



FLAT GLASS INDUSTRIES LIMITED

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28 April 2016

TARGET'S STATEMENT
in response to the offer by
MHG Flat Glass Holdings Pty Ltd ACN 611 572 206
to acquire all of your FGI Shares.

All of the Directors of Flat Glass Industries Limited recommend that, in the absence of a superior proposal, you ACCEPT the MHG Offer to purchase all of your FGI Shares, for the reasons set out in this Target's Statement.

The Independent Expert has concluded that the MHG Offer is FAIR AND REASONABLE for FGI Shareholders.

This Target's Statement is dated 28 April 2016 and is given under Part 6.5 of the Corporations Act by Flat Glass Industries Limited ACN 003 173 242 in response to the Bidder's Statement and Offer dated 4 April 2016 and the Supplementary Bidder's Statement dated 27 April 2016.

You should read the Target's Statement in its entirety.

ASIC

A copy of this Target's Statement was lodged by Flat Glass Industries Limited ("FGI") with ASIC on 28 April 2016. Neither ASIC nor any of its respective officers take any responsibility for the content of this Target's Statement.

Investment Decision

This Target's Statement does not take into account the individual investment objectives, financial situation and particular needs of each FGI Shareholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer for your FGI Shares.

Information line and website

Frequently asked questions and answers may be found under Section 6. Further information relating to the Offer can also be obtained from FGI's website at www.flatglass.com.au

Key Dates

Event	Date
Bidder's Statement lodged with ASIC	4 April 2016
Bidder's Offer opens	18 April 2016
Target's Statement lodged with ASIC	28 April 2016
Bidder's Offer closes (unless extended)	5pm, 17 May 2016

Forward Looking Statements

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

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1. CHAIRMAN'S LETTER

28 April 2016

Dear Shareholder

RECOMMENDED TAKEOVER OFFER FOR FGI

On 4 April 2016, FGI received an all cash off-market takeover Offer from MHG Flat Glass Holdings Pty. Limited ACN 611 572 206 118 ("MHG") for all FGI Shares that it does not already own or control, at an Offer Price of \$0.10 cash per FGI Share (the "Offer").

On 22 April 2016, MHG announced that it:

- (a) had increased the Offer Price to \$0.11 cash per FGI share and that the Offer Price was its best and final amount;
- (b) declared the Offer free from any Defeating Conditions.

On 27 April 2016, MHG issued a Supplementary Bidder's Statement advising that it had a relevant interest in 54.61% of the issued capital of FGI.

MHG OFFER DELIVERS COMPELLING VALUE

The Offer Price of \$0.11 per Share represents a significant premium to the last traded price before the announcement on the ASX of the Offer for FGI Shares on 1 April 2016. The Directors believe the Offer delivers compelling value to FGI Shareholders.

FGI BOARD'S RECOMMENDATION

The Directors have carefully considered the Offer and recommend that FGI Shareholders accept the Offer, in the absence of a Superior Proposal. Our recommendation is based on a number of factors including:

- our opinion that \$0.11 per Share represents a fair reflection of the underlying value of your FGI Shares;
- the opinion of the Independent Expert that the Offer is fair and reasonable;
- the certainty for shareholders that they receive cash; and
- the fact that no Superior Proposal has emerged.

Your Directors also believe that if the Offer is unsuccessful or if the Bidder does not proceed to compulsorily acquire all of the FGI Shares, the opportunities to sell your shares for cash will thereafter be very limited.

I and your Directors intend to accept the Offer with respect to all of the FGI Shares owned or controlled by each of us, if any, in the absence of a Superior Proposal and I encourage you to do the same.

ACCEPTING THE OFFER AND NEXT STEPS

You should have received, by now, a copy of the Bidder's Statement and the Supplementary Bidders Statement, setting out the terms and conditions of the Offer. To accept the Offer, follow the instructions outlined in Section 8.3 of the Bidder's Statement and printed on the acceptance form which accompanied the Bidder's Statement.

The Offer Period is scheduled to close on 17 May 2016 (unless extended). To be valid, your acceptance must be received before the close of the Offer Period. FGI Shareholders should note that MHG has not indicated whether it will be prepared to extend the Offer Period in any circumstances. Accordingly, your Directors recommend that you should assume that the Offer Period will not be extended.

FURTHER INFORMATION

I encourage you to read this Target's Statement carefully, and if you need any more information, I recommend that you seek professional advice.

The Directors appreciate your support to date and I would like to take this opportunity to personally thank you for being a Shareholder.

Yours sincerely,

Mr Jamie Schwarz
Chairman

2. DIRECTORS' RECOMMENDATION

2.1 What do your Directors recommend?

After taking into account each of the matters in this Target's Statement (including the contents of the Independent Expert's Report) and in the Bidder's Statement and Supplementary Bidder's Statement, each of your Directors recommend that you ACCEPT the Offer promptly in order to ensure your acceptance is received by 17 May 2016 (unless the Offer is extended), in the absence of a Superior Proposal.

The reasons that the Directors recommend that you ACCEPT the Offer are outlined in Section 4 entitled "Why you should ACCEPT the Offer".

2.2 Intentions of your Directors in relation to the Offer

Each Director of FGI intends to accept the Offer for all FGI Shares they own or control (if any), in the absence of a Superior Proposal. Details of the relevant interests of each Director in FGI Shares are set out in Section 9.2.

2.3 What do you need to do?

In considering whether to accept the Offer, your Directors encourage you to:

- read the whole of this Target's Statement (including the contents of the Independent Expert's Report);
- consider the reasons for the Directors' recommendations noted in this Target's Statement;
- consider the choices available to you as outlined in Section 3 of this Target's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- consider the future prospects of FGI, including the risks of remaining a minority FGI Shareholder.

If you choose to accept the Offer, you should follow the instructions in Section 8.3 of the Bidder's Statement.

2.4 When do you have to make a decision?

The Offer is open until 5.00pm (Sydney time) on 17 May 2016. However, if in the last week of the Offer Period, MHG increases its voting power in FGI to more than 90%, the Offer Period will automatically be extended by two weeks from that date.

If in any doubt, consult your financial, legal, taxation or other professional adviser. Shareholders should also consider the risks associated with the Offer which are set out in Section 7 of this Target's Statement.

3. YOUR CHOICES AS A SHAREHOLDER

As a Shareholder, you have three choices currently available to you:

A. ACCEPT THE OFFER

You may only ACCEPT the Offer in respect of all (not a part) of your FGI Shares. Subject to the conditions of the Offer being satisfied or the Offer being declared free from conditions, if you ACCEPT the Offer you will receive \$0.11 cash in respect of each FGI Share.

Effect of accepting the Offer

If you accept the Offer, you are prevented from selling your FGI Shares unless you withdraw your acceptance where you have a right to do so. The right to withdraw an acceptance of the Offer is limited - refer to Section 5 of this Target's Statement for full details of the consequences of accepting the Offer. However, you will be entitled to receive any increase that MHG makes to the Offer consideration after your acceptance.

How do you accept the Offer?

Section 8.3 of the Bidder's Statement contains details of how to accept the Offer. In summary, you must complete and sign the acceptance form attached to the Bidder's Statement in accordance with its instructions and return it, together with any other documents required by those instructions, to the address indicated on the form so that it is received before the end of the Offer Period.

Acceptances must be received by 5.00pm (Sydney time) on 17 May 2016, unless the Offer is extended.

B. SELL YOUR FGI SHARES

Provided that you have not accepted the Offer, you can sell your FGI Shares. This may be above or below the Offer Price. If you sell your FGI Shares:

- you will lose the ability to accept the Offer or any other proposal that may emerge;
- you may receive more or less for your FGI Shares than the Offer Price per FGI Share;
- you may incur a brokerage charge.

The taxation implications of selling your FGI Shares depend on a number of factors and will vary according to your particular circumstances, in the same way as if you accept the Offer. You should seek your own specific professional advice regarding the taxation consequences of selling your FGI Shares.

C. REJECT THE OFFER

If you do not wish to accept the Offer or sell your FGI Shares, you can retain your stake in FGI by doing nothing. Section 7 of this Target's Statement sets out certain risks associated with retaining your FGI Shares.

