,206
Prima facie tax benefit / (expense) at the Australian tax rate of 30%	(263)	(662)
Tax effect of adjustments		
Prior year under/(over) provision for deferred tax	(22)	(51)
Non-deductible expenditure	(9)	(38)
Difference in New Zealand tax rate (28%)	4	5
Recognition of historical tax losses	-	746
Income tax benefit / (expense)	**(290)**	**-**

8. Cash and cash equivalents

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	Dec 2018	June 2018
	$000	$000
Cash at bank and in hand	2,640	1,903
Funds held by bank	-	350
Total cash and cash equivalents	**2,640**	**2,253**

9. Inventories

	Dec 2018	June 2018
	$000	$000
Stock on hand	23,238	11,674
Less: provision for obsolescence	(1,101)	(1,253)
	22,137	**10,421**

Notes to the Financial Statement
For the six months ended 31 December 2018

10. Intangible assets

	Dec 2018 $000	June 2018 $000
Software assets	1,012	757
Goodwill – refer note 15	1,946	-
Customer relationships – refer note 15	238	-
Supplier relationships – refer note 15	3,792	-
	6,988	**757**

Software assets represent the group's ERP system which was implemented from 1 July 2018. This asset is being amortised over its useful life of 10 years. Customer relationships and supplier relationships represent intangible assets separately identified and valued as part of the acquisition of Turn Left Distribution in September 2018 (refer note 15). These assets are being amortised over their assessed useful lives of 2 and 8 years respectively. Goodwill arising on the acquisition of Turn Left Distribution has an indefinite useful life and is not amortised.

11. Interest bearing loans and borrowings

	Interest Rate %	Maturity	Dec 2018 $000	June 2018 $000
Business finance				
	5.11	2 July 2018	-	376
	5.11	2 July 2018	-	24
	5.11	2 July 2018	-	387
	5.11	2 July 2018	-	552
	5.11	2 July 2018	-	21
	5.09	12 July 2018	-	97
	5.09	13 July 2018	-	162
	5.20	16 July 2018	-	127
	5.20	23 July 2018	-	372
	5.12	25 July 2018	-	132
	5.12	27 July 2018	-	153
	5.06	4 January 2019	456	-
	5.06	4 January 2019	318	-
	5.15	7 January 2019	1,108	-
	5.21	10 January 2019	356	-
	5.10	16 January 2019	189	-
	5.10	17 January 2019	273	-
	5.06	17 January 2019	726	-
Invoice finance				
	4.90	Various	9,681	-
Business loan				
	4.91	30 June 2019	2,000	-
			15,105	**2,403**

Notes to the Financial Statement
For the six months ended 31 December 2018

12. Contributed equity

	Dec 2018 No. of shares	Dec 2018 $000	Dec 2017 No. of shares	Dec 2017 $000
Balance at 1 July	57,115,644	31,453	52,278,956	30,953
Exercise of options	-	-	2,000,000	500
Shares issued	5,479,452	2,000	2,813,667	-
Balance at 31 December	**62,595,096**	**33,453**	**57,092,623**	**31,453**

13. Share based payments

a) Long term incentive plan – performance rights

There were no rights issued under the company's performance rights plan during the half-year ended 31 December 2018.

The following table illustrates movements in the number of performance rights on issue during the current and comparative half-year.

	Dec 2018 #	Weighted Average Exercise Price $	Dec 2017 #	Weighted Average Exercise Price $
Opening balance – 1 July	-	-	2,813,667	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	(2,813,667)	-
Outstanding as at 31 December	**-**	**-**	**-**	**-**
Vested and exercisable	**-**	**-**	**-**	**-**

b) Long term incentive plan – Director options

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

13. Share based payments (continued)

	Dec 2018 #	Weighted Average Exercise Price $	Dec 2017 #	Weighted Average Exercise Price $
Opening balance – 1 July	-	-	2,400,000	0.25
Granted	-	-	-	-
Forfeited	-	-	(400,000)	0.25
Options exercised	-	-	(2,000,000)	0.25
Outstanding as at 31 December	**-**	**-**	**-**	**-**
Vested and exercisable	**-**	**-**	**-**	**-**

c) Long term incentive plan – employee options

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

Options granted	1,900,000, 312,500 and 500,000
Grant date	29 November 2017, 17 April 2018 and 10 October 2018
Issue date	1 July 2018, 1 July 2018 and 10 October 2018
Consideration payable	$Nil
Exercise price	$0.28, $0.375 and $0.28
Last exercise date	5pm Brisbane time on the date which is 12 months subsequent to market release of FY2021 result.
Exercise conditions	Subject to the Plan Rules, an option cannot be exercised unless the Board acting reasonably is satisfied that the following conditions have been satisfied: • 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.

