



ACCEPT

Wentronic's recommended cash offer for 83% of your shares in Cellnet Group Limited ACN 010 721 749

Target's Statement

Relating to an offer by Wentronic Holding GmbH (**Wentronic** or the **Bidder**) to acquire 83% of your ordinary shares in Cellnet Group Limited ACN 010 721 749 (**Cellnet**) for \$0.28 per share (**Offer**).

This document contains important information and requires your immediate attention. If you are in any doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

Important Information

Nature of this document

This document is the Target's Statement issued by Cellnet Group Limited ACN 010 721 749 under Part 6.5 of the Corporations Act in response to the Offer made pursuant to the Bidder's Statement which was served on Cellnet by Wentronic Holding GmbH on 14 November 2016 (hereinafter referred to as the **Bidder's Statement**).

You should read this Target's Statement and the Bidder's Statement in their entirety.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in the glossary in section 8.1. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

Proportional Takeover Bid

You should note that the Offer is a proportional takeover bid, under which Wentronic is proposing to acquire 83% of the Shares that you hold in Cellnet. If the Offer succeeds, Wentronic will obtain voting power in Cellnet of up to 83%.

No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of any particular Cellnet Shareholder. Your Directors encourage you to seek independent financial, tax or other professional advice before making a decision whether or not to accept the Offer.

Disclaimer regarding forward looking statements

This Target's Statement contains forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Cellnet operates as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and any such deviations are both normal and to be expected. None of Cellnet, any of its officers or employees, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. Forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Privacy

Cellnet has collected your information from the register of Cellnet Shareholders for the purpose of providing you with this Target's Statement. The type of information Cellnet has collected about you includes your name, contact details and information about your shareholding in Cellnet. Without this information, Cellnet would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the names and addresses of Cellnet Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Cellnet's Related Bodies Corporate and external service providers (such as Cellnet's share registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC and ASX.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared solely in accordance with Australian law.

Disclaimer as to information

The information on the Bidder contained in this Target's Statement has been prepared by Cellnet using publicly available information. The information in this Target's Statement concerning the Bidder has not been independently verified by Cellnet. Accordingly, Cellnet does not, subject to the Corporations Act and general law, make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX on 30 November 2016. None of ASIC, ASX or any of their respective officers takes any responsibility for the content of this Target's Statement.

Further information

Further information relating to the Offer can be obtained from Cellnet's website, at www.cellnet.com.au.

RECOMMENDATIONS

ACCEPT

Your Directors unanimously recommend that you ACCEPT the Offer, in the absence of a Superior Proposal.

Each of the Directors intends to ACCEPT the Offer in respect of the Cellnet Shares they own or control for which the Offer has been made, in the absence of a Superior Proposal.

How to ACCEPT

To ACCEPT the Offer, simply complete the Acceptance Form enclosed with the Bidder's Statement and return to the Bidder in accordance with the directions on the Acceptance Form.

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Letter from the Chairman

30 November 2016

Dear Cellnet Shareholder

The Board of Cellnet Directors recommend that you ACCEPT the Offer in the absence of a Superior Proposal

On 11 November 2016, Cellnet and Wentronic announced that they had entered into the Bid Implementation Agreement, pursuant to which Wentronic will make a recommended off-market takeover offer for 83% of the issued shares of Cellnet (**Offer**).

You will by now have received the Bidder's Statement, including the Offer for 83% of your Cellnet Shares. The Bidder's Statement contains the formal terms and Conditions of the Offer.

Under the Offer, Wentronic is offering **\$0.28 in cash** for each Cellnet Share for which Offers are made.

This Target's Statement, which we encourage you to read in its entirety, contains the formal response of the Board in respect of the Offer.

Conclusion of the Independent Expert

The Independent Expert has concluded that the Offer is fair and reasonable to Cellnet Shareholders and that the Offer consideration is within the Independent Expert's assessed range of value of Cellnet Shares on a 100% controlling interest basis.

You should read the Independent Expert's Report which is annexed to this Target's Statement.

Your Directors' assessment and recommendation

Your Directors consider that, in the absence of a Superior Proposal, the Offer is **FAIR AND REASONABLE** because (among other things):

- The Offer represents a premium to trading prices in Cellnet Shares prior to the announcement of the Offer;
- The Offer provides certainty of value;
- The Independent Expert has concluded that the Offer is fair and reasonable; and
- CVC Limited (Cellnet's largest Shareholder) intends to accept the Offer in the absence of a Superior Proposal.

Your Directors unanimously recommend that you **ACCEPT THE OFFER** in the absence of a Superior Proposal. Each Director currently intends to accept the Offer for the relevant proportion of Cellnet Shares he holds in the absence of a Superior Proposal.

Conditions

The Offer is subject to a number of Conditions, including Wentronic acquiring a relevant interest in at least 50.1% of Cellnet Shares and there being no Material Adverse Event in relation to Cellnet.

You should carefully review the Conditions which are set out in section 11.7 of the Bidder's Statement.

To accept the Offer, simply follow the instructions in the Bidder's Statement.

If you have any queries in relation to the Offer, please consult your own independent professional adviser or contact Cellnet on +61 7 3853 5555.

Yours sincerely



Alexander Beard
Chairman

Key Dates

Bidder's Statement lodged with ASIC and dated
Record Date

14 November 2016
5:00pm (Sydney time) on 14
November 2016

Offer opens

21 November 2016

Offer closes (unless extended or withdrawn)

7:00 pm (Sydney time) on 21
December 2016

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1 Your options as a Cellnet Shareholder

Cellnet encourages you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Shares.

You should read the Bidder's Statement and this Target's Statement (including the Independent Expert's Report set out in Annexure A) in full.

This Target's Statement contains the unanimous recommendation of the Cellnet Directors to accept the Offer and their reasons for this recommendation.

As a Cellnet Shareholder, you currently have three choices available to you.

1.1 CHOICE 1: Accept the Offer

You may choose to accept either the Offer for 83% of your Cellnet Shares, in which case you may either retain 17% of your Cellnet Shares or sell them on the ASX.

You may only accept the Offer for 83% of your Cellnet Shares.¹

If you elect to accept the Offer, you will receive \$0.28 for each of your Cellnet Shares in respect of which you have accepted the Offer.

You will receive the Offer Price only if all the Conditions are either satisfied or waived.

The consequences of accepting the Offer are discussed in section 6.6 of this Target's Statement.

If you accept the Offer, you will not be able to sell the 83% of your Cellnet Shares for which the Offer is made unless, at the time you decide that you no longer wish to accept the Offer, you have the right to withdraw your acceptance and you exercise that right. In accordance with section 652B of the Corporations Act, Wentronic may withdraw its Offer only with the written consent of ASIC and subject to the conditions (if any) of that consent.

1.2 CHOICE 2: Sell Your Cellnet Shares on ASX

During the Offer Period, you may sell some or all of your Cellnet Shares on ASX for cash, provided you have not accepted the Offer for those Cellnet Shares.

If you sell your Cellnet Shares on ASX and that transaction is effected, you will receive the consideration for your Cellnet Shares sooner than if you accept the Offer while it is subject to Conditions.

If you sell your Cellnet Shares, you:

- (a) will lose the ability to accept the Offer;
- (b) may be liable for capital gains tax or income tax on the sale of those Cellnet Shares;
- (c) may incur a brokerage fee; and
- (d) will lose the opportunity to receive future returns from Cellnet.

You should contact your broker on how to sell your Cellnet Shares on ASX and your tax adviser to determine the tax implications from such a sale.

If you do not accept the Offer and instead sell your Cellnet Shares on ASX, the person or persons who purchase those Cellnet Shares may accept the Offer in respect of 83% of the Cellnet Shares they hold (see section 5.8(b) for details).

¹ Unless accepting the Offer would leave you with less than a Marketable Parcel of Cellnet Shares, in which case the Offer extends to all of your Cellnet Shares, subject to certain conditions (see section 11.1(f) of the Bidder's Statement for further information).

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1.3 CHOICE 3: Take No Action

If you do not wish to sell your Cellnet Shares and do not wish to accept the Offer, you should take no action. You should note that:

- (a) if the Bidder acquires a relevant interest in more than 50% of Cellnet's Shares and all of the Conditions are satisfied or waived, and you continue to hold Cellnet Shares, you will be exposed to the risks associated with being a minority Shareholder of Cellnet. Some of these risks are explained in section 5.7 of this Target's Statement;
- (b) if the Offer does not proceed and there are no other offers for Cellnet, Cellnet will remain a listed public company; and
- (c) the Bidder has indicated that it currently intends to maintain Cellnet's ASX listing (refer to section 5.4 of the Bidder's Statement).

2 Why you should accept the Offer

2.1 The Offer represents substantial value for your Shares subject to the Offer

Under the Offer, Wentronic is offering cash consideration of \$0.28 per Share (the **Offer Price**).

The Offer Price compares favourably to the prices at which Cellnet Shares have traded on ASX prior to the announcement of the Offer, being:

- a premium of 7.7% to the closing price per Cellnet Share on ASX on 9 November 2016 (being the last day before Cellnet went into trading halt); and
- a premium of 8.4% to the 5 day volume weighted average price of Cellnet shares on the ASX on the 5 trading days up to and including 9 November 2016.

2.2 Certainty of value

Cellnet Shares have historically been illiquid and traded at low volumes on ASX.

The Offer provides Cellnet Shareholders with the opportunity to realise certainty of value for 83% of their Cellnet Shares in cash and to have the option to maintain their exposure to the performance of Cellnet's business by retaining 17% of their Cellnet Shares.

2.3 The Independent Expert considers that the Offer is fair and reasonable

The Independent Expert has concluded that the Offer is fair and reasonable to Cellnet Shareholders.

The Independent Expert's Report is included in this Target's Statement as Annexure A. You should read the Independent Expert's Report in full.

2.4 CVC Limited intends to accept the Offer

Cellnet understands that CVC Limited (**CVC**), Cellnet's largest shareholder (holding approximately 58.04% of Cellnet's issued share capital) currently intends to accept the Offer, in the absence of a Superior Proposal.

2.5 No competing offer

The Offer is the only offer available for your Cellnet Shares as at the date of this Target's Statement.

2.6 Wentronic expects combination benefits

If the Offer is successful, Wentronic anticipates that Cellnet will be able to better leverage the relationships that Wentronic has worldwide to sell its own products, including Cellnet's 3SIXT brand and penetrate new markets, as well as better service existing customers.

2.7 The Directors unanimously recommend you **ACCEPT** the Offer in the absence of a Superior Proposal

The Cellnet Directors have expressed their unanimous support and recommendation for the Offer in the absence of a Superior Proposal.

The Cellnet Directors intend to accept the Offer in respect of the Cellnet Shares owned or controlled by them, in the absence of a Superior Proposal.

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3 Risks of accepting the Offer

3.1 Background

While the Cellnet Directors unanimously recommend that you accept the Offer and the Independent Expert has concluded that the Offer is fair and reasonable, there are certain risks and disadvantages associated with accepting the Offer.

This section 3 of the Target's Statement contains a summary of the risks and disadvantages of accepting the Offer.

3.2 Minority shareholder risk

Under the Offer, Wentronic has offered to acquire 83% of each Shareholder's Cellnet Shares².

As at the date of this Target's Statement, neither Wentronic, nor any of its associates hold any Cellnet Shares. If the Offer is accepted by all Shareholders, Wentronic would have voting power in Cellnet of at least 83%.

The Offer is subject to a minimum acceptance Condition of 50.1%. Wentronic has the right to waive this condition, but as at the date of this Target's Statement, it has not indicated whether or not it intends to do so.

As at the date of this Target's Statement, the largest holder of Cellnet Shares is CVC Limited, which holds approximately 58.04% of all issued Cellnet Shares and can currently exercise control over Cellnet.

If the Offer is successful and Wentronic acquires acceptances under the Offer representing at least 50% or more of all Cellnet Shares, it will result in the transfer of control in Cellnet from CVC Limited to Wentronic and Wentronic would be able to exercise control over Cellnet.

If this were the case, the implications would include:

- (a) Wentronic would be able to cast a majority of votes at a general meeting of Cellnet, which would enable to Wentronic to control the Board;
- (b) Wentronic would be able to control the strategic direction of the Company and may institute changes from the current strategic direction of the Company;
- (c) Current Cellnet Shareholders would hold as little as 17% of Cellnet Shares;
- (d) If Wentronic acquired at least 75% of the Cellnet Shares on issue it would be able to pass special resolutions of Cellnet members. This would enable it to (among other things), vary the Cellnet constitution or change Cellnet's name; and
- (e) Wentronic's shareholding in Cellnet would be such that no third party could successfully make a takeover bid or implement a scheme of arrangement in respect of Cellnet without the support of Wentronic.

3.3 Proportional offer and liquidity risk

The Offer is a proportional offer under which Wentronic has offered to acquire 83% of each Shareholder's Cellnet Shares.

Unless accepting the Offer would leave a Shareholder with less than a Marketable Parcel of Cellnet Shares (in which case the Offer extends to all of that Shareholder's Cellnet Shares), Shareholders may not accept the Offer for all of their Cellnet Shares.

² Unless accepting the Offer would leave you with less than a Marketable Parcel of Cellnet Shares, in which case the Offer extends to all of your Cellnet Shares, subject to certain conditions (see section 11.1(f) of the Bidder's Statement for further information).

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Any Shareholder who accepted the Offer and wished to dispose of the remainder of their Cellnet Shares would need to do so on market (see section 5.8(a) for information in relation to the arrangements for trading in ex-Offer Shares on ASX). There is no guarantee of the price at which Cellnet Shares may trade on ASX, whether during the Offer Period or afterwards.

Liquidity in Cellnet Shares on ASX has historically been low. If the Offer is successful, liquidity in Cellnet Shares may further reduce and Shareholders may face difficulty in selling any Cellnet Shares they hold after the close of the Offer.

3.4 **Offer Price only paid if Conditions satisfied or waived**

The Offer is subject to the Conditions (which are set out in section 11.7 of the Bidder's Statement. All of the Conditions must be satisfied or waived before Wentronic pays the Offer Price to Cellnet Shareholders who accept the Offer.

If you accept the Offer and the Conditions are not satisfied or waived before the end of the Offer Period, Wentronic will not acquire any Cellnet Shares and will not pay the Offer Price to any Cellnet Shareholder.

3.5 **Unable to accept higher offer**

If you accept the Offer you would not be able to withdraw your acceptance, except in the limited circumstances prescribed under the Corporations Act (which are described in section 6.9 of this Target's Statement).

Accordingly, if you accept the Offer, you would not be able to sell those Cellnet Shares the subject of the Offer on market or accept any higher takeover bid or alternative transaction recommended by the Directors should one emerge during the Offer Period.

4 Frequently Asked Questions

This section answers some frequently asked questions about the Offer. It is not intended to address all issues relevant to Shareholders. This section should be read together with all other parts of this Target's Statement and the Bidder's Statement.