Compulsory acquisition

The Bidder will be entitled to compulsorily acquire any FGI Shares in respect of which it has not received acceptance of the Offer on the same terms as the Offer if, during or at the end of the Offer Period:

- the Bidder has a relevant interest in at least 90% of FGI Shares (by number); and
- the Bidder has acquired at least 75% (by number) of the FGI Shares that the Bidder offered to acquire under the Offer.

MHG has stated in the Bidder's Statement that it intends to proceed to compulsory acquisition of the outstanding FGI Shares if the required thresholds are met. FGI Shareholders should be aware that, if their FGI Shares are compulsorily acquired, they are not likely to receive payment until at least one month after the compulsory acquisition notices are dispatched to them. Additionally, in the event that MHG and its associates, if any, have a relevant interest in at least 90% of the Shares of FGI at the end of the Offer Period, MHG will be required under the Corporations Act to offer to buy out the remaining FGI Shares.

It is also possible that MHG will, at some time after the end of the Offer Period, become the beneficial holder of 90% or more of the FGI Shares. MHG would then have rights to compulsorily acquire the FGI Shares not owned by it within six months of becoming the holder of 90% of FGI Shares. The price which MHG would have to pay to compulsorily acquire FGI Shares under this procedure would have to be considered in a report of an independent expert.

4. WHY YOU SHOULD ACCEPT THE OFFER

- THE DIRECTORS HAVE RECOMMENDED THE OFFER.
- THE INDEPENDENT EXPERT'S OPINION IS THAT THE OFFER IS FAIR AND REASONABLE.
- THE OFFER PROVIDES FGI SHAREHOLDERS WITH CERTAINTY OF CASH.
- THE OFFER IS NOT SUBJECT TO ANY DEFEATING CONDITIONS.
- NO SUPERIOR PROPOSAL HAS EMERGED.

4.1 Introduction

The consideration being offered by MHG under the Offer is \$0.11 per Share for each FGI Share. The Offer is NO LONGER subject to any defeating conditions.

This section sets out reasons for the Directors' recommendation to accept the Offer, in the absence of a Superior Proposal and information on other considerations and risks in deciding whether to accept the Offer.

4.2 The Directors have unanimously recommended the Offer

Your Directors have carefully considered the Offer and recommend that Shareholders accept the Offer, in the absence of a Superior Proposal. After taking into account each of the matters in this Target's Statement (including the contents of the Independent Expert's Report) and the Bidder's Statement and the Supplementary Bidder's Statement, each of the Directors recommend that you accept the Offer promptly to ensure your acceptance is received before 5.00pm (Sydney time) on 17 May 2016 (unless the Offer is extended), in the absence of a Superior Proposal. Furthermore, each of the Directors intends to accept the Offer in relation to all the FGI Shares owned or controlled by each of them, in the absence of a Superior Proposal. See Section 9.2 for details of the Shares owned or controlled by the Directors.

4.3 The Offer represents a significant premium to FGI's most recent Share price

The all-cash Offer Price of \$0.11 per Share represents a significant premium to the last traded price on the ASX immediately before the Offer was announced. During the 12 months to 31 March 2016, FGI Shares achieved a high of \$0.081 per share and a low of \$0.035 per share.

4.4 The Independent Expert's opinion is that the Offer is fair and reasonable

Your Directors appointed Hall Chadwick Corporate (NSW) Limited as Independent Expert to prepare an independent assessment of the Offer. The Independent Expert has concluded that the Offer is fair and reasonable to FGI Shareholders. The Independent Expert has assessed the fair market value of a FGI Share on a controlling interest basis for the purpose of this report is in the range of \$0.059 to \$0.096, with a midpoint of \$0.078 per share as at the date of the Report. A copy of the Independent Expert's Report is contained in Appendix B to this Target's Statement. It is recommended that you read the Independent Expert's Report in full prior to accepting the Offer.

4.5 The Offer provides FGI Shareholders with certainty of cash

The Offer is to acquire any or all of your FGI Shares for cash. By accepting the Offer:

- you will obtain the certainty of receiving \$0.11 for each of your FGI Shares;
- you will be paid within seven business days after the date of close of the Offer;
- you will not incur any brokerage charges.

The Offer provides you with the opportunity to receive a certain cash return relative to retaining your FGI Shares. If you retain your FGI Shares, you will continue to be exposed to risks associated with, amongst other things, lack of liquidity. These (and other) risk factors are discussed in Section 7 of this Target's Statement.

4.6 The Offer is not subject to any Defeating Conditions

MHG has declared the Offer free of all of Defeating Conditions, the Offer is now unconditional.

4.7 No Superior Proposal has emerged

Your Directors consider the Offer to be the best proposal available to FGI Shareholders and unanimously recommend that FGI Shareholders accept the Offer in the absence of a Superior Proposal.

FGI's business and its assets are attractive and might be of appeal to other Bidders. Despite this, no Superior Proposal has eventuated as at the date of this Target's Statement and your Directors have no knowledge of any other proposal from any other party to make a Superior Proposal. The Directors are of the view that MHG's existing shareholding in FGI may reduce the likelihood of a Superior Proposal emerging.

The Board will consider the merits of any Competing Proposal. If a Competing Proposal is a Superior Proposal then the FGI Directors will send you a supplementary Target's Statement advising of any change to their recommendation.

4.8 Disadvantages of Accepting the Offer

The Directors consider the following are the disadvantages of accepting the Offer:

- *No on-going interest in FGI*

Accepting the Offer will result in Shareholders not having an interest in FGI and participating in any future upside.

- *Taxation consequences*

Accepting the Offer may result in taxable capital gains for Shareholders, depending upon their tax position. Any sale of Shares to a person other than the Bidder would have a similar result.

4.9 Other circumstances

If you choose not to accept the MHG Offer, there are certain potential consequences of which you should be aware:

(a) Possible fall in the FGI Share price

The Directors consider that the FGI Share price is more likely than not to fall in the absence of the MHG Offer or another equivalent or superior proposal or favourable market development. The MHG Offer is at a significant premium to recent historical prices of FGI shares and FGI Shareholders should note that the announcement of the MHG Offer resulted in a material increase in the FGI share price

The Directors consider that the FGI share price is more likely than not to fall in the absence of the MHG Offer or another equivalent or superior proposal or favourable market development. This is because the MHG Offer represents a premium of:

- 37.5% to the last closing price prior to the announcement of the Offer of \$0.08;
- 69.2% to the volume weighted price of \$0.065 at which FGI shares have traded over the last 2-6 months.
- 120% to the volume weighted price of \$0.05 at which FGI shares have traded over the last 12 months.

However, the Directors cannot predict whether the FGI Share price would in fact decrease or increase in the absence of the MHG Offer, as there may be other reasons for share price movements.

(b) Consequences of being a minority investor

MHG has acquired a majority shareholding in FGI. Accordingly, FGI Shareholders who do not accept the MHG Offer will become minority shareholders in FGI. This has a number of possible implications, including:

- MHG will be in a position to cast the majority of votes at a general meeting of FGI.

This will enable it to control the composition of FGI's Board of Directors and senior management, determine FGI's dividend policy and control the strategic direction of the businesses of FGI and its subsidiaries;

- the FGI Share price may fall immediately following the end of the Offer Period; and
- the liquidity of FGI Shares may be lower than at present, thereby impacting on FGI Shareholders' ability to sell their FGI Shares at price levels that reflect their value.

If MHG acquires 75% or more of FGI Shares, it will be able to pass a special resolution of FGI. This will enable MHG to, among other things, amend FGI's constitution and apply to delist FGI from the ASX.

5. KEY FEATURES OF THE OFFER

5.1 Consideration payable to FGI Shareholders who accept the Offer

MHG is offering to acquire all of your FGI Shares for a cash payment of \$0.11 per Share.

5.2 Offer Period

The Offer is open for acceptance from 18 April 2016 until 5.00pm (Sydney time) on 17 May 2016, unless extended or withdrawn in accordance with the Corporations Act.

5.3 Conditions of the Offer

The Offer is not subject to any Defeating Conditions. The Bidder has declared the Offer is free of all the conditions contained in Appendix 1 of the Bidder's Statement.

