

22nd January 2020

Dear Shareholder,

Salmat Limited (ASX:SLM) Notice of General Meeting - proposed sale of MicroSourcing business

On behalf of the board of directors of Salmat Limited ABN 11 002 724 638 (**Salmat** or the **Company**), I invite you to attend a general meeting of the Company on Friday 21 February 2020, to enable the shareholders to consider and, if thought fit, to pass an ordinary resolution approving the disposal of the MicroSourcing business as further described in the ASX announcement released by Salmat on 30 December 2019.

Following that announcement, Salmat subsequently announced on 2 January 2020, that it had completed the sale of its Marketing Solutions business. Consequently, the MicroSourcing business now constitutes the main undertaking of Salmat and completion of the sale of that business must be approved by the shareholders pursuant to ASX Listing Rule 11.2.

The meeting will be held at the Chartered Accountants of Australia and New Zealand, Kangaroo Room, Level 1, 33 Erskine Street Sydney NSW 2000, beginning at 10:00am.

Resolution

We submit the following resolution to shareholders for your consideration:

- *Approval to dispose of the MicroSourcing business being the company's main undertaking*

The Board of Salmat recommends this Resolution to shareholders. Each of the Directors who holds shares in Salmat intend to vote any such shares they hold in favour of the Resolution.

Information on voting

If you wish to participate in the meeting you will need to attend in person, or appoint a proxy to act on your behalf.

For the purpose of determining a person's entitlement to vote at the meeting, a person will be recognised as a member and the holder of shares if that person is registered as a holder of shares as at 7:00 pm on Wednesday 19 February.

Please find enclosed a Notice of Meeting, a personalised proxy form and a reply paid envelope. Instructions on how to appoint a proxy are detailed on the back of the proxy form. Please be aware that proxy forms must be received no later than 48 hours prior to the commencement of the meeting in order to be valid for the meeting.

Salmat has provided for electronic lodgement of proxies by its shareholders and encourages you to do so. If you wish to avail yourself of this service and have not already done so, you can do this by visiting www.linkmarketservices.com.au and clicking on 'PROXY VOTING' and then follow the prompts. We recommend that you have your proxy form with you when you log on (this document contains your SRN/HIN reference number which you will need to enter into the Link website).

If your shares are held in a name other than your personal name, you will need to lodge a valid proxy form before the proxy closing time. If a holding is in the name of a company, then a valid Corporate Representative form will allow a holder to enter the meeting and vote on behalf of the company.

If you plan to attend the meeting in person, please bring with you suitable identification, your personalised proxy form or evidence of your authority to attend (by proxy or as Corporate Representative). Registration will commence at 9.00 am.

We thank you for your continued support and look forward to welcoming you at the meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Peter Mattick', with a stylized flourish at the end.

Peter Mattick
Chairman

SALMAT LIMITED

ABN 11 002 724 638

(the Company)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of the members of Salmat Limited will be held on Friday 21 February 2020 at the Chartered Accountants of Australia and New Zealand, Kangaroo Room, Level 1, 33 Erskine Street Sydney NSW 2000 commencing at 10:00am Sydney time. Registration will open at 9:00am.

ORDINARY BUSINESS

1. Dispose of the main undertaking

To consider, and if thought fit, to pass the following as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 11.2 and for all other purposes, approval is given for the Transaction to sell the MicroSourcing business, being the main undertaking of the Company, on the terms and conditions set out in the Sale Agreement, as described in the Explanatory Memorandum.”

Voting Exclusions

As required by the ASX Listing Rules, the Company will disregard any votes cast in favour of the Resolution by or on behalf of:

- a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the Resolution is passed; or
- an Associate of any of those persons.

However, the Company will not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form;
- it is cast by the Chair as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or
- a Shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the Shareholder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting on the Resolution; and
 - the Shareholder votes on the Resolution in accordance with directions given by the beneficiary to the Shareholder to vote in that way.

On behalf of the Board

Stephen Bardwell

Company Secretary



22 January 2020

NOTES

A. Eligibility to Vote

For the purpose of determining a person's entitlement to vote at the meeting, a person will be recognised as a member and the holder of shares if that person is registered as at 7.00 p.m. on Wednesday 19 February. Please note: the deadline for lodgement of proxy forms is 10.00 a.m. on this same day.

B. Voting Form

Enclosed with this Notice of Meeting is a personalised Voting Form. The Voting Form allows shareholders who are not attending the meeting to either lodge their vote directly, or appoint a proxy or corporate representative to vote on their behalf. A reply paid envelope has also been included with the Notice of Meeting for return of the Voting Form by post.