Question	Answer	Further information
What is the Offer for my Shares?	<p>Wentronic is offering to buy 83% of your Cellnet Shares by way of a proportional off-market takeover offer. The Offer Price is \$0.28 cash for each Cellnet Share subject to the Offer.</p> <p>Because the Offer is a proportional offer, you may only accept the Offer for 83% of your Cellnet Shares, unless accepting the Offer would leave you holding less than a Marketable Parcel of Cellnet Shares, in which case the Offer extends to all of your Cellnet Shares, subject to certain conditions (see section 11.1(f) of the Bidder's Statement for further information).</p>	Section 6.1 and the Bidder's Statement
What choices do I have as a Cellnet Shareholder?	<p>As a Shareholder, you can:</p> <ul style="list-style-type: none">• accept the Offer for all of your Cellnet Shares subject to the Offer;• sell your Cellnet Shares on the ASX; or• reject the Offer by doing nothing.	Sections 1, 5 and 6
What are the Cellnet Directors recommending?	<p>Your Directors unanimously recommend that you accept the Offer, in the absence of a Superior Proposal. The reasons for this recommendation are set out in this Target's Statement and include the following:</p> <ul style="list-style-type: none">• The Offer represents an opportunity to realise substantial value for 83% of your Cellnet Shares.• The Independent Expert considers that the offer is fair and reasonable;• CVC Limited intends to accept the Offer. <p>Your Directors intend to accept the Offer in the absence of a Superior Proposal.</p>	Section 2
How do I accept the Offer?	<p>If you wish to accept the Offer, you must follow the instructions set out in section 11.3 of the Bidder's Statement. You must also complete, sign and return the Acceptance Form.</p>	Section 6.6
Does Wentronic currently hold any Cellnet Shares?	<p>No, Wentronic does not currently hold a relevant interest in any Cellnet Shares.</p>	

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Question	Answer	Further information
<p>Can I accept the Offer for all of my holding?</p>	<p>No. Unless you would hold less than a Marketable Parcel after accepting the Offer, you can only accept the Offer for 83% of your holding of Cellnet Shares.</p> <p>If accepting the Offer would leave you holding less than a Marketable Parcel of Shares, section 618 of the Corporations Act provides that the Offer extends to all of your Cellnet Shares, subject to certain conditions (see section 11.1(f) of the Bidder's Statement for further information).</p>	<p>Section 11.1(f) of the Bidder's Statement</p>
<p>What do the Directors intend to do?</p>	<p>Each Director intends to accept the Offer in relation to all of the Cellnet Shares he holds to which the Offer relates, in the absence of a Superior Proposal.</p>	<p>Section 7.1</p>
<p>What are the consequences of accepting the Offer now?</p>	<p>If you accept the Offer now:</p> <ul style="list-style-type: none"> • you will not be able to sell those Cellnet Shares in respect of which you have accepted the Offer or deal with them in any other manner, unless any withdrawal rights apply at the applicable time and you withdraw your acceptance of the Offer, or the Offer lapses; and • you will be unable to accept a Superior Proposal from any other bidder in respect of those Cellnet Shares if such an offer is made, unless any withdrawal rights apply at the applicable time and you withdraw your acceptance of the Offer, or unless the Offer lapses. 	<p>Sections 5 and 6</p>
<p>What are the risks of not accepting the Offer?</p>	<p>If you do not accept the Offer you will be exposed to the risks associated with being a continuing Shareholder in Cellnet in respect of the entirety of your holding of Cellnet Shares.</p>	<p>Section 5.7</p>
<p>If I accept the Offer now, can I withdraw my acceptance?</p>	<p>You may withdraw your acceptance if Wentronic postpones for more than one month the time when it has to meet its obligations under the Offer (for example, by extending the Offer Period for more than one month while the Offer remains conditional).</p> <p>Further details on your ability to withdraw your acceptance are set out in section 6.6.</p>	<p>Section 6.9</p>
<p>Does satisfaction of the minimum acceptance condition mean that I will definitely get paid if I accept?</p>	<p>No. All the Conditions must be satisfied or waived for the Offer to become unconditional.</p> <p>Even if the minimum acceptance Condition is satisfied, other Conditions may still be unsatisfied and satisfaction (or waiver) of those other Conditions may take some time or may not occur at all.</p>	<p>Section 6.10</p>

Question	Answer	Further information
Can I be forced to sell my Cellnet Shares?	No. Because Wentronic is making a proportional bid for 83% of the Shares in Cellnet, it will not be entitled to proceed to compulsory acquisition of those Cellnet Shares it does not already own at the end of the Offer Period, even if all Cellnet Shareholders accept the Offer.	
When does the Offer close?	<p>The Offer is presently scheduled to close at 7:00pm (Sydney time) on 21 December 2016, but the Offer Period can be extended in certain circumstances.</p> <p>See section 6.5 for details of the circumstances in which the Offer Period can be extended.</p>	Section 6.1(d)
When do I have to decide?	<p>If you wish to accept the Offer, you need to do so before its scheduled closing date.</p> <p>The Offer is scheduled to close at 7:00pm (Sydney time) on 21 December 2016, but the Offer Period can be extended in certain circumstances. See section 6.5 for details of the circumstances in which the Offer Period can be extended.</p>	Sections 6.1(d) and 6.5
What are the conditions to the Offer?	<p>The Offer is subject to the Conditions that are set out in the Bidder's Statement, which include:</p> <ul style="list-style-type: none"> • that at the end of the Offer Period the Bidder has a relevant interest in more than 50.1% of the Cellnet Shares on issue; • that no prescribed occurrence occurs; and • that no Material Adverse Event occurs in relation to Cellnet. <p>This is only a summary of some of the Conditions. Further details of the Conditions are set out in the Bidder's Statement.</p>	Section 6.2 and section 11.7 of the Bidder's Statement
What happens if the Conditions are not satisfied/or waived?	If the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse, and you will not be paid the Offer Price (even if you had accepted the Offer, as your acceptance will become void). You would then be free to deal with all of your Shares.	Section 6.3
When will I be paid the Offer Price if I accept the Offer?	<p>Generally speaking, if you accept the Offer, you will have to wait until not later than:</p> <ul style="list-style-type: none"> • one month after acceptance or one month after the Offer becomes unconditional; or • 21 days after the end of the Offer Period, <p>for the Bidder to pay you the Offer Price.</p>	See section 6.10 and the Bidder's Statement

Question	Answer	Further information
What are the tax implications of accepting the Offer?	<p>A general outline of the tax implications of accepting the Offer is set out in section 7.11 of this Target's Statement and section 9 of the Bidder's Statement.</p> <p>This information is a general outline only and Cellnet encourages you to seek professional advice in relation to the taxation implications of accepting the Offer.</p>	Section 7.11 and section 9 of the Bidder's Statement
What if accepting the Offer would leave me with less than a Marketable Parcel	<p>If you would be left with less than a Marketable Parcel of Cellnet Shares after accepting the Offer, the Offer extends to all of your Cellnet Shares, subject to certain conditions. This exception does not apply to any parcel of Cellnet Shares which has come into existence or which has increased in size due to a transaction entered into after 10:00am on the Announcement Date (see section 11.1(f) of the Bidder's Statement for further information).</p> <p>If you are unsure of whether accepting the Offer would leave you with less than a Marketable Parcel, you should contact your broker or financial advisor.</p>	Section 11.1(f) of the Bidder's Statement
What if I have questions about the Offer?	<p>If you have any further questions in relation to the Offer, please contact your financial, legal or professional advisor.</p>	

5 Profile of Cellnet

5.1 Background and Principal Activities

Cellnet was established in 1992 and listed on ASX on 17 November 1999.

The principal operations of Cellnet and its subsidiaries are

- (a) sourcing products and the distribution of market leading brands of lifestyle technology products including mobile phone, tablet and notebook/hybrid accessories into retail and business channels in Australia and New Zealand; and
- (b) fulfilment services to the mobile telecommunications and retail industries in Australia and New Zealand.

Cellnet employs more than 60 people across Australia and New Zealand and distributes products on behalf of a number of the world's leading vendors in some of the fastest growing industries.

5.2 Board of Directors

The Cellnet Directors and a brief description of their qualifications and other directorships are set out below:

Alexander (Sandy) Beard

Mr Beard is a Chartered Accountant and an experienced financier of growth companies as well as having gained considerable industry experience through his investee board roles. He is a fellow of the Institute of Chartered Accountants and a member of the Institute of Company Directors. Mr Beard is currently a member of the Audit and Risk Management and Remuneration Committees.

Mr Beard is Executive Director of CVC Limited (ASX:CVC) and Executive Director of Eildon Capital Limited. During the past three years Mr Beard has also served as Chairman and Non-Executive Director of Villa World and Director of the following listed companies: Mnemon Limited (formerly Mnet Group Limited) (ASX:MNZ), CVC Property Fund (ASX:CJT) and Lonestar Resources Limited (formerly Amadeus Energy Limited).

Elliot Kaplan

Mr Kaplan is a Chartered Accountant with extensive experience in senior financial and chief executive officer roles in both private and public listed companies. His experience, from both an investor and investee perspective, spans a diverse range of industries and businesses in the manufacturing, environmental, distribution and services sectors. Mr Kaplan is currently the chair of the Audit and Risk Management Committee and a member of the Remuneration Committee.

Mr Kaplan is the managing director of Eildon Capital Limited. He has previously held non-executive director and chairman roles in a number of ASX listed companies and is currently a non-executive director of ASX listed Pro-Pac Packaging Limited.

During the past three years, Mr Kaplan also served as Non- Executive Director of Mnemon Limited (formerly Mnet Group Limited) (ASX:MNZ) and Non-Executive Director of Dolomatrix Limited (ASX:DMX).

Mel Brookman

Mr Brookman was a co-founder of Cellnet in 1992. He has over 20 years' experience in mobile phone and distribution industries. He was previously the Managing Director of the Company from 1999 to November 2002. Mr Brookman is presently chair of the Remuneration Committee and a member of the Audit and Risk Management Committee.

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5.3 Capital Structure

As at the date of this Target's Statement, Cellnet has on issue:

- (a) 52,301,977 Cellnet Shares, all of which are fully paid and quoted on ASX
- (b) 2,400,000 Unlisted Options, which were approved to be granted to Directors at the Company's AGM on 24 October 2014, as follows:

Number of Options	Expiry Date	Exercise Price
2,400,000	01/11/2017	\$0.25

Each holder of Unlisted Options has entered into conditional option sale agreements with Michael Wendt (who is a director and shareholder of Wentronic), Brian Danos and Kevin Gilmore (**Buyers**), each of whom is proposed to be appointed as a director of Cellnet if Wentronic acquires a Relevant Interest in 50.1% or more of Cellnet and the Offer is declared unconditional.

Under those agreements, the Unlisted Option holders will sell all their options over Cellnet Shares to the Buyers, conditional upon the appointment of the Buyers (or another person acceptable to the seller) to the Cellnet Board. The Unlisted Options will be purchased for consideration of \$0.03 per Unlisted Option, with completion to occur when the purchaser of those Unlisted Options, or another person acceptable to the seller has been appointed to the Cellnet Board.

See section 7.3 for further details.

- (c) 2,813,677 Performance Rights, which are held by employees and contractors of Cellnet. Once vested, the holders of Performance Rights may exercise their Performance Rights in accordance with the terms of issue and are entitled to be issued one Cellnet Shares for each Performance Right issued.

In accordance with the terms of the Performance Rights Plan, the Board resolved on 11 November 2016 that:

- (i) 2,313,667 Performance Rights will vest 5 business days prior to the Last Exercise Date under their original conditions of grant (being 5.00pm Brisbane time on the date that is 30 business days following the date FY17 audited results are released to the market by Cellnet); and
- (ii) 500,000 Performance Rights will vest on 11 November 2018,

in each case if the Offer is successfully completed by 31 January 2017 (in the manner described in the Bid Implementation Agreement) and the holder of the Performance Rights is not a bad leaver (as defined in the Performance Rights Plan Rules) on the vesting date.

5.4 Substantial shareholders

Substantial shareholders as shown in substantial shareholder notices received by Cellnet are:

Name of Shareholder	Ordinary Shares	% of total
CVC Limited	30,354,904	58.04
One Managed Invnt Funds Ltd	3,702,155	7.08

5.5 Historical Financial Information

The historical financial information in this section has been extracted from the audited financial statements of Cellnet for the years ended 30 June 2016 and 30 June 2015.

The financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial statements.

(a) **Summary of consolidated statement of comprehensive income for the year ended 30 June 2016 (Cellnet and its consolidated entities)**

	Consolidated	
	2016 \$000	2015 \$000
Continuing operations		
Sales of goods	74,366	76,577
Rendering of services	788	1,691
Revenue	75,154	78,268
Other income	230	18
Depreciation and amortisation expense	(272)	(296)
Employee benefit expense	(8,992)	(9,999)
Finance costs	(437)	(489)
Freight expense	(1,988)	(2,659)
Materials, packaging and consumables used	(57,625)	(59,142)
Occupancy expense	(726)	(1,418)
Warehousing expense	(1,272)	-
Other expense	(2,324)	(2,634)
Profit / (loss) from continuing operations before income tax	1,748	1,649
Income tax expense	-	-
Net profit / (loss) for the period	1,748	1,649
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	13	(186)
Total comprehensive income for the period	1,761	1,463
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	3.3	3.0
Diluted earnings per share (cents per share)	3.3	3.0
Earnings per share for profit attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	3.3	3.0
Diluted earnings per share (cents per share)	3.3	3.0

(b) **Consolidated statement of financial position as at 30 June 2016 (Cellnet and its consolidated entities)**

	Consolidated	
	2016	2015
	\$000	\$000
ASSETS		
Current assets		
Cash and cash equivalents	1,411	2,373
Trade and other receivables	10,044	9,400
Inventories	8,968	8,004
Derivative financial instruments	143	261
Total current assets	20,566	20,038
Non-current assets		
Property, plant and equipment	304	471
Deferred tax assets (net)	848	838
Intangible assets	52	27
Total non-current assets	1,204	1,336
TOTAL ASSETS	21,770	21,374
LIABILITIES		
Current liabilities		
Trade and other payables	6,913	7,153
Provisions	520	594
Interest-bearing loans and borrowings	763	555
Total current liabilities	8,196	8,302
Non-current liabilities		
Provisions	18	93
Total non-current liabilities	18	93
TOTAL LIABILITIES	8,214	8,395
NET ASSETS	13,556	12,979
EQUITY		
Issued capital	30,953	31,699
Reserves	3,691	2,368
Accumulated losses	(21,088)	(21,088)
TOTAL EQUITY	13,556	12,979

(c) **Consolidated statement of cash flows for the year ended 30 June 2016 (Cellnet and its consolidated entities)**

	Consolidated	
	2016 \$000	2015 \$000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	82,703	88,275
Payments to suppliers and employees (inclusive of GST)	(81,905)	(82,121)
Interest paid	(317)	(369)
Net cash flows from operating activities	481	5,785
Cash flows from / (used in) investing activities		
Interest received	8	18
Purchase of property, plant and equipment	(136)	(184)
Payments for purchase of intangibles	(44)	(27)
Net cash flows from / (used in) investing activities	(172)	(193)
Cash flows from / (used in) financing activities		
Share buy-back	(746)	-
Proceeds from borrowings	27,748	25,687
Repayment of borrowings	(27,540)	(31,402)
Dividends	(557)	-
Net cash flows from / (used in) used in financing activities	(1,095)	(5,715)
Net decrease in cash and cash equivalents	(786)	(123)
Net foreign exchange differences	(176)	(55)
Cash and cash equivalents at beginning of period	2,373	2,551
Cash and cash equivalents at end of period	1,411	2,373

5.6 Other Information about Cellnet

Further information about Cellnet can be found on Cellnet's website: www.cellnet.com.au or in information released by Cellnet to the ASX in accordance with its continuous disclosure obligations under the ASX Listing Rules.

5.7 Risk Factors Relating to Cellnet

If you choose not to accept the Offer and maintain your current holding of Cellnet Shares, you will continue to be exposed to share price fluctuations in respect of your entire shareholding in Cellnet. The future performance of Cellnet will be influenced by a range of factors and risks including risks specifically associated with Cellnet's business as well as general industry and market risks.

Whilst some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, some are outside the control of Cellnet and cannot be mitigated.

5.8 Trading in Cellnet Shares on ASX during the Offer Period

Because the Offer is a proportional offer for 83% of your Cellnet Shares, ASX has put in place special arrangements in relation to trading in Cellnet Shares during the Offer Period and for a short time after the end of the Offer Period.