5.4 Extension of the Offer Period

The Bidder may extend the Offer Period. The Bidder has no obligation to voluntarily extend the Offer Period and may elect not to do so.

5.5 Effect of accepting the Offer

Details of the effect of acceptance of the Offer are set out in Section 10 of the Bidder's Statement. You should read that section in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your FGI Shares, and representations and warranties that you give should you choose to accept the Offer. Subject to any statutory withdrawal rights that may apply, once you accept the Offer in respect of all or some of your FGI Shares (even while it is subject to conditions), you will:

- give up your right to sell the accepted FGI Shares to anyone else, including selling them or accepting any Superior Proposal that may emerge;
- give up your right to otherwise deal with the accepted FGI Shares;
- lose any rights attaching to the accepted FGI Shares from the date of your acceptance.

5.6 Your ability to withdraw your acceptance

Once you accept the Offer you will not be able to sell the accepted FGI Shares or otherwise deal with the rights attaching to the accepted FGI Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances and the withdrawal rights (if any) specified in Section 10 of the Bidder's Statement. You will only have statutory rights to withdraw your acceptance if the Offer is varied in such a way as to postpone for more than one month, the time by which the Bidder has to meet its obligations under the Offer

In such circumstances, you will be sent a notice at the relevant time explaining your rights to withdraw your acceptance of the Offer. Except in these limited circumstances, if you accept the Offer, you will give up your rights to sell the accepted FGI Shares or to

accept any Competing Proposal in respect of the accepted FGI Shares, if such an offer were made, during the Offer Period.

5.7 Offer is declared to be the best and final price

The Bidder has declared the offer of \$0.11 per share to be its best and final price. There will therefore be no higher offer made by MHG.

5.8 Timing for payment of consideration

FGI Shareholders who accept the Offer should expect the cash payment of \$0.11 per Share consideration to be sent for each FGI Share in respect of which you have accepted the Offer within seven days after the close of the Offer.

There are certain exceptions to the above timetable for the sending of your consideration.

5.9 Compulsory acquisition

If the Bidder acquires a relevant interest in at least 90% of FGI Shares and at least 75% of the FGI Shares which the Bidder has offered to purchase pursuant to the Offer as a result of acceptances under the Offer then, pursuant to Part 6A.1 Division 1 of the Corporations Act, the Bidder will be entitled to compulsorily acquire any FGI Shares in respect of which it has not received acceptance of the Offer.

MHG has stated in section 6.2 of the Bidder's Statement that if the Offer is successful and all the Defeating Conditions are satisfied, it intends to exercise its rights under section 661A of the Corporations Act to compulsorily acquire all FGI Shares which it does not own. However, if MHG does not proceed to exercise any immediate post-Offer compulsory acquisition rights under Part 6A.1 of the Corporations Act, the Bidder will be required under sections 662A and 663A of the Corporations Act to give notices to FGI Shareholders offering to acquire their securities or have them cancelled (subject to any required ASIC relief). FGI Shareholders should be aware that, if their FGI Shares are compulsorily acquired, they are not likely to receive payment until at least one month after the compulsory acquisition notices are dispatched to them. If MHG does not become entitled to compulsorily acquire FGI Shares in accordance with Part 6A.1 Division 1 of the Corporations Act, the Bidder may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

6. FREQUENTLY ASKED QUESTIONS

For the purposes of enabling you to understand some of the complex issues which arise during the process of a takeover, we provide the following question and answer guide. The following answers to frequently asked questions should only be read in conjunction with this entire Target's Statement.

Question Answer Further Information

Who is the Bidder?

MHG (See Section 8 of this Target's Statement and section 3 of the Bidder's Statement).

How many Shares does MHG hold in FGI?

As at 28 April 2016, MHG and its related parties have disclosed in announcements to the ASX that they have a relevant interest in 44,145,855 FGI Shares, representing 54.42% of the issued capital.

What is the Offer?

The Bidder is seeking to acquire all of your FGI Shares at an Offer Price of \$0.11 per Share. (See Sections 5.1 of this Statement and Section 1 of the Bidder's Statement).

Is the Offer conditional?

No. The Bidder has declared the Offer to be free of all conditions identified in the Bidder's Statement.

When does the Offer close?

The Offer will close at 5pm (Sydney time) on 17 May 2016, unless it is extended or withdrawn. (See Section 5.2 of this Statement).

What choices do I have as a FGI Shareholder?

As a FGI Shareholder you have the following choices in respect of your FGI Shares:

1. ACCEPT the Offer for all of your FGI Shares.
2. Sell your FGI Shares.
3. Do nothing (and you will be deemed to have rejected the Offer and will remain as a FGI Shareholder unless the Bidder can compulsorily acquire your FGI Shares, see Section 3 of this Statement).

What are the Directors recommending?

In absence of a Superior Proposal, the Directors recommend that Shareholders ACCEPT the Offer. Further details in relation to the Directors and their recommendation are contained in Sections 2 and 9 of this Target's Statement. (See Section 4.2 of this Target's Statement).

What does the Independent Expert say?

The Independent Expert has concluded that the Offer is fair and reasonable. A copy of the Independent Expert's Report is contained in Appendix B to this Target Statement and a complete copy of the Report can be found on FGI's website at

<http://www.flatglass.com.au/>

What do the Directors of FGI intend to do with their FGI Shares?

All directors intend to ACCEPT the Offer in the absence of a Superior Proposal in relation to Shares in which they have a relevant interest, or otherwise own or control, if any.

How do I ACCEPT the Offer?

Details in relation to accepting the Offer are set in section 8.3 of the Bidder's Statement.

What are the consequences of accepting the Offer?

If you ACCEPT the Offer you will give up your right to sell your accepted FGI Shares to any competing Bidder or to deal with them in any other manner.

Can I withdraw my acceptance?

You can only withdraw your acceptance in limited circumstances. Your rights to withdraw your acceptance are set out in Section 5.8 of the Target's Statement.

Can I accept the Offer for only some of my FGI Shares?

No, you may only accept the Offer in relation to all of your FGI Shares. (See Section 8.3 of the Bidder's Statement).

Can the Bidder vary the Offer?

Yes, but only to extend the Offer Period. (See Section 10.6 of the Bidder's Statement).

Can the Bidder withdraw the Offer?

Yes, but only in limited circumstances (See Section 10.5 of the Bidder's Statement).

What happens if there is a Superior Proposal?

The Board will consider the merits of any Competing Proposal. If a Competing Proposal is a Superior Proposal then the FGI Directors will send you a supplementary Target's Statement advising of any change to their recommendation. If you have already accepted the Offer, you will be unable to participate in any other offer for FGI Shares.

Can I be forced to sell my FGI Shares?

If the Bidder acquires a relevant interest in at least 90% of the FGI Shares issued and at least 75% of the FGI Shares which the Bidder has offered to purchase pursuant to the Offer, it will be entitled to compulsorily acquire the remaining FGI Shares. Otherwise, you cannot be forced to sell your FGI Shares (See Section 5.11 of this Statement).

What are the tax implications of accepting the Offer?

There may be tax implications as a result of the sale of your FGI Shares. Each Shareholder's position will be different. You should obtain independent advice from your professional adviser or tax adviser in this regard (See Section 10 of this Statement).

Will I need to pay brokerage if I accept the Offer?

No brokerage, stamp duty or GST is payable if you accept the Offer.

What if I have other questions about the Offer?

Announcements will be made periodically and posted on FGI's website (<http://www.flatglass.com.au>)

7. PROFILE OF FGI AND RISKS

7.1 Overview of FGI

FGI's business is the processing and wholesaling of glass and architectural glass hardware for the building (commercial and residential) and manufacturing sectors. Other subsidiaries and businesses are Trident (architectural glass hardware products), RTK Industries (fabricated and engineered metal products) and Star Plugs (building products).

FGI provides a large range of glass processing services on a made to order basis.

Its products include:

- Float glass
- Safety and security glass
- Insulated Glass Units
- Energy efficient glass
- Designer glass
- Ultra clean glass
- Switchable glass
- Trident glass hardware

FGI clear float glass is a high quality, visually colourless and distortion free flat surface, providing high light transmission (daylight) and clarity. Clear float glass is the core base product for most of FGI's common glass products and is commonly used in general window glazing and furniture. Float glass is also available in Tinted, Reflective, Low Iron, Textured/Patterned and Klymet Shield Low E (low emissivity, energy efficient insulated glass).

