

Broad Investments Limited
ACN 087 813 090

**Notice of a Special General Meeting of
Shareholders, a General Meeting of Shareholders
and Explanatory Statement**

**to be held at Level 10, 2 Bligh Street, Sydney on
14 October, 2016, commencing at 10.30 am & 10.45 respectively
(AEST time) (Meeting)**

**The Independent Expert concludes that the Proposed Transaction is
'Not Fair but Reasonable to the non-associated Shareholders of the Company**

In this document you will find:

1. A letter from the independent directors recommending how you should vote.
2. An explanatory statement containing an explanation of, and information about, the resolutions accompanying the notice of meeting.
3. An independent expert's report by Leadenhall Corporate Advisory Pty Ltd ABN 11 114 534 619 (AFSL Number: 293586) on the proposal.
4. Notice of general meeting.
5. Proxy form.

This Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Should you wish to discuss any matter please do not hesitate to contact the
Company Secretary by telephone on 02 8188 2555

LETTER TO SHAREHOLDERS

Dear Shareholder,

Attached is a Notice of Special General Meeting and General Meeting with Explanatory Statement in relation to the proposed transaction involving the sale by the Company of the Mymac, Monstamac and POS businesses to a director of the Company, Steve Bardel, and his associates (the "Proposed Transaction"). Mr Bardel was one of the vendors of these businesses when the Company purchased them in April 2015.

The consideration to be received for the sale, and as detailed in the Explanatory Statement accompanying the Notice of General Meeting, is \$50,000 less than the original acquisition cost. However, since acquisition Mymac has paid fees amounting to \$79,150 to the Company, which effectively provides an overall small profit on the disposal transaction.

Following the completion of the transaction, the returned consideration shares will be cancelled as detailed in the Explanatory Statement.

A Shareholders' meeting is required to approve the proposed transaction under Chapter 2E of the Corporations Act and ASX Listing Rule 10.1. The Directors who do not have an interest in the transaction (referred to as the "non-associated Directors", being all Directors other than Mr Bardel) believe that the transaction is not required to be approved under s208 of the Act. This is because the transaction has been negotiated at arm's length and it was unlikely a higher consideration would be achieved by selling to any other party. However, for abundance of caution, the non-associated Directors decided to seek approval of Shareholders in accordance with s208 of the Act.

The non-associated Directors have engaged Leadenhall Corporate Advisory Pty Ltd as the Independent Expert to determine the fairness and reasonableness of the proposed transaction to assist non-associated Shareholders to decide how to vote on the proposed transaction. The Report has concluded that the proposed transaction is not fair but reasonable to non-associated Shareholders. Shareholders should read and consider the Independent Expert's Report in detail, which is attached as Annexure A and forms a part of the Explanatory Statement.

The non-associated Directors consider the transaction as necessary to end the current dysfunctionality of the Board and to dispose of non-performing assets, as they exist under the current structure. Mymac is a low margin/high volume retail operation that cannot be sustained with the level of supplier support it currently has. Furthermore, the continuing dispute is proving costly and distracting management and the Board from focusing on and growing its other operations.

The non-associated Directors unanimously recommend that Shareholders vote in favour of the proposed transaction and all other resolutions to allow the Company to go forward unhindered by issues that have a negative impact on its performance.

We look forward to your attendance at the General Meeting or receiving your proxies in favour of all the resolutions put to shareholders.

Yours faithfully,

Vaz Hovanesian
Executive Chairman

Cathy Bray
Non-executive Director

Gary Franklin
Non-executive Director

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NOTICE OF SPECIAL GENERAL MEETING FOR VENDOR SECURITY HOLDERS ONLY

Notice is hereby given that a Special General Meeting of vendor security holders of Broad Investments Limited (“the Company”), being Steven Bardel, Arthur Bortz and Stan Romanski, the holders of shares and options in the Company that are to be cancelled (“Vendor Security Holders”), will be held at Level 10, 2 Bligh Street, Sydney, 2000 on 14 October, 2016, commencing at 10.30 AM.

The Explanatory Statement accompanying this Notice of Special General Meeting provides additional information on matters to be considered at the Special General Meeting. The Explanatory Statement and Proxy Form are part of this Notice of Special General Meeting.

Terms and abbreviations used in this Notice and Explanatory Statement are defined in the Glossary included at the end of this Notice of Special General Meeting and Explanatory Statement.

AGENDA

RESOLUTION 1 – APPROVAL FOR CANCELLATION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

“That, in accordance with Section 256C(2) of the Corporations Act, the ASX Listing Rules (and in particular Listing Rule 6.23.2) and for all other purposes, and subject to Resolutions 1, 2 & 3 being passed at the General Meeting, approval is given by the Vendor Security Holders for the Company to cancel the 574,149,098 shares and 25 million options held by the Vendor Security Holders on the terms and conditions and for the purpose set out in the Explanatory Statement accompanying this Notice.”

The Special General Meeting being held before the General Meeting, which will see the Vendor Security Holders vote on the selective capital reduction, is being held for the purpose of meeting the approval requirements contained in section 256C of the Corporations Act (subject to Resolutions 1, 2 & 3 being passed at the General Meeting).

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Shareholders of Broad Investments Limited (the “Company”) will be held at Level 10, 2 Blich Street, Sydney, 2000 on 14 October 2016, commencing at 10.45 AM.

The Explanatory Statement accompanying this Notice of General Meeting provides additional information on matters to be considered at the Meeting. The Explanatory Statement and Proxy Form are part of this Notice of General Meeting.

Terms and abbreviations used in this Notice and Explanatory Statement are defined in the Glossary included at the end of this Notice of Meeting and Explanatory Statement.

AGENDA

The accompanying Explanatory Statement describes the proposed resolutions in detail.

RESOLUTION 1: Change involving main undertaking – Disposal of Sale Companies

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That subject to and conditional on the members passing of Resolution 1 at the Special General Meeting and of Resolutions 2 and 3 and for the purpose of ASX Listing Rule 11.2 and for all other purposes, members hereby grant authority and approval for the disposal of the Company’s interests in the Sale Companies, which constitute the main undertakings of the Company, on the terms and conditions as set out in the Explanatory Statement”

RESOLUTION 2: Disposal of Sale Companies under Proposed Transaction

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That subject to and conditional on the members passing of Resolution 1 at the Special General Meeting and of Resolutions 1 and 3 and for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.1 and for all other purposes, members hereby grant authority and approval for the sale of the Company’s interests in the Sale Companies to interests associated with Mr Steven Bardel on the terms and conditions as set out in the Explanatory Statement.”

RESOLUTION 3: Approval to Make Selective Reduction of Capital

To consider and, if thought fit, to pass with or without amendment, the following resolution as a special resolution:

“That, subject to the passing of Resolution 1 at the Special General Meeting and of Resolutions 1 and 2 in accordance with Section 256C(2) of the Corporations Act, the ASX Listing Rules (and in particular Listing Rule 6.23.2) and for all other purposes, approval is given for the Company to make a selective reduction of capital and cancel 574,149,098 shares and 25 million options held by interests associated with Mr Steven Bardel, Mr. Arthur Bortz and Mr. Stan Romanski, on the terms and conditions and for the purpose set out in the Explanatory Statement accompanying this Notice.”

RESOLUTION 4: Future Placement of Securities

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That authority is hereby given to Directors under ASX Listing Rule 7.1, for the issue of up to one and half (1.5) billion securities of the Company, which at the discretion of the Directors may be any type of securities permitted under the ASX Listing Rules, the Corporations Act and the Constitution of the Company, with such securities to be issued within 3 months of the date of this general meeting or such later date as the ASX permits at its discretion, at a price not less than 80% of the average closing price of the ordinary securities traded on the ASX during the 5 days on which sales in the securities were recorded prior to the issue, or if the securities of the Company are suspended from trading at the time of the issue, then at a price not less than 0.05 cent/share, provided that the issue will not contravene the Corporations Act or any other legislation and that such securities may be issued for working capital purposes and for any worthwhile purpose as determined by the Directors including in lieu of debt, fees or monies owing to any party, as consideration for any investments or acquisition.

In addition, the Directors are hereby authorised to issue such securities to sophisticated or professional investors or otherwise in accordance with section 708 of the Corporations Act.”

RESOLUTION 5: Placement or Issue of Securities to a related party.

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That authority is hereby given to the Company under and for the purpose of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, for the issue of up to 300 Million fully paid ordinary shares at a price not less than 80% of the average closing price of the ordinary securities traded on the ASX during the 5 days on which sales in the securities were recorded prior to the issue, or if the securities of the Company are suspended from trading at the time of the issue, then at a price not less than 0.05 cent/share, to Vaz Hovanessian, a Director of the Company or his nominees and/or associates or as directed by him, provided that such issue does not contravene the Corporations Act or any other legislation or ASX Listing Rule and that such securities are to be issued as detailed below within one month of the date of this general meeting or such later date as the ASX permits at its discretion and that such securities are issued to raise funds for working capital purposes, for any investments considered worthwhile by Directors or in lieu of outstanding fees and/or monies owing to the Director or his associates.”

RESOLUTION 6: Placement or Issue of Securities to a related party.

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That authority is hereby given to the Company under and for the purpose of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, for the issue of up to 100 Million fully paid ordinary shares at a price not less than 80% of the average closing price of the ordinary securities traded on the ASX during the 5 days on which sales in the securities were recorded prior to the issue, or if the securities of the Company are suspended from trading at the time of the issue, then at a price not less than 0.05 cent/share, to Catherine Bray, a Director of the Company or her nominees and/or associates or as directed by her, provided that such issue does not contravene the Corporations Act or any other legislation or ASX Listing Rule and that such securities are to be issued as detailed below within one month of the date of this general meeting or such later date as the ASX permits at its discretion and that such securities are issued to raise funds for working capital purposes, for any investments considered worthwhile by Directors or in lieu of outstanding fees and/or monies owing to the Director or her associates.”

RESOLUTION 7: Placement or Issue of Securities to a related party.

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

“That authority is hereby given to the Company under and for the purpose of ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act and for all other purposes, for the issue of up to 100 Million fully paid ordinary shares at a price not less than 80% of the average closing price of the ordinary securities traded on the ASX during the 5 days on which sales in the securities were recorded prior to the issue, or if the securities of the Company are suspended from trading at the time of the issue, then at a price not less than 0.05 cent/share, to Gary Franklin, a Director of the Company or his nominees and/or associates or as directed by him, provided that such issue does not contravene the Corporations Act or any other legislation or ASX Listing Rule and that such securities are to be issued as detailed below within one month of the date of this general meeting or such later date as the ASX permits at its discretion and that such securities are issued to raise funds for working capital purposes, for any investments considered worthwhile by Directors or in lieu of outstanding fees and/or monies owing to the Director or his associates.”

INFORMATION ON VOTING AND PROXIES

ENTITLEMENT TO VOTE

Who may vote?

Pursuant to Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001, the Company has determined that for the purpose of the general meeting, all shares in the Company shall be taken to be held by the persons who held them as registered shareholders at 12 noon (AEST) on 13 October, 2016 ('**Entitlement Time**'). Only holders of shares in the Company as at the Entitlement Time are entitled to attend and vote at the meeting.

Voting Exclusion Statement

Special General Meeting

The Company will disregard any votes cast on the Resolution by:

- **In respect to Resolution 1**
 - (a) all shareholders other than the Vendor Security Holders (Steven Bardel, Arthur Bortz and Stan Romanski)

General Meeting

The Company will disregard any votes cast by:

- **In respect to Resolutions 1, 2 and 3:**
 - (a) each of Steven Bardel, Arthur Bortz and Stan Romanski; and
 - (b) each of their respective associates;
- **In respect to Resolution 4:**

A person who may participate in the proposed issue or a person who might obtain a benefit (except a benefit solely in the capacity of a holder of securities in the Company) if the resolution is passed or an associate of those persons;
- **In respect to Resolution 5:**
 - (a) Vaz Hovanesian; and
 - (b) Any person who is his associate;
- **In respect to Resolution 6:**
 - (a) Catherine Bray; and
 - (b) Any person who is her associate;
- **In respect to Resolution 7:**
 - (c) Gary Franklin; and
 - (d) Any person who is his associate.

However, the entity need 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; or
- it is cast by the person chairing the meeting 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.