(a) "Ex-Offer" Shares

If you accept the Offer in respect of 83% of your Cellnet Shares, you may sell the remaining 17% of your Cellnet Shares (**Remaining Shares**) on ASX. These Remaining Shares will trade "ex-Offer" under the ASX code "CLTE".

Any buyers of these Remaining Shares will be unable to accept the Offer and settlement of trades in Remaining Shares will be deferred until after the Offer Period has ended (on 3 January 2017, assuming that the Offer Period is not extended beyond 21 December 2016).

(b) "Cum-Offer" Shares

Cellnet Shares which are trading "cum-Offer" (i.e. Cellnet Shares for which the Offer can be accepted) will trade in ASX under the ASX code "CLT" and trades in these Cellnet Shares will settle on the normal T + 2 basis.

If you do not wish to accept the Offer and instead sell your Cellnet Shares on ASX, these Cellnet Shares will trade on a "cum-Offer" basis.

Any person who buys "cum-Offer" Cellnet Shares on ASX by way of a trade which settles before the end of the Offer Period will be able to accept the Offer in respect of 83% of those Cellnet Shares.

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6 Information about the Offer

6.1 The Offer

On 11 November 2016, Wentronic announced its intention to make the Offer, being an offer to Shareholders to acquire 83% of their Cellnet Shares, for \$0.28 in cash per Cellnet Share by way of an off-market proportional takeover bid.

On 14 November 2016, Wentronic lodged its Bidder's Statement with ASIC and gave a copy to Cellnet and ASX. This Bidder's Statement contains all of the details of the Offer.

If you accept the Offer, you will retain 17% of your holding of Cellnet Shares (subject to section 618(2) of the Corporations Act, which provides that if accepting the Offer would leave a Shareholder holding less than a Marketable Parcel of Shares, the Offer extends to all of that Shareholder's Cellnet Shares, subject to certain conditions).

(a) About Wentronic

Wentronic is the company making the Offer. Wentronic is a privately owned company incorporated in Braunschweig, Germany.

Wentronic GmbH, formerly known as Wentronic Electronic Components Handels-GmbH, was incorporated in 1992. Wentronic is now the holding company of Wentronic GmbH and its other subsidiaries (the **Wentronic Group**).

The Wentronic Group has approximately 200 employees, its headquarters are in Braunschweig, Germany and have branches in Hong Kong, China, the United Kingdom and Italy.

As a distributor of electronic accessories, the Wentronic Group is one of the leaders in the sector in Europe marketing its comprehensive product range to wholesalers, mail order dealers, online retailers, and conventional retailers, as well as industrial companies all over the world.

Further information about Wentronic is available at www.wentronic.com.

(b) What Wentronic is offering

Wentronic is offering to buy 83% your Cellnet Shares by way of an off-market proportional takeover offer.

The terms of the Offer are set out in Part 11 of the Bidder's Statement.

(c) The Offer Price

The Offer Price being offered to you under the Offer is \$0.28 per Share for 83% of the Cellnet Shares you hold.

The consideration that the Bidder has offered will become payable to you only if all the Conditions are satisfied or waived. These Conditions are summarised in section 6.2 of this Target's Statement and are set out in full in the Bidder's Statement.

(d) Offer Period

The Offer opened on 21 November 2016 and is scheduled to close at 7:00pm (Sydney time) on 21 December 2016, unless Wentronic extends the Offer Period in accordance with the Corporations Act.

The Offer Period will be automatically extended if, within the last 7 days of the Offer Period:

- (i) Wentronic improves the consideration under the Offer; or

- (ii) Wentronic's voting power in Cellnet increases to more than 50%.

In such circumstances, the Offer Period will be automatically extended so that it expires 14 days after the relevant event.

(e) **Withdrawal by the Bidder**

The Bidder may be able to withdraw its Offer with the written consent of ASIC, subject to the conditions (if any) specified in such consent.

(f) **Lapse of the Offer**

The Offer will lapse if, at the end of the Offer Period, the Conditions are not satisfied or waived. If this occurs, then any contracts resulting from acceptance of the Offer by Shareholders will become void. If the Offer lapses then Shareholders who have accepted the Offer will continue to own the Cellnet Shares the subject of any such acceptances and will be free to deal with them as they choose.

6.2 **Conditions**

The Offer is subject to a number of Conditions. Those Conditions are set out in full in sections 11.7 of the Bidder's Statement.

By way of a broad overview, the Conditions include the following:

- (a) at the end of the Offer Period, the Bidder has a Relevant Interest in more than 50.1% (by number) of the Cellnet Shares on issue at that time.
- (b) No Prescribed Occurrence (as defined in the Bidder's Statement) happens during the Offer Period.
- (c) During the Offer Period, neither Cellnet, nor any of its subsidiaries, without the written consent of Wentronic:
 - (i) declares, or distributes any dividend, bonus or other share of its profits or assets;
 - (ii) issues or grants options over, or agrees to issue or grant options over, or otherwise make any commitments regarding any shares or other securities, or alters its capital structure or the rights attached to any of its shares or other securities, or issue or agree to issue any convertible securities (other than the issue of up to 400,000 Target Shares pursuant to the exercise of Performance Rights);
 - (iii) makes any changes in its constitution or passes any special resolution;
 - (iv) gives or agrees to give any Encumbrance over any of its assets otherwise than in the ordinary course of business;
 - (v) releases, discharges or modifies any substantial obligation to it of any person, firm or corporation or agrees to do so;
 - (vi) has appointed any additional director to its board of directors whether to fill a casual vacancy or otherwise;
 - (vii) enters or agrees to enter into any contract of service or varies or agrees to vary any existing contract of service with any director or manager, or pays or agrees to pay any retirement benefit or allowance to any director or manager or makes or agrees to make any substantial change in the basis or amount of remuneration of any director or manager (except as required by law or provided under any superannuation, provident or retirement scheme as in effect on the Announcement Date);
 - (viii) conducts its business otherwise than in the ordinary course;

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- (ix) borrow or agree to borrow any money, other than borrowing in the ordinary course of business from the Target's financier, as at the date of this Agreement, up to, but not more than, any limits imposed by such financier as at the date of this Agreement;
 - (x) enter or agree to enter into any contract of service except for the employment of a person below manager level in the ordinary course of business, or vary or agree to vary any existing contract of service with any director or manager, or pay or agree to pay any existing contract of service with any director or manager, or pay or agree to pay any benefit (including retirement benefit), bonus, allowance to any director, manager or other employee, or make or agree to make any substantial change in the basis or amount of remuneration of any director, manager or other employee (except as required by law);
 - (xi) increase the total remuneration for its employees by greater than 1% overall increase in the total remuneration costs incurred by the Target and its Subsidiaries as a whole as at the Announcement Date or otherwise vary the employment arrangements of any of its employees;
 - (xii) accelerates the rights, including the Performance Rights, of any of its non-executive directors, senior executives or employees a termination or retention payment (otherwise than in accordance with an existing contract in place at the Announcement Date or as contemplated under this agreement);
 - (xiii) make any change to its accounting practices or policies, other than to comply with generally accepted Australian accounting standards and any domestically accepted international accounting standards and except for the adoption of hedge accounting;
 - (xiv) enter into, offer to enter into or announce that it proposes to enter into any joint venture or partnership involving a commitment of greater than \$100,000 or any dual listed company structure, or makes an announcement about such a matter;
 - (xv) except in the ordinary course of business, incurs or commits to, or grants to another person a right the exercise of which would involve the Target or a Subsidiary of the Target incurring or committing to any capital expenditure or liability for one or more related items of greater than \$150,000 or makes an announcement about such a commitment;
 - (xvi) except in the ordinary course of business, incurs, commits to or brings forward the time for incurring or committing, or grants to another person a right the exercise of which would involve the Target or a Subsidiary of the Target incurring or committing to, any capital expenditure or liability, or forgoes any revenue, for one or more related items or amounts of greater than \$150,000;
 - (xvii) acquires or Disposes of, or agrees to acquire or dispose of any business, assets, entity or undertaking the value of which exceeds \$100,000 or makes an announcement about such acquisition or disposal;
 - (xviii) discloses the existence of any matter described in paragraphs 6.2(c)(i) - 6.2(c)(xvii) above, or announces an intention or proposal to do anything described in paragraphs 6.2(c)(i) - 6.2(c)(xvii).
- (d) No Material Adverse Event (as defined in the Bidder's Statement) occurs, is announced or becomes known to Wentronic or Cellnet during the Offer Period (whether or not it becomes public).

- (e) During the Offer Period:
- (i) there is not in effect any preliminary or final decision, order or decree issued by a Government Agency;
 - (ii) no action or investigation is announced, commenced or threatened by any Government Agency; and
 - (iii) no application is made by any Government Agency, in consequence of, or in connection with, the Offer (other than an application to, or a decision or order of, ASIC or the Takeovers Panel in the exercise of panels and discretions conferred by the Corporations Act or the applications to ASX contemplated by the BIA), which:
 - (iv) restrains, prohibits or impedes (or if granted or made could restrain, prohibit or impede), or otherwise materially adversely impacts upon:
 - (A) the making of the Offer or the completion of any transaction contemplated by the Offer; or
 - (B) the rights of Wentronic in respect of Cellnet or the Cellnet Shares; or
 - (v) requires the divestiture by Wentronic of any Cellnet Shares or the divestiture of any assets of Cellnet and its wholly owned Subsidiaries
 - (f) During the Offer Period, no person commences any bona fide litigation against Cellnet nor a Subsidiary of Cellnet (whether in aggregate or for any single litigation) which may reasonably result in a judgement against Cellnet or any subsidiary of more than \$200,000 (individually or in aggregate).

You should review section 11.7 of the Bidder's Statement for details of all of the Conditions.

6.3 Consequences of Conditions Not Being Satisfied

There is a risk that some of the Conditions may not be satisfied.

You should be aware that, even if the Conditions are not satisfied (or are triggered, as appropriate), they may be waived by Wentronic.

If any Condition is unsatisfied (or has been triggered), and has not been waived, Wentronic can decide whether or not to proceed with the acquisition of Cellnet Shares under its Offer or allow the Offer to lapse as a result of unsatisfied Conditions.

6.4 Notice of Status of Conditions

The Bidder's Statement indicates that Wentronic will give a Notice of Status of Conditions by 14 December 2016. If the Offer Period is extended before the Notice of Status of Conditions is required to be given, the due date for the Notice of Status of Conditions is taken to be extended by the same period. In the event of such an extension, Wentronic is required to give notice to ASX and Cellnet stating the new date for giving the Notice of Status of Conditions.

Wentronic is required to set out in its Notice of Status of Conditions:

- (a) whether the Offer is free of any or all of the Conditions;
- (b) whether, so far as Wentronic knows, any of the Conditions have been fulfilled; and
- (c) its then current voting power in Cellnet.

In addition, if a Condition is fulfilled during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Wentronic must, as soon as practicable, give the ASX and Cellnet a notice that states that the particular Condition has been fulfilled.

6.5 Extension of the Offer Period

Wentronic may extend the Offer Period at any time before giving the Notice of Status of Conditions while the Offer is subject to Conditions. However, if the Offer is unconditional (that is, all the Conditions are satisfied or waived), Wentronic may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- (a) Wentronic improves the consideration under the Offer; or
- (b) Wentronic's voting power in Cellnet increases to more than 50%.

If either of these two events occurs within the last seven days of the Offer Period, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

6.6 Effect of Acceptance while the Offer remain conditional

The Offer is subject to Conditions, as described in section 6.2 of this Target's Statement, which as at the date of this Target's Statement, have not been satisfied or waived by Wentronic. There is a risk that the Conditions may not be satisfied or waived.

If you accept the Offer while it is still subject to the Conditions you will give up your rights to sell the Cellnet Shares for which you have accepted the Offer or to otherwise deal with those Cellnet Shares, unless rights to withdraw your acceptance arise.

Shareholders who accept the Offer will be unable to accept any Superior Proposal for those Cellnet Shares in respect of which they have accepted the Offer which arises after the date of acceptance.

If you accept the Offer and Wentronic increases the Offer Price and the Offer becomes unconditional, you will be entitled to receive the higher Offer Price from Wentronic.

If the Conditions are not satisfied or waived before the end of the Offer Period, the Offer will lapse and you will be free to deal with all of your Cellnet Shares.

The effect of acceptance of the Offer is set out in more detail in the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Shares and the representations and warranties that you are deemed to give Wentronic by accepting the Offer.

6.7 Improvement of Offer Price

If the Bidder improves the Offer Price, all Shareholders who accept the Offer (whether or not they have accepted prior to that improvement) will be entitled to the benefit of that improved price.

6.8 Capital gains tax

If you accept the Offer, you may be liable for capital gains tax or income tax as a result of your acceptance. An overview of the taxation consequences for certain Australian resident Shareholders of selling Cellnet Shares is provided in section 9 of the Bidder's Statement.

6.9 Rights to withdraw your acceptance

If you accept the Offer, you will have a right to withdraw your acceptance in some circumstances.

Under the Corporations Act, you may withdraw your acceptance of the Offer if the Bidder varies its Offer in a way that postpones, for more than one month, the time when the Bidder needs to meet its obligations under the Offer. This will occur if the Bidder extends the Offer Period by more than one month and the Offer is still subject to the Conditions.

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In those circumstances, you will have a period of one month after the date that the Offer is extended to withdraw your acceptance. Your statutory withdrawal rights will terminate upon the expiry of that one month period, although if the Offer Period is then further extended you will receive further statutory withdrawal rights (that is, a further month long withdrawal right for each and every extension thereafter).

6.10 **When you will be paid if you accept the Offer**

If you validly accept the Offer, the Bidder will pay you the Offer Price for the 83% of your Shares in respect of which you have accepted the Offer not later than:

- (a) one month after the Offer is accepted or the Offer (or the contract resulting from its acceptance) becomes unconditional, whichever is the later; but
- (b) in any event (assuming the Offer becomes or is declared unconditional) not later than 21 days after the end of the Offer Period.

Full details of when you will be paid, including payment of consideration in circumstances where additional documents are required are set out in the Bidder's Statement.

6.11 **Changes to the Offer**

Wentronic can vary the Offer by:

- (a) waiving some or all of the Conditions;
- (b) extending the Offer Period; or
- (c) increasing the Offer Price.

If you accept the Offer and Wentronic subsequently increases the Offer Price, you will be entitled to receive the higher Offer Price.

6.12 **Shareholders who would hold less than a Marketable Parcel**

If accepting the Offer for 83% of your Cellnet Shares would leave you with a parcel of Cellnet Shares that is less than a Marketable Parcel (within the meaning of the ASX Listing Rules), the offer extends to all of your Cellnet Shares in accordance with section 618(2) of the Corporations Act.

This will not apply to a parcel of Cellnet Shares, whether held beneficially or otherwise, that has come into existence, or increased in size, because of a transaction entered into (including the creation of one or more trusts), at any time after 10:00am on the Announcement Date.

Shareholders should review section 11.1(f) of the Bidder's Statement for further details.

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7 Additional Information

7.1 Directors' Recommendation and Intentions

In assessing the Offer, your Cellnet Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement.

Based on this assessment, and for the reasons set out in this Target's Statement, your Directors' current recommendation to Shareholders is to **ACCEPT** the Offer.

Each Director of Cellnet who holds or has a relevant interest in any Shares currently intends to accept the Offer in relation to that portion of those Shares for which the Offer is made, in the absence of a Superior Proposal.

