

## **Cellnet Group Limited**

ACN 010 721 749

### **Notice of General Meeting to be held at**

**Date:** Friday, 26 June 2020  
**Time:** 10am (Brisbane time)  
**Location:** Virtually via an online platform provided by the Company's share registry,  
Link Market Services Limited at <https://agmlive.link/CLT20>

### **This is an important document and requires your attention**

If you are in any doubt about how to deal with this Notice, please consult your legal, financial or other professional advisor.

The Directors have determined, pursuant to Regulation 7.11.37 of the Regulations that persons eligible to vote at the General Meeting are those who are registered as Shareholders at 7pm on 24 June 2020.

A copy of this Notice and the Explanatory Memorandum were provided to the ASX on 15 May 2020 in accordance with Listing Rule 15.1

Neither the ASX nor any of its officers, take any responsibility for the content of this Notice or the Explanatory Memorandum.

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*Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared for the purposes of Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of Resolution 1 to the Non-Associated Shareholders.*

***The Independent Expert has determined that the transactions the subject of Resolution 1 are FAIR AND REASONABLE to Non-Associated Shareholders.***

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## Notice of General Meeting

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Notice is given that a General Meeting of Cellnet Group Limited ACN 010 721 749 (**Company**) will be held as a virtual meeting on Friday, 26 June 2020 at 10:00 am (Brisbane time) and the Company will provide Shareholders with the opportunity to participate in the General Meeting virtually through an online platform provided by the Company's share registry, Link Market Services Limited at <https://agmlive.link/CLT20>. Further information as to how to do this is set out in this Notice and the Online Platform Guide available on the Company's website.

The business to be considered at the General Meeting is set out below. This Notice should be read in conjunction with the accompanying Explanatory Memorandum. Terms used in this Notice and the Explanatory Memorandum are defined in the glossary set out in the notes to this Notice. A proxy form also accompanies this Notice.

### Agenda

#### **Special business**

#### **Resolution 1. Ratification of Historic Acquisitions**

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To consider, and if thought fit, to pass Resolution 1 as an ordinary Resolution:

*'That for the purposes of Listing Rules 10.1 and 18.8(e), and for all other purposes, Shareholders ratify the transaction or series of individual transactions under which the Company purchased inventory during the period from 1 March 2017 to 27 February 2020 from Wentronic Asia Pacific Limited, a wholly owned subsidiary of Wentronic Holding GmbH, the Company's majority Shareholder.'*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared for the purposes of Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of Resolution 1 to the Non-Associated Shareholders.

#### **Voting exclusion**

*The Company will disregard and not count any votes cast (in any capacity) on Resolution 1 by or on behalf of either or both:*

- (a) *Wentronic Holding GmbH;*
- (b) *Mr Michael Wendt ;or*
- (c) *any of their associates.*

*unless:*

- (d) *the person:*
  - (i) *does so in relation to a Resolution where they hold a Directed Proxy Form; or*
  - (ii) *is the Chairman of the General Meeting and is expressly authorised to exercise the proxy;*
  - (iii) *is a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:*
    - *the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting and is not an associate of a person excluded from voting on the resolution; and*
    - *the holder votes on the resolution in accordance with the directions given by beneficiary to the holder to vote in that way; and*
- (e) *the vote is not cast on behalf of a person described in paragraphs (a), (b) or (c) above.*

**Dated: 27 May 2020**

**By order of the Board**

**Chris Barnes**  
**Company Secretary / Director**

## Notes

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1. Under regulation 7.11.37 of the Regulations, the Directors have determined the shareholding of each Shareholder for the purposes of ascertaining their voting entitlements at the General Meeting will be as it appears in the register of Shareholders at 7pm (Brisbane time) on 24 June 2020.
2. Votes at the General Meeting may be given personally or by proxy, attorney or corporate representative. A Shareholder entitled to attend and vote at the General Meeting has the right to appoint no more than two proxies.
3. A body corporate that is a Shareholder may appoint an individual to act as its representative at the General Meeting in accordance with section 250D of the Corporations Act. The Company will require a certificate of appointment of the corporate representative, executed in accordance with the Corporations Act. The certificate of appointment must be lodged with Link Market Services Limited before the General Meeting or at the registration desk on the day of the General Meeting. Please contact the Company or Link Market Services Limited on 1300 554 474 to obtain a certificate of appointment.
4. A Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
5. If the Shareholder appoints two proxies and the appointment does not specify the proportion or the number of the Shareholder's votes each proxy may exercise, each proxy may exercise one half of the Shareholder's votes. If the Shareholder appoints two proxies, neither proxy may vote on a show of hands.
6. A proxy form is attached to this Notice. A proxy need not be a Shareholder.
7. A proxy form must be signed by the Shareholder or his or her power of attorney who has not received any notice of revocation of the authority. Proxies given by corporations must be signed by a director, company secretary, sole director and sole company secretary or under the hand of a duly authorized officer or attorney.
8. The proxy form (and any power of attorney under which it is signed) must be received by Link Market Services Limited either by:
  - (a) fax to +61 (2) 9287 0309;
  - (b) by mail in the enclosed self-addressed envelope;
  - (c) by lodgement online via [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au); or
  - (d) by delivery to 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney, NSW 2000,no later than 48 hours before the commencement of the General Meeting, that is by no later than 10am (Brisbane time) on 24 June 2020. Any proxy form received after that time will not be valid for the General Meeting.
9. A person appointed as proxy may vote or abstain from voting as he or she thinks fit except in the following circumstances:
  - (a) the proxy holds a Directed Proxy Form; and
  - (b) the proxy is required by law or the Constitution to vote in a certain manner or abstain from voting.
10. The Chairman intends to vote all Undirected Proxy Forms in favour of Resolution 1.
11. In accordance with Article 13.5 of the Constitution, the Chairman intends to call a poll on Resolution 1. The Chairman considers voting by poll to be in the interests of the Shareholders as a whole and ensures the views of as many Shareholders as possible are represented at the General Meeting.
12. In accordance with Article 12.10 of the Constitution, and to facilitate Shareholder participation, the Chairman has determined that Shareholders will have the opportunity to participate in the

General Meeting through the Company's online platform at <https://agmlive.link/CLT20>. If Shareholders choose to participate in the General Meeting in this way, Shareholders will be able to view the General Meeting live, lodge a direct vote in real time and ask questions online.

13. Shareholders participating in the General Meeting using the Company's online platform will be able to vote between the commencement of the General Meeting (10am (Brisbane time) on Friday, 26 June 2020) and the closure of voting as announced by the Chairman during the General Meeting.
14. More information regarding online participation at the General Meeting (including how to vote and ask questions online during the General Meeting) is available in the Online Platform Guide. The Online Platform Guide will be lodged with the ASX and will also be available on the Company's website.
15. The virtual meeting is viewable from desktops and laptops. To participate and vote online Shareholders will need a shareholder number and postcode. Proxy holders will need their proxy number which will be provided by Link Market Services Limited no later than 24 hours prior to the General Meeting and following lodgement of the proxy appointment. Shareholders should ensure that their internet browser is compatible, by following the instructions in the Online Platform Guide. The Company recommends confirming this prior to determining whether to participate in the General Meeting using the Company's online platform. It is also recommended that Shareholders who elect to participate in the General Meeting through the Company's online platform log in to the online portal at least 15 minutes prior to the scheduled start time for the General Meeting.
16. The following definitions apply in this Notice and the Explanatory Memorandum that accompanies it:

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 125 140 105.

**Board** means the board of Directors.

**Company** or **CLT** means Cellnet Group Limited ACN 010 721 749.

**Constitution** means the constitution of the Company.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directed Proxy Form** means a proxy form which specifies how a proxy is to vote.

**Director** means a director of the Company.

**Explanatory Memorandum** means the explanatory memorandum that accompanies this Notice.

**General Meeting** means the general meeting of the Company.

**Historic Acquisitions** means the transaction, or series of individual transactions, under which the Company purchased inventory from WAPL during the period from 1 March 2017 to 27 February 2020.

**Hong Kong** means the Hong Kong Special Administrative Region.

**Independent Directors** means each of Messrs Tony Pearson and Chris Barnes.

**Independent Expert** means Lonergan Edwards & Associates Limited ABN 53 095 445 560 AFSL 246532.

**Independent Expert's Report** means the report from the Independent Expert dated on or about the date of this Notice attached as Annexure A to the Explanatory Memorandum.

**Listing Rules** means the listing rules of the ASX.

**Non-Associated Shareholders** means Shareholders other than:

- (a) Wentronic Holding;
- (b) Michael Wendt; and

(c) any of their associates.