Proxies

Please note that:

- a member of the Company who is entitled to attend and cast a vote at the meeting has a right to appoint a proxy in accordance with sec 249L of the Act;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast 2 or more votes at the meeting may appoint 2 proxies and must specify the proportional number of votes each proxy is appointed to exercise;
- if the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half the votes;
- a proxy need not be a member of the Company; and
- if you wish to appoint 2 proxies, contact the Company for another proxy form.

Unless the member specifically directs the proxy how to vote, the proxy may vote as he or she thinks fit or abstain from voting.

If you wish to appoint a proxy, you should complete the attached 'Appointment of Proxy' form and comply with details set out in that form for lodgement of the form with the Company.

The proxy form must be signed by the member or his or her attorney duly authorised in writing or, if the member is a corporation, either under the seal of the corporation (in accordance with its Constitution) or under the hand of an attorney duly authorised in writing or otherwise signed in accordance with the *Act*. If any attorney or authorised officer signs this proxy form on behalf of a member, the relevant power of attorney or other authority under which it is signed or a certified copy of that power or authority must be deposited with the proxy form.

The proxy form must be received **not less than 48 hours** before the time for holding the General Meeting (i.e. by no later than 10.30 AM 12 October 2016) by delivering the proxy form to one of the addresses as follows:

Registered Office:

Level 10, 2 Bligh Street, Sydney, NSW, Australia, 2000

Mailing Address:

PO Box H125

Australia Square, Sydney

NSW, Australia 1215

Facsimile transmission to:

Within Australia: 02 9235 2203

International: +61 2 9235 2203

A corporation may appoint a representative who may attend the meeting and vote on behalf of the corporation. Such a representative will have to produce a corporate representative appointment letter from the corporation signed either under the common seal of the corporation (in accordance with its Constitution), or by a duly authorised officer or otherwise signed in accordance with the *Act* before he or she will be permitted to vote

EXPLANATORY STATEMENT

INTRODUCTION

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Special General Meeting to be held at 10.30 AM (EST) on 14 October, 2016 and the General Meeting to be held immediately after at 10.45 am (EST) on 14 October, 2016 at Level 10, 2 Bligh Street, Sydney NSW 2000.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Special General Meeting and the General Meeting.

The Explanatory Statement below forms a part of the Notice for both meetings and should be read in conjunction with such notices.

This Explanatory Statement includes information and statements that are both historical and forward looking. To the extent that any information or statements relate to future matters, Shareholders should consider that they are subject to risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry as well as matters such as general economic conditions. Actual events and results may differ materially. None of the Company, the Directors, or their advisors can assure Shareholders that forecasts or implied results, if any, will be achieved.

2. RESOLUTION 1 OF THE SPECIAL GENERAL MEETING AND RESOLUTIONS 1, 2 & 3 OF THE GENERAL MEETING: IN RESPECT TO DISPOSAL OF THE COMPANY'S MAIN UNDERTAKING -THE "SALE COMPANIES" UNDER THE PROPOSED TRANSACTION AND THE CANCELATION OF CONSIDERATION SHARES AND OPTIONS

2.1 Overview

On 15 April 2015, the Company announced the completion of the acquisition of companies known as MyMac Australia Pty Ltd (Mymac), Monsta Industries Pty Ltd (Monsta) and Monstapos Pty Ltd (POS), (collectively referred to as the "Sale Companies") from the owners of those companies (the "Vendors"). The Sale Companies together are a reseller or wholesaler of Apple products and Apple product accessories and Point of Sale systems.

On completion, one of the Vendors, Mr Steven Bardel ("Bardel"), became a director of the Company.

The consideration for the acquisition of the Sale Companies was as follows:

1. The issue of 574,149,098 fully paid ordinary shares and 25 million options exercisable at 0.5 cent per share to the various vendors of the businesses;
2. The payment of \$200,000 in cash; and
3. Payment of \$145,000 in cash by way of instalments.

Items 1 and 2 were completed and item 3 is yet to be finalised.

At the time of acquisition, the then Directors expected the Sale Companies businesses would add value for shareholders. MyMac is a high volume, low margin business that requires high levels of stock at all times for which its suppliers were unwilling to extend the required level of credit to sustain anticipated growth. The recent demise of Dick Smith and the closure of the Next Byte stores, both of which were substantial Apple product resellers, has led to more stringent scrutiny of retailers and their supplier credit facilities, resulting in a reduction in levels of stock and supplier terms.

Subsequently, a dispute also developed between Bardel and the non-associated Directors of the Company, which resulted in Bardel commencing proceedings in the NSW Supreme Court against the Company and the non-associated Directors (see ASX announcement on 18 November 2015).

The non-associated Directors believe that while the Sale Companies may be profitable under a different or private structure, they are currently loss-making entities or are at best break-even or marginally profitable businesses, under their current structure of a public company. The non-associated Directors also believe that the funds and the management time invested in the Sale Companies and in dealing with unproductive and costly legal actions may be better applied in growing its other existing ITC business.

The Company has therefore reached agreement with Bardel in a Share Sale Deed (the "Agreement"), subject to Shareholder approval, to sell the Sale Companies to interests associated with Bardel for the following consideration (the "Proposed Transaction"):

1. Cancellation of the 574,149,098 shares and the 25 million options;
2. The payment of \$150,000 by the Vendors to Broad; and
3. The extinguishment of other liabilities arising from the original acquisition of the Sale Companies.

In addition to shareholder approval under ASX Listing Rules 10.1 and 11.2 and sec 208 of the Corporations Act (the "Act"), the Agreement is also subject to conditions precedent as follows:

1. the obtaining by the Vendors of releases for any guarantees provided by Broad and other directors to any suppliers and banks;
2. the dismissal of the Supreme Court Proceedings; and
3. the provision by Bardel of financial and related information as required in relation to the Sale Companies in order for the Company to complete its outstanding audit and half year review.

While the consideration for the sale of the Sale Companies to be received by Broad is \$50,000 less than its acquisition cost, the Company has received an additional \$79,150 from Mymac since its acquisition, which together gives a net marginal profit of \$29,150 to the proposed Transaction, subject to any comment from the Independent Expert in respect to the value of the Broad shares and options to be cancelled.

The non-associated Directors consider that Broad may not be readily able to sell the Sale Companies to a third party given the state of affairs, lack of sufficient supplier support and current market sentiment toward such low margin retail operations. The release of the Company's guarantees to suppliers and financiers, thus reducing any associated contingent liability to the Company, and the reduction of costs associated with the Proceedings, is of additional benefit to Broad.

2.2 Shareholder Approval – Disposal of main undertaking and transaction with a Related Party

The Proposed Transaction involves the disposal of the Company's main undertaking as per ASX Listing Rule 11.2 and is a related party transaction by virtue of Bardel being a director of the Company, in accordance with sec 228(2) of the Act. Therefore, the proposed Transaction is conditional upon, amongst other conditions, approval by Shareholders. Accordingly, and because the Proposed Transaction is a related party transaction, shareholder approval is required under ASX listing rule 10.1.

2.3 Consideration

On completion, the Company must sell and the Vendors must buy all of the shares in the Sale Companies. The consideration is:

- (i) the Bardel Group will pay \$150,000 to Broad; and
- (ii) the Company will cancel 574,149,098 shares and 25 million options in the Company held by the Vendors.
- (iii) The extinguishment of other liabilities arising from the original acquisition of the Sale Companies.

2.4 Conditions Precedent

Completion is subject to and conditional upon:

- (i) the Company's shareholders approving the transaction in a General Meeting;
- (ii) the release of any guarantees provided by Broad and its directors (other than Bardel) to any suppliers and banks;
- (iii) the dismissal of the Supreme Court Proceedings; and
- (iv) the resignation by Bardel as a director of the Company.

2.5 Financial effect of the Proposed Transaction on the Company

Set out below is a pro forma statement of the financial position of the Company, to enable an assessment of the likely effect of the Proposed Transaction on the financial position of the Company at completion.

It has been prepared:

- based on the unaudited statement of financial position as at 31 December 2015; and
- on an abbreviated basis and does not contain all of the disclosures

You should be aware that the expected financial position of the Company on completion of the Proposed Transaction is provided as a guide only. In some cases the value of assets and liabilities are at independent directors' estimate of actual amounts realisable or payable, rather than at book value. The actual financial position of the Company on completion of the Proposed Transaction is dependent on a range of factors, and is subject to various operational and economic uncertainties and contingencies, many of which are outside the control of the Company. The financial position of the Company as at completion of the Proposed Transaction is based upon estimates and assumptions with respect to the Company's future business decisions, which are subject to change.

As such, the actual financial position of the Company upon completion may vary from the expected financial position set out in the pro forma statement of financial position and any such variation may be material. Neither the Company nor its directors can give any assurance of the actual financial position of the Company on completion of the Proposed Transaction.

The impact of the Proposed Transaction on the Company's consolidated balance sheet and Income & Expenditure Statement (based on unaudited management accounts) are set out below:

Broad Investments Ltd - Balance Sheet pre and post completion of Proposed Transaction:

	As at 30/06/2016 ‘000	As at Completion ‘000
Assets		
Cash at bank	(5)	151
Money on deposit	51	51
Trade Debtors	276	49
Inventories	1,643	-
Other debtors	157	2
Financial Assets	10	10
P&E, F&F	<u>559</u>	<u>15</u>
Total Assets	2,691	278
Liabilities		
Creditors	1,660	351
Accruals	375	344
Borrowings	274	67
GST/PAYG	100	(4)
Provisions	13	13
Other Creditors	<u>230</u>	<u>127</u>
Total Liabilities	<u>2,652</u>	<u>898</u>
Net Assets (Liabilities)	39	(620)

Broad Investments Ltd – Income & Expenditure Statement –As at 30 June 2016

Income/Sales	16,282	652
COGS	12,987	56
Gross Profit	3,295	596
Expenses	4,137	1,117
Net Profit (Loss)	(842)	(521)

NB: It is the intention of the Company to make one or more acquisitions soon after the completion of the Proposed Transaction in order to enable the Company to comply with Listing Rules 12.1 and 12.2 post the sale of its main undertaking and to ensure the securities of the Company are re-quoted by ASX, so that shareholders will have a secondary market in which to sell or buy shares. While the Company is actively pursuing acquisitions, the Board does not consider it appropriate to commit to any until such time as the Proposed Transaction is complete. The Board intends to use the funds obtained from the Proposed Transaction to meet working capital needs, pay down debt and to grow its remaining telephony and related business, which it believes has considerable upside potential.

2.6 Corporations Act Requirements

Pursuant to Section 256C of the Act, a company may make a selective capital reduction if it is approved by a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced (or by their associates).

The Act provides that the rules relating to a reduction of share capital are designed to protect the interests of shareholders and creditors by:

- (a) addressing the risk of the transaction leading to the company's solvency;
- (b) seeking to ensure fairness between the shareholders of the company; and
- (c) requiring the company to disclose all material information.

In particular, Section 256B of the Act requires that a company may only reduce its capital if:

- (a) it is fair and reasonable to the shareholders as a whole;
- (b) it does not materially prejudice the company's ability to pay its creditors; and
- (c) it is approved by shareholders in accordance with Section 256C of the Act.

Section 256C(4) of the Act requires that the company must include with the Notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

The Directors believe that the capital reduction as proposed is fair and reasonable to Shareholders for the following reasons:

- (a) the capital reduction will only result in the cancellation of the Shares and Options issued to the Vendors;
- (b) it will result in the dismissal of the proceedings in the NSW Supreme Court arising from a dispute between Bardel and the non-associated Directors;
- (c) the non-associated Directors believe that while the Sale Companies may be profitable under a different or private structure, they are currently loss-making entities or are at best break-even or marginally profitable businesses, under their current structure of a public company. The non-associated Directors also believe that the funds and the management time invested in the Sale Companies and in dealing with unproductive and costly legal actions may be better applied in growing its other existing information technology and communication ("ITC") business which is providing telephony reseller services and PABX sales, service and installation services.
- (d) the cancellation of the Shares and Options will enhance the ability of the Company to attract and acquire additional projects for the Company with that overhang of shares removed and the Director disputes resolved; and
- (e) the reduction in capital will not prejudice the Company's ability to pay its creditors.