FGI has advanced customised laminating equipment and can provide a full range of annealed or toughened laminated glass in clear, tinted, reflective and other combinations.

7.2 Financial Information

An extract of FGI's audited consolidated statement of financial position as at 30 June 2014 and 2015 and reviewed financial position as at 31 December 2015 are set out in Appendix A to the Target's Statement.

7.3 Risks associated with holding FGI Shares

FGI's business activities are subject to a number of investment risk factors, both specific to its business and of a general nature, which may affect the future operating and financial performance of FGI. The risks and uncertainties described below are not intended to be exhaustive. There may be additional risks and uncertainties that FGI is unaware of, or that FGI currently considers to be immaterial, which may affect FGI. You should be aware that rejecting the Offer, in circumstances where the Bidder does not acquire sufficient FGI Shares to proceed to compulsory acquisition (or the Bidder is entitled to but does not compulsorily acquire all of the FGI Shares), may result in FGI Shareholders being exposed to the following risks:

a. General Risks

Changes in the general economic climate in which FGI operates may adversely affect the financial performance of FGI. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, inflation, supply and demand, industrial disruption, and social unrest or war on a local or global scale. These factors are beyond the control of FGI, and it cannot, with any degree of certainty, predict how they will impact on the Company.

b. Risk factors specific to FGI

Financing

In order to proceed with the development of its business, FGI may be required to raise additional equity and/or debt capital in the future. There is no assurance that it will be able to raise such capital or debt when it is required or that the terms associated with providing such capital will be satisfactory to FGI, which may prejudice its ongoing ability to operate and grow its business. In the event that FGI fails to obtain sufficient financing when required, FGI may be forced to delay or eliminate its future development activities, sell existing assets or reduce its operations.

Dependence upon key personnel

FGI's success depends to a significant extent upon its key management personnel, as well as other management personnel. The loss of the services of such personnel could have a material adverse effect upon FGI.

Operational risks

The operations of FGI may be disrupted by a variety of risks and hazards which are beyond the control of the Company,

7.4 Risk factors that arise from the Offer

a. General risks

FGI Shareholders will have limited withdrawal rights with respect to the Offer, which means that a decision to accept the Offer may be irrevocable. Under the Corporations Act, if after you have accepted the Offer and whilst it remains subject to conditions, the Offer is varied (such as by an extension of the Offer Period) so as to postpone for more than one month the time when MHG must meet its obligations under the Offer, you will be able to withdraw your acceptance. Otherwise, except as specified in Section 10 of the Bidder's Statement, you will be unable to withdraw your acceptance of the Offer.

b. Taxation risks

The tax consequences and risks of the Offer depend upon the specific circumstances of each FGI Shareholder. Section 10 of this Target's Statement specifies possible tax implications for FGI Shareholders arising from the Offer. This is not a complete or authoritative statement of the potential tax implications for each FGI Shareholder. Income tax and Capital Gains Tax liabilities of each FGI Shareholder will depend upon the individual circumstances of each Shareholder. FGI Shareholders should obtain their own professional taxation advice regarding

the applicable law in respect of the Offer and neither FGI nor any of its officers or advisers accepts any responsibility or liability in respect of any statement given in relation to tax liability or any actual tax liability which may arise.

8. PROFILE OF THE BIDDER

The Bidder is MHG Flat Glass Holdings Pty Ltd ACN 611 572 206 (“MHG”) and is a wholly owned subsidiary of MHG Corporation Pty. Limited ACN 000 784 118 (“MHGCorp”).

MHG is an investment holding company, the only assets of which (after completion of the Offer) will be the FGI Shares.

As at 28 April 2016, MHG and its related parties have disclosed in announcements to the ASX that they have a relevant interest in 44,145,855 FGI Shares, representing 54.42% of the issued capital.

Further details of MHG and its directors are set out in section 3 of the Bidder’s Statement.

MHGCorp is a privately owned company incorporated in Victoria. It comprises a diversified group of businesses founded in 1970 by its chairman, Steve Haritos. Its business activities presently span the manufacturing, hospitality and property sectors. MHGCorp currently has operations in Australia and Thailand and directly employs more than 280 staff in the Asia Pacific region.

9. INFORMATION RELATING TO YOUR DIRECTORS

9.1 Directors of FGI

The following are Directors of FGI as at the date of this Target's Statement:

- Mr James Schwarz (Non-Executive Chairman)
- Mr Larry Case (Non-Executive Director)
- Mr Nicholas O'Connor (Executive Director)
- Mr Frank D'Urso (Executive Director)

9.2 Marketable securities of FGI held by or on behalf of the Directors of FGI

The table below outlines the shares that each of FGI's Directors own or control. On a cumulative basis, the Directors own or control 3.12% of the issued capital of FGI.

Director	Shares
James Schwarz	Nil
Lawrence Case	433,717
Nicholas O'Connor	Nil
Frank D'Urso	2,100,000

9.3 Intentions of FGI Directors

James Schwarz intends to ACCEPT the Offer in respect of all FGI Shares which he holds or controls (if any), in the absence of a Superior Proposal.

Lawrence Case intends to ACCEPT the Offer in respect of all FGI Shares which he holds or controls (if any), in the absence of a Superior Proposal.

Nicholas O'Connor intends to ACCEPT the Offer in respect of all FGI Shares which he holds or controls (if any), in the absence of a Superior Proposal.

Frank D'Urso intends to ACCEPT the Offer in respect of all FGI Shares which he holds or controls (if any), in the absence of a Superior Proposal.

9.4 Dealings of Shares in FGI

An entity related to Mr James Schwarz disposed of 731,625 FGI shares on 6 April 2015 in an on market trade at a price of 10.5c per share.

Mr Nicholas O'Connor and his related entities accepted the Offer for all of his 4,333,334 FGI shares on 22 April 2015.

Other than the disposals referred to above, there have been no acquisitions or disposals of FGI Shares by any person associated with FGI in the period of four (4) months ending on the date immediately before the date of this Target's Statement.

9.5 Benefits and agreements

a. No payments or benefits

No Director has agreed to receive, or is entitled to receive, any benefit from MHG or FGI which is conditional on, or is related to, the Offer, other than in their capacity as a holder of FGI Shares. As a result of the Offer, no benefit has been or will be given to a person:

- in connection with the retirement of a person from the Board or management of the FGI Group; or
- who holds, or has held a position on the Board or management of the FGI Group, or a spouse, relative or associate of such person, in connection with the transfer of the whole or any part of the undertaking of property of FGI; or
- which would require approval of FGI Shareholders under section 200B of the Corporations Act.

b. No agreement or arrangement with any Director of FGI

There is no agreement or arrangement made between any Director or any related body corporate or associate of any Director and any other person in connection with or conditional upon the outcome of the Offer other than in their capacity as a holder of FGI Shares.

c. Interests held by Directors of FGI in any contract entered into by FGI

Other than as described below, no Director, nor any related body corporate or associate of FGI, has an interest in any contract entered into by MHG or any Director, related body corporate or associate of MHG.

d. Other interests of FGI Directors

Full details of the interests of FGI Directors and senior management in contracts and their remuneration entitlements are set out in the Remuneration Report for FGI, as contained in the 2015 Annual Report for FGI which was filed with ASX and can be found on the FGI website at <http://www.flatglass.com.au>

Save as noted above, there have been no material changes to remuneration of FGI Directors since release of the Remuneration Report.

10. TAXATION

10.1 Taxation implications of accepting the Offer

The following is a general summary of the Australian tax consequences for FGI Shareholders on disposing of their FGI Shares for cash under the Offer. The comments below are relevant only to those FGI Shareholders who hold their FGI Shares on capital account. Shareholders who are engaged in a business of trading or investment in shares, or those that are banks, insurance companies, tax exempt organisations or superannuation funds may be subject to different tax consequences depending upon their circumstances and should seek independent advice. A general outline of the tax implications of accepting the Offer has also been provided in Section 13 of the Bidder's Statement. The following summary is based on the taxation law in effect at the date of the Target's Statement. It is not intended to be a complete analysis of the taxation laws applicable to the particular circumstances of every FGI Shareholder. Accordingly, you should seek your own independent professional advice on the tax implications of disposing of your FGI Shares.