**Notice** means this notice of the General Meeting.

**Regulations** means the *Corporations Regulations 2001* (Cth).

**Related Party** means a related party for the purposes of Listing Rule 10.1 or chapter 2E of the Corporations Act.

**Resolution** means a resolution contained in this Notice.

**Shareholder** means a registered holder of Shares.

**Shares** means fully paid ordinary shares in the Company.

**Undirected Proxy Form** means a proxy form which does not specify how the proxy is to vote.

**WAPL** means Wentronic Asia Pacific Limited.

**Wentronic Group** means Wentronic Holding and its wholly owned subsidiaries.

**Wentronic Holding** means Wentronic Holding GmbH.

## Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Shareholders with their consideration of Resolution 1 to be put to the General Meeting to be held at 10am on Friday, 26 June 2020.

These explanatory notes should be read with, and form part of, the accompanying the Notice.

### 1 Background

#### (a) Background with Wentronic Holding

Wentronic Holding GmbH (**Wentronic Holding**) is a privately owned company incorporated in Braunschweig, Germany and is CLT's majority Shareholder. It became CLT's majority Shareholder following a proportional off-market takeover that Wentronic Holding commenced in November 2016. The shareholders and joint Managing Directors of Wentronic Holding are Messrs Michael and Marcus Wendt. Michael Wendt is also the Company's Chairman.

Wentronic Holding supplies a variety of electronic accessories, cables, connectors, speakers, chargers, batteries, phone cases, screen protectors and other peripherals sourced from third party suppliers around the world.

Wentronic Holding negotiates the prices with those third party suppliers, but prices are generally the market prices applicable as specified by the suppliers.

Wentronic Asia Pacific Limited (**WAPL**), incorporated in Hong Kong is a wholly owned subsidiary of Wentronic Holding. A function of WAPL is to source and purchase inventory through bulk buying arrangements with third party suppliers, with whom it has long term relationships, on behalf of the Wentronic Group.

WAPL sells inventory to members of the Wentronic Group at cost price plus a fee to cover WAPL's operating costs. The fee paid by other members of the Wentronic Group to WAPL is approximately 9% of the gross amount of purchases paid in United States dollars.

#### (b) Historic acquisitions from Wentronic Holding

Following the time that Wentronic Holding became CLT's majority Shareholder, CLT, or a wholly owned subsidiary of CLT, purchased individual items of inventory sourced by WAPL as disclosed in the table below:

Period	Gross amount paid to WAPL	Management fee	Cost price of inventory paid to third party supplier
1 March 2017 to 30 June 2017 <sup>1</sup>	\$2,171,000	\$200,000 <sup>2</sup>	\$1,971,000
1 July 2017 to 30 June 2018	\$11,452,000	\$413,928 <sup>3</sup>	\$11,038,072
1 July 2018 to 30 June 2019	\$12,291,000	\$507,004 <sup>4</sup>	\$11,783,996
1 July 2019 to 31 December 2019	\$4,283,000 <sup>5</sup>	\$242,434	\$4,040,566
1 January 2020 to 29 February 2020	\$882,429	\$49,948	\$832,481
Totals	\$31,079,429	\$1,413,314	\$29,666,115

The inventory included CLT's major brands being '3SixT', 'Spark', 'Endeavour', 'PowerGuard' and, prior to 1 July 2019, 'Walk n Talk'. All inventory was purchased on 30 day trading terms. The purchases were concluded by way of the issuance of purchase orders by the Company to WAPL and WAPL issuing invoices to the Company; there was no written agreement between the parties.

<sup>1</sup> This is not the full financial year as this arrangement only commenced after Wentronic Holding completed its proportional takeover of CLT.

<sup>2</sup> During this period, CLT paid WAPL a flat \$50,000 service fee per month for each of the four months.

<sup>3</sup> During this period, CLT paid WAPL a 3.75% sourcing fee based on the value of each purchase order.

<sup>4</sup> During this period, CLT paid WAPL a 3.75% sourcing fee based on the value of each purchase order for the first 10 months of the financial year. Following 1 May 2019, the arrangement changed to a 6% management fee.

<sup>5</sup> Part of the reason the amount paid to WAPL in this period is lower is that CLT ceased to supply inventory under the 'Walk n Talk' brand which has previously accounted for approximately \$1,000,000 of purchases during a financial year.

All purchases referred to above were disclosed as Related Party transactions in the annual reports and half year accounts for CLT covering each of those periods and, as disclosed in those reports, all purchases were otherwise made on terms equivalent to those that prevail in arm's length transactions.

For the corresponding periods referred to above, CLT's equity and the gross amount of payments to WAPL, as a percentage of equity, are as disclosed in the table below<sup>6</sup>:

Period	Equity	Proportion of WAPL payment to equity
1 March 2017 to 30 June 2017	\$15,653,000	13.87%
1 July 2017 to 30 June 2018	\$21,166,000	54.11%
1 July 2018 to 30 June 2019	\$23,006,000	53.42%
1 July 2019 to 31 December 2019	\$23,046,000	18.58%

In addition to purchasing inventory from WAPL, CLT also purchases inventory from various other third party suppliers including Otterbox, Tech 21, Plantronics, Incipio, Zagg and Mophie. The payment terms with these suppliers are comparable to WAPL's trading terms. By reference, the total amounts paid to all suppliers, including WAPL, for those periods are:

Period	Total amount <sup>7</sup>
1 July 2016 to 30 June 2017	\$62,821,000
1 July 2017 to 30 June 2018	\$66,035,000
1 July 2018 to 30 June 2019	\$87,186,000
1 July 2019 to 31 December 2019	\$46,222,000
1 January 2020 to 29 February 2020	\$7,762,608
Total	\$270,026,608

**(c) Arrangements prior to Wentronic Holding becoming majority Shareholder**

Prior to:

- (i) Wentronic Holding becoming CLT's majority Shareholder; and
- (ii) CLT purchasing inventory from WAPL,

CLT purchased inventory from a third party in Shenzhen, China under the '3SixT', 'Walk n Talk' and 'Spark' brands. The third party retired in February 2017 and was unable to continue to provide services to CLT. By way of comparison to the amounts of management fees paid to WAPL, and the amounts payable to suppliers:

- (i) CLT paid the third party approximately \$600,000 per annum;
- (ii) the amounts payable for inventory under the '3SixT', 'Walk n Talk' and 'Spark' brands averaged approximately \$13,000,000 for the three full financial years prior to the commencement of the arrangements with WAPL; and
- (iii) the total amount paid to all suppliers for the three full financial years prior to the commencement of the arrangements with WAPL was:

Period	Total amount
1 July 2013 to 30 June 2014	\$66,236,000
1 July 2014 to 30 June 2015	\$59,142,000
1 July 2015 to 30 June 2016	\$57,625,000

At around the time of the retirement of the third party, CLT's then independent directors<sup>8</sup> undertook an analysis of:

- (i) the pricing provided by the third party;
- (ii) the pricing and terms that WAPL was able to offer to CLT; and
- (iii) the cost of undertaking the procurement function in house as discussed in more detail below.

<sup>6</sup> The gross amount of payments to WAPL, as a percentage of equity, for the period from 1 January 2020 to 29 February 2020 is not disclosed in the table because the period does not correspond with a reporting period.

<sup>7</sup> Described in annual reports and half year accounts as 'materials, packaging and consumables used'

<sup>8</sup> Messrs Alan Sparks and Michael Reddie

CLT's management determined that undertaking the procurement function in house would have required establishing offices in Hong Kong and Shenzhen, China and employing five to eight staff members to manage the relationships with third party suppliers. Excluding one-off costs associated with fitting out offices and other one-off establishment costs, the costs of having business operations in Hong Kong and China will be no less than \$542,000 per annum.

CLT's then independent directors concluded that purchasing inventory through WAPL would:

- (i) reduce CLT's fixed overheads by making the payment for this service dependent upon levels of inventory purchased; and
- (ii) be able to ensure the delivery of inventory more efficiently than the third party;

CLT's then independent directors otherwise determined the arrangements with WAPL would be more competitive than those provided by the third party and would otherwise be provided on an arm's length basis.

**(d) Listing Rule 10.1**

Listing Rule 10.1 provides that an entity (or any of its subsidiaries), must not acquire a substantial asset from, or dispose of a substantial asset to, a Related Party or substantial holder or an associate of a Related Party or a substantial holder without shareholder approval. ASX Guidance Note 24 contains an expansive definition of an 'asset' which includes inventory.