7.2 Interests of the Board in Cellnet Shares

The number, description and amount of securities of Cellnet in which each of the Cellnet Directors has a relevant interest are as follows:

Name	Shares	Percentage of Issued Capital	Unlisted Options
Alexander Beard	222,222	0.42%	1,200,000
Mel Brookman	1,851,943	3.54%	-
Elliott Kaplan	133,779	0.26%	1,200,000

7.3 Dealings of Cellnet Directors in Cellnet Securities

Save as set out below, in the four months immediately preceding 21 November 2016, being the date of the Offer, none of the Cellnet Directors has provided or agreed to provide, or received or agreed to receive, any consideration for any marketable securities of Cellnet under a sale, purchase or agreement for sale or purchase of such securities.

Mr Beard has entered into an agreement with Michael Wendt (a director and shareholder of Wentronic, who is proposed to be appointed as a director of Cellnet if Wentronic acquires a Relevant Interest in 50.1% or more of Cellnet and the Offer is declared unconditional), under which Mr Beard agreed to sell all of the Unlisted Options he holds to Mr Wendt for consideration of \$0.03 per Unlisted Option, with completion to occur when Mr Wendt (or such other person acceptable to Mr Beard) has been appointed to the Cellnet Board.

Mr Kaplan has entered agreements with Michael Wendt, Brian Danos and Kevin Gilmore (each of whom is proposed to be appointed as a director of Cellnet if Wentronic acquires a Relevant Interest in 50.1% or more of Cellnet and the Offer is declared unconditional), under which Mr Kaplan agreed to sell all of the Unlisted Options he holds to Messrs Wendt, Danos and Gilmore for consideration of \$0.03 per Unlisted Option, with completion in each case to occur when the purchaser of those Unlisted Options (or such other person acceptable to Mr Kaplan) has been appointed to the Cellnet Board.

In each case, the sale price is less than the fair value per Unlisted Option that has been assessed by an independent expert.

7.4 Interests and dealings of Cellnet Directors in Wentronic securities

None of the Cellnet Directors has any relevant interest in any marketable securities of the Wentronic or any Related Entity or Associate of Wentronic.

In the four months immediately preceding 21 November 2016, being the date of the Offer, no Director of Cellnet provided or agreed to provide, or received or agreed to receive, consideration for any marketable securities of Wentronic or any Related Entity or Associate of Wentronic under a sale, purchase or agreement for sale or purchase of such securities.

7.5 **Agreements or arrangements conditional upon the Offer**

No Director of Cellnet is party to any agreement or arrangement with any other person in connection with or conditional on the outcome of the Offer.

7.6 **Interests of the Board in contracts entered into by Wentronic**

Save as set out in this section 7.6, no Director of Cellnet has any interest in any contract entered into by Wentronic or any related body corporate of Wentronic, other than in that Director's capacity as a holder of Cellnet Shares.

As noted in section 7.3, each of Messrs Beard and Kaplan have entered into an arrangement to sell all of their Unlisted Options for \$0.03 per Unlisted Option.

7.7 **Benefits for retirement or loss of office**

No benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a Director of Cellnet:

- (a) in connection with their retirement from office in Cellnet or a related body corporate of Cellnet; or
- (b) in connection with the transfer of the whole or any part of the undertaking or property of Cellnet.

7.8 **Bid Implementation Agreement**

Cellnet and the Bidder entered into the Bid Implementation Agreement on 11 November 2016. The terms of the Bid Implementation Agreement are contained in Cellnet's announcement to ASX on 11 November 2016.

7.9 **Intentions of CVC Limited**

Cellnet understands that CVC Limited, which currently holds approximately 58.04% all the issued shares in Cellnet intends to accept the Offer for 83% all its Shares in the absence of a Superior Proposal.

7.10 **Litigation**

Except as previously disclosed to the ASX there is no current litigation against Cellnet and the Directors have no knowledge of any potential litigation.

7.11 **Taxation Considerations for Shareholders**

The following is a general summary of the potential tax consequences for Australian resident Shareholders who accept the offer and dispose of Cellnet Shares.

Acceptance of the Offer by you is likely to have tax consequences. You may be liable for capital gains tax if you accept the Offer.

The tax consequences for you will depend on your individual circumstances. Section 9 of the Bidder's Statement sets out a general overview of the Australian tax implications of a Shareholder accepting the Offer and disposing of 83% of their Shares to the Bidder.

This summary is general only in nature. You should not rely on it as advice on your own affairs. It does not deal with the position of all Shareholders. You should seek your own independent financial and taxation advice, which takes into account your personal circumstances, before making a decision as to whether or not to accept the Offer.

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7.12 **Financial Position of Cellnet**

Cellnet's last published financial statements are for the year ended 30 June 2016 and were released to ASX on 21 October 2016. Copies of these are available on ASX.

The Cellnet Directors are not aware of any material adverse change to the financial position of Cellnet since 30 June 2016.

7.13 **Consent to Inclusion of Statements**

The following persons have given and have not, before the date of this Target's Statement, withdrawn their consent to the inclusion of the following information in the form and context in which it is included, and to all references in this Target's Statement to that information in the form and context in which they appear:

- (a) Thomson Geer as legal advisor to the Company;
- (b) Lonergan Edwards & Associates Limited as Independent Expert and to the inclusion of the Independent Expert's Report and statements based on the contents of the Independent Expert's Report; and
- (c) Allunga Advisory as financial advisor to the Company.

7.14 **Disclaimers Regarding Responsibility**

Each person or organisation named above as having given consent to the inclusion of a statement in this Target's Statement (or who is otherwise named in this Target's Statement as acting in a professional capacity for Cellnet in relation to the Offer):

- (a) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, a statement included in this Target's Statement with the consent of that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

7.15 **Class Order Relief — reference to statements**

ASIC has published various 'Class Order' instruments providing for modifications and exemptions that apply generally to all persons, including Cellnet, in relation to the operation of Chapter 6 of the Corporations Act. Cellnet may rely on this class order relief.

Cellnet has relied on the modification to section 636(3) of the Corporations Act set out in paragraph 11 of ASIC Class Order 01/1543 'Takeover Bids' to include references to certain statements by Wentronic and other persons in this Target's Statement without obtaining the consent of Wentronic or those other persons.

The relevant statements were respectively taken from Wentronic's Bidder's Statement and any other announcements by Wentronic where material is sourced from.

As required by ASIC Class Order CO 01/1543, Cellnet will make available a copy of these documents (or of relevant extracts from these documents), free of charge, to Shareholders who request them during the Offer Period. Shareholders may obtain a copy of these documents (or the relevant extracts), by calling Cellnet.

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7.16 No other Material Information

This Target's Statement is required to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for Shareholders and their professional advisers to expect to find such information in this Target's Statement; and
- (b) only if the information is known to any of the Cellnet Directors.

The Directors are of the opinion that the information that Cellnet Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement;
- (b) the information contained in Cellnet's releases to ASX in accordance with the ASX Listing Rules; and
- (c) the information contained or referred to in this Target's Statement.

7.17 Approval of this Target's Statement

This Target's Statement has been approved by a resolution of the Directors in accordance with section 639 of the Corporations Act.

Signed on behalf of Cellnet by Alexander Beard, being a director of Cellnet who has been authorised to sign by a unanimous resolution passed by all the directors of Cellnet.



Alexander Beard
Chairman

Dated 30 November 2016

8 Definitions and Interpretation

8.1 Definitions

In this Target's Statement the following words have these meanings unless the contrary intention appears or the context otherwise requires:

Acceptance Form means the form with that title that accompanies the Bidder's Statement.

Announcement Date means 11 November 2016, being the date of announcement of the Offer.

ASIC means Australian Securities and Investments Commission.

Associate has the meaning given to that term in section 9 of the Corporations Act.

ASX means ASX Limited or the financial market which it operates, as the context requires.

ASX Listing Rules means the listing rules of the ASX as amended or varied from time to time;

BIA or **Bid Implementation Agreement** means the bid implementation agreement between Cellnet and the Bidder dated 11 November 2016 (a copy of which was released to ASX on the Announcement Date).

Bidder or **Wentronic** means Wentronic Holding GmbH.

Bidder's Statement means the bidder's statement dated 14 November 2016 relating to the Offer prepared by the Bidder.

Board or **Cellnet Board** means the board of directors of Cellnet.

Cellnet means Cellnet Group Limited ACN 010 721 749.

Condition means each defeating condition of the Offer as set out in section 11.7 of the Bidder's Statement

Condition Period means the period beginning on the Announcement Date and ending at the end of the Offer Period.

Control has the same meaning in section 50AA of the Corporations Act 2001 and Controlled has a corresponding meaning.

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

Director or **Cellnet Director** means a director of Cellnet.

Government Agency has the meaning given to that term in the Bidder's Statement.

Independent Expert means Lonergan Edwards and Associates Limited.

Independent Expert's Report means the report set out in Annexure A of this Target's Statement.

Marketable Parcel has the meaning given to that term under the ASX Listing Rules.

Material Adverse Event has the meaning given to that term in the Bidder's Statement.

Notice of Status of Conditions means the notice required to be given under section 630(3) of the Corporations Act relating to the status of the Conditions.

Offer means the offer by the Bidder to acquire 83% of the Cellnet Shares as set out in Part 3 of the Bidder's Statement and includes a reference to that Offers as varied in accordance with the Corporations Act.

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Offer Period means the period during which the Offer remains open for acceptance in accordance with the Bidder's Statement.

Offer Price means the consideration under the Offer for the Cellnet Shares subject to the Offer.

Performance Rights means rights to acquire Cellnet Shares granted by Cellnet to its eligible employees pursuant to the Performance Rights Plan.

Performance Rights Plan means the Cellnet Group Limited Performance Rights Plan dated 24 October 2014.

Register Date means 5:00pm (Sydney time) on 14 November 2016, being the date set by the Bidder under section 633(2) of the Corporations Act.

Related Body Corporate has the meaning given to that term in section 9 of the Corporations Act.

Related Entity has the meaning given to that term in section 9 of the Corporations Act.

Related Party has the meaning given to that term in section 9 of the Corporations Act.

Relevant Interest has the meaning given to that term in section 9 of the Corporations Act.

Remaining Shares has the meaning given to that term in section 5.8(a).

Shareholder or **Cellnet Shareholder** means the person registered in the register of members of Cellnet as a holder of one or more Shares.

Shares or **Cellnet Shares** means fully paid ordinary shares in Cellnet.

Superior Proposal means a Third Party Proposal which the Cellnet Directors reasonably determine after consultation with their external legal and financial advisers is:

- (a) likely to provide greater value to Shareholders than the Offer, taking into account all of the terms and conditions of that Proposal; and
- (b) reasonably capable of being completed on a timely basis.

Takeover Bid means the takeover bid constituted by the Offer.

Target's Statement means this document, being the statement of Cellnet pursuant to the Corporations Act relating to the Offer.

Third Party means a person other than the Bidder and its Affiliates or Representatives;

Third Party Proposal means any bona fide expression of interest, proposal, offer, transaction or arrangement by or with any person to which, if the expression of interest, proposal, offer, transaction or arrangement is entered into or completed substantially in accordance with its terms would result in:

- (a) a Third Party directly or indirectly acquiring an interest, a Relevant Interest in or becoming the holder of:
 - (i) greater than 20% of the Cellnet Shares; or
 - (ii) the whole or a substantial part or a material part of the business or property of Cellnet or any of its Related Entities;
- (b) a Third Party acquiring Control of Cellnet; or
- (c) a Third Party otherwise acquiring or merging (including by way of takeover bid, scheme of arrangement, capital reduction, reverse takeover bid, security buy back, sale or purchase of assets, joint venture, partnership, dual listed company structure) with Cellnet;

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Unlisted Options means options over fully paid ordinary shares as approved by Cellnet at its annual general meeting held on 24 October 2014.

8.2 **General Interpretation**

The following rules of interpretation apply unless the contrary intention appears or the context requires otherwise:

- (a) a reference to time is a reference to Sydney time;
- (b) headings are for convenience only and do not affect interpretation;
- (c) the singular includes the plural and conversely;
- (d) a reference to a section is to a section of this Target's Statement;
- (e) a gender includes all genders;
- (f) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (g) \$, dollar or cents is a reference to the lawful currency in Australia, unless otherwise stated;
- (h) a reference to a person includes a body corporate, an unincorporated body or other entity and conversely;
- (i) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (j) a reference to any legislation or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it;
- (k) a reference to any instrument or document includes any variation or replacement of it;
- (l) a term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act, the ASX Listing Rules or the ASTC Settlement Rules, as the case may be;
- (m) a reference to a right or obligation of any two or more persons confers that right, or imposes that obligation, as the case may be, jointly and individually; and
- (n) the words 'include', 'including', 'for example' or 'such as' are not used as, nor are they to be interpreted as, words of limitation, and, when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

Directors Mr Alexander Beard Mr Mel Brookman Mr Elliott Kaplan	Registered and Principal Office 59-61 Qantas Drive Eagle Farm QLD 4009
Company Secretary Mr Chris Barnes	Website www.cellnet.com.au
Legal Adviser Thomson Geer Level 16, Waterfront Place 1 Eagle Street Brisbane QLD 4000	Financial Adviser Allunga Advisory MLC Centre 19 Martin Place Sydney NSW 2000
Share Registry Link Market Services Ltd Level 15 ANZ Building 324 Queen Street Brisbane QLD 4000	

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Annexure A

Independent Expert's Report

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The Directors
Cellnet Group Limited
59-61 Qantas Drive
Eagle Farm QLD 4009

29 November 2016

Subject: Proportional takeover offer for Cellnet Group Limited

Dear Directors

Introduction

- 1 On 11 November 2016, Cellnet Group Limited (Cellnet or the Company) announced that it had entered into a Bid Implementation Agreement (the Agreement) with Wentronic Holding GmbH (Wentronic) under which Wentronic has agreed to make an off-market proportional takeover offer for 83% of the Cellnet shares on issue at a cash price of \$0.28 per share (the Offer).
- 2 Wentronic is a privately owned company incorporated in Braunschweig, Germany. The Wentronic Group has approximately 200 employees, with branches in Hong Kong, China, the United Kingdom and Italy. As a distributor of electronic accessories, the Wentronic Group is one of the leaders in the sector in Europe, marketing its comprehensive product range to wholesalers, mail order dealers, online and conventional retailers, as well as industrial customers on a global basis.
- 3 The Offer values the total equity in Cellnet at approximately \$14.6 million and is subject to a number of conditions which are outlined in Section I.

Scope

- 4 The conditions to the Offer include an independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable. In addition, the Directors' recommendation of the Offer is also subject to an independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable, in the absence of a superior proposal.
- 5 Accordingly, the Directors of Cellnet have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert's report (IER) stating whether, in our opinion, the Offer is fair and reasonable to the shareholders in Cellnet and the reasons for that opinion.
- 6 LEA is independent of Cellnet and Wentronic and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

- 7 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of Cellnet

- 8 LEA has valued 100% of the ordinary shares in Cellnet at between \$0.25 and \$0.28 per share, as follows:

Value of 100% controlling interest in Cellnet		
	Low \$m	High \$m
Enterprise value	18.0	19.2
Net debt	(5.6)	(5.6)
Tax losses	1.5	2.0
Cash on exercise of options ⁽¹⁾	0.6	0.6
Equity value	14.5	16.2
Fully diluted shares on issue (million)	57.5	57.5
Value per share	\$0.25	\$0.28

Note:

- 1 Reflects 2.4 million options on issue at an exercise price of \$0.25 per share.

- 9 We have assessed the enterprise value of Cellnet adopting the capitalisation of earnings before interest and tax (EBIT) as our primary valuation method. We have adopted maintainable EBIT of \$2.4 million.
- 10 We consider an EBIT multiple range of 7.5 to 8.0 to be appropriate when applied to the level of maintainable EBIT adopted for valuation purposes. This range includes a premium for control.