10.2 Australian resident Shareholders

The disposal of your FGI Shares will have CGT consequences in the income year that you accept the offer. As the Offer for your FGI Shares is a cash only offer, no CGT rollover will be available. You may make a capital gain from the disposal of your FGI Shares if the capital proceeds received exceed the cost base of those Shares. The cost base of a Share includes the amount you paid to acquire it, and any incidental costs of the acquisition (such as brokerage fees). You may make a capital loss from the disposal of your FGI Shares if the capital proceeds are less than the cost base of those shares. Capital gains and capital losses of a taxpayer are aggregated in a year of income to determine whether the taxpayer has made a net capital gain or loss. Any net capital gain, after applying carried forward capital losses, is included in the taxpayer's assessable income and is, prima facie, subject to income tax. Where a taxpayer generates a capital loss, that capital loss may only be offset against capital gains derived in the same income year or carried forward to offset against future capital gains. If you have held your FGI Shares for a period of at least 12 months at the disposal date, then you may be eligible to apply the 50% CGT discount to any capital gain that arises on the disposal of your FGI Shares. The CGT discount applies after a taxpayer has applied capital losses against their capital gains for the income year. Generally speaking, only individuals or individual beneficiaries of trusts may access the 50% CGT discount. Superannuation funds may be eligible for a one-third CGT discount. Companies are not eligible for the CGT discount concession.

10.3 Non-resident Shareholders

Generally a Shareholder who is a non-resident of Australia for tax purposes and holds their Shares on capital account will not be subject to CGT on the disposal of their FGI Shares unless:

- The Shareholder (together with associates) held 10% or more of FGI's issued

share capital at the time of the disposal or for any continuous 12 month period during the 2 years preceding the disposal; and

- At the time of disposal, more than 50% of the market value of FGI's assets is comprised of real property situated in Australia or mining or prospecting rights situated in Australia.

If this is the case, the CGT treatment will also depend on the FGI Shareholder's country of residence and any Double Tax Agreement between Australia and that country. Non-resident Shareholders may be eligible for the 50% CGT discount on a similar basis to resident Shareholders.

11. OTHER MATERIAL INFORMATION

11.1 Issued Capital

As at the date of this Target's Statement, FGI's issued capital consisted of 81,118,560 ordinary fully paid Shares and 2,000,000 employee options exercisable at 5c per share.

11.2 Notice of the Bidder's Voting Power

As at 28 April 2016, MHG and its related parties have disclosed in announcements to the ASX that they have a relevant interest in 44,145,855 FGI Shares, representing 54.42% of the issued capital. The Bidder is required to notify the ASX and FGI before 9.30am on each trading day during the Offer Period where there is an increase in MHG's relevant interest representing at least 1% in FGI's issued capital.

11.3 Disclosing entity

FGI is a disclosing entity and as such is subject to regular reporting and disclosure obligations under the Corporations Act. Copies of the documents filed with ASIC may be obtained from ASIC or FGI's website at www.flatglass.com.au.

11.4 Financial position of FGI

The last published audited financial results of FGI were for the financial year ended 30 June 2015. The last published reviewed financial results of FGI were for the half year ended 31 December 2015. On 11 April 2016, FGI announced unaudited and unreviewed trading results for the 9 months to 31 March 2016. Except as set out in the announcement to the ASX on 11 April 2016, in this Target's Statement or as described by FGI in ASX announcements since that date, the financial position of FGI has not, so far as is known by the FGI Directors, materially changed since the financial results of FGI were published for the half year ended 31 December 2015.

11.5 No other material information

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

- it is reasonable for the Shareholders and advisers to expect to receive that information in the Target's Statement; and
- the information is known to the Directors.

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

- this Target's Statement including the concise version of the Independent Expert's Report;
- the Bidder's Statement (to the extent that the information contained in that document is not inconsistent with the Target's Statement); and
- the annual and other financial reports, releases, announcements and documents lodged by FGI with ASIC and with ASX.

In preparing this Target's Statement, the Directors have assumed that the information contained in the Bidder's Statement and the Supplementary Bidder's Statement is accurate. However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it. In deciding what information

should be contained in this Target's Statement, the Directors have had regard to:

- the nature of the FGI Shares;
- the matters that Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of Shareholders; and
- the time available to FGI to prepare the Target's Statement.

11.6 Publicly available information

This Target's Statement contains statements which are made in, or based upon, statements contained in the Bidder's Statement and the Supplementary Bidder's Statement lodged with ASIC. As permitted by ASIC Class Order 01/1543, the consent of MHG is not required for the inclusion of these statements in the Target's Statement.

11.7 Consents

Other persons

Each of the other persons to whom a statement is attributed in this Target's Statement, or whose statement is included in this Target's Statement, or on which a statement in this Target's Statement is said to be based, has (other than as noted below):

- consented to the relevant statement being included in this Target's Statement in the form and context in which it is included; and
- has not withdrawn that consent before this Target's Statement was lodged with ASIC.

Each such person having given its consent to the inclusion of a statement or being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that person.

Directors

The Directors have given and have not, before the date of issue of this Target's Statement withdrawn, their consent to be named in this Target's Statement in the form and context in which they are named.

Third Parties

Hall Chadwick Corporate (NSW) Limited has given and has not, before the lodgment of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in respect of the Offer in the form and context in which it is named and to the inclusion of the Independent Expert's Report in the Target's Statement. Hall Chadwick Corporate (NSW) Limited does not make, or purport to make, any other statement in this Target's Statement other than those contained in the Independent Expert's Report. To the maximum extent permitted by law, Hall Chadwick Corporate (NSW) Limited expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

12. INTERPRETATION

12.1 In this Target's Statement, unless the contrary intention appears, the following words have the following meanings:

ASIC means Australian Securities and Investments Commission.

Bid Implementation Deed means the deed between FGI and MHG dated 1 April 2016, a copy of which was released to the ASX on 1 April 2016.

Bidder or the Bidder or MHG means MHG Flat Glass Holdings Pty Ltd ACN 611 572 206

Bidder's Statement means the Bidder's Statement dated 4 April 2016 given by the Bidder to FGI on 4 April 2016 in accordance with the provisions of Part 6.5 of the Corporations Act.

Board or FGI Board means the board of Directors of FGI.

Competing Proposal means any expression of interest, proposal, offer, transaction or arrangement (other than any transaction that may be made and implemented in accordance with the Bid Implementation Deed) by or with any person pursuant to which, if the expression of interest, proposal, offer, transaction or arrangement is entered into or completed substantially in accordance with its terms:

- a. would result in a Third Party (either alone or together with any associate (as defined in section 12(2) of the Corporations Act where FGI is the "designated body"));
 - i. holding a relevant interest or economic interest in (or having the right to acquire a relevant interest or economic interest in) 20% or more of the Shares or of the securities of any Subsidiary of FGI;
 - ii. directly or indirectly acquiring or obtaining an economic interest in all or a substantial part or material part of the business conducted by, or assets or property of, FGI or any Subsidiary of FGI;
 - iii. acquiring control (as defined in section 50AA of the Corporations Act) of FGI or any Subsidiary of FGI; or
 - iv. otherwise acquiring, or merging with, FGI or any Subsidiary of FGI, whether by way of takeover bid, scheme of arrangement, Shareholder-approved transaction, capital reduction, Share buy-back, sale or purchase of securities, issue of securities, sale of assets, strategic alliance, dual listed company structure (or other synthetic merger), joint venture, partnership, or other transaction or arrangement; or
- b. requires or would require FGI or any Director to change, withdraw or modify their recommendation of the Offer.

Corporations Act means the Corporations Act 2001 (Cth).

Defeating Conditions means the conditions of the Offer set out in Appendix 1 of the Bidder's Statement.

Directors means unless otherwise stated, all directors of FGI.

FGI or Company means FGI Limited ACN 003 173 242, a company having its registered office at 3 Moorebank Ave, Moorebank, NSW 2170.