For the purposes of Listing Rule 10.1, a '*substantial asset*' is an asset valued at greater than 5% of the equity interests of a company as set out in the latest accounts given to the ASX under the Listing Rules.

For the purposes of Listing Rule 10.1, a substantial holder is a person who has a relevant interest, either directly or through its associates, or had at any time in the six months before the transaction, in at least 10% of the total votes attaching to the voting securities in the Company.

As discussed above, Wentronic Holding is a substantial holder of the Company and WAPL is an associate of Wentronic Holding. As a result, the Historic Acquisitions constitute acquisition of a '*substantial asset*' and though the Company should have sought approval from the Non-Associated Shareholder to purchase inventory, it did not do so.

**(e) Chapter 2E of the Corporations Act**

Chapter 2E of the Corporations Act regulates the provision of financial benefits to Related Parties of a public company. Section 208 of the Corporations Act prohibits a public company (or an entity it controls) from giving a financial benefit to a Related Party unless either:

- (i) it obtains shareholder approval and provides the benefit within 15 months of that approval; or
- (ii) the giving of the financial benefit falls within one of the exceptions specified in the Corporations Act.

A '*financial benefit*' is broadly defined in the Corporations Act and would include purchasing inventory from WAPL pursuant to the Historic Acquisitions.

**(f) Discussions with ASX**

After concerns were raised by ASX in late February 2020 with regard to the level of purchases of inventory from a Related Party when compared to CLT's equity, CLT and WAPL agreed<sup>9</sup>, that:

- (i) all purchase orders from suppliers would be assigned from WAPL to CLT, or a wholly owned subsidiaries of CLT, so that CLT or its subsidiaries, will purchase the inventory directly from the suppliers; and
- (ii) CLT would continue to pay WAPL the six percent management fee for the coordination of the purchasing and logistics function which is required to source product within the Asian region.

The Board has determined that these arrangements will continue for the foreseeable future, despite its stated intention on 2 March 2020 to seek Shareholder approval to purchase inventory from WAPL. If the Board determines to purchase inventory from WAPL in the future, the appropriate approvals

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<sup>9</sup> As announced by CLT on 2 March 2020



will be sought from Shareholders under the Listing Rules and the Corporations Act.

Following an unsuccessful application by the Company for a waiver from Listing Rule 10.1 in respect of the Historic Acquisitions that was lodged with ASX on 5 March 2020, ASX advised the Company on 12 March 2020 that:

- (i) it considers that the Historic Acquisitions required Shareholder approval under Listing Rule 10.1;
- (ii) ASX considers that the Company was in breach of Listing Rules for part, or all, of the period from 1 March 2017 to 2 March 2020; and
- (iii) the Company must ask the Shareholders to ratify the Historic Acquisitions under Listing Rule 10.1 as a corrective action under Listing Rule 18.8(e).

## **2 Resolution 1 - Ratification of Historic Acquisitions**

### **(a) General**

The background to the Historic Acquisitions is discussed in more detail in the background section of this Explanatory Memorandum and, by way of summary, Shareholders are being asked to ratify the Historic Acquisitions under Listing Rule 10.1.

### **(b) Independent Expert's Report**

Accompanying the Notice and this Explanatory Memorandum is a copy of the Independent Expert's Report commissioned by the Independent Directors that gives the Independent Expert's view as to whether the Historic Acquisitions are fair and reasonable to the Non-Associated Shareholders.

The Independent Expert has formed the view that, having regard to the relevant ASIC Regulatory Guides, the fact the Company made the Historic Acquisitions are fair and reasonable to Non-Associated Shareholders.

All Shareholders, including the Non-Associated Shareholders, are encouraged to read the Independent Expert's Report in full.

The Independent Expert has given, and has not before the date of the Notice withdrawn, its consent to the inclusion of the Independent Expert's Report with the Notice and to the references to the Independent Expert's Report in this Notice being made in the form and context in which each such reference is included.

### **(c) Technical information required by Listing Rule 10.5**

For the purposes of Listing Rule 10.5, the Company discloses the following information:

Name of person from whom the Company is acquiring the substantial asset	WAPL
Which category of Listing Rule 10.1 applies?	WAPL is a related party of the Company and is therefore a Listing Rule 10.1.1 party
Details of the asset acquired	The Company acquired inventory from WAPL.
Source of funds for acquisition	The Company paid WAPL for the inventory out of its general revenue.
Timetable for acquisition	The inventory the subject of Resolution 1 was acquired prior to the date of the Notice as disclosed in the first table in paragraph 1(b) of this Explanatory Memorandum.
Material terms of agreement	<p>There was no written agreement between CLT, or its wholly owned subsidiaries, and either WAPL or Wentronic Holding in respect of the Historic Acquisitions.</p> <p>The arrangement was concluded by way of individual purchase orders issued by CLT, or its wholly owned subsidiaries and, and invoices issued by WAPL to CLT.</p> <p>The material terms of the Historic Acquisitions, particularly with regard to fees payable by CLT to WAPL, are as described in the background section of this Explanatory Memorandum.</p>

**(d) Chapter 2E of the Corporations Act**

As discussed in the background section of this Explanatory Memorandum, at the time the Historic Acquisitions were made, CLT's then independent directors formed the view that the arrangements with WAPL would be more competitive than those provided by the third party and would otherwise be provided on an arm's length basis.

On the basis of that determination, Shareholder approval was not obtained for the Historic Acquisitions as the then independent directors determined that those arrangements fell within the relevant exception in the Corporations Act.

**(e) Risk factors**

The Historic Acquisitions occurred prior to the date of the Notice. If the Non-Associated Shareholders do not ratify the Historic Acquisitions, the Company's circumstances or risk profile will not change. The Historic Acquisitions cannot be unwound or reversed in any way.

**(f) Advantages of ratification of Historic Acquisitions**

If the Non-Associated Shareholders ratify the Historic Acquisitions, the principal advantage the Independent Directors have identified is that the ASX has advised the Company that ratification by the Non-Associated Shareholders will rectify the breach of Listing Rule 10.1 as disclosed in the Company's announcement dated 2 March 2020.

**(g) Disadvantages of ratification of Historic Acquisitions**

If the Non-Associated Shareholders do not ratify the Historic Acquisitions, the principal disadvantage the Independent Directors have identified is that the Company's breach of Listing Rule 10.1 will not be rectified. The implications of this are discussed in more detail in the paragraph below.

**(h) Implications if Historic Acquisitions are not ratified**

If the Non-Associated Shareholders do not ratify the Historic Acquisitions, the Company will advise the ASX. The Company is aware that, under Listing Rule 18.8A, ASX may formally censure the Company for the breach of the Listing Rules as identified in this Explanatory Memorandum.

**(i) Independent Directors' Recommendation**

The Independent Directors do not have any interest in the outcome of Resolution 1.

The Independent Directors recommend that the Non-Associated Shareholders vote in favour of Resolution 1 for the following reasons:

- (i) throughout the period under which the Company engaged in the Historic Acquisitions, Messrs Alan Sparks and Michael Reddie, whilst they were independent directors and the Independent Directors determined that the arrangements with WAPL were more competitive than those provided by the third party before Wentronic Holding became the majority Shareholder and were otherwise provided on an arm's length basis;
- (ii) the Historic Acquisitions were disclosed as Related Party transactions in the annual reports and half year accounts for CLT during the periods in which the Historic Acquisitions were made and, as disclosed in those reports, all purchases were otherwise made on terms equivalent to those that prevail in arm's length transactions;
- (iii) ratification will rectify the breach of Listing Rule 10.1 and it will mean the Company is no longer subject to risk of censure by the ASX; and
- (iv) the Independent Expert has concluded the Historic Acquisitions are fair and reasonable to Non-Associated Shareholders.

The Directors, other than the Independent Directors, do not make any recommendation in relation to Resolution 1.