C. How to Vote

Direct Voting – complete Section A of the Voting Form

You may vote directly on resolutions considered at the meeting without attending the meeting or appointing a proxy. To vote directly, complete Section A of the Voting Form. You must complete the voting directions for the Resolution by marking "For" or "Against" or "Abstain" for your vote to be counted. If you mark more than one box on an item your vote on that item will be invalid.

If you vote directly, you are entitled to attend the meeting. However your attendance will revoke your direct vote unless you instruct Link Market Services otherwise.

Voting in person

If you are attending the meeting, please bring your personalised Voting Form with you. We ask that you arrive at the venue at least 30 minutes prior to the time designated for the meeting so that we may check your security holding against our register of shareholders and note your attendance. If you do not bring your Voting Form with you, you can still attend the meeting but representatives of Link Market Services will need to verify your identity.

You may still attend the meeting and vote in person even if you have voted directly or appointed a proxy. If you have previously submitted a Voting Form, your attendance will revoke your direct vote (unless you instruct Link Market Services otherwise) or suspend your proxy appointment while you are present at the meeting.

Voting by corporate representative

If a corporate shareholder plans to attend the meeting, it must appoint a person to act as its representative and the appointed person must bring appropriate written evidence of the appointment to the meeting signed in accordance with the corporation's constitution or in accordance with S127 of the Corporations Act 2001(Cth) (Corporations Act).

Voting by proxy – complete Section B of the Voting Form

If you are not attending the meeting and are entitled to vote on the resolutions, you may appoint a proxy to attend and vote for you by completing Section B of the Voting Form. A proxy may be an individual or a body corporate. A proxy does not need to be a shareholder of the Company.

Your proxy can be appointed in respect of some or all of your votes. If you are entitled to cast two or more votes at the meeting, you may appoint two proxies, and may specify a proportion or number of your votes that each proxy may exercise on a poll. If you do not specify a proportion or number, each proxy may exercise half of your votes. If you appoint two proxies, neither proxy may vote on a show of hands. An additional Voting Form is available on request from Link Market Services if you wish to appoint two proxies.

Your proxy will also have the right to speak at the meeting and join in a demand for a poll.

You can use the attached Voting Form to appoint a proxy.

You may appoint the Chair of the meeting as your proxy by nominating him in the Voting Form. If you return your Voting Form but do not nominate the identity of your proxy, the Chair of the meeting will automatically be your proxy. If you return your Voting Form but your nominated proxy does not attend the meeting, then the Chair of the meeting will become your proxy by default. For resolutions determined on a poll, if your nominated proxy is either not recorded as attending the meeting, the Chair of the meeting is taken, before voting on the resolution closes, to have been appointed as your proxy for the purposes of voting on the resolution. The Chair of the meeting is required to vote any directed proxies that default to him in these circumstances as directed on the proxy appointment.

Should you appoint a body corporate as your proxy, that body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at meetings, in accordance with the Corporations Act; and
- provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.

If such evidence is not received prior to the commencement of the meeting, then the body corporate (through its representative) will not be permitted to act as your proxy.

You can obtain a Letter of Corporate Representation from Link Market services,
www.linkmarketservices.com.au

D. How will my proxy vote

You can direct your proxy to vote using the Voting Form.

If you do not mark any of the boxes on a given item, your proxy may vote, or abstain from voting, as he or she chooses, except as set out in the voting exclusions.

If you mark the “abstain” box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll, and your vote will not be counted in computing the required majority on a poll.

If you mark more than one box on an item your vote on that item will be invalid.

E. Chairman's voting intentions

If you appoint the Chair of the meeting as your proxy or the Chair of the meeting becomes your proxy by default, and you have not directed how to vote on an item of business, then on a poll for that item, the Chair of the meeting intends to vote all available proxies "for" that item of business.

Salmat Limited encourages all shareholders who appoint proxies to direct their proxy on how to vote on each resolution.

F. Signing

If the shareholder is a corporation, the Voting Form must be signed under the company's constitution or in accordance with S127 of the Corporations Act or under the hand of a duly authorised officer of the corporations.

A shareholder which is a corporation having a sole director/secretary must state that fact on the Voting Form.

If the shareholder is a natural person, the Voting Form must be signed by the shareholder or the shareholder's attorney duly authorised in writing. Where the shares are jointly held, only one of the holders is required to sign the Voting Form.

G. Authorised Officers

If the Voting Form is signed by an attorney or authorised person, a certified copy of the power of attorney or other document signed by or on behalf of the shareholder detailing the person's authority must be provided to the registry at the same time as providing the Voting Form.