The Directors do not consider that there are any material disadvantages to the

Company undertaking the selective capital reduction and disposing of the Sale Companies, in particular given the hiatus in the Company and its suspension from trading on ASX. However, the Company notes that selective capital reduction maybe considered to have the following risks/disadvantages:

- (a) the Company will not be able to participate in or derive any future potential profits from the Sale Companies;
- (b) the Disposal involves the Company selling a principal asset that comprises its main undertaking, which may not be consistent with the investment objectives of all Shareholders;
- (c) there is a risk the Company may not be able to raise capital, locate and complete the acquisition of other suitable investment opportunities within a reasonable time; and
- (d) the Disposal, involving the sale of the Company's main undertaking, will reduce the Company's prospects of being reinstated to trading on ASX's Official List.

Pursuant to Section 256C(2) of the Act, a selective reduction of capital must be approved by either:

- (a) a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates; or
- (b) a resolution agreed to, at a general meeting by all ordinary shareholders.

The Special General Meeting being held before the General Meeting, which will see the Vendors vote on the selective capital reduction, is being held for the purpose of meeting the approval requirements of section 256C of the Corporations Act (subject to resolutions 1, 2 & 3, being passed at the General Meeting).

2.7 Effect on Voting Power after the Proposed Transaction and cancellation of shares

Set out below is a table showing the pro forma capital structure of the Company post completion of the Proposed Transaction. Upon cancellation, the concentration of shares in the hands of continuing non-associated shareholders will increase.

PROFORMA CAPITAL STRUCTURE			
SHARES	Company	Vendors	Other Shareholders
Shares currently on issue	1,978,889,941	574,149,098	1,404,740,843
Percentage		29.0137%	70.9863%
Shares cancelled	574,149,098	574,149,098	0
Issued capital post Transaction	1,404,740,843	0	1,404,740,843
Percentage		0%	100.00%

The Shares and Options proposed to be cancelled are held by the following parties:

NAME	Shares	Options
Steve Bardel & Associates	324,149,098	25,000,000
Arthur Bortz	150,000,000	Nil
Stan Romanski	100,000,000	Nil
TOTAL	574,149,098	25,000,000

It should be noted that the ASX will have to consider the level of operations and the financial condition of the Company prior to the re-quotations of the Company's securities.

In accordance with Listing Rules 12.1 and 12.2, the level of the Company's operations and the Company's financial condition, must, in ASX's opinion, be sufficient and adequate to warrant the re-quotations of the Company's securities. The post completion position of the Company may not meet the requirements of Listing Rules 12.1 and 12.2, until acquisitions are made and the level of operations increased and its financial condition improved.

2.8 Business after implementation of the Proposed Transaction

If Resolutions 1, 2 and 3 are passed at the General Meeting, then the Proposed Transaction will be implemented, resulting in the following changes to the business of the company:

- i. the Company will no longer carry on the MyMac, Monsta and POS businesses;
- ii. the Company intends to continue its current telephony and ITC business under the name UBCG, with the intention of acquiring other complementary businesses to grow its ITC and telephony offerings.

In the event that the Proposed Transaction is not approved by Shareholders, the most likely outcome will be that the businesses of the Sale Companies, and in particular Mymac, will be severely impacted by the refusal of suppliers to provide the required credit facilities. This is likely to require the Company to find new sources of finance in order to permit the MyMac and Monsta businesses to continue to operate profitably. There is no certainty that the Company will be successful in sourcing new finance. In this circumstance, the businesses and the Company may continue to run at a loss. Having regard to the information presently available to them, the directors consider that this would result in a worse outcome for shareholders than the implementation of the Proposed Transaction.

2.9 Indicative timetable

Subject to ASX Listing Rules and Corporations Act requirements, the Company anticipates completion of the Proposed Transaction in accordance with the following timetable:

Event	Date
ASX announcement of Proposed Transaction	6 May 2016
General meeting to approve Proposed Transaction	14 October, 2016
Expected completion of the Proposed Transaction	21 October, 2016

2.10 Advantages and Disadvantages of the Proposed Transaction

(i) Advantages of the Proposed Transaction

The non-associated Directors are of the view that the following non-exhaustive list of advantages may be relevant to a shareholder's decision on how to vote on the Proposed Transaction.

- (a) The disposal of the Sale Companies will reduce the need for additional capital to fund inventory, will stop any continuing losses, and will allow the cash consideration from the disposal to be applied to the UBCG and ITC businesses for a better return.
- (b) The Board dispute and Proceedings will end, thus reducing legal costs and allowing the Board and management to focus on the Company's business without any distractions.
- (c) The contingent liabilities and guarantees to suppliers and the bank will no longer exist.
- (d) The cancellation of the shares will increase concentration of holdings for existing shareholders.
- (e) Liquidity of the remaining shares will be higher as those shares will have a materially higher float on a proportional basis and it will increase their liquidity.

(ii) Disadvantages of the Proposed Transaction

The non-associated Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a shareholder's decision on how to vote on the Proposed Transaction.

- (a) Any future growth potential from the Sale Companies will no longer be available.
- (b) The Company will have a smaller size and scale, albeit its losses may reduce
- (c) The Disposal, involving the sale of the Company's main undertaking, will reduce the Company's prospects of being reinstated to trading on ASX's Official List until such time as acquisitions are made and the level of operations increased and its financial condition improved.

2.11 Independent Expert's report

For the purpose of assisting shareholders on how to vote on Resolutions 1, 2 and 3 at the General Meeting, the Company has commissioned an Independent Expert's Report by Leadenhall Corporate Advisory Pty Ltd on the Proposed Transaction.

The Independent Expert has concluded that the Proposed Transaction is not fair but reasonable to the shareholders as a whole. The Independent Expert has concluded that the Proposed Transaction is not fair because the Independent Expert formed the view that fair market value of:

- the Sale Companies on a control basis falls within the range of \$501,000 to \$589,000; and
 - the consideration for the of the Proposed Transaction fell within the range of \$414,000 to \$500,000; and
- as the assessed fair market value of the Sale Companies falls outside the fair market value range of the consideration, the Proposed Transaction is therefore not fair, albeit by a small margin, to the shareholders as a whole, according to ASIC Regulatory Guide 111 guidelines.

The Independent Expert has concluded that the Proposed Transaction is reasonable because the Independent Expert considered the Proposed Transaction, based on the advantages and disadvantages

described in the Independent Expert's Report, the Independent Expert formed the view that the advantages of the Proposed Transaction outweigh the disadvantages.

The Independent Expert's report is included at the end of this Notice of Meeting.

2.12 Legal and Regulatory Requirements

In respect to Resolutions 1, 2 & 3

In accordance with ASX Listing Rule 11.2, any disposal of its main undertaking by a company requires approval by shareholders. In accordance with ASX Listing Rule 10.1, any disposal or an acquisition of a substantial asset to or from a related party requires the approval of non-associated shareholders.

The Proposed Transaction requires shareholder approval as it involves the disposal of the main undertaking of the Company and is a sale to Bardel, related party.

Chapter 2E of the Corporations Act – Financial benefits to related parties

Chapter 2E of the Act prohibits a listed company from giving a financial benefit to a related party of the company except where:

the giving of the financial benefit falls within one of the exceptions set out in Chapter 2E; or
shareholder approval is obtained before giving the financial benefit.

Bardel is a related party of the Company for the purposes Chapter 2E of the Act and the Proposed Transaction is considered to provide a financial benefit to Bardel.

Required disclosure

Chapter 2E, in particular section 219, of the Act requires the following information to be given shareholders so they can assess the Proposal.

Related Parties	Steven John Bardel
Financial Benefit	The sale of the Sale Companies to Bardel or his associates.
	The combined Financial Benefit is the transfer of the shares in the Sale Companies to interests associated with Bardel.
Director Recommendations	See paragraph 2.11
Directors' Interest	See paragraph 2.12

The information in this Explanatory Statement otherwise contains all information that the Directors consider is:

reasonably required by members in order to decide whether or not it is in the Company's interests to pass the proposed resolution; and
known to the Company or any of its Directors.

2.13 Directors' recommendation in respect of the Proposed Transaction

The non-associated Directors believe that following an assessment of the advantages and disadvantages listed above and as discussed in the Independent Expert's Report and the matters described in this Explanatory Statement, the Proposed Transaction is in the best interests of the Company and consequently the non-associated Directors unanimously recommended that you vote in favour of Resolutions 1, 2 and 3 at the General Meeting.

2.14 Directors' interests and recommendations

The non-associated Directors (which are all Directors other than Bardel) do not have any material interest in the outcome of the resolutions, other than as a result of their interest arising solely in their capacity as shareholders. No Director of the Company (other than Bardel) will receive any payment or benefit of any kind as a consequence of the Proposed Transaction other than in their capacity as a shareholder of the Company. As at the date of this notice, the Directors have a relevant interest in the securities of the Company as set out in the following table:

Director	Shares
Steven Bardel	324,149,098 Shares & 25 Million Options
Vaz Hovannessian	6,269,752 Shares
Catherine Bray	5,000,000
Gary Franklin	Nil

The Board has approved the proposal to put the resolution to shareholders. For the reasons set out in this Explanatory Memorandum, the non-associated Directors consider that the Proposed Transaction would be in the interests of the Company and Shareholders and the non-associated Directors unanimously recommend that Shareholders vote in favour of Resolutions 1, 2 and 3 at the General Meeting.

3. RESOLUTION 4: IN RESPECT TO FUTURE PLACEMENT OF SECURITIES

3.1 Overview

Resolution 4 relates to the issue or placement of securities of the Company in the future.

At the time of issuing this Notice of General Meeting, other than for additional working capital, there was no specific plan to issue any securities. However, your Board is mindful of adding value for shareholders and in this regard is constantly looking for opportunities and possible acquisitions and worthwhile investments that would complement the Company's current business. In light of the Proposed Transaction referred to in this Notice of Meeting, the Board is even more keen to make a replacement acquisition. Whilst no agreements or decisions have yet been reached in respect to any acquisitions or investments, should such an opportunity arise within 3 months of the Meeting the right to issue the shares in lieu of such acquisition or investment or raise funds for that purpose would allow the transaction to be considered quickly and the opportunity to be taken advantage of.

Please note that the issue of the shares is likely to occur in more than one single parcel and progressively over the 3 month window allowed under the ASX Listing Rules.

None of the subscribers pursuant to this issue will be related parties of the Company.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

For the purposes of ASX Listing Rule 7.3, the following information is provided:

The maximum number of securities to be allotted is 1.5 billion;

The Company will issue the securities within 3 months of the date of this meeting, or such later date as the Australian Stock Exchange permits in its discretion;

The issue price of the securities, in the case of ordinary shares, will be no less than 80% of the VWAP of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the ordinary shares and in the case of options it will be issued at nil cost but at an exercise price which will be no less than 80% of the weighted average market price of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the options. If the Company's shares are suspended and a share price cannot be determined, then the securities shall be issued at no less than 0.05 cent/share.

The Company intends to use the funds raised by the issue of the securities is for retiring any debt, acquisition of investments, working capital and expansion of operations and for any worthwhile purpose as determined by the Directors. Where appropriate the issue of securities may be in lieu of debt or any monies owing to third parties, investments, acquisitions or any worthwhile purpose as determined by the Directors.

Where securities are issued to raise working capital, the Company will issue the shares to either sophisticated or professional investors or otherwise in accordance with Section 708 of the Act 2001;

The terms of the securities issued, if ordinary shares, are as detailed above in respect to their issue price and in respect to their rights are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company. The terms of the securities issued, if they are options, will be as detailed above in respect to their issue price and exercise price and any exercise of options may only happen no later than 5 years from date of issue. Further, if such options are exercised the shares so issued will have rights that are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company.

The other terms of the securities issued, if they are options to subscribe for shares, are as follows:

1. The option holder cannot participate in new issues without first exercising the options so that the option holder is issued shares prior to the record date for determining entitlements for the new issue;
2. The exercise price of options issued or number of underlying securities over which it can be exercised may be changed in accordance with Listing Rule 6.22 or any amendment of that Rule from time to time, in respect to any pro-rata rights issue or bonus issue; and
3. The rights of the option holder on a reorganisation of capital are to be adjusted in accordance with Listing Rule 7.22 or as the Listing Rules provide and as they apply to the reorganisation of capital at the time of the reorganisation.
4. The period during which the options may be exercised will depend on negotiations with allottees at the time of issue and what Directors may consider appropriate under the circumstances, but will not exceed 5 years from the date of issue.