## **Annexure A – Independent Expert’s Report**

The Independent Directors  
Cellnet Group Limited  
Tenancy E1  
5 Grevillea Place  
Brisbane Airport QLD 4008

20 May 2020

**Subject: Related party transactions with Wentronic Asia Pacific Limited**

Dear Independent Directors

**Introduction**

- 1 In 2017, pursuant to a proportional takeover offer, Wentronic Holding GmbH (Wentronic Holding) acquired a majority shareholding in Cellnet Group Limited (Cellnet or the Company). Subsequent to this ownership change, Cellnet commenced the purchase of inventory from Wentronic Asia Pacific Limited (WAPL), a wholly owned subsidiary of Wentronic Holding. The agreed payment terms consisted of the cost price of the inventory, as invoiced by various suppliers throughout the world, together with a management fee<sup>1</sup>.
- 2 Cellnet is listed on the Australian Securities Exchange (ASX) and is therefore subject to the ASX Listing Rules, in particular the rules that apply to related party transactions. The effect of the inventory purchasing arrangements above (which were in place for the period 1 March 2017 to 27 February 2020) has been that the gross amount paid by Cellnet (to WAPL) for inventory sourced in Asia has exceeded the related party threshold in the ASX Listing Rules. For the purpose of this report the transactions that were entered into pursuant to these arrangements are described as the “Historic Acquisitions”.
- 3 As a result of the above breach, Cellnet and WAPL have amended the previous inventory procurement arrangements with respect to Asia to the effect that<sup>2</sup>:
  - (a) WAPL assigns all trading relationships and purchase orders in respect of current inventory orders from suppliers directly to Cellnet, or a wholly owned subsidiary of Cellnet; and
  - (b) Cellnet continues to pay WAPL the management fee for the coordination of the purchasing and logistics function which is required to source product within the Asian region.

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<sup>1</sup> The current rate of management fee is 6% on cost.

<sup>2</sup> The amended arrangements no longer exceed the related party threshold in the ASX Listing Rules.

## Scope

- 4 The procurement arrangements between Cellnet and WAPL as reflected in the Historic Acquisitions are considered related party transactions under ASX Listing Rule 10.1, and must be approved by way of an ordinary resolution (at a general meeting) by the shareholders in Cellnet that are not associated with Wentronic Holding (Non-Associated Shareholders).
- 5 ASX Listing Rule 10.5 requires the notice of general meeting to include a report from an independent expert stating whether the transaction is “fair and reasonable” to the Non-Associated Shareholders.
- 6 Accordingly, the Independent Directors of Cellnet have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert’s report (IER) stating whether, in LEA’s opinion, the inventory procurement arrangements in relation to Asia as reflected in the Historic Acquisitions are fair and reasonable to the Non-Associated Shareholders and the reasons for that opinion.
- 7 LEA is independent of Cellnet, Wentronic Holding and WAPL and has no involvement with or interest in the inventory procurement arrangements other than the preparation of this report.

## Summary of opinion

- 8 LEA has concluded that the inventory procurement arrangements as reflected in the Historic Acquisitions are fair and reasonable to the Non-Associated Shareholders. We have formed this opinion for the reasons set out below.
- 9 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), the inventory procurement arrangements are “fair” if the value of what is acquired by the entity from the related party is greater than or equal to the value of the consideration offered. We have applied this fairness concept in the circumstances of Cellnet as regards the inventory procurement arrangements with WAPL.
- 10 Specifically, we are of the view that if the cost of procurement of inventory utilising the services of WAPL is equal to or less than the alternative cost of procuring inventory, then the arrangements are fair. In forming our view we have had particular regard to the cost of inventory procurement if (in the alternative) Cellnet elected to perform this function in-house, together with prevailing market conditions at the time.
- 11 In the circumstances of Cellnet we have determined that:
  - (a) the annual costs that would be incurred by Cellnet in seeking to undertake the procurement activities in-house would be not less than, and would likely exceed, the annual management fee payments to WAPL as reflected in the Historic Acquisitions. In addition, management have advised that initial operational establishment costs would be incurred
  - (b) the arrangements entered into with WAPL were consistent with and/or more advantageous than market conditions at the time.
- 12 Further, we understand that (following the retirement of the previous service provider) management were unable to locate an alternative party to provide the inventory procurement services required on more favourable terms than those offered by WAPL.

- 13 Accordingly, in our opinion, the inventory procurement arrangements as reflected in the Historic Acquisitions are fair to the Non-Associated Shareholders based on the guidelines set out in RG 111.
- 14 Pursuant to RG 111, the inventory procurement arrangements are “reasonable” if they are fair. Consequently, in our opinion, the inventory procurement arrangements as reflected in the Historic Acquisitions are also reasonable to the Non-Associated Shareholders.

### Summary of advantages and disadvantages

- 15 We summarise below the advantages of the inventory procurement arrangements from the perspective of the Non-Associated Shareholders:
- (a) pursuant to the (effective) variable cost arrangements with WAPL, as opposed to the implicit fixed cost arrangements if Cellnet undertook the procurement function in-house, the Company benefits in that payment for inventory procurement services is dependent upon the levels of inventory purchased
  - (b) Cellnet has access to the sourcing capabilities of Wentronic Holding and the associated global relationships established with numerous inventory suppliers
  - (c) Cellnet benefits from the economies of scale that arise associated with the higher level of purchasing power that Wentronic Holding is able to apply when negotiating the cost of inventory.
- 16 We are not aware of any disadvantages of significance as regards the inventory procurement arrangements reflected in the Historic Acquisitions.

### General

- 17 In preparing this report we have considered the interests of Cellnet shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 18 The ultimate decision whether to approve the inventory procurement arrangements should be based on each Cellnet shareholder’s assessment of their own circumstances. If Cellnet shareholders are in doubt about the action they should take in relation to the inventory procurement arrangements or matters dealt with in this report, Cellnet shareholders should seek independent professional advice.
- 19 For our full opinion on the inventory procurement arrangements and the reasoning behind our opinion, we recommend that Cellnet shareholders read the remainder of our report.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Holt  
Authorised Representative

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## I Background to inventory procurement arrangements

- 20 As noted above, Cellnet commenced using the services of WAPL to procure its inventory requirements in Asia effective 1 March 2017, subsequent to Wentronic Holding acquiring its majority shareholding in the Company. Prior to this, Cellnet purchased inventory in the Asian region from a third party in Shenzhen, China. The third party retired in February 2017 and was unable to continue to provide services to Cellnet. Total amounts paid to respective suppliers in the Asian region over the three years FY14 to FY16 averaged around \$13 million per annum<sup>3</sup> and Cellnet paid that third party approximately \$600,000 per annum.
- 21 Wentronic Holding is a privately owned company incorporated in Braunschweig, Germany. Wentronic Holding supplies a variety of electronic accessories, cables, connectors, speakers, chargers, batteries, phone cases, screen protectors and other peripherals sourced from third party suppliers around the world. Wentronic Holding negotiates the prices with those third party suppliers.
- 22 WAPL, incorporated in Hong Kong Special Administrative Region, is a wholly owned subsidiary of Wentronic Holding. A function of WAPL is to source and purchase inventory through bulk buying arrangements with third party suppliers, with whom it has long term relationships, on behalf of Wentronic Holding, its other subsidiaries throughout the world, and Cellnet.
- 23 WAPL sells that inventory to Wentronic Holding, its other subsidiaries and Cellnet at cost price plus a fee to cover WAPL's operating costs. The fee paid by:
- (a) Cellnet to WAPL is currently 6% on cost (the annual fee arrangement between Cellnet and WAPL has changed over time since Wentronic Holding became Cellnet's majority shareholder)
  - (b) Wentronic Holding and its other subsidiaries to WAPL is approximately 9% on cost.
- 24 The inventory purchased by WAPL includes Cellnet's major brands, being 3SIXT, Spark, Endeavour, PowerGuard and, prior to 1 July 2019, Walk n Talk. The inventory is purchased on 30 days trading terms.
- 25 Set out below is a summary of payments made by Cellnet to WAPL since the procurement arrangements commenced in March 2017:

Cellnet – summary of payments to WAPL since March 2017			
Period	Cost price of inventory \$000	Management fee \$000	Total payment to WAPL \$000
FY17 <sup>(1)</sup>	1,971	200 <sup>(2)</sup>	2,171
FY18	11,038	414 <sup>(3)</sup>	11,452
FY19	11,784	507 <sup>(4)</sup>	12,291
1HY20	4,041 <sup>(5)</sup>	242	4,283
Jan-Feb 20	832	50	882

<sup>3</sup> This relates only to products sourced from the third party. Total Cellnet purchases of inventory were significantly higher.