H. Voting deadlines

To be effective, all Voting Forms must be lodged no later than 48 hours before the time for the holding of the meeting, which is by **10.00 a.m. (Sydney time) on Wednesday 19 February** as follows:

- by mailing it to the share registry of the Company,

Salmat Limited
c/- Link Market Services Limited,
Locked Bag A14,
Sydney South NSW 1235,
Australia
- by facsimile to Link Market Services Limited on +612 9287 0309;
- by going online at www.linkmarketservices.com.au ; login using the holding details as shown on the Proxy Form; Select 'Voting' and follow the prompts to lodge your vote; or
- by hand delivery to:

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

Or

Link Market Services
1A Homebush Bay Drive
Rhodes NSW 2138

All enquiries to +61 1300 554 474

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolution.

1. Resolution - divestment of main undertaking

1.1 Background

Salmat was founded in 1979 and evolved from a small letterbox distribution business to an ASX-listed company. We work with some of Australia's most recognised and trusted brands. Until 1 January 2020, Salmat operated two key business segments:

- i. The **Marketing Solutions** segment incorporates Australia's leading catalogue distribution network, reaching up to 17 million Australians in seven million homes each week. The Lasoo online catalogue site extends the reach of the printed catalogue and takes shoppers right to the checkout. Sophisticated data and analytics helps to inform highly targeted marketing.

On 23 November 2019, Salmat (together with certain subsidiaries) entered into a sale agreement to sell the Marketing Solutions business to a wholly owned subsidiary of IVE Group Limited. This sale completed on 1 January 2020.

- ii. The **Managed Services** segment provides a wide range of back office solutions, through our Philippines-based business, **MicroSourcing**. We make it easy and affordable for businesses to build their own professional teams handling anything from animation or accounting through to technical support and web development.

As announced on Monday 30th December 2019, Salmat Contact Solutions Pty Ltd ABN 57 078 610 090 (**Seller**), a wholly owned subsidiary of Salmat has entered into an agreement to sell the MicroSourcing business to Probe BPO Holdings Pty Ltd (**Buyer**).

The sale of the MicroSourcing business requires Shareholder approval under ASX Listing Rule 11.2, which provides that, where a company proposes to dispose of its main undertaking, it must first obtain the approval of shareholders.

If Shareholders do not approve the sale of the MicroSourcing business in accordance with ASX Listing Rule 11.2, the sale of the MicroSourcing business will not proceed to completion and the Company will retain the MicroSourcing business.

1.2 The MicroSourcing business

The subsidiaries of the Seller (and ultimately the Company) which conduct the MicroSourcing business are:

- (a) Salmat MSI Pty Limited ABN 83 167 097 538 (Target);
- (b) MicroSourcing International Limited (Hong Kong);
- (c) MicroSourcing Philippines Inc (Philippines);
- (d) MicroSourcing Worldwide Services Limited (Hong Kong); and
- (e) MicroSourcing Worldwide Services Limited - Philippine ROHQ (Philippines).

The Hong Kong and Philippines entities listed in paragraphs (b) to (e) above are all (direct or indirect) wholly owned subsidiaries of the Target and will also transfer to the Buyer as part of the Transaction (as defined below).

1.3 Sale of the MicroSourcing business

On 29 December 2019, the Seller, a wholly owned subsidiary of the Company, entered into a share sale agreement with the Buyer (**Sale Agreement**), pursuant to which the Seller has agreed to sell the MicroSourcing business via a sale of all of the issued share capital of Salmat MSI Pty Limited (ACN 167 097 538) to the Buyer (**Transaction**), subject to the terms and conditions of the Sale Agreement.

The sale process which led to the Transaction was a competitive two-stage bid process, as further described in paragraph [1.6] below.

The Seller has agreed to sell the MicroSourcing business to the Buyer on a cash and debt-free basis for \$100 million (subject to customary working capital and net debt adjustments following completion) (**Consideration**).

Completion of the Sale Agreement is subject to the satisfaction or waiver of certain conditions precedent, including the Shareholders having passed the Resolution and other customary conditions relating to a customer right of first refusal and a clear exit from the Salmat tax consolidated group.

The Buyer will acquire the MicroSourcing business with all employees and appropriate transitional services arrangements.

1.4 Indicative timetable

The Company anticipates that the indicative timetable for implementation of the transaction will be as set out below:

Event	Date
Dispatch of Notice of Meeting to Shareholders	Wednesday 22nd January 2020
General Meeting	Friday 21st February 2020
Completion of Transaction under Sale Agreement	28th February 2020

The above dates are indicative only and may change without notice.