The intended use of the funds raised from the exercise of the options is for retiring any debt, acquisition of investments, working capital and expansion of operations and for any worthwhile purpose as determined by the Directors. Where appropriate the issue of options may be in lieu of debt or any monies owing to third parties, investments, acquisitions or any worthwhile purpose as determined by the Directors

The Directors, other than Mr Bardel, recommend that shareholders vote in favour of Resolution 4. Mr Bardel abstains.

4. RESOLUTIONS 5, 6 & 7: ISSUE OF SHARES TO DIRECTORS

Resolutions 5: Issue of Securities to Director or his associate

At the time of issuing this Notice of Meeting, there was no specific plan to issue any securities to any Director, including Mr. Hovanessian. However, as in the case of the explanation offered for Resolution 4, your Board is mindful of adding value for shareholders and in this regard is constantly looking for opportunities and possible acquisitions and worthwhile investments that would complement the Company's current business. While no agreements or decisions have yet been reached in respect to any acquisitions or investments, should such an opportunity arise within one month of the General Meeting or such later date as the ASX may permit at its discretion, the right to issue the shares to Mr. Hovanessian to raise funds in a timely manner for such acquisition or investment would allow the transaction to be considered quickly and the opportunity to be taken advantage of. Mr. Hovanessian has on many occasions in the past loaned monies to the Company for working capital purposes and has the capacity to assist the Company with a placement of shares to him should the need arise.

It should be noted that where approval is granted under Listing Rule 10.11 no approval is necessary under Listing Rule 7.1 In accordance with ASX Listing Rule 10.13 the following additional information is also provided:

The securities referred to in Resolution 5 may be issued to Mr Vaz Hovanessian, his nominee or his associated company, Raxigi Pty Limited, or to anyone else as directed by him.

The maximum number of securities that may be issued under Resolution 5 is 300 million.

The Company will issue the securities within one month of the date of this meeting, or such later date as the Australian Stock Exchange permits in its discretion;

The issue price of the securities, in the case of ordinary shares, will be no less than 80% of the VWAP of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the ordinary shares and in the case of options it will be issued at nil cost but at an exercise price which will be no less than 80% of the weighted average market price of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the options. If the Company's shares are suspended and a share price cannot be determined, then the securities shall be issued at no less than 0.05 cent/share.

The Company intends to use the funds raised by the issue of the securities is for working capital purposes and expansion of operations, retiring any debt, for the acquisition of any investments considered worthwhile by directors, or issue such shares in lieu of outstanding fees and/or monies owing to the director or his associates.

Where securities are issued to raise working capital, the Company will issue the shares to either sophisticated or professional investors or otherwise in accordance with Section 708 of the Act;

The terms of the securities issued, if ordinary shares, are as detailed above in respect to their issue price and in respect to their rights are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company. The terms of the securities issued, if they are options, will be as detailed above in respect to their issue price and exercise price and any exercise of options may only happen no later than 5 years from date of issue. Further, if such options are exercised the shares so issued will have rights that are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company.

The other terms of the securities issued, if they are options to subscribe for shares, are as follows:

1. The option holder cannot participate in new issues without first exercising the options so that the option holder is issued shares prior to the record date for determining entitlements for the new issue;
2. The exercise price of options issued or number of underlying securities over which it can be exercised may be changed in accordance with Listing Rule 6.22 or any amendment of that Rule from time to time, in respect to any pro-rata rights issue or bonus issue;

3. The rights of the option holder on a reorganisation of capital are to be adjusted in accordance with Listing Rule 7.22 or as the Listing Rules provide and as they apply to the reorganisation of capital at the time of the reorganisation; and

4. The period during which the options may be exercised will depend on negotiations with allottees at the time of issue and what Directors may consider appropriate under the circumstances, but will not exceed 5 years from the date of issue.

The intended use of the funds raised from the exercise of the options is for retiring any debt, acquisition of investments, working capital and expansion of operations and for any worthwhile purpose as determined by the Directors. Where appropriate the issue of options may be in lieu of debt or any monies owing to the director or his associate or a third party.

As stated in the voting exclusion statement, the Company will disregard any votes cast on Resolution 5 by Mr Vaz Hovanessian or a person who is his associate.

The non-associated Directors, other than Vaz Hovanessian, who abstains from making a recommendation because of his interest in the Resolution, recommend that shareholders vote in favour of Resolution 5. Mr Bardel also abstains.

Resolution 6: Issue of Securities to Director or her associate

At the time of issuing this Notice of Meeting, there was no specific plan to issue any securities to any Director, including Mrs. Catherine Bray. However, as in the case of the explanation offered for Resolution 4, your Board is mindful of adding value for shareholders and in this regard is constantly looking for opportunities and possible acquisitions and worthwhile investments that would complement the Company's current business. While no agreements or decisions have yet been reached in respect to any acquisitions or investments, should such an opportunity arise within one month of the General Meeting or such later date as the ASX may permit at its discretion, the right to issue the shares to Mrs Bray to raise funds in a timely manner for such acquisition or investment would allow the transaction to be considered quickly and the opportunity to be taken advantage of.

It should be noted that where approval is granted under Listing Rule 10.11 no approval is necessary under Listing Rule 7.1

In accordance with ASX Listing Rule 10.13 the following additional information is also provided:

The securities referred to in Resolution 6 may be issued to Mrs Bray, her nominee or her associate, or to anyone else as directed by her.

The maximum number of securities that may be issued under Resolution 6 is 100 million.

The Company will issue the securities within one month of the date of this meeting, or such later date as the Australian Stock Exchange permits in its discretion;

The issue price of the securities, in the case of ordinary shares, will be no less than 80% of the VWAP of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the ordinary shares and in the case of options it will be issued at nil cost but at an exercise price which will be no less than 80% of the weighted average market price of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the options. If the Company's shares are suspended and a share price cannot be determined, then the securities shall be issued at no less than 0.05 cent/share.

The Company intends to use the funds raised by the issue of the securities is for working capital purposes and expansion of operations, retiring any debt, for the acquisition of any investments considered worthwhile by directors, or issue such shares in lieu of outstanding fees and/or monies owing to the director or his associates.

Where securities are issued to raise working capital, the Company will issue the shares to either sophisticated or professional investors or otherwise in accordance with Section 708 of the Act;

The terms of the securities issued, if ordinary shares, are as detailed above in respect to their issue price and in respect to their rights are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company. The terms of the securities issued, if they are options, will be as detailed above in respect to their issue price and exercise price and any exercise of options may only happen no later than 5 years from date of issue. Further, if such options are exercised the shares so issued will have rights that are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company.

The other terms of the securities issued, if they are options to subscribe for shares, are as follows:

1. The option holder cannot participate in new issues without first exercising the options so that the option holder is issued shares prior to the record date for determining entitlements for the new issue;
2. The exercise price of options issued or number of underlying securities over which it can be exercised may be changed in accordance with Listing Rule 6.22 or any amendment of that Rule from time to time, in respect to any pro-rata rights issue or bonus issue;
3. The rights of the option holder on a reorganisation of capital are to be adjusted in accordance with Listing Rule 7.22 or as the Listing Rules provide and as they apply to the reorganisation of capital at the time of the reorganisation; and
4. The period during which the options may be exercised will depend on negotiations with allottees at the time of issue and what Directors may consider appropriate under the circumstances, but will not exceed 5 years from the date of issue.

The intended use of the funds raised from the exercise of the options is for retiring any debt, acquisition of investments, working capital and expansion of operations and for any worthwhile purpose as determined by the Directors. Where appropriate the issue of options may be in lieu of debt or any monies owing to the director or his associate or a third party.

As stated in the voting exclusion statement, the Company will disregard any votes cast on Resolution 6 by Mrs Catherine Bray or a person who is her associate.

The non-associated Directors, other than Mrs Catherine Bray who abstains from making a recommendation because of her interest in the Resolution, recommend that shareholders vote in favour of Resolution 6. Mr Bardel also abstains.

Resolution 7: Issue of Securities to Director or his associate

At the time of issuing this Notice of Meeting, there was no specific plan to issue any securities to any Director, including Gary Franklin. However, as in the case of the explanation offered for Resolutions 5 & 6, your Board is mindful of adding value for shareholders and in this regard is constantly looking for opportunities and possible acquisitions and worthwhile investments that would complement the Company's current business. Whilst no agreements or decisions have yet been reached in respect to any acquisitions or investments, should such an opportunity arise within one month of the General Meeting or such later date as the ASX may permit at its discretion, the right to issue the shares to Gary Franklin to raise funds in a timely manner for such acquisition or investment would allow the transaction to be considered quickly and the opportunity to be taken advantage of. Gary Franklin have stated that he would consider providing funds by way of a placement in Company for working capital purposes and to assist with any acquisitions should the need arise.

It should be noted that where approval is granted under Listing Rule 10.11 no approval is necessary under Listing Rule 7.1

In accordance with ASX Listing Rule 10.13 the following additional information is also provided:

The securities referred to in Resolution 7 may be issued to Mr Gary Franklin, his nominee or his associate, or to anyone else as directed by him.

The maximum number of securities that may be issued under Resolution 7 is 100 million.

The Company will issue the securities within one month of the date of this meeting, or such later date as the Australian Stock Exchange permits in its discretion;

The issue price of the securities, in the case of ordinary shares, will be no less than 80% of the VWAP of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the ordinary shares and in the case of options it will be issued at nil cost but at an exercise price which will be no less than 80% of the weighted average market price of the ordinary securities traded on the ASX during the 5 days on which sales in the shares were recorded prior to the issue of the options. If the Company's shares are suspended and a share price cannot be determined, then the securities shall be issued at no less than 0.05 cent/share.

The Company intends to use the funds raised by the issue of the securities is for working capital purposes and expansion of operations, retiring any debt, for the acquisition of any investments considered worthwhile by directors, or issue such shares in lieu of outstanding fees and/or monies owing to the director or his associates.

Where securities are issued to raise working capital, the Company will issue the shares to either sophisticated or professional investors or otherwise in accordance with Section 708 of the Act;

The terms of the securities issued, if ordinary shares, are as detailed above in respect to their issue price and in respect to their rights are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company. The terms of the securities issued, if they are options, will be as detailed above in respect to their issue price and exercise price and any exercise of options may only happen no later than 5 years from date of issue. Further, if such options are exercised the shares so issued will have rights that are the same as all other ordinary shares issued by the Company as specified in the constitution of the Company.

The other terms of the securities issued, if they are options to subscribe for shares, are as follows:

1. The option holder cannot participate in new issues without first exercising the options so that the option holder is issued shares prior to the record date for determining entitlements for the new issue;
2. The exercise price of options issued or number of underlying securities over which it can be exercised may be changed in accordance with Listing Rule 6.22 or any amendment of that Rule from time to time, in respect to any pro-rata rights issue or bonus issue; and
3. The rights of the option holder on a reorganisation of capital are to be adjusted in accordance with Listing Rule 7.22 or as the Listing Rules provide and as they apply to the reorganisation of capital at the time of the reorganisation.
4. The period during which the options may be exercised will depend on negotiations with allottees at the time of issue and what Directors may consider appropriate under the circumstances, but will not exceed 5 years from the date of issue.

The intended use of the funds raised from the exercise of the options is for retiring any debt, acquisition of investments, working capital and expansion of operations and for any worthwhile purpose as determined by the Directors. Where appropriate the issue of options may be in lieu of debt or any monies owing to the director or his associate or a third party.

As stated in the voting exclusion statement, the Company will disregard any votes cast on Resolution 7 by Mr Gary Franklin or a person who is his associate.

The Directors, other than Gary Franklin, who abstains from making a recommendation because of his interests in the relevant resolution, recommend that shareholders vote in favour of Resolution 7. Mr Bardel also abstains.

Resolutions 5, 6 and 7 - Information required in relation to Chapter 2E of the Act

Under Chapter 2E of the Corporations Act, a public company cannot give a “financial benefit” to a “related party” unless one of the exceptions to the section apply or shareholders have in general meeting approved the giving of that financial benefit to the related party.

In the current circumstances, the issue of the shares to Directors Hovanessian, Bray and Franklin constitutes a “financial benefit” as defined in the Corporations Act. Further, Directors Hovanessian, Bray and Franklin are related parties of the Company as defined under the Corporations Act. Accordingly, the proposed issue of shares to Directors Hovanessian, Bray and Franklin (or their nominees) each constitutes the provision of a financial benefit to a related party of the Company.