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**Note:**

- 1 Four months period from 1 March 2017 to 30 June 2017.
  - 2 A flat service fee of \$50,000 per month applied.
  - 3 A management fee based on 3.75% of the value of the purchase order was paid.
  - 4 Comparable arrangements to FY18 applied until 30 April 2019. Effective 1 May 2019, the fee increased to 6% of the value of the purchase order.
  - 5 Part of the reason the amount paid to WAPL in this period is lower is that Cellnet ceased to supply inventory under the Walk n Talk brand, which previously accounted for approximately \$1 million of purchases during a financial year.
- 

- 26 The purchases were concluded by way of the issuance of purchase orders by the Company to WAPL and WAPL issuing invoices to the Company. There was no written agreement between the parties.
- 27 In addition to purchasing inventory from WAPL, Cellnet also purchases inventory from various other third party suppliers including Otterbox, Tech 21, Plantronics, Incipio, Zagg and Mophie. The payment terms with these suppliers are comparable to WAPL's trading terms.
- 28 Following the retirement of the previous service provider in February 2017, Cellnet's Independent Directors undertook an analysis of the pricing provided by the third party and the pricing and terms that WAPL was able to offer to Cellnet, and determined that purchasing inventory through WAPL would:
  - (a) reduce Cellnet's fixed overheads by making the payment for this service dependent upon levels of inventory purchased
  - (b) ensure the delivery of inventory more efficiently than the third party.
- 29 Cellnet's Independent Directors therefore determined that the arrangements with WAPL would be more competitive than those provided by the third party and would otherwise be provided on an arm's length basis.
- 30 Effective 2 March 2020, Cellnet and WAPL agreed to revise the procurement arrangements in relation to the Asian region to the effect that:
  - (a) all purchase orders from suppliers are now assigned from WAPL to Cellnet, or a wholly owned subsidiary of Cellnet, so that Cellnet or its subsidiaries purchase the inventory directly from the suppliers
  - (b) Cellnet will continue to pay WAPL the 6% management fee for the coordination of the purchasing and logistics function, which is required to source product within the Asian region.

## II Scope of our report

### Purpose

#### ASX Listing Rules

- 31 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to (amongst others) a related party, or a substantial securityholder<sup>4</sup>, or associates of either without the approval of the holders of the entity's ordinary securities. ASX Guidance Note 24 contains an expansive definition of an "asset", which includes inventory. Approval is required by resolution at a general meeting.
- 32 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity as set out in the latest accounts provided to the ASX under the ASX Listing Rules.
- 33 As a result of the annual aggregate payments for inventory made by Cellnet to WAPL (as reflected in the Historic Acquisitions) exceeding 5% of the book value of the equity in Cellnet as set out in the respective financial statements given to the ASX (being those for FY17, FY18 and FY19), and WAPL being considered a related party of Cellnet by virtue of the fact that it is a wholly owned subsidiary of Wentronic Holding (the majority shareholder in Cellnet), the inventory procurement arrangements covered by the Historic Acquisitions are considered to be related party transactions under ASX Listing Rule 10.1<sup>5</sup>.
- 34 ASX Listing Rule 10.5.10 requires that the notice of general meeting include a report from an independent expert stating whether the transactions are fair and reasonable to the holders of the entity's ordinary securities whose votes are not to be disregarded.

#### Our engagement

- 35 Given the above, the Independent Directors of Cellnet have requested that LEA prepare an IER stating whether the inventory procurement arrangements as reflected in the Historic Acquisitions are fair and reasonable to the Non-Associated Shareholders and the reasons for that opinion.
- 36 This report has been prepared by LEA for the benefit of Cellnet shareholders to assist them in considering the resolution to approve the inventory procurement arrangements. Our report will accompany the Notice of Meeting to be sent to Cellnet shareholders. The sole purpose of our report is to determine whether, in our opinion, the inventory procurement arrangements as reflected in the Historic Acquisitions are fair and reasonable to the Non-Associated Shareholders. This report should not be used for any other purpose.
- 37 The ultimate decision whether to (retrospectively) approve the inventory procurement arrangements should be based on each Cellnet shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the inventory procurement

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<sup>4</sup> A substantial securityholder is a person that holds a relevant interest in the entity of 10% or more (or has held the same at any time in the last six months).

<sup>5</sup> As noted above, the amended inventory procurement arrangements that currently apply no longer exceed the related party threshold in the ASX Listing Rules.

arrangements or matters dealt with in this report, Cellnet shareholders should seek independent professional advice.

## Basis of assessment

- 38 In preparing our report, we have had regard to the Regulatory Guides issued by ASIC, particularly Regulatory Guide 76 – *Related Party Transactions* and RG 111, as well as the ASX Listing Rules.
- 39 The ASX Listing Rules do not define the meaning of, or describe the test to be applied in determining whether a related party transaction is “fair and reasonable”. We note however, that RG 111 expressly states that the evaluation of a related party transaction should be based upon a separate assessment of “fairness” and “reasonableness”. RG 111 further states that the transaction should not be assessed simply by reference to the advantages and disadvantages of the transaction (as ASIC does not consider this to provide members with sufficient valuation information).
- 40 Pursuant to RG 111, a related party transaction per ASX Listing Rule 10:
- (a) is “fair” if the value of what is acquired by the entity from the related party (in this case, the inventory pursuant to the procurement arrangements) is greater than or equal to the value of the consideration provided (in this case, the payment for the procurement services). Importantly, the value of the asset acquired is to be determined based upon market value principles (i.e. assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length, noting that any special value that may be derived by a particular “bidder” should not be taken into account<sup>6</sup>)
  - (b) is “reasonable” if it is “fair”. It might also be “reasonable” if, despite being “not fair”, the expert believes there are sufficient reasons for securityholders to vote in favour of the proposal.
- 41 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Historic Acquisitions are “fair and reasonable” to the Non-Associated shareholders is to consider:
- (a) the (value of the) management fee paid by Cellnet to WAPL for the procurement of inventory
  - (b) the costs that would be incurred by Cellnet if as an alternative it were to undertake the inventory procurement activities in house
  - (c) the extent to which (a) and (b) differ in order to assess whether the procurement arrangements are “fair”
  - (d) the implications for Cellnet if these arrangements had not been in place
  - (e) the net benefits inherent in the procurement arrangements
  - (f) the advantages and disadvantages of the arrangements from the perspective of Cellnet shareholders.

<sup>6</sup> e.g. synergies that are not available to other bidders.

## **Limitations and reliance on information**

- 42 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report (albeit that we are opining on prior period transactions). Such conditions can change significantly over relatively short periods of time.
- 43 Our report is also based upon financial and other information provided by Cellnet and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 44 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the inventory procurement arrangements. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 45 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the commercial and financial implications of the transactions, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion.
- 46 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 47 In forming our opinion, we have also assumed that the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects.

### III Profile of Cellnet

#### Overview

- 48 Cellnet is an Australian-based company engaged in the wholesale distribution and marketing of technology products including smartphone, tablet and notebook accessories, audio devices, flash memory storage, gaming accessories and software, power protection distribution and other related products throughout Australia and New Zealand. The Company's customers and partners include some of Australia's and New Zealand's largest retailers of consumer electronics such as JB Hi-Fi, Noel Leeming and Harvey Norman, mobile service providers such as Optus, Vodafone, Telstra and Spark, as well as many other notable retailers including Big W, Tech2Go, Newslink and The Warehouse.

#### History

- 49 Cellnet was founded in 1992 as a wholesale distributor of mobile phones and mobile phone accessories and listed on the ASX on 17 November 1999. After the Company was floated, it made a number of small sized acquisitions of technology distribution companies over the period 2000 to 2006 in order to expand its national footprint. Since then, the Company has primarily been focused on organic growth through the introduction of new products and increased market penetration, with the aim of becoming distribution partner of choice for retailers in Australia and New Zealand for mobile device accessories.
- 50 On 11 November 2016, Cellnet announced that it had entered into a Bid Implementation Agreement with Wentronic Holding under which Wentronic Holding had agreed to make an off-market proportional takeover offer for 83% of the Cellnet shares. The offer closed in January 2017, with Wentronic Holding acquiring 66.9% of the Cellnet shares on issue. Since then this shareholding has reduced to 51.3% primarily due to a partial sell down, but it has also been marginally diluted by the issue of ordinary shares as part of the consideration for the acquisition of Turn Left Distribution Pty Ltd (TLD), which was completed on 1 September 2018<sup>7</sup>.
- 51 In the more recent periods, Cellnet has made a number of acquisitions designed to build on its current foundation as well as expand its reach into new product segments. These acquisitions include:
- (a) the acquisition of TLD for approximately \$7.9 million<sup>8</sup>. TLD is an independent gaming software and accessories distributor providing quality, innovative interactive software titles and gaming accessories across Australia and New Zealand. The transaction expanded Cellnet's service offering into the gaming market and provided the Company the opportunity to further leverage its distribution and category management capabilities

<sup>7</sup> 5.479 million shares (approximately 9.6% of the shares on issue) were issued in connection with the transaction on 7 September 2018.