Assessment of fairness

- 11 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 - *Content of expert reports* (RG 111), an offer is “fair” if:

“... the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 12 This comparison is shown below:

Comparison of Offer and value of Cellnet			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	0.28	0.28	0.28
Value of shares in Cellnet	0.25	0.28	0.265
Extent to which the Offer consideration exceeds the value of the shares in Cellnet	0.03	-	0.015

- 13 As the consideration offered by Wentronic of \$0.28 per share is at the top end of our assessed value range for Cellnet shares on a 100% controlling interest basis, in our opinion, the Offer is fair when assessed under the guidelines set out in RG 111.
- 14 However, as noted above, the Offer is proportional and restricted to 83% of the interest held by each shareholder in Cellnet. Accordingly, notwithstanding that we have assessed the Offer as fair based on the RG 111 guidelines, for the purpose of our report we have also undertaken an assessment of fairness having regard to the proportional nature of the Offer.
- 15 In our opinion, when assessing the fairness of a proportional takeover offer, the weighted average consideration likely to be received by accepting the offer and selling the remaining shares not subject to the offer should be compared against the value of the target company shares on a controlling interest basis.
- 16 In the case of Cellnet, therefore, in assessing the consideration under the Offer, we have had regard to:
- (a) the price of \$0.28 per share offered by Wentronic for 83% of the shares in Cellnet
 - (b) the likely listed market value of the shares in Cellnet which will not be acquired under the Offer assuming the Offer is successful¹.

Value of Cellnet shares retained following completion of the Offer

- 17 If the Offer is successful Wentronic will control Cellnet. As a result, in our opinion, it is unlikely that an alternative third party will make a takeover offer for Cellnet in the short term. Consequently, it is appropriate to assess the value of the shares which will be retained by Cellnet shareholders following completion of the Offer (assuming it is successful) on a minority interest or portfolio basis.
- 18 Whilst it is possible that under Wentronic control a takeover offer for Cellnet may occur sometime in the future, in our opinion, the value of the shares not acquired under the Offer should be based on the amount that they could be sold for immediately following completion of the Offer². This is because a decision to hold Cellnet shares beyond the short term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.
- 19 In assessing the portfolio value of Cellnet shares subsequent to completion of the Offer, we have applied a discount of 25% to our controlling interest value of Cellnet. The discount of 25% reflects:
- (a) our opinion that it is appropriate to assess the value of Cellnet following completion of the Offer on a minority interest or portfolio basis (i.e. excluding a premium for control)

¹ As noted in Section II, a key condition of the Offer is that Wentronic acquires a relevant interest in more than 50.1% (by number) in the shares in Cellnet.

² The Offer is structured such that a buyer of the remaining 17% interest in Cellnet of a shareholder that has accepted the Offer is unable to accept the Offer in respect of the interest acquired.

- (b) the fact that Cellnet shareholders post completion of the Offer will be in the unique position of being minority shareholders in a company controlled by a large shareholder pursuant to a takeover offer which has indicated it is not seeking to acquire 100% of the Company³
- (c) the likely reduced marketability of Cellnet shares following completion of the Offer due to the implicit lower free float of Cellnet shares post completion of the Offer (noting however that share market trading in Cellnet is currently illiquid).

20 We have therefore calculated the minority interest or portfolio value of Cellnet shares post completion of the Offer at \$0.19 to \$0.21 per share, as set out below:

Portfolio value of Cellnet shares post completion of the Offer		
	Low \$ per share	High \$ per share
Controlling interest value	0.25	0.28
Minority interest discount	25%	25%
Portfolio value of Cellnet shares post completion of Offer	0.19	0.21

Total consideration received under the Offer if remaining shares sold

21 Based on the above, we estimate that a Cellnet shareholder who accepts the Offer and (assuming that the Offer is successful) subsequently sells the balance of their shareholding on the Australian Securities Exchange (ASX) will receive, on average, \$0.26 to \$0.27 per share, calculated as follows:

Total consideration received per share (pre-tax)		
	Low \$	High \$
Number of Cellnet shares held ⁽¹⁾	100	100
Consideration pursuant to acceptance of the Offer 83 shares at \$0.28 per share	23.24	23.24
Consideration on sale on ASX of remaining shares 17 shares at assessed portfolio value	3.23	3.57
Total consideration for 100 shares	26.47	26.81
Consideration per share (rounded)	0.26	0.27

Note:

1 A shareholding of 100 shares has been assumed for illustrative purposes.

³ We note that whilst CVC Limited (CVC) currently holds a controlling 58.1% interest in Cellnet shares, we understand it has no intentions of seeking to acquire a 100% interest in the Company.

Assessment of fairness allowing for proportional nature of the Offer

- 22 The weighted average consideration of \$0.26 to \$0.27 per share received from accepting the Offer and subsequently selling the remaining shares on market is within our assessed value of Cellnet on a controlling interest basis (\$0.25 to \$0.28 per share). Accordingly, we are of the opinion that the Offer (incorporating an appropriate allowance for its proportional nature) is fair.

Summary on fairness

- 23 We have therefore concluded that the Offer is fair when assessed both:
- (a) under the guidelines set out in RG 111
 - (b) incorporating an appropriate allowance for the proportional nature of the Offer.

Assessment of reasonableness

- 24 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently, we have concluded that the Offer is both fair and reasonable.

Reasons to accept the Offer

- 25 In our opinion, there are a number of reasons why Cellnet shareholders should consider accepting the Offer:
- (a) the Offer consideration is within our assessed range of value of Cellnet shares on a 100% controlling interest basis
 - (b) the Offer provides Cellnet shareholders with the opportunity to realise their investment in a company in which share trading has been very low in a cost effective manner
 - (c) Wentronic and Cellnet management have identified potential operational benefits which would reasonably be expected to be value accretive to Cellnet shareholders in future⁴.

General

- 26 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.
- 27 The taxation consequences of accepting the Offer depend on the individual circumstances of each shareholder. Shareholders should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 28 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

⁴ It should be noted that any benefit would only accrue to existing Cellnet shareholders in relation to their retained 17% interest (assuming they accept the Offer).

- 29 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 30 For our full opinion on the Offer, 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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Appendices

- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C Listed company descriptions**
- D Transaction evidence**
- E Glossary**

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I Outline of the Offer

- 31 On 11 November 2016, Cellnet Group Limited (Cellnet or the Company) announced that it had entered into a Bid Implementation Agreement (the Agreement) with Wentronic Holding GmbH (Wentronic) under which Wentronic has agreed to make an off-market proportional takeover offer for 83% of the Cellnet shares on issue at a cash price of \$0.28 per share (the Offer).

Conditions

- 32 The Offer is subject to the following conditions:

- (a) Wentronic acquiring a relevant interest in more than 50.1% (by number) of all Cellnet ordinary shares on issue
- (b) no Prescribed Occurrence (as defined in the Agreement) taking place before the end of the Offer period
- (c) Cellnet complying with certain limitations on the conduct of its business until the end of the Offer period
- (d) no Material Adverse Event (as defined in the Agreement) in relation to Cellnet's assets, liabilities, business, operations, financial condition or prospects occurs, is announced or becomes known to Wentronic or Cellnet before the end of the Offer period
- (e) no regulatory action affecting the Offer by any Public Authority (as defined in the Agreement)
- (f) during the Offer period, no litigation is commenced against Cellnet which may reasonably result in a judgement against Cellnet of more than \$200,000 (individually or in aggregate)
- (g) an independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable.

- 33 The above reflects a summary of the Offer conditions. More detail on the above conditions is set out in the Bidder's Statement.

- 34 In addition Cellnet has agreed that, subject to the statutory or fiduciary duties of the Directors of Cellnet it will not:

- (a) solicit, invite, encourage or initiate any competing transaction
- (b) participate in any discussions or negotiations which may reasonably be expected to lead to a competing transaction
- (c) enter into any agreement, arrangement or understanding in relation to a competing transaction or any agreement, arrangement or understanding which may reasonably be expected to lead to the completion of a competing transaction
- (d) provide any information to a third party for the purposes of enabling that party to table a competing transaction.

- 35 Cellnet has also agreed to notify Wentronic of any competing transaction, subject to the statutory or fiduciary duties of the Directors of Cellnet.
- 36 A cost reimbursement fee of a maximum of \$150,000 is payable by Cellnet to Wentronic in certain circumstances as specified in the Agreement (including if the Cellnet Board recommends a competing proposal).

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II Scope of our report

Purpose

- 37 There is no regulatory requirement for an IER. However, both a condition precedent to the Offer and the Cellnet Directors' recommendation of the Offer are subject to an independent expert concluding that the Offer is either fair and reasonable or not fair but reasonable⁵.
- 38 Accordingly, the Directors of Cellnet have requested that LEA prepare an IER stating whether, in our opinion, the Offer is fair and reasonable to the shareholders in Cellnet and the reasons for that opinion.
- 39 This report has been prepared to assist the Board in making its recommendation to Cellnet shareholders in relation to the Offer, and to assist Cellnet shareholders assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable to Cellnet shareholders. This report should not be used for any other purpose.
- 40 The ultimate decision whether to accept the Offer should be based on each 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 Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 41 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111. RG 111 distinguishes "fair" from "reasonable" and considers that:
- (a) an offer is "fair" if the value of the offer price or consideration is equal to, or greater than the value of the securities that are the subject of the offer. This comparison must be made assuming 100% ownership of the target company
 - (b) an offer is "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, the expert is of the opinion that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.
- 42 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in Cellnet on a 100% controlling interest basis
- (b) the value of the consideration offered (i.e. cash of \$0.28 per share)
- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)
- (d) the proportional nature of the Offer

⁵ The Cellnet Directors' recommendation of the Offer is also subject to no superior proposal being tabled.

Reasonableness

- (e) the extent to which a control premium is being paid to Cellnet shareholders
- (f) the extent to which Cellnet shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
- (g) the listed market price of Cellnet shares both prior to the announcement of the Offer and during the Offer period
- (h) the likely market price of Cellnet shares if the Offer is not successful
- (i) the likelihood of an alternative Offer emerging prior to the close of the Offer, or sometime in the future
- (j) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

Limitations and reliance on information

- 43 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 44 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 where appropriate. 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.
- 45 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Cellnet shareholders. 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.
- 46 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 47 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.

- 48 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

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III Profile of Cellnet

Overview

49 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 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, 2Degrees and Spark, as well as many other notable retailers including BigW, Officeworks, Tech2Go, Newslink and The Warehouse.

History

50 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 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 mobility device accessories.

Current operations

- 51 Cellnet operates from a Brisbane head office and has more than 60 employees in distribution and sales facilities across Australia and New Zealand. In addition, the Company has a sourcing office in Hong Kong.
- 52 Cellnet's operations are focused on sourcing international leading brands of lifestyle technology products including smartphone, tablet and notebook / hybrid accessories, 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.
- 53 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



Other products



- 54 The majority of the Company's sales relate to smartphone, tablet and notebook accessories. With respect to Cellnet's geographical markets, in FY16 Cellnet derived approximately 79% of its revenue from Australia and 20% from New Zealand (with the remaining 1% being attributable to customers located in Asia).

Product sourcing and distribution

- 55 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. To ensure that the products comply with their original equipment manufacturer specifications, Cellnet has implemented a multi-stage quality assurance programme.
- 56 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 Hong Kong, Australia and New Zealand.

Private Label Program

- 57 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.

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Financial performance

58 The financial performance of Cellnet for the three years ended 30 June 16 (FY16) is set out below:

Cellnet – statement of financial performance ⁽¹⁾			
	FY14	FY15	FY16
	Audited	Audited	Audited
	\$m	\$m	\$m
Sales revenue	82.2	78.3	75.2
Underlying EBITDA⁽²⁾	(0.5)	2.4	2.2
Depreciation and amortisation	(0.4)	(0.3)	(0.3)
Underlying EBIT	(0.9)	2.1	2.0
Net finance expense	(0.4)	(0.5)	(0.4)
Non-recurring items ⁽³⁾	(0.6)	-	0.2
Profit before tax	(1.9)	1.6	1.7
Income tax expense ⁽⁴⁾	(2.0)	-	-
Net profit after tax	(3.9)	1.6	1.7
<i>EBITDA margin</i>	(0.6%)	3.1%	3.0%
<i>EBIT margin</i>	(1.1%)	2.7%	2.9%

Note:

- 1 Rounding differences exist.
- 2 EBITDA – earnings before interest, tax, depreciation and amortisation.
- 3 Comprises restructuring costs and impairment of intangibles in FY14 and gain on the disposal of plant and equipment in FY16.
- 4 We note that as at 30 June 2016, Cellnet had approximately \$22.5 million in gross tax losses available to offset against future gains (subject to the Company meeting the relevant statutory tests).

59 The key factors that have impacted the financial performance of Cellnet in FY14, FY15 and FY16 are summarised below:

Year to 30 June 2014 (FY14)

- sales revenue grew by 15.9% compared to the prior year as a result of the initial business with a number of new key retail customers. However, the Company made a loss at the EBIT line, primarily due to the weakening of the Australian dollar relative to the United States of America (US) dollar during the financial year⁶
- reported earnings were also affected by a \$1.97 million loss on scrapping of inventory which predominantly related to accessories of superseded mobile phone models

Year to 30 June 2015 (FY15)

- sales revenue declined by 4.8%, however a return to profitability was achieved as a result of:

⁶ The majority of the Company's products are sourced in US\$.

- a successful supply chain reorganisation which reduced operating costs (however the full extent of this benefit was partly offset by continued declines in the Australian dollar relative to the US dollar)
- a consolidation of brands in order to focus on higher margin agencies and products

Year to 30 June 2016 (FY16)

- sales revenue declined by 4.0% compared to prior corresponding period due to:
 - difficult trading conditions impacted by the closure of the Dick Smith Electronic stores during the financial year
 - reduced level of service income in relation to the Company's fulfilment services
- notwithstanding the above, EBIT grew by 2.7% due to marketing, branding and cost out strategies implemented in previous financial periods

FY17 outlook

- our discussions with Cellnet indicate that the first half financial performance for 1HY17 should not be significantly different from 1HY16 (refer paragraph 105)
- due to the inherent seasonality in the Cellnet business, no guidance has been provided for the full year ending 30 June 2017 (FY17).

Financial position

60 The financial position of Cellnet as at 30 June 2015, 31 December 2015 and 30 June 2016 is set out below:

Cellnet – statement of financial position ⁽¹⁾			
	30 Jun 15 Audited \$m	31 Dec 15 Reviewed \$m	30 Jun 16 Audited \$m
Debtors and prepayments	9.4	16.4	10.0
Inventories	8.0	11.8	9.0
Creditors and provisions	(7.7)	(10.1)	(7.4)
Net working capital	9.7	18.0	11.6
Plant and equipment	0.5	0.5	0.3
Intangible assets	-	-	0.1
Deferred tax assets	0.8	0.8	0.8
Provisions (non-current)	(0.1)	(0.1)	-
Total funds employed	10.9	19.2	12.8
Cash and cash equivalents	2.4	1.7	1.4
Interest bearing liabilities	(0.6)	(6.5)	(0.8)
Derivative financial instruments (net)	0.3	(0.5)	0.1
Net cash / (borrowings)	2.1	(5.3)	0.8
Net assets attributable to Cellnet shareholders	13.0	13.9	13.6

Note:

1 Rounding differences exist.

Net working capital

61 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 2015 was significantly higher than as at 30 June 2016.

Net debt

62 The net debt position of Cellnet as at 30 June 2015, 31 December 2015 and 30 June 2016 is set out below:

Cellnet – net debt ⁽¹⁾	30 Jun 15	31 Dec 15	30 Jun 16
	\$m	\$m	\$m
Business finance loan	0.4	1.7	0.8
Invoice finance loan	0.2	4.8	-
Derivative financial instruments (net)	(0.3)	0.5	(0.1)
Cash and cash equivalents	(2.4)	(1.7)	(1.4)
Net debt / (cash)	(2.1)	5.3	(0.8)

Note:

1 Rounding differences exist.

63 As indicated above, the indebtedness of Cellnet varies depending on seasonal factors. As at 31 December 2015, Cellnet was in a net debt position that primarily reflected the financing of inventory in the lead up to the Christmas trading period. This debt was subsequently repaid in the second half of the financial year following the sale of inventory and collection of trade receivables⁷.