FGI Group means FGI and its Subsidiaries.

Independent Expert means Hall Chadwick Corporate (NSW) Limited.

Independent Expert's Report means the concise Independent Expert's Report prepared by the Independent Expert in connection with the Offer, a copy of which is contained in Appendix B.

Offer or **MHG Offer** means the offer referred to in the Bidder's Statement as varied in the Supplementary Bidder's Statement and made by MHG to the Shareholders of FGI to acquire all of the FGI Shares.

Offer Period means the period commencing on 18 April 2016 and ending at 5pm (Sydney time) on 17 May 2016 or such later date to which the Offer has been extended.

Offer Price means the amount of consideration payable by MHG pursuant to its Offer as specified in the Bidder's Statement and as increased in the Supplementary Bidders Statement, namely \$0.11 per Share.

Relevant Interest has the meaning ascribed to that term in Section 9 of the Corporations Act.

Shareholder means a holder of FGI Shares.

Shares or **FGI Shares** means fully paid ordinary Shares in the capital of FGI.

Subsidiary has the meaning given in the Corporations Act.

Supplementary Bidder's Statement means the Supplementary Bidder's Statement dated 27 April 2016 given by the Bidder to FGI on 27 April 2016 in accordance with section 647 of the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which the majority of the Directors have determined, acting in good faith and in order to satisfy what the majority of the Directors consider to be their fiduciary or statutory duties (and after taking written advice from their external financial and legal advisers):

- a. is reasonably capable of being valued and completed, taking into account all aspects of the Competing Proposal, including the identity of the person making it, timing considerations and its conditions precedent; and
- b. would, if completed substantially in accordance with its terms, be more favourable to Shareholders (as a whole) than the Offer, taking into account all the terms and conditions of the Competing Proposal.

Target's Statement means this document.

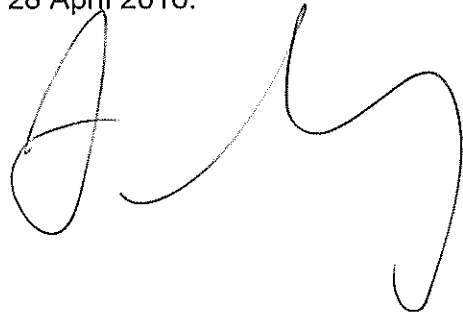
Third Party means a person other than an entity associated with MHG.

12.2 In this Target's Statement, unless the contrary intention appears:

- a. the singular includes the plural and vice versa;
- b. the masculine gender includes the feminine and (where a corporation is or may be concerned) the neuter;
- c. words and expressions defined in the Corporations Act have the same meanings;
- d. headings used in this Statement are for ease of reference only and do not affect the meaning or interpretation of this Statement.

13. AUTHORISATION

Signed for and on behalf of Flat Glass Industries Limited by Mr James Schwarz who is authorized so to sign pursuant to a resolution passed at a meeting of the Directors held on 28 April 2016.

A handwritten signature in black ink, appearing to be 'J Schwarz', written in a cursive style.

APPENDIX A

Set out below is the Audited Consolidated Profit and Loss Statements of FGI for the financial years ended 30 June 2014 ("FY2014") and 30 June 2015 ("FY2015") and reviewed half year accounts for the period to 31 December 2015 (HY1FY2016).

FLAT GLASS INDUSTRIES LIMITED				
CONSOLIDATED PROFIT AND LOSS STATEMENT				
\$'000	HY1FY2016	FY2015	FY2014	
	6 months Reviewed	12 months Audited	12 months Audited	
Revenue	17,395	30,802	27,068	
Other income	37	292	47	
Raw materials and consumables	(7,225)	(12,953)	(11,722)	
Occupancy costs	(837)	(1,662)	(1,768)	
Administration and overheads	(1,067)	(2,174)	(1,873)	
Employee expenses	(6,515)	(12,118)	(11,169)	
Depreciation and amortisation	(565)	(1,071)	(1,107)	
Distribution expenses	(486)	(903)	(935)	
Impairment / recovery of impairment of assets	161	(148)	-	
Share of losses of associate accounted for using equity method	(91)	(311)	(398)	
Other expenses		(7)	(16)	
Finance costs	(202)	(388)	(332)	
Net profit / (loss) before tax	605	(641)	(2,205)	
Income tax expense	-	-	-	
Net profit / (loss) after tax	605	(641)	(2,205)	
EBITDA *	1,372	818	(766)	

* Earnings before interest, taxation, depreciation and amortisation

Set out below is the Reviewed Consolidated Balance Sheet of FGI as at 31 December 2015. Directors have confirmed there has been no material change to the net asset position of the Company since this date.

FLAT GLASS INDUSTRIES LIMITED	
CONSOLIDATED BALANCE SHEET	
	As at 31 December 2015
<u>CURRENT ASSETS</u>	\$'000
Cash and cash equivalents	744
Trade and other receivables	4,670
Inventories	4,164
Prepayments	500
	10,078
<u>NON-CURRENT ASSETS</u>	
Investments accounted for using equity method	486
Other financial assets	1
Property, plant & equipment	5,311
Intangible assets	419
	6,217
TOTAL ASSETS	16,295
<u>CURRENT LIABILITIES</u>	
Trade and other payables	2,606
Borrowings	3,915
Employee benefits	1,366
	7,887
<u>NON-CURRENT LIABILITIES</u>	
Borrowings	386
Employee benefits	118
	504
TOTAL LIABILITIES	8,391
NET ASSETS	7,904
<u>EQUITY</u>	
Issued capital	21,266
Accumulated losses	(13,362)
TOTAL EQUITY	7,904

Flat Glass Industries Limited
Proposed Takeover Offer

Independent Expert's Report
and Financial Services Guide

27 April 2016

27 April 2016

The Directors
Flat Glass Industries Limited
3 Moorebank Avenue
MOOREBANK NSW 2170

Dear Sirs,

Independent Expert's Report in relation to the Offer received by MHG Flat Glass to acquire all of the issued share capital in Flat Glass Industries Limited

1. INTRODUCTION

Background

- 1.1 Flat Glass Industries Limited ("FGI" of "the Company") is involved in the processing and wholesaling of glass and architectural glass hardware for the building and manufacturing sectors.
- 1.2 As announced to the market on 1 April 2016, FGI entered into a Takeover Bid Implementation Agreement with MHG Flat Glass Holdings Pty Limited ("MHG") On 4 April 2016, FGI received an all cash off-market takeover Offer from MHG for all FGI Shares that it does not already own or control, at an Offer Price of \$0.10 cash per FGI Share (the "Offer").
- 1.3 On 22 April 2016, MHG announced that it:
- had increased the Offer Price to \$0.11 cash per FGI share and that the Offer Price was its best and final amount;
 - declared the Offer free from any Defeating Conditions.

Purpose of Report

- 1.4 The directors of FGI have requested Hall Chadwick Corporate (NSW) Limited ("HCC") to prepare an Independent Expert's Report to advise the shareholders of FGI whether the Offer is fair and reasonable when considered in the context of the interests of shareholders and to set out the reasons for our conclusions.
- 1.5 HCC understands and has agreed that this report will accompany the target's statement that will be prepared by FGI ("Target's Statement"), to assist the shareholders in their consideration of the Offer.
- 1.6 Capitalised terms in this report are given the same meaning as those contained in the Target's Statement unless otherwise stated.

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Liability limited by a scheme approved under Professional Standards Legislation.

2. SUMMARY AND OPINION

2.1 In our opinion, the proposed Offer from MHG to acquire all of the issued shares of FGI at the Offer Price is fair and reasonable to the Shareholders of FGI.

2.2 Our opinion is based solely on information available as at the date of this report.

2.3 The principal factors that we have considered in forming our opinion are summarised below.

2.4 *Fair*

2.4.1 For the Offer to be fair, the value Offer Price must be equal to or greater than the value of the FGI shares being acquired by MHG.

2.4.2 Based on the analysis contained in section 8 of this report, the indicative value of FGI shares is between \$0.059 to \$0.096, with a midpoint of **\$0.078 per share**, inclusive of a 20% premium for control.