<sup>8</sup> Including the fair value of contingent consideration of \$1.855 million.

- (b) on 1 July 2019, Cellnet completed the acquisition of the business of Service Smart Pty Ltd (Service Smart) for cash consideration of approximately \$0.7 million<sup>9</sup>. Service Smart is responsible for the designing, procuring, manufacture and distribution of PowerGuard branded products which provide electrical power protection.

## Current operations

- 52 Cellnet operates from a Brisbane head office and has more than 70 employees in distribution and sales facilities across Australia and New Zealand.
- 53 Cellnet's operations are focused on sourcing international leading brands of lifestyle technology products including smartphone, tablet and notebook / hybrid accessories, gaming accessories and software, power protection distribution and marketing, and distributing the products into retail and business channels in Australia and New Zealand. Cellnet also distributes its own brand of after-market consumer electronic accessories, 3SIXT.
- 54 Cellnet's current product portfolio comprises a wide range of vendor brands as indicated below:

### Cellnet product portfolio

#### Smartphone, tablet and notebook accessories



#### Audio devices and speakers



#### Gaming accessories & software



#### Other products



<sup>9</sup> Excluding contingent consideration which provides for earn-out payments to be made to the vendor calculated as 25% of gross profit over an agreed forecast gross profit hurdle.



- 55 The majority of the Company's sales relate to smartphone, tablet and notebook accessories. With respect to Cellnet's geographical markets, in FY19 Cellnet derived approximately 85% of its revenue from Australia and 15% from New Zealand.

### Product sourcing and distribution

- 56 Cellnet sources a wide range of branded products from a number of leading technology vendors via a mix of exclusive and non-exclusive partnership agreements. Product sourcing generally takes place overseas with the use of dedicated product sourcing experts (such as WAPL). To ensure that the products comply with their original equipment manufacturer specifications, Cellnet has implemented a multi-stage quality assurance programme.
- 57 Cellnet manages its own end-to-end supply chain, which is supported by the Company's relationships with key transport providers in the Asia Pacific region. Distribution of the products occurs from the Company's warehousing and logistics centres located in Australia and New Zealand.

### Private Label Program

- 58 The Company's Private Label Program allows customers to range products with their own branding and customised packaging. Cellnet's own brand, 3SIXT, was launched in September 2014 and is currently sold directly to retailers and mobile service providers in each of Cellnet's markets. In selecting the product suite, Cellnet has regard to trends identified from market and industry research as well as the needs of its customers. Products sold under the 3SIXT brand include smartphone cases and screen protectors, connectivity cables, action cameras, power adaptors, speakers and earphones / headphones.

### Financial performance

- 59 The financial performance of Cellnet for the four years ended 30 June 19 (FY19) and the six months to 31 December 2019 (1HY20) is set out below:

Cellnet – statement of financial performance <sup>(1)</sup>					
	FY16 Audited \$m	FY17 Audited \$m	FY18 Audited \$m	FY19 Audited \$m	1HY20 Reviewed \$m
Sales revenue	75.2	82.7	87.5	110.7	57.8
<b>Underlying EBITDA<sup>(2)</sup></b>	2.2	3.5	4.0	1.7	1.3
Depreciation and amortisation	(0.3)	(0.2)	(0.2)	(0.8)	(0.6)
<b>Underlying EBIT<sup>(2)</sup></b>	2.0	3.3	3.8	1.0	0.8
Net finance expense	(0.4)	(0.5)	(0.6)	(0.9)	(0.5)
Non-recurring items <sup>(3)</sup>	0.2	(0.7)	-	0.3	-
<b>Profit before tax</b>	1.7	2.0	3.2	0.4	0.3
Income tax expense	-	-	2.8	0.1	(0.1)
<b>Net profit after tax</b>	1.7	2.0	6.0	0.4	0.2
<i>Revenue growth</i>	(4.0%)	10.0%	5.8%	26.5%	(2.5%)
<i>EBITDA margin</i>	3.0%	4.2%	4.5%	1.6%	2.3%
<i>EBIT margin</i>	2.6%	4.0%	4.3%	0.9%	1.3%

**Note:**

- 1 Rounding differences exist.
- 2 Earnings before interest, tax, depreciation and amortisation (EBITDA). Earnings before interest and tax (EBIT).
- 3 Non-recurring items comprise the following:

Net gain on disposal of property, plant and equipment	0.2	0.0	-	-	-
Transaction advice	-	(0.3)	-	-	-
Share based payments associated with change of control transaction	-	(0.4)	-	-	-
Fair value gain on revaluation of contingent consideration	-	-	-	0.7	-
Fair value increase to inventory	-	-	-	(0.4)	-
Total non-recurring items	0.2	(0.7)	-	0.3	-

- 60 The key factors that have impacted the financial performance of Cellnet over the three years to FY19 and six months to 1HY20 are summarised below:

**Year to 30 June 2017 (FY17)**

- sales revenue grew by 10% compared to the prior year as a result of winning the Optus company owned stores procurement tender in Australia and increased sale volumes to Harvey Norman and Spark in New Zealand
- reported earnings for the period improved due to a combination of the increased sales and an improvement in margins which reflected synergies with Wentronic Holding via the combination of sourcing efforts in China as well as supply chain efficiencies related to brand and product consolidation

**Year to 30 June 2018 (FY18)**

- sales revenue increased by 5.8% from the prior period
- earnings for the period also improved as a result of the increase in sales combined with a marginal improvement in margins

**Year to 30 June 2019 (FY19)**

- sales for the period increased by 26.5% which reflected a combination of:
  - a 10 month contribution from the acquisition of TLD which was completed on 1 September 2018
  - growth from existing Cellnet operations of approximately 8%
- notwithstanding the significant increase in revenue, earnings for the period declined primarily due to the depreciation of the Australian dollar which had a material impact on the cost of imported goods and operating margins<sup>10</sup>

<sup>10</sup> The majority of Cellnet's products are sourced in United States of America (US) dollars (USD).



### Six months to 31 December 2019 (1HY20)

- revenue for the period was some 2.5% lower than the prior period, notwithstanding an additional two months contribution from the acquisition of TLD, which reflected the increasing handset replacement cycles in the smartphone market and challenging retail conditions more generally
- reported earnings were lower than the previous period due to the decline in revenue, notwithstanding that some \$0.9 million in cost savings were achieved in employee, occupancy, warehousing and other expenses compared to the prior period

### FY20 outlook

- due to the inherent seasonality in the Cellnet business, no guidance has been provided for the full year ending 30 June 2020 (FY20).

## Financial position

61 The financial position of Cellnet as at 31 December 2018, 30 June 2019 and 31 December 2019 is set out below:

<b>Cellnet – statement of financial position<sup>(1)</sup></b>			
	<b>31 Dec 18 Reviewed \$m</b>	<b>30 Jun 19 Audited \$m</b>	<b>31 Dec 19 Reviewed \$m</b>
Debtors, prepayments and other current assets	24.9	17.4	24.9
Inventories	22.1	18.2	22.0
Creditors, accruals and provisions	(21.7)	(13.8)	(19.8)
<b>Net working capital</b>	<b>25.4</b>	<b>21.8</b>	<b>27.1</b>
Investments in associates	0.0	0.0	-
Plant and equipment	0.3	0.3	0.3
Intangible assets	7.0	6.6	6.7
Deferred tax assets (net)	2.7	3.1	3.0
Non-current receivables	0.4	0.4	0.4
Provisions (non-current)	(0.2)	(0.2)	(0.2)
Net right of use liabilities	-	-	(0.1)
<b>Total funds employed</b>	<b>35.7</b>	<b>32.1</b>	<b>37.4</b>
Cash and cash equivalents	2.6	1.3	2.5
Interest bearing liabilities	(15.1)	(10.5)	(16.8)
Derivative financial instruments (net)	0.2	0.1	(0.2)
<b>Net cash / (borrowings)</b>	<b>(12.3)</b>	<b>(9.1)</b>	<b>(14.4)</b>
<b>Net assets attributable to Cellnet shareholders</b>	<b>23.4</b>	<b>23.0</b>	<b>23.0</b>

#### Note:

1 Rounding differences exist.

## Net working capital

- 62 Given the nature of the Company's operations (i.e. distribution of consumer electronics), Cellnet operates with relatively high levels of net working capital. The level of net working capital fluctuates throughout the year due to seasonal influences, with demand for consumer electronics generally higher throughout the Christmas trading period compared to other months of the year. Accordingly, the level of net working capital (financed by annual debt facilities) as at 31 December 2018 and 31 December 2019 was significantly higher than as at 30 June 2019.