64 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 \$4 million. The facility is perpetual with no fixed expiry date⁸ and is secured by a general security agreement given by the Company over all existing and future assets and undertakings

⁷ The reported financial position as at 30 June each year generally reflects the low point in the Company's borrowing cycle.

⁸ Individual trade finance drawdowns mature on transaction nominated dates.

- (b) **invoice finance facility** – the invoice finance facility has a total limit of \$6 million and is matched to the trade terms of underlying finance transactions up to a maximum of 60 days. The facility is secured by a general security agreement given by the Company over all existing and future assets and undertakings, as well as an asset agreement whereby Cellnet is required to provide deposits in relation to a deposit account held by the lender.

- 65 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 US dollars). 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.

Tax losses

- 66 As at 30 June 2016, Cellnet had some \$22.5 million in gross tax losses available to offset against future gains (subject to the Company meeting the relevant statutory tests). We note that of the \$0.8 million deferred tax asset recognised on the statement of financial position as at 30 June 2016, approximately \$0.6 million related to tax losses carried forward.

Share capital and performance

- 67 As at 21 November 2016, Cellnet had 52.30 million fully paid ordinary shares on issue.

- 68 In addition, the Company had 2.81 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:

- (a) subject to the achievement of specified performance hurdles⁹ and continued employment with the Company
- (b) in the event of a takeover offer (or comparable change of control transaction) for the Company.

- 69 Cellnet also had 2.40 million unlisted options on issue with an exercise price of \$0.25 each. The options are exercisable at any time up to the exercise date of 31 October 2017.

Significant shareholders

- 70 As at 21 November 2016, CVC held 30.37 million or 58.1% of the Cellnet shares on issue. There was also a further substantial shareholder, One Managed Invnt Funds Ltd, with 3.7 million or 7.1% of the shares on issue.

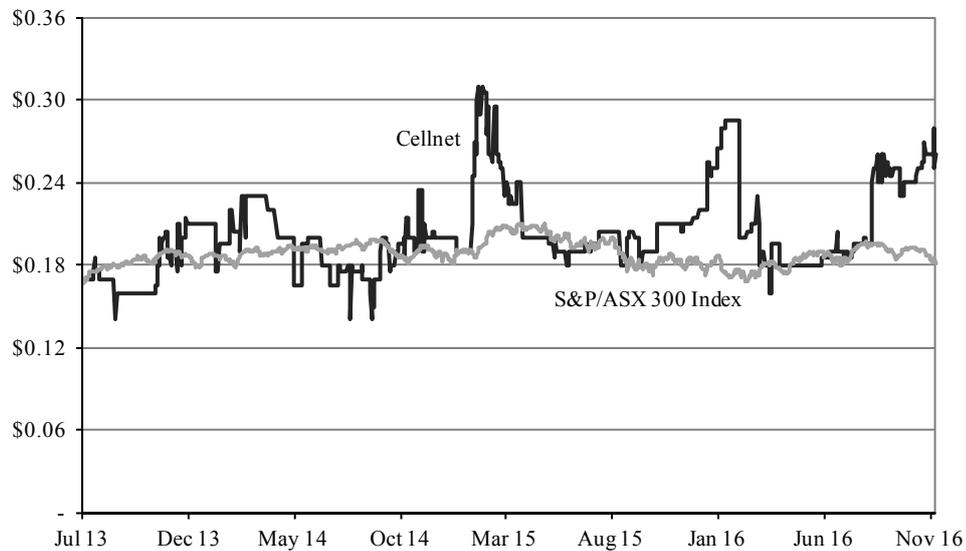
Share price performance

- 71 The following chart illustrates the movement in the share price of Cellnet as compared to the S&P / ASX300 Index from 30 June 2013 to 9 November 2016¹⁰:

⁹ Being total shareholder return or profit before tax performance hurdles.

¹⁰ Being the last trading date prior to the announcement of the Offer.

Cellnet – share price history
30 June 2013 to 9 November 2016



Source: Bloomberg.

- 72 As indicated above, Cellnet shares have generally traded sideways since 30 June 2013, broadly comparable with the movement in the S&P / ASX300 Index. We note the following with respect to the material movements in the share price:
- (a) on 13 January 2015, Cellnet provided a trading update with respect to the half-year ended 31 December 2014 (1HY15). The Company announced that profit before tax was expected to be in the range \$1.7 million to \$1.9 million, which was higher than previously announced guidance of between \$1.1 million and \$1.4 million. The 1HY15 results released on 17 February 2015 indicated that actual profit before tax for the period was \$1.73 million (i.e. at the low end of the Company's guidance)
 - (b) on 9 September 2015, the Company announced that it would be undertaking an on-market share buy-back for the purposes of capital management. At the time of the announcement, the buy-back period was expected to last until 8 September 2016 and result in the buy-back of up to 5.57 million shares in Cellnet (representing 10% of the shares on issue). Some 4.1 million shares were bought back during FY16 for a total cost of approximately \$0.75 million.

Liquidity in Cellnet shares

- 73 The liquidity in Cellnet shares based on trading on the ASX over the 12 month period prior to 9 November 2016¹¹ is set out below:

¹¹ Being the last trading date prior to the announcement of the Offer.

Cellnet – liquidity in shares

Period	Start date	End date	No of shares	WANOS ⁽¹⁾	Implied level of liquidity	
			traded	outstanding	Period ⁽²⁾	Annual ⁽³⁾
			000	000	%	%
1 month	10 Oct 16	9 Nov 16	252	51,946	0.5	5.8
3 months	10 Aug 16	9 Nov 16	506	51,946	1.0	3.9
6 months	10 May 16	9 Nov 16	835	51,946	1.6	3.2
1 year	10 Nov 15	9 Nov 16	4,662	52,540	8.9	8.9

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 (CVC). We also note that the level of reported turnover in Cellnet shares over the year to 9 November 2016 includes approximately 2.1 million shares acquired under the Company's on-market share buy-back scheme.

IV Industry Outlook

Overview

- 75 Cellnet operates in the consumer electronics and related accessories wholesaling markets in Australia and New Zealand. The Company offers a diverse range of products that includes, but is not limited to, screen protection and cases for mobile devices, action cameras, headphones, speakers, input devices (such as keyboards and stylus), activity trackers, car charges, cables and gadgets. The key customers to the market are retailers that stock consumer electronic products as well as the retail stores of telecommunication companies.
- 76 The primary participants in the consumer electronics market include:
- (a) brand owners that distribute their own branded products
 - (b) distributors that source, market and distribute third party consumer electronics products on behalf of brand owners
 - (c) retailers who sell their own “private label” brands which are sourced directly from manufacturers (or through distributors and wholesalers).
- 77 As previously discussed, Cellnet participates as a distributor of third party branded consumer electronics products, as well as a brand owner that sells products under the 3SIXT brand. The distribution market of consumer electronics and related accessories is highly fragmented, with many independent and privately owned companies operating in Australia and New Zealand, as well as local subsidiaries of international distribution companies. As at 30 June 2015¹², there were 673 businesses operating in Australia that were classified as telecommunication goods wholesalers. In New Zealand, there were some 170 businesses operating under the same industry classification¹³.
- 78 Given that the market in which Cellnet operates is relatively niche, there is limited information available regarding the potential size of the addressable market. Notwithstanding this, management believes that Cellnet is one of the leading distributors in the Australian and New Zealand markets with respect to market share. The main competitors to Cellnet include subsidiaries of Ingram Micro Inc and Synnex Corporation (both US-based global distributors of information technology products) and Force Technology International Pty Ltd (a privately owned Australian company).

Key demand drivers

- 79 The end users of products distributed by Cellnet are primarily consumers of electronic goods and related accessories. Accordingly, the demand for Cellnet’s services is determined by (inter alia) the level of consumer spending, disposable income and ownership of mobile devices (i.e. smartphones, tablets and notebooks). These are discussed in further detail below.

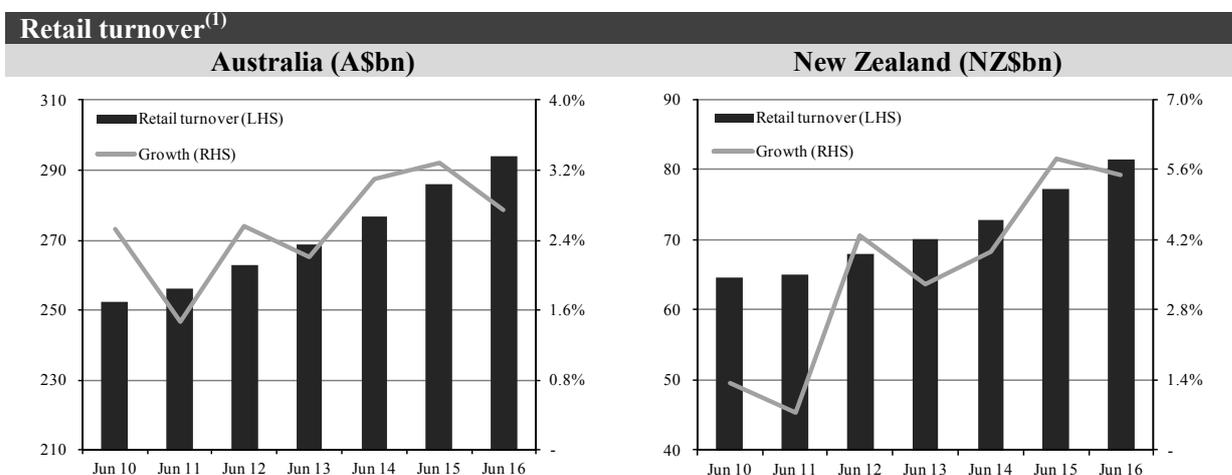
¹² The latest available data.

¹³ As categorised under the Australian and New Zealand Standard Industrial Classification. Businesses included in this classification are those that wholesale a wide range of telecommunication goods including mobile phone accessories. Source: Australian Bureau of Statistics (ABS) and Statistics New Zealand.

Consumer spending

80 In Australia and New Zealand, retail turnover has been steadily growing and is supported by a number of factors including inbound tourism, population growth, economic growth and consumer confidence. Over the six years to 30 June 2016, retail turnover in Australia grew by a compound annual growth rate (CAGR) of 2.6% to A\$294 billion, whilst retail turnover in New Zealand grew by a CAGR of 3.9% to NZ\$81 billion¹⁴. In New Zealand, growth in electrical and electronic goods retailing has been significantly higher than the growth in aggregate retail turnover. During the year ended 30 June 2016, retail turnover of electrical and electronic goods retailing grew by 16.8% to NZ\$5.1 billion¹⁵.

81 The following table shows the level of turnover and associated growth in retail sales over the six years to 30 June 2016.



Note:

1 Rolling annual data to 30 June 2016 (chain volume measures).

Source: ABS, Statistics New Zealand and LEA analysis.

82 It should be noted that the demand by end users for products distributed by Cellnet is heavily influenced by consumer preferences which may vary over time and is further impacted by technological improvements, general fashion trends as well as product personalisation. In many cases, a consumer’s decision to purchase a particular product may be an “on-the-spot” decision and therefore the products are considered discretionary items (as opposed to non-discretionary items such as food or cleaning supplies).

Disposable income

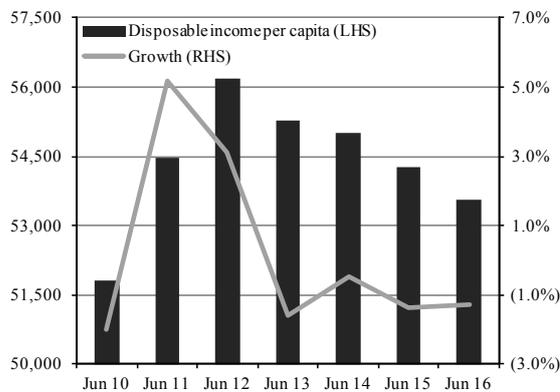
83 The following charts display real disposable income on a per capita basis in Australia and New Zealand (in local currencies):

¹⁴ Source: ABS, New Zealand Statistics and LEA analysis. NZ\$ - New Zealand dollars.

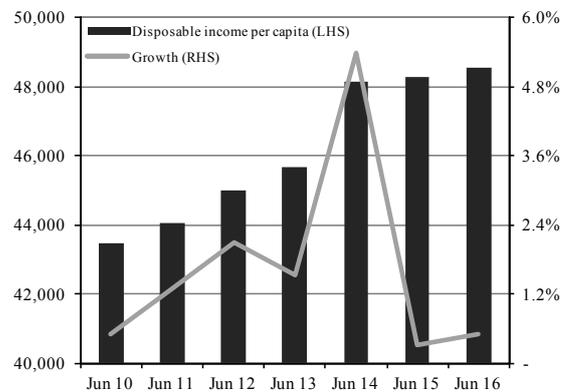
¹⁵ Source: New Zealand Statistics and LEA analysis.

Real disposable income per capita⁽¹⁾

Australia (A\$)



New Zealand (NZ\$)



Note:

1 Disposable income for Australia is reported in net terms which makes allowance for consumption of fixed capital, whereas disposable income for New Zealand is on a gross basis.

Source: ABS, Statistics New Zealand and LEA analysis.

- 84 Disposable income influences the amount of money that is available to consumers to spend on discretionary items. As highlighted above, Australia's disposable income on a per capita basis has decreased every year since June 2012, primarily as a result of the deterioration in Australia's terms of trade following falls in commodity prices. Notwithstanding these recent declines, disposable income per capita has grown at a CAGR of 0.6% measured over the six years to 30 June 2016. In New Zealand, disposable income per capita has steadily increased and grew at a CAGR of 1.8% over the same period.

Ownership of mobile devices

- 85 On a global scale, ownership of mobile devices has been growing at an unprecedented rate¹⁶. Growth in mobile devices, and more specifically smartphones, is attributable to technological improvements that have led to the expansion of internet capabilities and speeds, improved usability and accessibility, as well as reductions in price¹⁷. Currently, ownership of smartphones and tablets is encouraged by users who use the devices for entertainment, to stay socially connected and to access the internet for the latest news.
- 86 The prevalence of mobile devices among Australians is highlighted in the Nielsen Digital Landscape report, which indicated that in September 2016, 13.7 million Australians accessed the internet on smartphones and 7.7 million Australians accessed the internet on tablets¹⁸. Furthermore, the amount of time spent browsing the internet is now higher on smartphones than on desktops. It is estimated that more than 15 million Australians own a smartphone and a further 12 million own a tablet¹⁹.

¹⁶ For example, International Data Corporation (IDC) states that global smartphone shipments grew by 10.5% in 2015 and 27.8% in 2014 however this is expected to slow to 3.1% in 2016. Source: IDC media release, *Worldwide smartphone growth forecast to slow to 3.1% in 2016 as focus shifts to device lifecycles*, 1 June 2016.

¹⁷ Source: SMSGlobal, *Smartphone ownership, usage and penetration by country*, 13 October 2015.

¹⁸ Source: Nielsen, *Digital Landscape report*, September 2016.

¹⁹ Source: Nielsen media release, *IAB and Nielsen release first mobile ratings report*, 8 October 2015

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- 87 Statistics for New Zealand indicate a similar level of mobile device ownership. Recent estimates by Nielsen suggest that approximately 64% of New Zealanders own a smartphone, 33% own a tablet and more than 25% own both devices, representing a fivefold increase since 2012²⁰.