Sections 219 of the Corporations Act

Pursuant to Section 219 of the Corporations Act, the Company provides the following information to shareholders in respect of the proposed financial benefit to be given to Directors Hovanessian, Bray and Franklin:

- (a) The related parties to whom the financial benefit will be given are the directors of the Company, Directors Hovanessian, Bray and Franklin (or their nominees).
- (b) The nature of the financial benefit to be provided is the opportunity to subscribe for Shares at a price not less than 80% of the average closing price of the ordinary securities traded on the ASX during the 5 days on which sales in the securities were recorded prior to the issue, or if the securities of the Company are suspended from trading at the time of the issue, then at a price not less than 0.05 cent/share grant of options for nil consideration. The number of Shares which may be issued is 300,000,000 to Mr Hovanessian, 100,000,000 to Mrs Bray and 100,000,000 to Mr Franklin. This number of shares was proposed by the Board following a review of funds required for further investments which may arise for the Company.
- (c) Directors Hovanessian, Bray and Franklin declined to make a recommendation in relation to the Resolutions due to the fact that they have a material personal interest in their outcome as each of them are proposed may benefit from being able to participate in the issue of shares. Director Bardel declined to make a recommendation in relation to the Resolutions due to the fact that he is in dispute with the other Directors and is expected to resign as a Director after the General Meeting
- (d) If shareholders approve the issue of Shares and Shares are issued pursuant to Resolutions 4, 5, 6 and 7 and the Shares are cancelled pursuant to Resolution 3, the effect will be to dilute the shareholding of existing shareholders from 70.9% to 41.12% (assuming no other options are exercised, no convertible notes are converted and no more Shares are issued). Further detail of the effect on the Company's capital structure is set out below.

PROFORMA CAPITAL STRUCTURE			
	Shares on issue	Shares held by directors after issues pursuant to resolutions 4, 5, 6 and 7	Percentages
Shares currently on issue	1,978,889,941		
Shares cancelled	574,149,098		
Shares on issue post cancellation – Resolution 3	1,404,740,843		41.12
Resolution 4 – New shares	1,500,000,000		43.91
Resolution 5 - Hovanessian	300,000,000	306,269,752	8.96
Resolution 6 -Bray	100,000,000	105,000,000	3.07
Resolution 7 - Franklin	100,000,000	100,000,000	2.93
Total shares on issue	3,416,010,595		

- (e) In the 12 months before the date this notice was lodged with ASIC, the highest, lowest and last trading price of Shares on ASX are as set out below:

		Price (cents)
Highest	23 September 2015	0.3
Lowest	30 September 2015	0.2
Last	30 September 2015	0.2

- (f) The existing holdings of Messrs Hovanessian, Bray and Franklin in the Company are as follows:

Director	Shares
Vaz Hovanessian	6,269,752
Cathy Bray	5,000,000
Gary Franklin	Nil

- (g) Other than as set out in this Notice and Explanatory Memorandum the Company considers that from an economic and commercial point of view there are not any costs or detriments, including opportunity costs or taxation consequences, for the Company or benefits foregone by the Company resulting from the issue of the securities pursuant to these resolutions.
- (h) Neither the Directors nor the Company are aware of any other information that would be reasonably required by shareholders to make a decision in relation to the financial benefits contemplated by these resolutions.

By order of the Board



Company Secretary

Dated: xx September 2016

In accordance with Sec 351 of the Corporations Act 2001 (clth)

BROAD INVESTMENTS LIMITED

Proposed Sale of My Mac, Monsta Industries and
MonstaPOS

INDEPENDENT EXPERT'S REPORT
AND FINANCIAL SERVICES GUIDE

18 JULY 2016

18 July 2016

The Directors
Broad Investments Limited
Level 10, 2 Bligh Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report for Broad Investments Limited

Broad Investments Limited ("Broad") is a public company listed on the Australian Securities Exchange ("ASX") which owns the subsidiaries My Mac (Australia) Pty Ltd ("My Mac"), Monsta Industries Unit Trust ("Monsta Industries") and MonstaPOS Unit Trust ("MonstaPOS") (together "the My Mac Group"). Broad acquired the My Mac Group from the vendors including Steve Bardel, a 50% owner of My Mac and a 100% owner of Monsta Industries and MonstaPOS, on 15 April 2015. Due to an ongoing dispute between Mr Bardel and the other directors of Broad, it has been agreed to sell the My Mac Group back to Mr Bardel (the "Proposed Transaction") subject to shareholder approval.

Broad has engaged Leadenhall Corporate Advisory Pty Ltd ("Leadenhall") to prepare an independent expert's report ("IER"), setting out whether in Leadenhall's opinion the Proposed Transaction is fair and reasonable to Broad shareholders not associated with the transaction, being all shareholders other than Mr Bardel ("Shareholders").

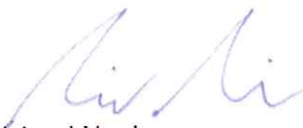
In order to assess whether the Proposed Transaction is fair and reasonable we have:

- ◆ Assessed it as fair if the value of the consideration to be received is greater than or equal to our assessed fair market value of the My Mac Group
- ◆ Assessed it as reasonable if it is fair, or despite not being fair, the advantages to Shareholders outweigh the disadvantages. We have therefore analysed the advantages and disadvantages to Shareholders of the Proposed Transaction

We have assessed the Proposed Transaction as not fair because the value of the consideration payable to Broad is lower than the value of the My Mac Group. While the Proposed Transaction is not fair, we have assessed it as being reasonable. In particular, we note that the degree by which the transaction is not fair is marginal and that the cost savings to Broad from ending the dispute with Mr Bardel are likely to more than offset the amount by which the transaction is not fair. We have therefore assessed the Proposed Transaction as being not fair but reasonable to Shareholders.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully



Richard Norris
Director



Dave Pearson
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.

Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

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Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001
Email: office@leadenhall.com.au

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If you do not get a satisfactory outcome, you have the option of contacting the Financial Ombudsman Service ("FOS"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Email: info@fos.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

18 July 2016

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1 TERMS OF THE PROPOSED TRANSACTION

In April 2015 Broad acquired My Mac, Monsta Industries and MonstaPOS (together defined as the My Mac Group) from Mr Steve Bardel and he became a director of Broad. Some months later a conflict between board members arose which has resulted in Mr Bardel initiating Supreme Court proceedings against Broad and the other directors.

In order to resolve the conflict, Broad has reached an agreement to sell the My Mac Group back to Mr Bardel. The proposed consideration for the sale of the My Mac Group is:

- ◆ The return of 574,149,098 ordinary shares in Broad
- ◆ The return of 25 million options to subscribe for unissued shares in Broad
- ◆ The payment of \$150,000
- ◆ The extinguishment of deferred consideration of \$120,000

The Proposed Transaction effectively reverses the original acquisition with the exception of:

- ◆ The cash amount is \$50,000 less than the amount originally paid by Broad
- ◆ Since the acquisition My Mac has paid \$79,150 to Broad in respect of management fees

The Proposed Transaction is conditional upon:

- ◆ Shareholder approval
- ◆ Release of any guarantees provided by Broad and/or the directors of Broad, to any suppliers and financiers of the My Mac Group
- ◆ The dismissal of the Supreme Court proceedings initiated by Mr Bardel against Broad
- ◆ The provision of all financial and related information in relation to the My Mac Group required for Broad to complete its 30 June 2015 annual report and 31 December 2015 half year accounts

2 SCOPE

2.1 Purpose of the report

ASX Listing Rule 10.1 requires a listed entity to obtain shareholders' approval before it disposes of a substantial asset to a related party. An asset is considered to be substantial if its value, or the consideration being paid for it, is 5% or more of the equity in the listed entity, as set out in its latest accounts lodged with the ASX. The total equity of Broad, as set out in the preliminary financial report for the year ending 30 June 2015, was \$338,342. As the cash component of the Proposed Transaction alone exceeds 5% of the equity as at 30 June 2015, the My Mac Group is a substantial asset for the purposes of Listing Rule 10.1.

The proposed acquirer of the My Mac Group is Mr Bardel who owns more than 10% of the voting shares in Broad. Accordingly, the Proposed Transaction is with a related party. As a result, the Proposed Transaction must be approved by the Broad shareholders that are not associated with the transaction (defined as the Shareholders). ASX Listing Rule 10.10 requires that the Notice of Meeting sent to shareholders in respect of such a transaction must include a report on the Proposed Transaction from an independent expert. The report must state whether the transaction is fair and reasonable to the Shareholders.

The directors of Broad, have engaged Leadenhall to prepare an independent expert's report in accordance with Listing Rule 10.10 stating whether the Proposed Transaction is fair and reasonable to the Shareholders. This report is to accompany the Notice of Meeting to be sent to shareholders of Broad in order to assist the Shareholders in their decision whether to vote for, or against, the Proposed Transaction.

2.2 Basis of evaluation

The ASX Listing Rules do not define the term 'fair and reasonable' and provide no guidance on what should be considered when assessing whether a proposed transaction is fair and reasonable. However, guidance on what an independent expert should consider and how 'fair and reasonable' should be defined is contained in *Regulatory Guide 111: Content of experts reports* ("RG 111") issued by the Australian Securities and Investment Commission ("ASIC"). RG 111 states that in the context of related party transactions requiring an independent expert's report as a result of ASX Listing Rule 10, there should be separate assessments of whether the transaction is 'fair' and whether it is 'reasonable'. We have therefore considered the concepts of 'fairness' and 'reasonableness' separately as discussed below.

Fairness

RG 111 defines a related party transaction as being fair if the value of the financial benefit to be provided by the company to the related party is equal to or less than the value of the consideration being provided to the company. Accordingly, Leadenhall has assessed whether the Proposed Transaction is fair by comparing the combined value of the My Mac Group, on a control basis, to the value of the proposed consideration to be received.

We have assessed the value of the My Mac Group at fair market value, which is defined by the International Glossary of Business Valuation Terms as:

The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

While there is no explicit definition of value in RG 111, this definition of fair market value is consistent with the basis of value described at RG 111.11 and is common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Special value is typically not considered in forming an opinion on the fair market value of an asset. Our valuation of the My Mac Group does not include any special value.

Reasonableness

In accordance with RG 111, we have defined the Proposed Transaction as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote for the proposal. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG 111:

- ◆ The financial situation and solvency of Broad
- ◆ Opportunity costs to Broad
- ◆ The alternative options available to Broad and the likelihood of those options occurring
- ◆ Broad's bargaining position
- ◆ Whether there is selective treatment of any security holder, particularly Mr Bardel
- ◆ Any special value of the transaction to Mr Bardel

We have also considered the other significant advantages and disadvantages to the Shareholders of the Proposed Transaction.

2.3 Individual circumstances

We have evaluated the Proposed Transaction for the Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of this Proposed Transaction or their specific financial circumstances.

3 PROFILE OF THE MY MAC GROUP

3.1 Background

Prior to the acquisition by Broad, My Mac was the largest privately owned Premium Apple Reseller in Australia with four retail outlets (three in Melbourne and one in Sydney). My Mac is also an Apple Premium Service Provider and a cloud integration and a point of sale specialist. My Mac generates revenue of approximately \$15.5 million per annum through the sale and service of Apple products and has recently expanded their operations into supplying Apple products and support services to schools. There are no ongoing contracts, or guaranteed revenue from the education market. My Mac currently operates three retail outlets and one warehouse at the following locations:

- ◆ Federation Square (Melbourne CBD), Victoria
- ◆ St Kilda, Victoria
- ◆ Moorabbin, Victoria (warehouse)
- ◆ Moore Park, New South Wales

Monsta Industries is an importer and wholesaler of technology accessories, predominantly third party manufactured accessories for Apple products. Monsta Industries is expected to generate revenue of approximately \$80,000 in FY16 from the distribution of Xtreme Guard products. Expected FY16 revenue is significantly lower than previous years as a number of distribution agreements have been terminated since FY15.

Prior to the acquisition by Broad, MonstaPOS distributed the Checkout point of sale software. The distribution of Checkout was subsequently undertaken by Monsta Industries. At the time of the acquisition by Broad, MonstaPOS had undertaken some preliminary work to develop its own point of sale system. Work on the proprietary point of sale system has not progressed since the acquisition by Broad. MonstaPOS is no longer trading and had net assets of \$100 as at 31 December 2015.