## Net debt

- 63 The net debt position of Cellnet as at 31 December 2018, 30 June 2019 and 31 December 2019 is set out below:

Cellnet – net debt			
	31 Dec 18	30 Jun 19	31 Dec 19
	\$m	\$m	\$m
Business finance loan	3.4	3.6	3.5
Invoice finance loan	9.7	4.9	11.4
Business loan	2.0	2.0	1.8
Derivative financial instruments (net)	(0.2)	(0.1)	0.2
Cash and cash equivalents	(2.6)	(1.3)	(2.5)
<b>Net debt / (cash)</b>	<b>12.3</b>	<b>9.1</b>	<b>14.4</b>

- 64 As indicated above, the indebtedness of Cellnet varies depending on seasonal factors. As at 31 December 2018 and 31 December 2019, Cellnet was in a higher net debt position that primarily reflected the financing of inventory in the lead up to the Christmas trading period.
- 65 The current lending facilities available to Cellnet are as follows:
- (a) **business finance facility** – the business finance facility comprises three individual facilities (surrendered bills of lading, trade finance-imports and special documentary import letters of credit) with a combined limit of \$3.5 million<sup>11</sup>. The facility is subject to annual review with individual trade finance drawdowns maturing on various nominated dates
  - (b) **invoice finance facility** – in October 2019, the facility limit on the invoice finance facility was increased from \$10 million to \$14 million and is matched to the trade terms of underlying finance transactions up to a maximum of 60 days
  - (c) **business loan facility** – the business loan facility was provided to fund the acquisition and initial working capital requirements of TLD, which completed on 1 September 2018. The loan is for \$2 million and requires monthly principal and interest payments of \$37,800. The expiry date for the loan is 24 June 2021.
- 66 All of the facilities above are secured by a general security agreement given by Cellnet and TLD over all existing and future assets and undertakings.

<sup>11</sup> The facility was overdrawn by \$77,000 as at 30 June 2019, which was reduced below the limit on 1 July 2019.

- 67 In addition, the Company uses forward foreign currency exchange contracts (i.e. derivative financial instruments) in order to hedge certain anticipated purchase commitments denominated in foreign currencies (primarily USD). The terms of the purchase commitments are no more than 45 days. Cellnet carries the derivative financial instruments on the statement of financial position at fair value.

### **Share capital and performance**

- 68 As at 16 April 2020, Cellnet had 62.6 million fully paid ordinary shares on issue.
- 69 In addition, the Company had 2.4 million performance rights on issue which were issued to key management personnel in connection with the Company's performance rights plan (the Plan). Performance rights issued under the Plan vest subject to:
- (a) the exercise conditions which include:
    - (i) the employee remaining employed by the Company
    - (ii) no outstanding breach of the terms of engagement with the Company
    - (iii) no notice of termination of engagement given by either the employee or received by the Company
    - (iv) all performance hurdles being met
  - (b) achievement of various profit before tax performance hurdles over the financial years 2020 to 2022.

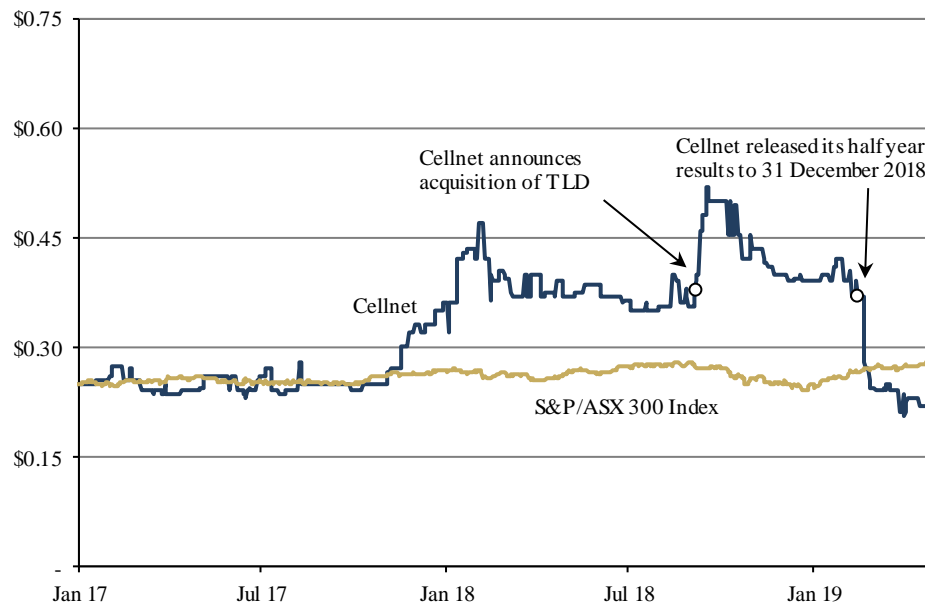
### **Significant shareholders**

- 70 As at 14 April 2020, Wentronic Holding held 32.1 million or 51.3% of Cellnet shares on issue. There were also two further substantial shareholders, JEJ Group Limited, with 6.5 million or 10.4% of the shares on issue, and EDP Investments, with 4.1 million or 6.6% of the shares on issue.

### **Share price performance**

- 71 The following chart illustrates the movement in the share price of Cellnet as compared to the S&P/ASX300 Index from 1 January 2017 to 14 April 2020:

**Cellnet – share price history**  
**1 January 2017 to 14 April 2020**



**Note:**

1 Based on closing prices. The S&P/ASX 300 Index has been rebased to Cellnet's last traded price on 1 January 2017, being \$0.25.

**Source:** Bloomberg.

72 As indicated above, Cellnet shares outperformed the S&P/ASX300 Index over the period from late 2017 to early 2019 before declining again to previous levels. We note the following with respect to the material movements in the share price over the period:

- (a) on 5 September 2018, Cellnet announced that it had entered into binding agreements to purchase TLD for total consideration of \$6.0 million. The acquisition expanded Cellnet's product offering into independent gaming and software and provided Cellnet the opportunity to further leverage its distribution and category management capabilities
- (b) on 14 February 2019, Cellnet released its results for the six months to 31 December 2018, reporting growth in revenue of 20.8% (\$10.2 million) primarily due to the four month contribution from the acquisition of TLD. Notwithstanding this increase in revenue, operating EBITDA declined by approximately 24% (\$0.6 million) due to the decline in the Australian dollar which negatively impacted margins.

**Liquidity in Cellnet shares**

73 The liquidity in Cellnet shares based on trading on the ASX over the 12 month period prior to 14 April 2020 is set out below:

Cellnet – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS <sup>(1)</sup> outstanding 000	Implied level of liquidity Period <sup>(2)</sup> %	Annual <sup>(3)</sup> %
1 month	15 Mar 20	14 Apr 20	187	62,595	0.3	3.6
3 months	15 Jan 20	14 Apr 20	627	62,595	1.0	4.0
6 months	15 Oct 19	14 Apr 20	1,123	62,595	1.8	3.6
1 year	15 Apr 19	14 Apr 20	3,326	62,595	5.3	5.3

**Note:**

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 74 As highlighted by the low level of turnover in the above table, Cellnet shares are thinly traded (i.e. they are relatively illiquid), due in part to the presence of a major shareholder (Wentronic Holding) who holds approximately 51.3% of the shares on issue.

## **IV Evaluation of inventory procurement arrangements**

### **Basis of evaluation**

- 75 Integral to the operations of Cellnet is the overseas sourcing of inventory, including from Asia. Materials, packaging and consumables is the single largest annual expense incurred by the Company. To the extent that the cost of inventory procurement can be reduced, the earnings performance of Cellnet will be enhanced to the financial benefit of all shareholders.
- 76 RG 111 effectively states that a transaction is fair if the cost of acquisition of an asset is equal to or less than the value of the asset acquired. We have applied this fairness concept in the circumstances of Cellnet as regards the inventory procurement arrangements with WAPL.
- 77 Specifically, we are of the view that if the cost of procurement of inventory utilising the services of WAPL is equal to or less than the alternative cost of procuring inventory, then the arrangements are fair. In forming our view we have had particular regard to the cost of inventory procurement if (in the alternative) Cellnet elected to perform this function in-house, together with prevailing market conditions at the time.