Outlook

- 88 The near term outlook for the demand for consumer electronics and related accessories wholesaling is dependent upon the level of consumer spending. We note that consumer confidence in New Zealand (as measured by the ANZ-Roy Morgan Consumer Confidence Index) rose to its highest level since early 2015²¹, whilst in Australia consumer confidence is currently tracking above its long-term average²². Over the longer term, the market may potentially be impacted by the rise of internet and e-commerce retailers (such as Amazon) which is likely to result in, to an extent, the bypassing of store-based retailers by consumers and therefore reduced demand for wholesale services.

²⁰ Source: Nielsen media release, *New Zealand connected consumers report*, 18 January 2016.

²¹ Source: ANZ Research media release, *Turbo-charged*, 18 November 2016.

²² Source: ANZ Research media release, *Consumer confidence falls 2.3%*, 22 November 2016.

V Valuation approach

- 89 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 90 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 91 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 92 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation of acquired intangibles (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 93 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 94 The market value of Cellnet has been assessed by aggregating the market value of the business operations with the realisable value of any surplus assets and deducting net borrowings.
- 95 The valuation of the business has been made on the basis of market value as a going concern. The primary valuation method used to value Cellnet's business has been the capitalisation of future maintainable EBIT method. Under this methodology the value of the business is represented by its core underlying maintainable EBIT capitalised at a rate (or EBIT multiple) reflecting the risk inherent in those earnings.
- 96 In our opinion the capitalisation of EBIT method is the most appropriate methodology for Cellnet's business. This is because:
- (a) Cellnet is a well established company and whilst the industry in which it operates is subject to ongoing technological change, Cellnet has a leading market position
 - (b) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken
 - (c) the EBIT multiples for listed companies operating in the same and/or similar industry sectors as Cellnet (and/or providing distributing / wholesaling services) can be derived from publicly available information
 - (d) transaction evidence in these sectors is generally expressed in terms of EBIT (and EBITDA) multiples.

Cross-check

- 97 The resulting values have been cross-checked by reference to the capitalisation of EBITDA method²³.
- 98 Notwithstanding the relatively illiquid nature of share trading in Cellnet, we have also had regard to the prices at which Cellnet shares traded in the six months prior to the trading halt which preceded the announcement of the Offer.

²³ Given that Cellnet does not currently pay tax and (due to the availability of significant tax losses) is not expected to pay tax in the foreseeable future, we have not adopted the net profit after tax (or price earnings) method as a valuation cross-check.

VI Valuation of 100% of Cellnet

Overview

- 99 As stated in Section V, the market value of Cellnet has been assessed by aggregating the market value of the business operations with the realisable value of surplus assets and deducting net borrowings.
- 100 We have adopted the capitalisation of EBIT method as our primary valuation method for the business operations. Under this methodology, the value of the business is represented by its (normalised) underlying EBIT capitalised at a rate (or EBIT multiple) that reflects the risks and growth prospects inherent in those earnings.
- 101 We have cross-checked our valuation of Cellnet by considering the implied EBITDA multiples and the pre-bid market price of Cellnet shares adjusted for a premium for control.

Assessment of normalised EBIT

- 102 In order to assess the appropriate level of EBIT for valuation purposes we have had regard to the historical and forecast results of the business and have discussed the financial performance, operating environment and prospects with Cellnet management. A summary of the recent financial performance of Cellnet for the three years ended FY16 is set out in Section III of our report and summarised below:

Cellnet– underlying financial performance			
	FY14	FY15	FY16
	\$m	\$m	\$m
Sales revenue	82.2	78.3	75.2
Underlying EBIT	(0.9)	2.1	2.0
<i>EBIT margin</i>	<i>(1.1%)</i>	<i>2.7%</i>	<i>2.9%</i>

- 103 In respect of the above financial performance we note:
- (a) sales revenue has gradually declined over the period due to the combined effects of:
 - (i) the elimination from the product portfolio of lower margin and/or loss making products / brands
 - (ii) a gradual reduction in the level of service income in relation to the Company's fulfilment services
 - (iii) difficult trading conditions in FY16 resulting from the closure of the Dick Smith Electronics stores
 - (b) EBIT and related operating margins have gradually improved reflecting primarily the benefit of ongoing cost efficiency programs.
- 104 In considering the financial performance of Cellnet we have also had regard to the inherent seasonality in the business. Based on discussions with Cellnet management we have been advised:

- (a) approximately 60% of revenues generally arise in the first half of the financial year, with the balance of 40% in the second half
- (b) however, due to the fixed overhead cost nature of the business, there is a greater weighting of profitability to the first half of the financial year, with around 75% of annual profits being generated in this period (the balance of 25% of profits being generated in the second half of the financial year).

105 In this regard we note:

- (a) Cellnet reported revenues of \$41.8 million and EBIT of \$1.86 million for the six months ended 31 December 2015 (1HY16)
- (b) the financial performance of the business for the six months ended 30 June 2016 (2HY16) was negatively impacted by adverse market factors / conditions that arose subsequent to the closure of the Dick Smith Electronic stores
- (c) our discussions with Cellnet indicate that the first half financial performance for 1HY17 should not be significantly different from 1HY16.

Conclusion on EBIT

106 Based on the above, for valuation purposes, we have assessed maintainable EBIT in respect of the business operations of Cellnet at \$2.4 million. This reflects an expected improved performance in 2HY17 as compared to 2HY16 (which was negatively impacted by prevailing market conditions).

EBIT multiple

107 The selection of the appropriate EBIT multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

- | | |
|---|--|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|---|--|

108 We discuss below specific factors taken into consideration when assessing the appropriate EBIT multiple range for Cellnet.

Listed company multiples

109 The EBIT (and EBITDA) multiples of ASX listed companies which provide wholesale and distribution services are set out below:

Listed company multiples ⁽¹⁾					
Company ⁽²⁾	EV A\$m	EBITDA multiple		EBIT multiple	
		FY16 (H) ⁽³⁾	FY17 (F) ⁽⁴⁾	FY16 (H) ⁽³⁾	FY17 (F) ⁽⁴⁾
		x	x	x	x
Dicker Data	471.8	10.5 ⁽⁵⁾	9.8	10.8 ⁽⁵⁾	10.0
McPherson's	163.6	5.7	5.8	6.3	6.5
Shriro Holdings	120.5	5.3 ⁽⁵⁾	4.9	6.2 ⁽⁵⁾	5.7
Gazal Corporation	114.8	8.4	na	10.4	na
HGL	26.2	7.4	na	8.7	na
Ambertech	7.5	5.5	na	6.9	na
Average		7.1	6.8	8.2	7.4

Note:

- 1 Enterprise value (EV) and earnings multiples calculated as at 24 November 2016.
- 2 Brief descriptions of each company's activities are summarised in Appendix C.
- 3 Historical earnings are based on latest statutory full year accounts and exclude non-recurring items, significant write downs, realised investment gains or losses and restructuring charges.
- 4 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
- 5 Multiples are based on Bloomberg broker average forecasts for the company's financial year ending 31 December 2016 (i.e. FY16).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

na – not available.

110 In relation to the above, we note that:

- (a) the above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company
- (b) none of the above companies operate businesses that are directly comparable to Cellnet or are market competitors of Cellnet
- (c) the main factor of comparability is that the above companies provide wholesaling and distribution services in the respective industry sectors in which they operate
- (d) the majority of the listed companies are significantly larger enterprises than Cellnet. Smaller companies generally trade on lower multiples than larger companies provided the outlook for earnings growth and the market sectors in which the businesses operate are similar.

Transaction evidence

111 There has been little recent publicly available evidence in respect of transactions in the industry sector in which Cellnet operates²⁴. Transaction evidence in respect of wholesaling and distribution businesses generally (which is generally expressed in terms of EBITDA multiples), is summarised below:

Transaction multiples					
Date ⁽¹⁾	Target	Acquirer	EV ⁽²⁾ A\$m	EBITDA multiple ⁽³⁾ x	EBIT multiple ⁽³⁾ x
Jul 16	Baxters auto electric and Roadsafe Automotive Products	Bapcor	22.0	5.5 H	na
Mar 16	Anyware Group	Shoply	13.9	6.3 F	6.6 F
Feb 16	Lightning Brokers	BWX	10.9	3.6 F	na
Feb 16	Bearing Wholesalers and Precision Automotive	Bapcor	30.9	5.2 F	na
Aug 15	CS Company	Trilogy International	42.6	6.7 F	na
Mar 15	Accent Group	RCG Corporation	203.6	6.0 H	6.9 H
Feb 14	Express Data	Dicker Data	65.5	na	5.0 F
Mar 13	Home Appliances	McPherson's	31.5	5.7 H	na
Apr 12	Footcare International	McPherson's	8.1	na	4.0 F

Note:

- 1 Announcement date.
- 2 Enterprise value on a 100% basis.
- 3 H – historical. F – forecast.

Source: LEA analysis using data from company announcements, company annual and interim reports and analyst reports.

na – not available.

112 In relation to the above transaction evidence it should be noted that:

- (a) except where noted, the transactions relate to the acquisition of 100% of the businesses and therefore implicitly incorporate a premium for control
- (b) none of the above businesses are directly comparable to the business operated by Cellnet
- (c) the companies acquired differ materially in terms of their size and nature of operations
- (d) the transaction multiples are calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings.

²⁴ We have accordingly had limited regard to implied transaction multiples when assessing appropriate EBIT multiples for Cellnet for valuation purposes.

Potential synergies

- 113 Wentronic has indicated that the acquisition of Cellnet will expand Wentronic's geographic presence and provide a platform for the continued growth of its international business. While some potential synergy benefits have been identified, these have yet to be quantified or a time scale set for their realisation.
- 114 The existence of synergies from business combinations is one of the key reasons why bidders pay a control premium to acquire a company. Accordingly, in our view, it is inappropriate in the circumstances of Cellnet to incorporate a further value for synergies over and above that already implicitly reflected in the controlling interest multiple applied.

Conclusion on EBIT multiple

- 115 Having regard to the above, we have adopted EBIT multiples of 7.5 to 8.0 when valuing the business operations of Cellnet. This range includes a premium for control.
- 116 The EBIT multiple range adopted also reflects:
- the established market position held by Cellnet in the consumer electronics and related accessory industry sector
 - the potential for growth in earnings over the medium / longer term as the benefits of recent product portfolio and cost efficiency programs are realised.

Enterprise value

- 117 Given the above, we have assessed the value of the business operations of Cellnet as follows:

Value of business operations of Cellnet		
	Low	High
	\$m	\$m
Maintainable EBIT	2.4	2.4
EBIT multiple (x)	7.5	8.0
Enterprise value	18.0	19.2

Net debt

- 118 As set out in Section III, as at 30 June 2016 Cellnet reported a net cash position of \$0.8 million. However, as a result of seasonality, the Company's investment in working capital (predominantly inventory) and its net cash / debt position varies materially during the year²⁵.
- 119 When determining the value of the equity in Cellnet we are therefore of the opinion that it is appropriate to consider the average net cash / debt level throughout the year rather than the net cash / debt level at a point in time.

²⁵ By way of example, the reported position as at 31 December 2015 was net debt of \$5.3 million. We also note that Cellnet reported net finance expense in FY16 of \$0.4 million.

- 120 Having regard to the average net cash / debt level throughout the year, together with the annual level of interest expense and associated cost of the Company's borrowing facilities, we have adopted net debt of \$5.6 million for valuation purposes.

Tax losses

- 121 As set out in Section III, Cellnet has significant tax losses, of which some \$0.6 million have been recognised as an asset in Cellnet's financial statements²⁶.
- 122 For valuation purposes we have adopted a value for the tax losses of \$1.5 million to \$2.0 million. In forming this view we have considered:
- (a) the level of tax losses by jurisdiction (and current restrictions on their utilisation)
 - (b) the extent to which the tax losses could be utilised based on the level of EBIT adopted for valuation purposes (including allowance for the annual interest costs currently being incurred)
 - (c) the time period over which any utilisation could occur
 - (d) the reluctance by purchasers generally to pay significant value for tax losses due to, inter alia, the uncertainty associated with their ability to utilise the tax losses (in particular following a change of control).

Share capital outstanding

- 123 For valuation purposes we have adopted 57.5 million fully diluted shares on issue. This includes the performance rights (2.8 million) and options (2.4 million) currently on issue.

Valuation summary

- 124 Based upon the above, the value of 100% of Cellnet on a controlling interest basis is as follows:

Value of 100% controlling interest in Cellnet		
	Low \$m	High \$m
Enterprise value	18.0	19.2
Net debt	(5.6)	(5.6)
Tax losses	1.5	2.0
Cash on exercise of options ⁽¹⁾	0.6	0.6
Equity value	14.5	16.2
Fully diluted shares on issue (million)	57.5	57.5
Value per share	\$0.25	\$0.28

Note:

- 1 Reflects 2.4 million options on issue at an exercise price of \$0.25 per share.

²⁶ It should be noted that deferred tax assets and liabilities (including tax benefits) are not recognised at their present value in financial statements.

Cross-check to implied EBITDA multiple

125 The EBITDA employed in our valuation cross-check is calculated below:

EBITDA	
	\$m
EBIT adopted for valuation purposes	2.4
Depreciation ⁽¹⁾	0.3
EBITDA	2.7

Note:

1 Based on the reported expense in FY15 and FY16.

126 The EBITDA multiples implied by our assessed valuation range are shown below:

Implied EBITDA multiples		
	Low	High
Enterprise value (\$m)	18.0	19.2
LEA assessed EBITDA (\$m)	2.7	2.7
EBITDA multiple (x)	6.7	7.1

127 Based on our review of the implied EBITDA multiples for the listed companies providing wholesale and distribution services (refer Appendix C), together with our assessment of the characteristics of Cellnet's business, we consider the cross-check multiples implied by our assessed valuation range to be reasonable.

Comparison with listed market price

128 As noted in Section III, the volume of share market trading in Cellnet shares has been very low. Based on this level of trading, we do not regard the Cellnet share price prior to the announcement of the Offer as a reliable indicator of Cellnet's market value (or an appropriate reference point from which to assess the Offer). However, for comparison purposes (given the circumstances of Cellnet), we have considered the volume weighted average price (VWAP) based on trading in Cellnet shares over the six month period to 9 November 2016 of \$0.23 per share.

129 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). Adjusting the traded share price of \$0.23 for a 30% to 35% control premium would therefore result in a "theoretical" control value of \$0.30 to \$0.31 per share.

130 Our assessed valuation range is lower than these implied theoretical control values, indicating that in the more recent period prior to the announcement of the Offer share market investors (when the shares have traded) have placed a higher value on Cellnet than we consider appropriate (and is reflected in the Offer).

VII Evaluation of the Offer

Summary of opinion

131 LEA has concluded that the Offer is fair and reasonable to Cellnet shareholders. We have formed this opinion for the following reasons.

Assessment of fairness

132 Pursuant to RG 111 an offer is “fair” if:

“... the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

133 This comparison is shown below:

Comparison of Offer and value of Cellnet			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	0.28	0.28	0.28
Value of shares in Cellnet	0.25	0.28	0.265
Extent to which the Offer consideration exceeds the value of the shares in Cellnet	0.03	-	0.015

134 As the consideration offered by Wentronic of \$0.28 per share is at the top end of our assessed value range for Cellnet shares on a 100% controlling interest basis, in our opinion, the Offer is fair when assessed under the guidelines set out in RG 111.

135 However, as noted above, the Offer is proportional and restricted to 83% of the interest held by each shareholder in Cellnet. Accordingly, notwithstanding that we have assessed the Offer as fair based on the RG 111 guidelines, for the purpose of our report, we have also undertaken an assessment of fairness having regard to the proportional nature of the Offer.