3.2 Authorised Apple Resellers

My Mac is an authorised Apple reseller and service provider. Any company wishing to sell Apple branded products must execute an authorised reseller agreement with Apple. Authorised reseller agreements are for fixed terms, and must be renewed every twelve months. Apple can terminate reseller agreements upon breach of any of the terms or they may refuse to renew an agreement at their discretion. Authorised reseller agreements cannot be assigned and in the event of sale Apple must approve of the purchaser in order for the business to maintain its authorised reseller status. Apple may also designate selected authorised resellers as a premium Apple reseller based on the length of the relationship with Apple and the qualifications of the management team. Premium resellers receive limited benefits from Apple other than the perceived prestige customers may associate with the 'premium' designation.

There are three wholesalers of Apple products in Australia and they are only allowed to sell to authorised Apple resellers. Some Apple resellers that have the ability to provide substantial financial guarantees may deal directly with Apple as their product distributor. The advantage to dealing directly with Apple as a distributor is more favourable gross margins as the profit margin required by a third party distributor is avoided. Currently, My Mac purchases stock from the three Apple wholesalers in Australia and does not deal directly with Apple to source inventory.

In addition to authorised resellers, Apple also have their own stand-alone retail stores and a large online sales presence. Because of this, they try to reduce the ability of authorised resellers to offer discounts on hardware by offering low gross margins (the actual margins are subject to confidentiality clauses but are anecdotally in the range of 7% to 9%), thus effectively forcing authorised resellers to sell at the recommended retail price or sell the products at a loss. Apple also provides financial incentives to retailers who sell Apple products at their recommended retail price. More generous margins are provided on Apple accessories and it is through these products that resellers try to generate a return. Apple resellers are also required to purchase a minimum level of product annually in order to maintain their authorised reseller status.

3.3 Industry Summary

The My Mac Group primarily operate in the computer and software retailing industry in Australia. Industry information, as reported by IBISWorld, is provided below.

Introduction

The computer and software retailing industry has faced difficult trading conditions in recent times, with weak revenue growth of just 1.6%* over the five years to 30 June 2016. Depressed growth in the industry is largely attributable to economic uncertainty which has negatively impacted consumer discretionary spending, and increased competition, particularly from online players. These factors have combined to erode profit margins. In addition, cloud computing and software developments have changed the way consumers store and accesses data and as a result, the replacement cycle of existing computers has been slightly extended.

Although consumer sentiment is becoming more positive, slow growth in discretionary income may hinder actual spending and online competition is expected to remain intense, leading to a further decline in profit margins. For Apple resellers, the continued expansion of Apple's own retail footprint in Australia will increase competition, with a number of resellers already exiting the market because of their inability to compete with new Apple retail stores. Apple resellers are also operating in an increasingly competitive market, particularly for smartphones and tablets, where there was previously little competition from other brands.

Key External Drivers

The key drivers of the industry include:

- ◆ **Household discretionary income:** computers and software are generally considered to be discretionary purchases. Therefore, changes in consumer discretionary income influences the level of demand for these products. Discretionary income in Australia is expected to start increasing again in the near term after a period of decline following the global financial crisis
- ◆ **Consumer sentiment:** consumer sentiment influences demand for discretionary items. As sentiment declines, consumers become more concerned about the stability of the economy and their ability to repay household debts. As a result, they may limit spending on non-essential products
- ◆ **IT and telecommunications adoption:** growth in the adoption rate of IT and telecommunication results in stronger demand in computers and related products. Growth in consumer knowledge of IT and telecommunication products also drives demand. Adoption rates are expected to continue growing in the short to medium term
- ◆ **Competition from online retailers:** industry operators are subject to growing competition from pure online retailers. Online operators can often provide a similar range of products at more competitive prices due to lower overhead costs. In Australia this is demonstrated by the online retailer Kogan which is one of the only companies to consistently offer discounted Apple products
- ◆ **Exchange rates:** most computer products and accessories are imported into Australia. If the value of the Australian dollar increase, the price of imports decreases making computers and accessories cheaper. The Australian dollar is expected to continue to decline against key currencies in the short to medium term which will make imported computers and accessories more expensive

Industry Life Cycle

According to IBISWorld, the industry is in the decline phase of its life cycle. Over the 10 years to FY21, the industry's contribution to the overall economy is expected to increase by an annualised 1.2%* which is lower than the expected growth in Australian gross domestic product of 2.6%* per annum. The weak performance can be attributed to the erosion of product margins due to market saturation and increasing competition from online players. The bulk buying power of larger players, the increasing retail footprint of large brands and mounting competition from pure online players has negatively influenced the trading viability of smaller operators.

Despite advances in product design and technology, demand for new products is unlikely to significantly alter the industry's lifecycle. Anticipated growth in sales lost to pure online retailers is projected to contribute to the industry's declining life cycle phase.

* Source: IBISWorld Report, Computer Software Retailing in Australia, April 2016

Demand Determinants

The market for computer and software goods is price-driven. Consumers are relatively price conscious and compare deals in search of the best possible price by operators. In respect of Apple products, despite the low retail margins, some large retailers use these products as loss leaders to drive foot traffic and sales of higher margin accessories. In addition, online sellers can offer some discounts on Apple products due to their lower cost structure. Advances in product technology and functionality also drive demand. The release of new products or software attracts consumers to the industry and tempts them to upgrade their existing equipment.

Competitive Landscape

The industry exhibits a medium level of market share concentration, with the three largest participants expected to account for approximately 39% of the market in FY16. The largest industry participants are:

- ◆ Harvey Norman Holdings Ltd: 15.5% market share
- ◆ JB Hi-Fi Limited: 13.4% market share
- ◆ Wesfarmers Limited (Officeworks): 9.7% market share

Industry concentration is forecast to increase over the next five years, stemming from the expansion of the larger players' networks. This will be to the detriment of small independent players, as increased competition may lead to their exit or acquisition by larger operators. Key industry success factors include:

- ◆ **Ability to control inventory:** operators require adequate stock controls to reduce inventory costs and increase stock turnover
- ◆ **Having a clear market position:** operators should project a clear and consistent image of the company's brand to consumers
- ◆ **Attractive product presentation:** store layout and stock displays should encourage customers instore and reinforce the company's image
- ◆ **Reflect consumer trends:** retailers need to ensure that their product mix is appropriate for the target market, in particular making sure that the latest technology is available

Industry concentration has increased over the past five years, reflecting the dominance of major players. Product range and pricing drive industry competition. Capital costs for prospective operators are linked to the establishment of new stores, initial inventory and the point of sales systems. The industry's falling profit margins, declining number of physical retail outlets and clearly segmented product group provides little incentive for new players to enter the market.

Whilst the large electronic retailers are authorised Apple resellers, another key competitor in the sale of Apple products are stand-alone Apple branded stores. Apple's Australian subsidiary is Apple Pty Limited. Apple Pty Ltd opened its first stand-alone retail store in Sydney in 2008. Since this time the company's store network has expanded to include 22 stores nationwide. In addition to the sale of Apple products, company stores are also used as a marketing tool, allowing customers to use the devices and seek assistance. Apple stores also offer services including free workshops, free programs for kids and training for individuals for a small annual fee. Apple Pty Ltd's sales from computer equipment are expected to decrease by 3.4% over the five years through FY16 due to declining iPad, iMac and MacBook Air sales, as competition in these segments has significantly increased.

Other industry developments

Apple's expanding retail footprint in Australia has been detrimental to smaller local resellers, a number of whom have exited the market in response to the increased competition generated by local stand-alone Apple stores. For example, over the last two years Vita Group, the parent of Next Byte a premium Apple reseller with 18 stores across Australia, progressively closed down their portfolio due to financial pressure caused by Apple's increased physical presence in Australia. None of the Next Byte store were sold by Vita Group.

The appointment of Receivers and Managers to, and the subsequent closure of, the electronics retailer Dick Smith has been a key development in the industry over the last six months that has had an impact on industry participants. After the collapse of Dick Smith, suppliers have been focussed on their credit exposure to the industry and have been reducing trading terms on the back of the perceived increase risk in the industry. Electronics retailing requires significant investment in working capital and the increased scrutiny of

suppliers over their customer's financial position may lead to an increase in the required level of working capital investment for some retailers.

3.4 Financial performance

Audited financial statements for the My Mac Group are not available. As such, we have relied on management accounts prepared by Mr Bardel and his accountant. Although we have received a representation letter, signed by Mr Bardel, confirming that all of the financial information provided to Leadenhall is factually correct, we have not completed an audit of this information.

The unaudited statements of financial performance for the My Mac Group for FY14, FY15 and the nine months to 31 March 2016 are set out below:

Table 1: Unaudited statements of financial performance for the My Mac Group

	FY14	FY15	Mar-16
	Total	Total	Total
Income			
Sales	17,360	14,962	11,685
Incentives and rebates	346	62	66
Other income	26	37	4
Extraordinary income	-	327	-
Total income	17,732	15,388	11,754
Cost of sales	(14,473)	(12,075)	(9,543)
Gross Profit	3,259	3,313	2,211
Expenses			
Employee expenses	(2,194)	(1,881)	(1,439)
Rent	(544)	(488)	(333)
Administration	(204)	(217)	(263)
Advertising	(399)	(104)	(17)
Operational expenses	(117)	(99)	(72)
Selling expenses	(41)	(25)	(17)
Utilities	(38)	(34)	(24)
Other property expenses	(51)	(39)	(8)
Bank charges and bad debts	(7)	(3)	(28)
Total expenses	(3,595)	(2,890)	(2,200)
EBITDA	(336)	422	11
Depreciation	(22)	(33)	(22)
EBIT	(358)	390	(11)
Net interest	(142)	(126)	(65)
Net profit before tax	(500)	264	(76)
Normalisations			
Extraordinary income	-	(327)	-
Closed stores	182	172	-
Non-recurring revenue	-	-	(60)
Payments to Broad	-	50	29
Total normalisations	182	(104)	(31)
Normalised EBIT	(176)	285	(42)
Net interest	(142)	(126)	(65)
Normalised net profit before tax	(318)	160	(107)

Source: My Mac and Monsta Industries management accounts

In relation to the financial performance of the My Mac Group we note:

- ◆ Revenue declined between FY14 and FY15 which was caused by the closure of one My Mac store. Based on current run rates, FY16 revenue is expected to grow slightly to around \$15.5 million mainly due to growth in the education market
- ◆ Gross margin, excluding extraordinary income decreased from 22% in FY15 to 18.8% in FY16 YTD
- ◆ The reduction in total expenses between FY14 and FY15 is in line with the reduced number of stores

As set out in the table above, we have adjusted net profit before tax for the following non-recurring and unrecorded items:

- ◆ **Extraordinary income:** Monsta Industries recorded \$0.3 million of extraordinary income in FY15. This income is related to the forgiveness of shareholder loans, made by the original owners of Monsta Industries, upon the acquisition by Broad
- ◆ **Non-recurring revenue:** In 2016 My Mac generated \$60,000 in service revenue from Apple in relation to the replacement of a recalled Apple product. Replacement of recalled products is not an ongoing source of revenue and as such this revenue has been removed
- ◆ **Payments to Broad:** Since the acquisition, My Mac has made payments totalling \$79,000 to Broad for management fees. This amount would not have been paid if My Mac was operating as a stand-alone business and as such it has been excluded

The normalised profit before tax shows that the My Mac Group did not make a profit in FY14 and is unlikely to make a profit in FY16. However, the financial information presented above does not include any potential adjustments for synergies that may be available to special purchasers, for example salary and related expenses paid to Steve Bardel. It is possible that, depending on the nature of a potential purchaser of the My Mac Group, some of these expenditures may be added back as a normalisation adjustment, increasing normalised profit.