2.4.3 The Offer Price is **\$0.11** per FGI share.

2.4.4 Therefore, as the Offer Price exceeds the value range of FGI determined above, in our opinion **the Offer is fair**.

2.5 *Reasonable*

2.5.1 ASIC Regulatory Guide 111 considers an offer (referred to in this case as the Offer) to be reasonable if:

- The Offer is fair; or
- Despite not being fair, but after considering other significant factors, shareholders should accept the Offer in the absence of any higher bid before the close of the Offer.

2.5.2 We have concluded that the Offer is reasonable. In forming our opinion we have considered the following relevant factors.

- The Offer may represent an opportune time for FGI shareholders to realise the value of their investment in FGI at a premium. The Offer Price represents a premium of:
 - 38% to the last closing price of \$0.08 prior to the first announcement of the Offer;
 - 69% to the volume weighted price of \$0.065 at which FGI shares have traded over the last 2-6 months.
 - 120% to the volume weighted price of \$0.05 at which FGI shares have traded over the last 12 months.
- The Offer provides immediate value and certainty of cash to FGI Shareholders;
- FGI Shareholders will not be required to pay any brokerage costs on the disposal of their FGI Shares under the Offer.

- The FGI share price may fall to levels below the Offer Price following the conclusion of the Offer. Since the announcement of the Offer FGI shares have traded at between \$0.080 and \$0.115 per share (to the date of this report).
- There may be reduced liquidity in FGI Shares following the completion of the Offer. Furthermore, If MHG acquires more than 75% but less than 90% of all FGI Shares, FGI may be delisted and Shareholders could become a minority shareholder in a private company and thereafter have limited opportunity to dispose of their FGI Shares. If MGH acquires more than 90% of all FGI Shares they are entitled to compulsorily acquire the remaining FGI Shares. If FGI Shares are compulsorily acquired by MHG, it will be on the same terms (including the same consideration for each FGI Share acquired) as the Offer. However, money will be received later than if FGI Shareholders choose to accept the Offer i.e. at the conclusion of the compulsory acquisition process which will be after the end of the Offer Period.
- We are unaware of any alternative proposal at the date of this report that would realise better value for FGI Shareholders.

2.6 Opinion

Accordingly, in our opinion, the Offer is fair and reasonable to the Shareholders of FGI.

The ultimate decision however on whether to accept the proposed Offer should be based on shareholders own assessment of their circumstances. We strongly recommend that FGI shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Target Statement, and consider their own specific circumstances before voting in favour of or against the Offer.

Yours faithfully
Hall Chadwick Corporate (NSW) Limited



DREW TOWNSEND

STRUCTURE OF REPORT

Our report is set out under the following headings:

- 3 **OUTLINE OF THE OFFER**
- 4 **PURPOSE OF REPORT**
- 5 **BASIS OF EVALUATION**
- 6 **OVERVIEW OF FGI**
- 7 **VALUATION METHODOLOGIES**
- 8 **VALUE OF FGI**
- 9 **ADVANTAGES AND DISADVANTAGES OF THE OFFER**
- 10 **CONCLUSION AS TO FAIRNESS AND REASONABLENESS**

APPENDICES

- I **SOURCES OF INFORMATION**
- II **COMPARABLE COMPANIES ANALYSIS**
- III **STATEMENT OF DECLARATION & QUALIFICATIONS**
- IV **FINANCIAL SERVICES GUIDE**

3. OUTLINE OF THE OFFER

- 3.1 MHG has tendered an off-market takeover bid to all of the Company's equity holders to purchase all of the equity of FGI at the Offer Price of \$0.11 per share.
- 3.2 MHG is an investment holding company incorporated in Victoria. It's only assets after completion of the Offer will be the FGI shares. MHG is a wholly owned subsidiary of MHG Corporation Pty Limited ("MHGCorp"). MHGCorp is a privately owned company incorporated in Victoria. It comprises a diversified group of businesses founded in 1970 by its chairman, Steve Haritos. The group's activities presently include manufacturing, hospitality and property businesses.
- 3.3 We are advised that all amounts payable under the Offer including any fees, expenses and duties directly incurred by MHG in relation to the Offer will be paid on behalf of MHG from MHGCorp's existing cash reserves.
- 3.4 On 31 March 2016 Haritos Family Retirement Pty Ltd as trustee for the Haritos Family Superannuation Fund ("HFR"), a related party of MHG, purchased 16,142,593 FGI shares from Phoenix Development Fund Limited ("Phoenix"), (previously, FGI's largest shareholder) at \$0.10 per share. The purchased shares represented 19.9% of all FGI shares and HFR is now the largest single shareholder in FGI. As at 22 April 2016 MGH has received acceptances such that it is now FGI's controlling shareholder with a relevant interest in 54.61% of the issued capital.
- 3.5 Phoenix now has an equity interest of 8.087% in FGI and has indicated that in the absence of a superior proposal they intend to accept the Offer in respect of the remaining FGI Shares they own or control and has further indicated that their related party, Nightingale Partners Pty Ltd (a top 5 shareholder with a 6.075% equity interest in FGI), also intends to accept the Offer in respect of the FGI Shares that it owns or controls.
- 3.6 The Directors have recommended that FGI Shareholders accept the Offer in the absence of a superior proposal.
- 3.7 If MGH acquires a relevant interest in at least 90% of FGI Shares and at least 75% of the FGI Shares which MGH has offered to purchase pursuant to the Offer as a result of acceptances under the Offer then, pursuant to Part 6A.1 Division 1 of the Corporations Act, MGH will be entitled to compulsorily acquire any FGI Shares in respect of which it has not received acceptance of the Offer. MHG has stated that if the Offer is successful it intends to exercise its rights under section 661A of the Corporations Act to compulsorily acquire all FGI Shares which it does not own. However, if MHG does not proceed to exercise any immediate post-Offer compulsory acquisition rights under Part 6A.1 of the Corporations Act, MGH will be required under sections 662A and 663A of the Corporations Act to give notices to FGI Shareholders offering to acquire their securities or have them cancelled (subject to any required ASIC relief). If FGI Shares are compulsorily acquired, these FGI Shareholders are not likely to receive payment until at least one month after the compulsory acquisition notices are dispatched to them. If MHG does not become entitled to compulsorily acquire FGI Shares in accordance with Part 6A.1 Division 1 of the Corporations Act, they may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

4. PURPOSE OF REPORT

- 4.1 MHG has tendered an Offer by way of an off-market takeover bid under the Australian *Corporations Act 2001* (Cth) (“Act”) to all of the Company’s equity holders to purchase all of the Company’s issued equity.
- 4.2 The purpose of this report is to advise the shareholders of FGI of the fairness and reasonableness of the Offer. This report should not be used for any other purpose or by any other party. This report will accompany the Target's Statement sent to FGI Shareholders in relation to the Offer.
- 4.3 The ultimate decision whether to accept the terms of the Offer should be based on each shareholders’ assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 4.4 For the Offer to be fair, the value of the consideration being paid to FGI Shareholders for their shares (Offer Price) must be equal to or greater than the value of the FGI shares being sold. To be reasonable FGI Shareholders must obtain an overall benefit if the Offer proceeds. In forming an opinion as to whether the Offer is fair and reasonable to FGI Shareholders, the following factors have been considered:
- the underlying value of FGI shares to be acquired by MHG;
 - the likely value and liquidity of FGI shares if the Offer is not implemented; and
 - the likelihood of an emergence of an alternative proposal that may realise better value for FGI Shareholders.