1.5 Likely effect of the Transaction on the Company

If the Resolution is approved by Shareholders and assuming it proceeds to Completion, the proforma financial impact of the Transaction is set out below.

Particulars	The Salmat Group for the year ended 30 June 2019 ¹	Net proceeds from sale of Marketing Solutions business if at 30 June 2019 ²	Net proceeds from sale of Managed Services business if at 30 June 2019 ³	Payment of Special Dividend (2 Oct 2019) and FY20 operating cash flow	After completion of the Transaction
Total securities on issue	199,663,080	-	-	-	199,663,080
Total cash and cash equivalents (\$'000)	59,188	24,200	91,000	(11,388)	163,000 ⁴
Total consolidated assets (\$'000)	130,472	(19,679)	(38,961)	-	163,000 ⁴
Total consolidated liabilities (\$'000)	(32,970)	16,623	13,387	-	(3,000) ⁵
Revenue (\$'000)	251,031	(162,352)	(87,833)		
Underlying EBITDA (\$'000)	19,036	(10,184)	(13,371)		
Net Profit/(Loss) Before Tax (\$'000)	(23,154)	29,888	(9,892)		
Net Profit/(Loss) After Tax (\$'000)	(25,958)	30,367	(9,019)		

¹ Figures are in AUD based on audited financial statements for the Company and its subsidiaries as at, and for the financial year ended 30 June 2019 (FY19).

² The sale of Marketing Solutions to IVE Group Australia Pty Ltd for \$25.0m (expected net cash proceeds of \$24.2m) completed on the 1st of January 2020. The figures included in the table above represent the last reported result for Marketing Solutions and are illustrative of the impact that the sale would have had on the Group. The FY20 half year results would have been materially different due to a number of factors including, loss of a major contract, increased cost to distribute and costs incurred from closure of the digital business not included in the sale of Marketing Solutions.

³ The sale of the MicroSourcing business from the Managed Services segment to Probe BPO Holdings Pty Ltd for \$100.0m (expected net cash proceeds of \$91.0m) is expected to complete on the 28th of February 2020. The figures included in the table above represent

the last reported result for Managed Services and are illustrative of the impact that the sale would have had on the Group. The results as shown in the table above are materially comparable to that expected by the MicroSourcing business in FY20.

4 Cash and cash equivalents of \$163.0 million are expected to be available after completion of the Transaction and are based on management's best estimate with the information currently available and may be subject to change. The cash balance of \$163.0 million includes operating cash flows for FY20, fees relating sale of both business and payments for working capital and debt like items. There will be further costs required to operate the business prior to the distribution of any surplus funds to shareholders after completion of the Transaction estimated at \$3.0 million. Cash and cash equivalents will be further reduced by this amount with an estimated final cash position of approximately \$160.0 million.

5 Consolidated liabilities of \$3.0 million after completion of the Transaction are the estimated costs required to continue to administer the Company until such time as the Company determines the best option to return value to the shareholders. The amount of consolidated liabilities shall be deducted from the total cash and cash equivalents after completion of the Transaction with an estimated final cash position of approximately \$160.0 million.

There will be no changes to the Board of the Company as a part of, or in connection with, the Transaction. There will be no change to any Shareholder's shareholding in the Company as a consequence of the Transaction.

If the Resolution is not approved by Shareholders (or any of the other conditions precedent under the Sale Agreement are not satisfied or waived), the Transaction will not proceed to completion, the Company will not receive the Consideration and it will retain the MicroSourcing business for the time being.

Proposed delisting and return of surplus funds to Shareholders

It is currently Salmat's intention that, if it completes the sale of the MicroSourcing business the Board, along with its advisers, will continue to review all options to ensure it optimises the return of value to Shareholders. The Company will announce its proposal to Shareholders once that review is complete.

1.6 Reasons for the Transaction

Context

As noted above, on 23 November 2019, Salmat (among others) entered into an agreement to sell the Marketing Solutions business to a wholly owned subsidiary of IVE Group Limited. This sale completed on 1 January 2020.

In the lead up to and following the announcement of this sale agreement, Salmat undertook a review of the MicroSourcing business. The key considerations of this review included:

- the value of continuing to operate the MicroSourcing business within the current Salmat structure;
- the Board of Salmat having received a number of approaches from parties interested in acquisition of the Microsourcing business.; and
- the best interests of Salmat Shareholders over the near and longer term.

It was determined that the value of the MicroSourcing business may be greater in the hands of a third party and that the business has strong potential with access to additional growth capital.