3.5 Financial position

The unaudited statement of financial position for the My Mac Group as 31 December 2015 and 31 March 2016 are set out below:

Table 2: Unaudited statements of financial position for the My Mac Group

	Dec-15	Mar-16
Current assets		
Cash	322	(206)
Trade & other receivables	294	403
Inventory	1,964	1,830
Total current assets	2,580	2,026
Non-current assets		
Leasehold improvements	496	440
Trade & other receivables	141	49
Plant and equipment	49	45
Motor vehicles	3	3
Intangibles	129	129
Total non-current assets	817	666
Total Assets	3,397	2,692
Current liabilities		
Trade & other payables	(2,297)	(1,534)
Other current liabilities	(88)	(117)
Loans from former shareholders	(72)	(72)
Total current liabilities	(2,456)	(1,723)
Net assets	941	970

Source: My Mac, Monsta Industries and MonstaPOS management accounts

In relation to the statements of financial position set out above, we note the following:

- ◆ My Mac had a negative cash balance as at 31 March 2016 as the credit limits on a number of supplier accounts have been reduced recently requiring the use of an overdraft facility to fund stock purchases
- ◆ Former shareholder loans are from Mr Bardel and Mr Bortz the former owners of the My Mac Group

4 VALUATION METHODOLOGY

4.1 Available valuation methodologies

To estimate the fair market value of Broad and the My Mac Group we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- ◆ The discounted cash flow method
- ◆ The capitalisation of earnings method
- ◆ Asset based methods
- ◆ Analysis of share market trading
- ◆ Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied, at least as a secondary cross-check to a primary method. The choice of methods depends on factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

4.2 Selection of valuation methodologies

In selecting an appropriate valuation methodology to value the My Mac Group we have considered the following factors:

- ◆ In recent financial years the My Mac Group has generally recorded losses, although it reported a small positive EBIT in FY15. Based on the historical financial performance and the difficult trading conditions facing the industry, there is no reason to suggest that FY17 EBIT would be significantly higher than historical EBIT. Therefore, if a capitalisation of maintainable earnings approach was used, we consider that a reasonable level of maintainable EBIT would be less than \$30,000. However, as at 31 March 2016 the group had net tangible operating assets in excess of \$1 million. A capitalisation of earnings approach would not yield an enterprise value close to this level, especially considering the risk presented by the increasing retail footprint of Apple's own stores and speculation that it is planning a Melbourne CBD store. As a higher value could be realised through an orderly realisation of assets than through continued trading of the business, we do not consider a capitalisation of earnings approach to be appropriate.
- ◆ The directors and management of the My Mac Group have not prepared any financial forecasts for the group. However, they have confirmed that there is no expectation of a significant improvement in its profitability. Thus for similar reasons to the discussion above regarding the capitalisation of earnings approach, we do not consider a discounted cash flow approach to be appropriate.
- ◆ The original acquisition of the My Mac Group by Broad was negotiated on arm's length basis with neither party under undue pressure to enter the transaction. Thus this can be expected to represent a fair market value on the date of the acquisition. However, as this transaction was over a year ago it may not reflect the current position and performance of the group, or the current economic environment.

Accordingly, we are of the opinion that the most appropriate methodology to value the My Mac Group is an orderly realisation of assets approach, with a cross-check by reference to the price paid by Broad for the initial acquisition of the My Mac Group.

Broad

Broad's main assets are cash and its status as a listed shell company as its only operating business, other than the My Mac Group, currently generates a small loss. However, management expect this business, Unified Business Communication Group Pty Ltd ("UBCG"), to considerably improve after the sale of the My Mac Group when their focus is returned to operating UBCG. These assets can be valued reliably individually and aggregated using an asset approach. We have also compared the assessed value using this approach to the proposed price of the planned capital raising, this is discussed further in Section 6.

5 VALUATION OF THE MY MAC GROUP

5.1 Net asset based valuation

We have assessed the value of the My Mac Group using the orderly realisation of assets approach. While we understand that Mr Bardel intends to continue to run the My Mac Group business, we have adopted this approach for the reasons described in Section 4.2 above. We note that Mr Bardel is employed by the business, has provided a number of personal guarantees to suppliers of the business and has a long and close association with the business. These factors are likely to influence Mr Bardel's decision to continue to run the business, despite likelihood of a higher return being generated through an orderly realisation of assets, but are not likely to be relevant to an alternative purchaser of the business.

In taking an orderly realisation of assets approach, we have made adjustments to the book value of net assets as at 31 March 2015 for assets that are not realisable or where the likely realisable value is less than the book value. Assessing the likely realisable value of some assets is subjective in nature. As the risk to Shareholders is that the value of the My Mac Group is understated, we have generally taken a conservative approach to assessing the recoverable amount of assets by allowing for the upper end of a reasonable range or not including realisation costs that would likely be incurred in this scenario.

Our assessed adjusted net asset value is set out in the table below:

Table 3: Assessed value of the My Mac Group

	Assessed value (\$'000)	
	Low	High
Net assets as at 31 March 2016	970	970
Adjustments		
- Leasehold improvements	(440)	(352)
- Intangible assets	(129)	(129)
- Intercompany loans	100	100
Adjusted net assets	501	589

Source: My Mac Group management accounts and Leadenhall analysis

The adjustments made to net assets are explained below:

Leasehold improvements

This asset primarily relates to improvements made to the property at Federation Square leased by My Mac. Under an orderly realisation scenario, all leased properties would have to be returned to their original condition upon cessation of the lease. It is unlikely that a substantial amount of the improvements could be dismantled and sold, or that an incoming lessee would purchase the existing fit out at cost. From discussions with insolvency practitioners and plant and equipment valuers, we understand that sale of office/shop fit out and equipment generally generates less than 20 cents in the dollar on cost price and can result in no or negative return after taking into account selling and make-good costs. Based on this, we have assumed that the realisable value of the leasehold improvements, less required make good costs, is 0% to 20% of their book value.

Intangible assets

Intangible assets relate to goodwill and capitalised formation expenses which are unlikely to be able to be sold in an orderly realisation of assets. We have therefore removed the amount of intangible assets in our analysis.

We have also identified other possible intangible assets that may be owned by the businesses (e.g. brand names and customer lists). We do not consider that assets such as these would have a material value in a business of this size and with such a dominant competitor, Apple, operating within the same local market. In addition, we note that the Next Byte group of Apple resellers was closed after being unable to obtain a sale of its businesses or assets.

Intercompany loans

There is an imbalance on the inter-company loan accounts between My Mac and Monsta Industries. We have increased net assets by the amount of the imbalance to remove the impact of these loan accounts.

Inventory

Inventory is recorded on the balance sheet at cost. As the margins on Apple products, which comprise the majority of inventory, are very low the usual retail price for most products is not significantly above the cost price. Given the low margins, tax payable on amounts recovered over the cost price and discounting that may be required to sell some or all of the stock, it is likely that in an orderly realisation of assets scenario some inventory may be sold at below cost while some may be sold at slightly above cost. On balance we believe it is reasonable to assume that inventory could be sold for its book value in an orderly realisation scenario.

Property, plant, equipment and motor vehicles

It is possible that the realisable value of the property, plant and equipment and motor vehicles is below the book value. However, given the relatively low book value, any adjustment will not materially impact our conclusion.

Realisation costs

We have made a conservative assessment of the costs involved in an orderly winding up of the business. In particular, we note that we have not included provisions for the following costs which may be incurred:

- ◆ Costs, in excess of the realisable value of leasehold improvements, incurred in returning leased premises to their original
- ◆ Redundancy and any other employment termination costs
- ◆ Losses incurred in operating the business during the realisation process
- ◆ Lease termination costs, if leased premises were vacated prior to the lease expiry date
- ◆ Professional fees that may be incurred in legally winding up the My Mac Group

5.2 Conclusion

Based on our analysis set out above, an orderly realisation of assets is unlikely to yield a value in excess of our assessed valuation range of \$501,000 to \$589,000.

6 VALUATION OF CONSIDERATION

6.1 Introduction

Subject to Shareholder approval, Broad has agreed to sell the My Mac Group back to Mr Bardel. The proposed consideration for the sale is:

- ◆ The return of 574,149,098 ordinary shares in Broad
- ◆ The return of 25 million options to subscribe for unissued shares in Broad
- ◆ The payment of \$150,000
- ◆ The extinguishment of deferred consideration of \$120,000

The Proposed Transaction effectively reverses the original acquisition with the exception of:

- ◆ The cash amount is \$50,000 less than the amount originally paid by Broad
- ◆ Since the acquisition My Mac has paid \$79,150 to Broad in respect of management fees

A key component of the consideration is the return of 574,149,098 Broad shares. Broad is public company listed on the ASX. Other than the My Mac Group, Broad owns one other operating subsidiary, UBCG. UBCG operates in the information and communication technologies market and offers telecommunications system design, implementation and support services to clients. UBCG is a relatively small business which in FY15 generated revenue of \$271,113 and a loss of \$57,748. Excluding investments in the My Mac Group, Broad had net assets of negative \$0.45 million as at 9 June 2016.

6.2 Valuation

We have assessed the value of the consideration to be paid to Broad as follows:

Table 4: Assessed value of the consideration to be received by Broad

Component (\$'000)	Low	High
Cash	150	150
Deferred consideration	120	120
Broad shares	144	230
Broad options	-	-
Total	414	500

Source: Broad and Leadenhall Analysis

Cash

Mr Bardel is to pay \$150,000 to Broad on completion of the Proposed Transaction.

Deferred consideration

If the Proposed Transaction is approved, Broad will be released from paying \$120,000 of deferred consideration in relation to its original acquisition of the My Mac Group. This amount is payable now, thus no reduction has been made to the face value to take account of any time value.

Broad shares

We have assessed the value of a Broad share based on consideration of:

- ◆ The price negotiated between Arthur Bortz and Steve Bardel for the acquisition of Mr Bortz's shares by Mr Bardel in relation to the Proposed Transaction. Mr Bardel has agreed to acquire 150 million Broad shares from Mr Bortz for \$90,000, or 0.06 cents per share.
- ◆ The price at which Mr Vaz Hovanessian has agreed to subscribe for shares in Broad, being no less than 0.05 cents per share (refer to Resolution 3 in the attached Notice of Meeting)

- ◆ The adjusted net assets per share of Broad. As set out in the table below, after the Proposed Transaction, Broad will have minimal net assets, other than its listing on the ASX, which provides shareholder value as a potential vehicle for a backdoor listing. Based on recent discussions we have had with stock brokers and insolvency professionals, we understand the typical value for a listed shell company is in the range of \$0.5 million to \$1.0 million. As Broad is currently suspended, we have assessed the value of Broad's shell to be towards the lower end of this range, at \$0.5 million to \$0.75 million. After the Proposed Transaction Broad will have 1,405 million shares on issue, implying a value per share of 0.02 cents to 0.04 cents for its listed shell status.

	Low	High
Broad net assets	472	472
Less: investment in My Mac Group	(931)	(931)
Add: Cash consideration	150	150
Deferred consideration forgone	120	120
Adjusted net assets	(189)	(189)
Value of listed shell	500	750
Adjusted net assets (including listed shell)	311	561
Shares on issue	1,405,000	1,405,000
Value of a broad share (cents per share)	0.02	0.04

Source: Broad balance sheet and Leadenhall analysis

As a result of these considerations we have assessed the value of a Broad share to be 0.02 cents to 0.04 cents, based on the adjusted net assets of Broad. The price at which Mr Hovanessian has agreed to subscribe for shares is slightly higher than this range. This is likely to be because Mr Hovanessian has attributed value to UBCG. We note that the price agreed between Mr Bardel and Mr Bortz was negotiated without the benefit of updated financial information regarding Broad and was between two business associates. It is therefore not necessarily representative of fair market value, although it is broadly consistent with the upper end of our selected range.

This implies a value of \$144,000 to \$230,000 for the 574 million Broad shares to be transferred by Mr Bardel to Broad pursuant to the Proposed Transaction.

Broad options

The Broad options to be transferred by Mr Bardel to Broad under the Proposed Transaction have an exercise price of 0.5 cents. Based on our assessed value of a Broad share these options are significantly out of the money and therefore have a negligible value.

7 EVALUATION

7.1 Fairness

As required by RG 111 we have assessed whether the Proposed Transaction is fair by comparing:

- ◆ Our assessed fair market value of the My Mac Group, the asset which Broad is selling; with
- ◆ Our assessed fair market value of the consideration to be received by Broad for the sale of the My Mac Group

This comparison is set out in the table below.