136 In our opinion, when assessing the fairness of a proportional takeover offer, the weighted average consideration likely to be received by accepting the offer and selling the remaining shares not subject to the offer should be compared against the value of the target company shares on a controlling interest basis.

137 In the case of Cellnet therefore, in assessing the consideration under the Offer, we have had regard to:

- (a) the price of \$0.28 per share offered by Wentronic for 83% of the shares in Cellnet
- (b) the likely listed market value of the shares in Cellnet which will not be acquired under the Offer assuming the Offer is successful²⁷.

²⁷ As noted in Section II, a key condition of the Offer is that Wentronic acquires a relevant interest in more than 50.1% (by number) in the shares in Cellnet.

Value of Cellnet shares retained following completion of the Offer

- 138 If the Offer is successful Wentronic will control Cellnet. As a result, in our opinion, it is unlikely that an alternative third party will make a takeover offer for Cellnet in the short term. Consequently, it is appropriate to assess the value of the shares which will be retained by Cellnet shareholders following completion of the Offer (assuming it is successful) on a minority interest or portfolio basis.
- 139 Whilst it is possible that under Wentronic control a takeover offer for Cellnet may occur sometime in the future, in our opinion, the value of the shares not acquired under the Offer should be based on the amount that they could be sold for immediately following completion of the Offer²⁸. This is because a decision to hold Cellnet shares beyond the short term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.
- 140 In assessing the portfolio value of Cellnet shares subsequent to completion of the Offer, we have applied a discount of 25% to our controlling interest value of Cellnet. The discount of 25% reflects:
- (a) our opinion that it is appropriate to assess the value of Cellnet following completion of the Offer on a minority interest or portfolio basis (i.e. excluding a premium for control)
 - (b) the fact that Cellnet shareholders post completion of the Offer will be in the unique position of being minority shareholders in a company controlled by a large shareholder pursuant to a takeover offer who has indicated it is not seeking to acquire 100% of the Company²⁹
 - (c) the likely reduced marketability of Cellnet shares following completion of the Offer due to the implicit lower free float of Cellnet shares post completion of the Offer (noting however that share market trading in Cellnet is currently illiquid).
- 141 We have therefore calculated the minority interest or portfolio value of Cellnet shares post completion of the Offer at \$0.19 to \$0.21 per share, as set out below:

Portfolio value of Cellnet shares post completion of the Offer		
	Low	High
	\$ per share	\$ per share
Controlling interest value	0.25	0.28
Minority interest discount	25%	25%
Portfolio value of Cellnet shares post completion of Offer	0.19	0.21

Total consideration received under the Offer if remaining shares sold

- 142 Based on the above we estimate that a Cellnet shareholder who accepts the Offer and (assuming that the Offer is successful) subsequently sells the balance of their shareholding on the ASX will receive, on average, \$0.26 to \$0.27 per share, calculated as follows:

²⁸ The Offer is structured such that a buyer of the remaining 17% interest in Cellnet of a shareholder that has accepted the Offer is unable to accept the Offer in respect of the interest acquired.

²⁹ We note that whilst CVC currently holds a controlling 58.1% interest in Cellnet shares, we understand it has no intention of seeking to acquire a 100% interest in the Company.

Total consideration received per share (pre-tax)		
	Low \$	High \$
Number of Cellnet shares held ⁽¹⁾	100	100
Consideration pursuant to acceptance of the Offer 83 shares at \$0.28 per share	23.24	23.24
Consideration on sale on ASX of remaining shares 17 shares at assessed portfolio value	3.23	3.57
Total consideration for 100 shares	26.47	26.81
Consideration per share (rounded)	0.26	0.27

Note:

1 A shareholding of 100 shares has been assumed for illustrative purposes.

Assessment of fairness allowing for proportional nature of the Offer

143 The weighted average consideration of \$0.26 to \$0.27 per share received from accepting the Offer and subsequently selling the remaining shares on market is within our assessed value of Cellnet on a controlling interest basis (\$0.25 to \$0.28 per share). Accordingly, we are of the opinion that the Offer (incorporating an appropriate allowance for its proportional nature) is fair.

Summary on fairness

144 We have therefore concluded that the Offer is fair when assessed both:

- (a) under the guidelines set out in RG 111
- (b) incorporating an appropriate allowance for the proportional nature of the Offer.

Assessment of reasonableness

145 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently, we have concluded that the Offer is both fair and reasonable.

146 In assessing whether the Offer is reasonable LEA has also considered:

- (a) the extent to which a control premium is being paid to Cellnet shareholders
- (b) the extent to which Cellnet shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
- (c) the listed market price of Cellnet shares subsequent to the announcement of the Offer
- (d) the likely market price of Cellnet shares if the Offer is not successful
- (e) the likelihood of an alternative Offer emerging prior to the close of the Offer, or sometime in the future
- (f) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

147 These issues are discussed below.

Extent to which a control premium is being paid

148 Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
- (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

149 We have calculated the premium implied by the Offer of \$0.28 per share by reference to the market prices of Cellnet shares prior to the trading halt requested by Cellnet during the course of trading on 9 November 2016 (which preceded the announcement of the Offer), as shown below:

Implied offer premium relative to recent share prices		
	Cellnet share price \$	Implied control premium %
Closing price prior to the announcement of the Offer ⁽¹⁾	0.26	7.7%
1 month VWAP to 9 November 2016	0.259	8.1%
3 months VWAP to 9 November 2016	0.253	10.7%
6 months VWAP to 9 November 2016	0.228	22.8%

Note:

- 1 Being the last trading price on 9 November 2016 prior to the trading halt that preceded the announcement of the Offer.

150 As indicated above, whilst the Offer consideration of \$0.28 per share represents a premium to the market prices of Cellnet shares prior to the request for a trading halt on 9 November 2016 (which preceded the announcement of the Offer), the range of implied premium is below the average premiums paid in successful takeovers generally.

151 However the volume of trading in Cellnet shares has been very low. In particular:

- (a) in the three month period prior to the request for the trading halt on 9 November 2016 only 0.5 million Cellnet shares were traded, equivalent to approximately 1.0% of the issued capital of Cellnet
- (b) in the six months prior to the request for the trading halt on 9 November 2016 trading was similarly very low, with shares equivalent to only 1.6% of the issued capital of Cellnet traded.

152 Based on this level of trading, in our opinion, the Cellnet share price prior to the announcement of the Offer is not a reliable indicator of Cellnet's market value or an appropriate reference point from which to assess the Offer.

Extent to which Cellnet shareholders are being paid a share of synergies

153 Wentronic has indicated that the acquisition of a controlling interest in Cellnet will expand Wentronic's geographic presence and provide a platform for the continued growth of its international business. The identified potential synergy benefits should the Offer be successful, which will accrue to both Wentronic and existing Cellnet shareholders³⁰, include:

- (a) supply chain benefits of both a cost and efficiency nature associated with the combined sourcing of product and resultant increase in scale of operations
- (b) access to the Wentronic product range will provide Cellnet with the opportunity to increase the volume and range of products that it sells and to diversify its distribution channels
- (c) the potential for Cellnet to expand international sales of its own branded products, utilising relationships overseas that Wentronic has established.

154 We note that at this stage, whilst (some of) the potential synergy benefits have been identified, they have yet to be quantified or a time scale set out for their realisation.

155 As noted in Section VI, the existence of synergies from business combinations is one of the key reasons why bidders pay a control premium to acquire a company and, in the circumstances of Cellnet, we have concluded that it is inappropriate to incorporate a further value for synergies over and above that already implicitly reflected in the controlling interest multiple applied. Accordingly, we consider Cellnet shareholders are being paid an appropriate share of the potential synergy benefits likely to arise from the transaction.

Recent share prices subsequent to the announcement of the Offer

156 Shareholders should note that Cellnet shares have traded on the ASX in the range of \$0.265 to \$0.28 per share in the period since the announcement of the Offer on 11 November 2016 up to 23 November 2016 on continued very low volume. These share prices are either at or marginally lower than the Offer consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge.

Likely market price of Cellnet shares if the Offer lapses

157 If the Offer lapses and no higher offer or alternative proposal emerges, we expect (at least in the short term) that trading in Cellnet shares will continue to be illiquid and reflect a price that is a discount to both:

- (a) our valuation (consistent with the difference between the value of the shares on a portfolio basis and the value on a 100% controlling interest basis)
- (b) the Offer price of \$0.28 per share.

³⁰ It should be noted that any benefit would only accrue to existing Cellnet shareholders in relation to their retained 17% interest (assuming they accept the Offer).

158 Cellnet shareholders who wish to sell their shares are therefore likely to both effect a sale and realise a better price by accepting the Offer.

Likelihood of an alternative offer

159 We have been advised by the Directors of Cellnet that no alternative offers have been received subsequent to the announcement of the Offer on 11 November 2016.

160 We have discussed the process that led to the tabling of the Offer with the Directors of Cellnet and note:

- (a) the major shareholder in Cellnet is CVC, which operates as a private equity investor. The nature of such investment is that, whilst it may be reasonably long term, it is not perpetual. In this regard, we understand that CVC has been an investor in Cellnet for over 10 years
- (b) given the extended period over which CVC has invested in Cellnet, CVC has indicated that its interest in further investment in Cellnet is limited
- (c) in the circumstances we have been advised that a number of approaches have been made to the Company in recent years, none of which advanced to a stage where, in the opinion of the Directors, an acceptable proposal could be put to Cellnet shareholders
- (d) as noted above, the business operations of Wentronic are complementary with those of Cellnet and the parties have identified opportunities expected to benefit both companies in the future.

161 Based on the above, at the date of this report, it therefore appears unlikely that a superior proposal will emerge.

Summary

162 In our opinion, there are a number of reasons why Cellnet shareholders should consider accepting the Offer:

- (a) the Offer consideration is within our assessed range of value of Cellnet shares on a 100% controlling interest basis
- (b) the Offer provides Cellnet shareholders with the opportunity to realise their investment in a company in which share trading has been very low in a cost effective manner
- (c) Wentronic and Cellnet management have identified potential operational benefits which would reasonably be expected to be value accretive to Cellnet shareholders in future³¹.

163 Based upon the above we have concluded that the Offer is fair and reasonable to the shareholders in Cellnet.

³¹ It should be noted that any benefit would only accrue to existing Cellnet shareholders in relation to their retained 17% interest (assuming they accept the Offer).

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 independent expert's reports (IER) 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 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target's Statement to be sent to Cellnet shareholders in connection with the Offer.
- 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 entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee of \$50,000 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 Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS 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 22 years and 30 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 Directors of Cellnet to accompany the Target's Statement 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 Offer is fair and reasonable to the shareholders of Cellnet.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. 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 Regulatory Guide 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 Cellnet's Target's Statement.

Listed company descriptions

Dicker Data Limited

- 8 Dicker Data is a Sydney-based distributor of computer hardware, software and related products which serves more than 5,000 registered reseller partners from its warehouse facility in Kurnell, Sydney. The company's portfolio comprises leading technology vendors such as ASUS, Toshiba, Dell, Lenovo and Microsoft, as well as many other Tier-1 global technology brands. In April 2014, Dicker Data expanded the size and scale of its operations through the acquisition of Express Data, a leading distributor of information technology products in Australia and New Zealand.

McPherson's Limited

- 9 McPherson's is an Australian-based consumer products business that markets and distributes a wide range of consumer and household products in Australia, New Zealand and Asia. The company offers hair and beauty care products, tools and accessories, cutlery and kitchen knives, kitchenware, dinnerware, glassware and household appliances from leading brands such as Manicare, Lady Jayne, Swisspers, Stanley Rogers and Euromaid. The company currently serves some 10,000 retail outlets including supermarkets, department stores, pharmacies and independent housewares stores.

Shriro Holdings Limited

- 10 Shriro Holdings is a leading kitchen and consumer products marketing and distribution company operating in Australia and New Zealand. The company's operations cover an extensive range of products under company-owned brands as well as third-party brands such as Casio, Blanco and Pioneer. Products that are offered by the company include kitchen appliances, white goods, watches, projectors, cameras, barbeques, heaters, fans, car audio, hi-fi products and speakers. Shriro Holdings operates five distribution centres as well as two third-party logistics centres.

Gazal Corporation Limited

- 11 Gazal Corporation operates in the apparel and fashion accessories industry and is a leading supplier of corporate uniforms and workwear, which are sold under the Bisley brand. In addition, the company holds a 50% interest in the PVH Brands Australia joint venture, which undertakes a mix of retail and wholesale activities in Australia across a range of apparel brands including Calvin Klein, Tommy Hilfiger, Van Heusen and Nancy Ganz.

HGL Limited

- 12 HGL is engaged in the importation and distribution of branded products in specialist markets. The company owns a diverse portfolio of product marketing and supply chain companies that serve a range of markets from the following business segments: contemporary arts and craft, homewares and home décor, retail marketing, architectural lighting, beauty and wellness, collector model cars and school uniforms and apparel.

Appendix C

Ambertech Limited

- 13 Ambertech is engaged in the supply and distribution of advanced technologies for the professional and consumer audiovisual markets in Australia and New Zealand. The company operates three segments: Professional, Lifestyle Entertainment and New Zealand. The Professional segment distributes technology equipment to the professional broadcast, film, recording and sound reinforcement industries. The Lifestyle Entertainment segment distributes components for home theatre installations, projection and display products as well as home theatre products and the New Zealand segment services customers in New Zealand.

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Appendix D

Transaction evidence

Transaction evidence		EV ⁽²⁾ 100% \$m	Products distributed	EBITDA multiple		EBIT multiple	
Date ⁽¹⁾	Target			Acquirer	Historic	Forecast	Historic
Jul 16	Baxters auto electric and Roadsafe Automotive Products	22.0	Automotive parts	5.5	na	na	na
Mar 16	Anyware Group	13.9	Computer accessories	6.7 ⁽³⁾	6.3 ⁽⁴⁾	7.0 ⁽³⁾	6.6 ⁽⁴⁾
Feb 16	Lightning Brokers	10.9	Personal care products	na	3.6	na	na
Feb 16	Bearing Wholesalers and Precision Automotive	30.9	Automotive parts	na	5.2	na	na
Aug 15	CS Company	42.6	Cosmetics	na	6.7	na	na
Mar 15	Accent Group	203.6	Apparel (footwear)	6.0	na	6.9	na
Feb 14	Express Data	65.5	Computer hardware	na	na	na	5.0
Mar 13	Home Appliances	31.5	Houseware products	5.7	na	na	na
Aug 12	Footcare International	8.1	Foot care products	na	na	na	4.0 ⁽⁵⁾

Note:

- 1 Date of announcement.
- 2 Enterprise value on a 100% basis, unless otherwise stated.
- 3 Historical multiples represent the proforma year to 30 June 2016 which includes the eight months results to 30 June 2016.
- 4 Forecast multiples are based on future maintainable earnings provided in the independent expert's report for the transaction.
- 5 Forecast multiple based on EBIT which includes expected rationalisation benefits.

Source: LEA analysis using data from company announcements, interim reports and annual reports.
na – not available.

Appendix E

Glossary

Term	Meaning
1HY	Financial half year ending 31 December
2HY	Financial half year ending 30 June
ABS	Australian Bureau of Statistics
Agreement	Bid Implementation Agreement between Cellnet and Wentronic
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAGR	Compound annual growth rate
Cellnet or the Company	Cellnet Group Limited
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
CVC	CVC Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax, and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IDC	International Data Corporation
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
NPV	Net present value
NZ\$	New Zealand dollars
Offer	Cash price of \$0.28 per share
Plan	Performance Rights Plan
RG 111	Regulatory Guide 111 - <i>Content of expert reports</i>
US	United States of America
US\$	US dollars
VWAP	Volume weighted average price
WANOS	Weighted average number of shares outstanding
Wentronic	Wentronic Holding GmbH

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