### **Procurement arrangements prior to March 2017**

- 78 As noted above, around the time that Wentronic Holding acquired its majority interest in Cellnet, the Company's then existing inventory procurement service provider in Asia had indicated an intention to retire in February 2017.
- 79 We understand that the annual average payments to respective suppliers over the period FY14 to FY16 were around \$13 million, a slightly higher level of inventory to that subsequently sourced from WAPL. Based on the advised average annual payment to the service provider of \$600,000, the inventory procurement services had therefore been provided at an implied fee of around 4.6% on cost<sup>12</sup>. For the purpose of our report we have assumed, given the arm's length nature of these arrangements, that they reflected market conditions at the time.

### **Alternative in-house function**

- 80 We have been advised that at the time of entering into the arrangements with WAPL and subsequent thereto (most recently in April 2019), Cellnet management have assessed the cost of undertaking in-house the inventory procurement function in respect of Asia currently provided by WAPL.
- 81 In the view of Cellnet management this would require, in particular:
- (a) a need to establish office facilities in both Hong Kong and Shenzhen
  - (b) the employment of between five and eight staff members to manage the relationships with third party suppliers.
- 82 Annual employee, facility, communications and other associated costs have been estimated at not less than \$542,000. In addition, one-off costs associated with fitting out the offices and other one-off establishment costs would be incurred.

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<sup>12</sup> The arrangements were more of a fixed price nature rather than a percentage on cost.

## Historic Acquisitions

83 Set out below is a summary of payments made by Cellnet to WAPL since the procurement arrangements commenced in March 2017:

Cellnet – summary of payments to WAPL since March 2017			
Period	Cost price of inventory \$000	Management fee \$000	Total payment to WAPL \$000
FY17 <sup>(1)</sup>	1,971	200 <sup>(2)</sup>	2,171
FY18	11,038	414 <sup>(3)</sup>	11,452
FY19	11,784	507 <sup>(4)</sup>	12,291
1HY20	4,041 <sup>(5)</sup>	242	4,283
Jan-Feb 20	832	50	882

**Note:**

- 1 Four months period from 1 March 2017 to 30 June 2017.
- 2 A flat service fee of \$50,000 per month applied.
- 3 A management fee based on 3.75% of the value of the purchase order was paid.
- 4 Comparable arrangements to FY18 applied until 30 April 2019. Effective 1 May 2019, the fee increased to 6% of the value of the purchase order.
- 5 Part of the reason the amount paid to WAPL in this period is lower is that Cellnet ceased to supply inventory under the Walk n Talk brand, which previously accounted for approximately \$1 million of purchases during a financial year.

84 In respect of the above management fee payments to WAPL we note:

- (a) the flat service fee of \$50,000 per month for the period 1 March 2017 to 30 June 2017 was comparable to the arm's length fee arrangements in place with the previous service provider
- (b) the management fee based on 3.75% of the value of the purchase order which prevailed for the period 1 July 2017 to 30 April 2019:
  - (i) was lower in percentage terms than the fee implied based on the arrangements in place with the previous service provider
  - (ii) gave rise to annual payments to WAPL that were below the estimated cost that would be incurred if Cellnet were to undertake the related procurement function in-house
- (c) the management fee based on 6% of the value of the purchase order that prevailed from 1 May 2019 was higher in percentage terms than the fee implied based on the arrangements in place with the previous service provider, although we note:
  - (i) the option to procure inventory using the previous service provider was no longer available (as the party had retired)
  - (ii) effective July 2019 the quantum of inventory purchased reduced significantly due to Cellnet no longer distributing the Walk n Talk brand
  - (iii) the management fee based on 6% of the value of the purchase order is lower than the management fee of 9% of the value of the purchase order charged by WAPL to other Wentronic Holding subsidiaries

- (d) the lower management fee paid to WAPL in 1HY20 due to the reduced quantum of inventory purchased reflects the benefit of the (effective) variable cost arrangements with WAPL as opposed to the implicit fixed cost arrangements if Cellnet undertook the procurement function in-house.

## Opinion

85 Based on the above, we have determined that:

- (a) the annual costs that would be incurred by Cellnet in seeking to undertake the procurement activities in-house would be not less than, and would likely exceed, the annual management fee payments to WAPL as reflected in the Historic Acquisitions. In addition, management have advised that initial operational establishment costs would be incurred
- (b) the arrangements entered into with WAPL were consistent with and/or more advantageous than market conditions at the time.

86 Further, we understand that (following the retirement of the previous service provider) management were unable to locate an alternative party to provide the inventory procurement services required on more favourable terms than those offered by WAPL.

87 Accordingly, in our opinion, the inventory procurement arrangements as reflected in the Historic Acquisitions are fair to the Non-Associated Shareholders based on the guidelines set out in RG 111.

88 Pursuant to RG 111, the inventory procurement arrangements are reasonable if they are fair. Consequently, in our opinion, the inventory procurement arrangements as reflected in the Historic Acquisitions are also “reasonable” to the Non-Associated Shareholders.

## Summary of advantages and disadvantages

89 We summarise below the advantages of the inventory procurement arrangements from the perspective of the Non-Associated Shareholders:

- (a) pursuant to the (effective) variable cost arrangements with WAPL, as opposed to the implicit fixed cost arrangements if Cellnet undertook the procurement function in-house, the Company benefits in that payment for inventory procurement services is dependent upon the levels of inventory purchased
- (b) Cellnet has access to the sourcing capabilities of Wentronic Holding and the associated global relationships established with numerous inventory suppliers
- (c) Cellnet benefits from the economies of scale that arise associated with the higher level of purchasing power that Wentronic Holding is able to apply when negotiating the cost of inventory.

90 We are not aware of any disadvantages of significance as regards the inventory procurement arrangements reflected in the Historic Acquisitions.



## **Appendix A**

### **Financial Services Guide**

#### **Lonergan Edwards & Associates Limited**

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and IERs in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

#### **Financial Services Guide**

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting to be sent to Cellnet shareholders in connection with the respective inventory procurement arrangements.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### **Financial services we are licensed to provide**

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### **General financial product advice**

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### **Fees, commissions and other benefits we may receive**

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$30,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 26 years and 34 years experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Independent Directors of Cellnet to accompany the Notice of Meeting to be sent to Cellnet shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the inventory procurement arrangements as reflected in the Historic Acquisitions are fair and reasonable to Cellnet shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the inventory procurement arrangements. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Cellnet agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Cellnet which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Notice of Meeting.

## Appendix C

### Glossary

Abbreviation	Definition
1HY	First half of financial year
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Cellnet / the Company	Cellnet Group Limited
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FSG	Financial Services Guide
FY	Financial year
Historic Acquisitions	Inventory purchasing arrangements between Cellnet and WAPL that were in place for the period 1 March 2017 to 27 February 2020
IER	Independent expert's report
LEA	Loneragan Edwards & Associates Limited
Non-Associated Shareholders	The shareholders in Cellnet that are not associated with Wentronic Holding
Plan	Cellnet's performance rights plan
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i> (RG 111)
Service Smart	Service Smart Pty Ltd
TLD	Turn Left Distribution Pty Ltd
US	United States of America
USD / US\$	US dollars
WANOS	Weighted average number of shares outstanding
WAPL	Wentronic Asia Pacific Limited
Wentronic Holding	Wentronic Holding GmbH

## LODGE YOUR VOTE



### ONLINE

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



### BY MAIL

Cellnet Group Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia



### BY FAX

+61 2 9287 0309



### BY HAND

Link Market Services Limited  
1A Homebush Bay Drive, Rhodes NSW 2138



### ALL ENQUIRIES TO

Telephone: 1300 554 474

Overseas: +61 1300 554 474



X99999999999

## PROXY FORM

I/We being a member(s) of Cellnet Group Limited and entitled to attend and vote hereby appoint:

### APPOINT A PROXY



the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name and email of the person or body corporate you are appointing as your proxy

Name

Email

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:00am (Brisbane time) on Friday, 26 June 2020** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Meeting will be conducted as a virtual meeting and you can participate by logging in online at <https://agmlive.link/CLT20> (refer to details in the Virtual Meeting Online Guide).

**The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.**

### VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

#### Resolutions

For Against Abstain\*

1 Ratification of Historic Acquisitions

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)




Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

CLT PRX2001N



## HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

### YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name and email address of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

### DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

### VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

### SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

### LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Brisbane time) on Wednesday, 24 June 2020**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



#### ONLINE

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



#### BY MAIL

Cellnet Group Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



#### BY FAX

+61 2 9287 0309



#### BY HAND

delivering it to Link Market Services Limited\*  
1A Homebush Bay Drive  
Rhodes NSW 2138

\* During business hours (Monday to Friday, 9:00am–5:00pm)