Table 5: Assessment of fairness

Cents		Low	High
Fair market value of the My Mac Group	(Section 5)	\$501,000	\$589,000
Fair market value of consideration to be received by Broad	(Section 6)	\$414,000	\$500,000

Source: Leadenhall analysis

Since the value of the consideration payable to Broad is lower than the value of the My Mac Group, the Proposed transaction is not fair.

7.2 Reasonableness

We have defined the Proposed Transaction as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered the following advantages and disadvantages of the Proposed Transaction to Shareholders.

7.2.1 Advantages

Resolution of board dispute and Supreme Court proceedings

The dispute with Mr Bardel has consumed considerable Board time, which if the Proposed Transaction proceeds could be spent focussing on the growth of other businesses operated by Broad. In addition, as condition precedent of the Proposed Transaction, the Supreme Court proceedings against Broad are to be dismissed. Should this action remain on foot it is likely that, as a minimum, significant legal costs would be incurred in defending the claim and potentially Broad could be wound up as a result of the claim.

Liquidity

As part of the Proposed Transactions Mr Bardel has agreed to provide all information need to complete the audit of the FY15 Broad financial statements. It is expected that upon lodgement of the FY15 annual report with the ASX the suspension on trading of Broad's shares is likely to be lifted, creating liquidity for Broad's shareholders.

Disposal of underperforming businesses

At the date of acquisition, the My Mac Group was expected to generate a profit in FY16. Year to date operations have resulted in an EBIT loss for the nine months to June which is well below initial expectations. Disposal of the My Mac Group means that Broad will avoid any future losses generated by the My Mac Group.

Release from guarantees

Upon completion of a sale of the My Mac Group to Mr Bardel, Broad will be released from all guarantees provided to suppliers and financiers of the My Mac Group.

No superior alternatives in current circumstances

The viability of the My Mac Group as a going concern in the current operating environment is uncertain. The dispute between Mr Bardel and the Board has had a significant negative impact on the operation of the My Mac Group and continued disharmony would likely continue to erode the value and viability of the My Mac Group's business. There are currently no alternatives available that would likely result in a better outcome for Shareholders.

Investment/acquisition opportunities

The \$150,000 cash payable under the Proposed Transaction could be used to expand current businesses or pursue an alternative acquisition. In addition, if the suspension on share trading is lifted, Broad will represent an attractive shell company for future acquisition opportunities.

7.2.2 Disadvantages

Loss of any future growth potential from My Mac

Despite the fact that the trading conditions for the My Mac Group are currently unfavourable, it is possible that in the future more favourable conditions could return which would mean that the Shareholders would not be able to benefit from any future growth of the My Mac Group.

Potential for higher price

If potential buyer for My Mac could be identified that could make synergistic cost savings, for example another Mac dealer, it is possible that a capitalisation of earnings approach could yield a higher price than our assessed value of the My Mac Group. This would be a special value and would therefore not fall within our definition of fair market value. We consider it unlikely that an alternative purchaser could be found while the disruption from the management conflict is ongoing. Further, no alternative proposals have been made to Broad since the Proposed Transaction was announced. We note that a such an approach would not alter our conclusion on the Proposed Transaction.

Limited operating business in the short-term

Without the contribution of the My Mac Group, Broad will have reduced revenue generating assets until such time as another acquisition can be identified or the information and communication technologies business operated by UBCG is expanded. Although, management believe UBCG has growth potential in the longer term.

Increased shareholder concentration

If the shares issued as consideration for the acquisition of the My Mac Group are cancelled, it will increase the concentration of the shareholdings of existing shareholders.

Unreliable financial information

As the My Mac financial statements provided are unaudited, there is a risk that the net asset value of the My Mac group is understated. To address this risk, we have taken a conservative approach to the valuation of the My Mac Group by ignoring closure costs and possible write-downs on stock. We have also taken a conservative approach to the valuation of the consideration by disregarding the value of UBCG when considering the value of the Broad shares to be received as consideration.

7.2.3 Conclusion on reasonableness

While the Proposed Transaction is not fair, we have assessed it as being reasonable. In particular, we note that the degree by which the transaction is not fair is marginal and that the cost savings to Broad from ending the Supreme Court proceedings against it are likely to more than offset the amount by which the transaction is not fair. In the absence of the Proposed Transaction, it is likely that the conflict between the management team will impact the trading performance of the My Mac Group. As there are no alternative proposals to resolve the conflict, or alternative offers for the My Mac Group, we consider the advantages to the Proposed Transaction outweigh the disadvantages.

As a further indication of the reasonableness of the Proposed Transaction, we have compared the consideration payable under the Proposed Transaction to the consideration originally paid by Broad to acquire the My Mac Group. We consider this comparison is relevant because the initial transaction was negotiated on an arm's length basis between willing participants. Over that period My Mac Group's financial performance has deteriorated, from a normalised EBIT of \$285,000 for FY15 to a normalised EBIT loss of \$42,000 over the nine months to 31 March 2016. As explained in Section 1, the consideration for the Proposed Transaction is the same as that paid by Broad to acquire the My Mac Group, less \$50,000. We consider this is a further indication that the Proposed Transaction is reasonable to Shareholders given Broad has also received \$79,150 in management fees from the My Mac Group and given the deterioration in the financial performance of the group.

7.3 Opinion

The Proposed Transaction is not fair but reasonable to Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by their own particular circumstances. If in doubt, the shareholder should consult an independent financial adviser.

APPENDIX 1: GLOSSARY

Term	Meaning
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
Broad	Broad Investments Limited
Corporations Act	The Corporations Act 2001
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year ending 30 June
IER	Independent expert's report
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
My Mac	My Mac (Australia) Pty Ltd
My Mac Group	My Mac, Monsta Industries and MonstaPOS
Monsta Industries	Monsta Industries Unit Trust
Monsta POS	MonstaPOS Unit Trust
NPAT	Net profit after tax
Proposed Transaction	Sale of the My Mac Group to Mr Steve Bardel
RG 111	Regulatory Guide 111: Content of Expert Reports
Section 606	Section 606 of the Corporations Act 2001
Shareholders	Broad shareholders not associated with the Proposed Transactions (i.e. all shareholders except Steve Bardel)
YTD	Year to date

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- ◆ The discounted cash flow method
- ◆ The capitalisation of earnings method
- ◆ Asset based methods
- ◆ Analysis of share market trading
- ◆ Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- ◆ A forecast of expected future cash flows
- ◆ An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- ◆ Early stage companies or projects
- ◆ Limited life assets such as a mine or toll concession
- ◆ Companies where significant growth is expected in future cash flows
- ◆ Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- ◆ Reliable forecasts of cash flow are not available and cannot be determined
- ◆ There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate

capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- ◆ A level of future maintainable earnings
- ◆ An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- ◆ There are no suitable listed company or transaction benchmarks for comparison
- ◆ The asset has a limited life
- ◆ Future earnings or cash flows are expected to be volatile
- ◆ There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- ◆ Orderly realisation
- ◆ Liquidation value
- ◆ Net assets on a going concern basis
- ◆ Replacement cost
- ◆ Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges

that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- ◆ An enterprise is loss making and is not expected to become profitable in the foreseeable future
- ◆ Assets are employed profitably but earn less than the cost of capital
- ◆ A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- ◆ It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- ◆ The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- ◆ A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by Broad being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to Broad's management for confirmation of factual accuracy.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by Broad and their officers, employees, agents or advisors, Broad has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by Broad and its officers, employees, agents or advisors or the failure by Broad and its officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Simon Dalgarno, B.Ec, FCA, F.FINSIA and Katy Lawrence, BCom., CA .

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of Broad. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.

GLOSSARY

Act means the Corporations Act

Annexure means an annexure to this Explanatory Statement

A\$, AUD and \$ means Australian dollars, unless otherwise stated.

AEST means Australian Eastern Standard Time.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) and the Australian Securities Exchange it operates.

Board means the board of Directors of Broad Investments Limited.

Business Day has the meaning given to it in the Listing Rules..

Company or **Broad** means Broad Investments Limited

Constitution means the constitution of the Company.

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

Director means a director of the Company as at the relevant time.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

General Meeting or **Meeting** the general meeting of the Company to be held on 14 October 2016, at 10.45 am at Level 10, 2 Bligh Street, Sydney, NSW, 2000

Independent Expert's Report means the independent expert's report set out at Annexure A to this Explanatory Statement.

Listing Rules means the official listing rules of ASX, as amended from time to time.

Notice this notice of General Meeting

Register means the register of the Shareholders required to be maintained by the Company in accordance with the Corporations Act.

Related Party has the meaning given to that term in section 228 of the Corporations Act.

Resolution means a resolution to be put before Shareholders at the General Meeting

Share and **Shares** means a fully paid ordinary share in the issued capital of the Company.

Shareholder means a holder of Shares recorded in the Register.

Special General Meeting means the general meeting of the Company to be held on 14 October 2016, at 10.30 am at Level 10, 2 Bligh Street, Sydney, NSW, 2000

Vendor Security Holders means the Vendors, as defined in the Explanatory Statement, as being the holders of the Broad shares and Broad options that are to be cancelled.

BROAD INVESTMENTS LIMITED
ACN 087 813 090

PROXY FORM

The Company Secretary
Broad Investments Limited

By post and delivery: *By facsimile:* 02 9235 2203

Level 10, 2 Bligh Street
Sydney NSW 2000

I/We ¹ _____

of _____

being a Shareholder/Shareholders of the Company and entitled to attend and vote, hereby appoint ²

or if no person is named or failing such appointment the chairman of the General Meeting as my/our proxy to act generally and vote for me/us on my/our behalf at the General Meeting of the Company to be held at 10.45 am (Sydney time) on 14 October, 2016 at Level 10, 2 Bligh Street Sydney NSW and at any adjournment thereof in the manner indicated below or, in the absence of indication, as he thinks fit. If 2 proxies are appointed, the proportion or number of votes of this proxy is authorised to exercise is [_____]% of the Shareholder's votes. (An additional Proxy Form will be supplied by the Company, on request.)

INSTRUCTIONS AS TO VOTING ON THE RESOLUTIONS

The proxy is to vote on the Resolutions referred to in the Notice as follows:

		For	Against	Abstain *
	SPECIAL GENERAL MEETING			
Resolution 1	Cancellation of Shares and Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	GENERAL MEETING			
Resolution 1	Approval for disposal of Main Undertaking (LR 11.2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Approval for disposal of Sale Companies to a Director (LR 10.1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of Selective Reduction of Share Capital (Sec 256C)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Future Placement of Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Placement or issue of securities to Vaz Hovanessian	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Placement or issue of securities to Catherine Bray	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Placement or issue of securities to Gary Franklin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The chairman intends to vote all available proxies in favour of each Resolution.

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

Authorised signature/s

This section *must* be signed in accordance with the instructions overleaf to enable your voting instructions to be implemented.

Individual or Shareholder 1 <div style="border: 1px solid black; height: 25px; width: 100%; margin-bottom: 5px;"></div> Sole Director and Sole Company Secretary _____ Contact Name	Shareholder 2 <div style="border: 1px solid black; height: 25px; width: 100%; margin-bottom: 5px;"></div> Director _____ Contact Daytime Telephone	Shareholder 3 <div style="border: 1px solid black; height: 25px; width: 100%; margin-bottom: 5px;"></div> Director/Company Secretary _____ Date
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------

¹Insert name and address of Shareholder ² Insert name and address of proxy *Omit if not applicable

Proxy Notes:

A Shareholder entitled to attend and vote at the General Meeting may appoint a person as the Shareholder's proxy to attend and vote for the Shareholder at that General Meeting. If the Shareholder is entitled to cast 2 or more votes at the General Meeting the Shareholder may appoint not more than 2 proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder's votes. A proxy may, but need not be, a Shareholder of the Company.

If a Shareholder appoints a body corporate as the Shareholder's proxy to attend and vote for the Shareholder at that General Meeting, the representative of the body corporate to attend the General Meeting must produce the Certificate of Appointment of Representative prior to admission. A form of the certificate may be obtained from the Company's share registry.

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

- Joint Holding: where the holding is in more than one name all of the holders must sign.
- Power of Attorney: if signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.
- Companies: a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary can also sign. Please indicate the office held by signing in the appropriate space.

Proxy Forms (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be deposited at or received by facsimile transmission on 02 9235 2203 or by post or delivery to Level 10, 2 Bligh Street Sydney, NSW 2000 not less than 48 hours prior to the time of commencement of the General Meeting.