The Board therefore decided to test the market to see if a buyer could be found for the MicroSourcing business on terms that would make the divestment of the MicroSourcing business positive for the Company overall.

Moelis Australia Advisory Pty Ltd was engaged as exclusive financial adviser to assist with this process and a large number of prospective buyers (spanning both strategic/trade and financial counter parties) were approached or engaged. As a result, the Company and its advisers undertook a competitive two-stage bid process (the **Process**). As part of the Process, over 15 parties expressed interest in engaging further and were granted access to a data room. The Company received several indicative offers as part of the Process and entered into detailed discussions with these interested parties to determine if a binding transaction could be agreed on appropriate terms with each such party, for the sale of the MicroSourcing business.

Based on the conduct of the Process, the Board is confident that the terms of the Transaction presented the most compelling offer to secure a sale of the MicroSourcing business for an attractive price, on acceptable terms and in a timely manner. Therefore, the Board considers the Transaction to be in the best interests of Shareholders.

The Board believes that the Transaction is advantageous because it enables the Company to realise value for the MicroSourcing business that was not otherwise available.

Advantages and Disadvantages

Further, the Directors have considered more broadly the pros and cons of the Transaction. Set out below is a non-exhaustive list of key advantages and disadvantages of the Transaction. The Directors are of the view that the advantages outweigh the disadvantages and accordingly, the Transaction is in the best interests of the Company and Shareholders.

Advantages

- The terms of the Transaction, including the Consideration, are fair and reasonable and represented the most compelling offer from a range of prospective buyers following a competitive bid process.
- The Transaction, if completed, will realise the value of the MicroSourcing business to the Company.
- The Transaction, if completed, will return funds to the Company and ultimately to Shareholders.

Disadvantages

- If the Transaction completes, the Company will no longer own the MicroSourcing business and it will not be able to realise any future value from the MicroSourcing business.
- The Transaction involves the Company selling its main undertaking, which may not be consistent with the investment objectives of all Shareholders.

1.7 Future direction of the Company

If the Transaction completes and the Company therefore disposes of the MicroSourcing business, it will consider the best options for the future of Salmat Limited. As noted above, the Board, along with its advisers, will continue to review all options to ensure it optimises the return of value to its Shareholders. The Company will announce its proposal for the return of value to Shareholders once that review is complete.

1.8 Directors' interests and recommendations

Mr Mattick, Mr Webster and Mr Nash do not have a material interest in the outcome of the Resolution. Mr Mattick and Mr Nash do have interests arising solely in their capacity as a Shareholder. The Directors have a relevant interest (held directly and indirectly) in the securities of the Company as set out in the following table:

Director	Ordinary shares	Options
Mr Peter Mattick	44,889,589	nil
Mr Stuart Nash	7,992	nil
Mr Mark Webster	Nil	nil

Having regard to the advantages and disadvantages of the Transaction as detailed in section 1.6, each of the Directors who holds Shares intends to vote all of their Shares in favour of the Resolution.

Based on the information available, each of the Directors considers that, in the absence of a superior proposal, the Transaction is in the best interests of the Company and the Shareholders. The Directors therefore unanimously recommend Shareholders vote in favour of the Resolution, in the absence of a superior proposal.

GLOSSARY

\$ means Australian dollars

AEDT means Australian Eastern Daylight Time

Associate has the meaning given in the ASX Listing Rules

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange

ASX Listing Rules means the listing rules issued by the ASX as at the date of this Notice of Meeting

Board means the board of directors of the Company

Buyer means Probe BPO Holdings Pty Ltd ACN 624 628 977

Chair means the person chairing the General Meeting

Company or **Salmat** means Salmat Limited ABN 11 002 724 638

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

Directors means each director of the Company

Explanatory Memorandum means the explanatory memorandum contained in this document

General Meeting means the meeting of Shareholders to be held pursuant to the Notice of Meeting

Notice of Meeting means this document in its entirety, including the notice of general meeting and all notes and attachments

Proxy Form means the proxy form which accompanies this Notice of Meeting

Resolution means the resolution to approve the disposal of the main undertaking of the Company, as set out in the Notice of Meeting

Share means a fully paid ordinary share in the Company

Shareholder means a holder of a Share or a beneficial interest in a Share.

Sale Agreement means the share sale agreement between Salmat Contact Solutions Pty Ltd and Probe BPO Holdings Pty Limited dated 29 December 2019

Transaction has the meaning given in paragraph 1.3 of the Explanatory Memorandum

Voting Form means the voting form enclosed with this Notice of Meeting and described in item B of the notes to the Notice of Meeting.

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