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

13. Share based payments (continued)

Tranche	Vesting Condition	Vesting Date	No. of Rights	Exercise Price $	Expected Volatility %	Risk Free Rate %	Value per Option $
Tranche 1	PBT	30/08/20	554,000	0.28	50	1.86	0.0835
Tranche 2	PBT	30/08/21	554,000	0.28	50	1.98	0.0900
Tranche 3	PBT	30/08/22	792,000	0.28	50	2.09	0.0942
Tranche 4	PBT	30/08/20	91,000	0.375	50	2.22	0.0931
Tranche 5	PBT	30/08/21	91,000	0.375	50	2.22	0.1036
Tranche 6	PBT	30/08/22	130,500	0.375	50	2.22	0.1104
Tranche 7	PBT	30/08/20	145,000	0.28	50	2.03	0.2162
Tranche 8	PBT	30/08/21	145,000	0.28	50	2.11	0.2178
Tranche 9	PBT	30/08/22	210,000	0.28	50	2.11	0.2175

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

	Dec 2018 #	Weighted Average Exercise Price $	Dec 2017 #	Weighted Average Exercise Price $
Opening balance – 1 July	2,212,500	0.293	-	-
Granted during the half-year	500,000	0.28	1,900,000	0.28
Exercised during the half-year	-	-	-	
Outstanding as at 31 December	**2,712,500**	**0.291**	**1,900,000**	**0.28**
Vested and exercisable	-	-	-	-

14. Related party transactions

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending 31 December 2018 and 31 December 2017.

		Purchases from related parties $000	Services from related parties $000	Amounts owed by related parties $000	Amounts owed to related parties $000
Entity with ultimate control over the consolidated entity:					
Wentronic Asia Pacific	2018	8,244	-	98	2,592
Wentronic Asia Pacific	2017	6,138	-	-	685

15. Business combinations

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

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

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

Earn-out: From $0.8m up to $1m per annum where gross profit on sales of software in FY19 or FY20 is between $1.6m and $2.0m. This is assessed separately in each relevant period.

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

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

The fair value of contingent consideration has been calculated based on a probability weighted assessment of management's expectations surrounding the performance targets outlined above. The contingent consideration is recognised as a provision as at 31 December 2018.

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	1,322
Inventory	2,434
Property, plant and equipment	207
Intangible assets – customer relationships	286
Intangible assets – supplier relationships	3,957
Trade and other payables	(2,413)
Provisions	(331)
Net deferred tax liability	(975)
Fair value of net assets acquired	**5,909**

15. Business combinations (continued)

The gross carrying value of acquired trade and other receivables was $2.934m, against which a provision for $0.075m was recognized. The provision represents 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 4. If the results of TLD were consolidated from the start of the financial year, revenue for the half-year would have been $64.541m while profit before tax would have been $1.110m.

The fair value (market selling price less costs to sell) of inventory was $0.405m higher than its carrying value (lower of cost or NRV). As a result, materials, packaging and consumables expenditure reported in profit or loss for the half-year includes $0.405m, representing the non-recurring reversal of the fair value adjustment upon sale of the inventory acquired from TLD during the current period.

During the period from the acquisition date to 31 December 2018, the group has recognised amortisation expenditure on identifiable intangible assets acquired of $0.212m. Customer and supplier relationship intangibles are amortised over their expected useful life to the group of 2 and 8 years respectively.

16. Events subsequent to balance date

There are no matters or circumstances that have arisen since the end of this financial period which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future periods.

Directors' declaration

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

In the opinion of the Directors:

1. the financial statements and notes of the consolidated entity for the half year ended 31 December 2018 are in accordance with the *Corporations Act 2001* including:

   (a) giving a true and fair view of the financial position as at 31 December 2018 and the performance for the half-year ended on that date of the consolidated entity; and

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

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

Director
14 February 2019

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

We have reviewed the accompanying half-year financial report of Cellnet Group Limited (the "company") and its controlled entities (the "group"), which comprises the interim consolidated statement of financial position as at 31 December 2018, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half- year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of Cellnet Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report. A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.* We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cellnet Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report

Conclusion

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

a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Pitcher Partners

PITCHER PARTNERS

DANIEL COLWELL
Partner

Brisbane, Queensland

14 February 2019