5 BASIS OF EVALUATION

- 5.1 In our assessment of whether the Offer is fair and reasonable to FGI Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 “Offers Agreed to by Shareholders”, Regulatory Guide 111 “Content of Experts Reports” and Regulatory Guide 112 “Independence of Experts Reports”.
- 5.2 ASIC Regulatory Guide 74 requires, amongst other things, that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed Offer is fair and reasonable. Under Regulatory Guide 111, an Offer is “fair” if the value of the asset being disposed (in this case FGI shares) is equal to or less than the value of the consideration being offered (in this case, the Offer Price). Additionally, under Regulatory Guide 111 an offer is “reasonable” if it is fair. It is possible for an offer to be reasonable despite being unfair. This would be after the expert considers that, based on non-financial factors, the shareholders should still approve the Offer in the absence of any higher bid before the close of the offer.
- 5.3 Our report has compared the likely advantages and disadvantages to FGI Shareholders if the Offer is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired under the Offer and the value of the consideration to be paid is only one element of this assessment.
- 5.4 We have considered whether any shareholder will obtain a level of control in FGI as a result of the proposed Offer. In the event that a change in control arises from the proposed Offer, proportionately greater benefits to FGI Shareholders must be demonstrated. In this case MHG will obtain control of FGI and this issue needs to be considered in comparing the value received by FGI Shareholders in comparison to the value being paid.
- 5.5 Normal valuation practice is to determine the fair market value of an asset assuming a counter party offer between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm’s length. We have adopted this approach in determining the market value of 100% of the equity of FGI.
- 5.6 In evaluating the Offer, we have considered the value of the FGI shares being acquired and compared this to the Offer Price to be paid by MHG. We consider that the Offer will be reasonable to FGI Shareholders if, on balance, the FGI Shareholders will be better off if the Offer is approved. We will also consider FGI shareholder’s interests should the Offer not proceed.
- 5.7 In our assessment of the Offer we have considered, in particular the following:
- The operational and financial position of FGI;
 - The value of FGI shares, under various methodologies;
 - Any control premium associated with the Offer;
 - The advantages and disadvantages associated with approving the Offer;
 - Other qualitative and strategic issues associated with the Offer.

- 5.8 The documents and information relied on for the purpose of this valuation are set out in Appendix I. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit or more extensive examination might disclose. None of these additional tasks have been undertaken.
- 5.9 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.10 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5.11 HCC are not the auditors of MHG or FGI. We have analysed and reviewed information provided by the Directors and management of FGI and made further enquiries where appropriate.
- 5.12 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report.

6. OVERVIEW OF FGI

6.1 Corporate Overview

- 6.1.1 FGI is an ASX listed company involved in the processing and wholesaling of glass and architectural glass hardware for the building and manufacturing sectors.
- 6.1.2 FGI Directors are as follows:
- James Schwarz, Chairman and Non-Executive director
 - Lawrence Case, Non-Executive Director
 - Frank D’Urso, Executive Director and National Procurement Manager
 - Nicholas O’Connor, Finance Director
- 6.1.3 FGI currently has 81,118,560 shares on issue. FGI also has 2,000,000 employee options on issue to Mr J Buchan, FGI’s Chief Executive Officer. The Options were issued on 30 September 2015 and vest on 30 September 2018. We are advised the board of FGI, in its discretion, may allow the Options to vest (early) on the occurrence of a takeover bid. If these Options were allowed to vest and Mr Buchan accepted the Offer in respect of the FGI Shares into which the Options would convert, MHG would also acquire these shares under the Offer.

6.2 Business Activities

- 6.2.1 FGI cover the complete spectrum of glass for commercial and residential industries. They also supply Trident architectural glass hardware products and engineered products through RTK Industries.
- 6.2.2 FGI provides a large range of glass processing services on a made to order basis. Its products include:
- Float glass
 - Safety and security glass
 - Insulated Glass Units (IGU)
 - Energy efficient glass
 - Designer glass
 - Ultra clean glass
 - Switchable glass
 - Trident glass hardware
- 6.2.3 FGI clear float glass is a high quality, visually colourless and distortion free flat surface, providing high light transmission (daylight) and clarity. Clear float glass is the core base product for most of FGI’s common glass products and is commonly used in general window glazing and furniture. Float glass is also available in Tinted, Reflective, Low Iron, Textured/Patterned and Klymet Shield Low E (low emissivity, energy efficient insulated glass).
- 6.2.4 FGI has advanced customised laminating equipment and can provide a full range of annealed or toughened laminated glass in clear, tinted, reflective and other combinations.

6.3 Financial Information

6.3.1 Set out below is the Audited Consolidated Profit and Loss Statements of FGI for the financial years ended 30 June 2014 (“FY2014”) and 30 June 2015 (“FY2013”) and reviewed half year accounts for the period to 31 December 2015 (HY1FY2016).

FLAT GLASS INDUSTRIES LIMITED			
CONSOLIDATED PROFIT AND LOSS STATEMENT			
	HY1FY2016	FY2015	FY2014
\$'000	6 months Reviewed	12 months Audited	12 months Audited
Revenue	17,395	30,802	27,068
Other income	37	292	47
Raw materials and consumables	(7,225)	(12,953)	(11,722)
Occupancy costs	(837)	(1,662)	(1,768)
Administration and overheads	(1,067)	(2,174)	(1,873)
Employee expenses	(6,515)	(12,118)	(11,169)
Depreciation and amortisation	(565)	(1,071)	(1,107)
Distribution expenses	(486)	(903)	(935)
Impairment / recovery of impairment of assets	161	(148)	-
Share of losses of associate accounted for using equity method	(91)	(311)	(398)
Other expenses		(7)	(16)
Finance costs	(202)	(388)	(332)
Net profit / (loss) before tax	605	(641)	(2,205)
Income tax expense	-	-	-
Net profit / (loss) after tax	605	(641)	(2,205)
EBITDA *	1,372	818	(766)

* Earnings before interest, taxation, depreciation and amortisation

6.3.2 Prior to the current year, the Company has incurred losses, largely attributed to difficult trading conditions experienced in the construction industry over the last few years and competition from imported products. Management advise that continuing control of costs and a lowering Australian currency have contributed to the Company returning a profit during the most recent half year.

6.3.3 FGI management accounts to 31 March 2016 have been provided which show an EBITDA of \$1,684,660 from sales of \$24,353,968. Forecast results for the financial year ending 30 June 2016, incorporating actual results to 31 March 2016, are shown in the table below:

	FY2016 Forecast
Revenue	34,598,167
Cost of Sales	(23,584,033)
Gross profit	11,014,134
Other expenses	(9,793,722)
Net profit before tax	1,220,412
EBITDA	2,786,702

6.3.4 Set out below is the Reviewed Consolidated Balance Sheet of FGI as at 31 December 2015. Directors have confirmed there has been no material change to the net asset position of the Company since this date.

FLAT GLASS INDUSTRIES LIMITED	
CONSOLIDATED BALANCE SHEET	
As at 31 December 2015	
<u>CURRENT ASSETS</u>	\$'000
Cash and cash equivalents	744
Trade and other receivables	4,670
Inventories	4,164
Prepayments	500
	10,078
<u>NON-CURRENT ASSETS</u>	
Investments accounted for using equity method	486
Other financial assets	1
Property, plant & equipment	5,311
Intangible assets	419
	6,217
	16,295
TOTAL ASSETS	
<u>CURRENT LIABILITIES</u>	
Trade and other payables	2,606
Borrowings	3,915
Employee benefits	1,366
	7,887
<u>NON-CURRENT LIABILITIES</u>	
Borrowings	386
Employee benefits	118
	504
TOTAL LIABILITIES	8,391
NET ASSETS	7,904
<u>EQUITY</u>	
Issued capital	21,266
Accumulated losses	(13,362)
TOTAL EQUITY	7,904
NET TANGIBLE ASSETS (NTA)	7,485
NTA per share	\$0.092
Net Debt	
Cash and cash equivalents	(744)
Borrowings – current	3,915
Borrowings – non-current	386
	3,557

6.4 ASX Announcements

The table lists the public announcements made by FGI in the last twelve months:

Date	Announcement	Pages
22/04/2016	Variation of Takeover Bid	3
19/04/2016	Bidders Statement - Off-market bid	57
11/04/2016	Business update	1
06/04/2016	Change of Director's Interest Notice	2
04/04/2016	Bidders Statement	57
01/04/2016	Change in substantial holding	2
01/04/2016	Becoming a substantial holder	2
01/04/2016	Bid Implementation Deed	42
01/04/2016	Intention to Make Takeover Bid	2
24/02/2016	Half Yearly Report and Accounts	19
10/11/2015	Results of Meeting	1
15/10/2015	Appendix 3B	12
05/10/2015	Notice of Annual General Meeting/Proxy Form	8
29/09/2015	Corporate Governance Statement	9
29/09/2015	Appendix 4G	11
29/09/2015	Annual Report to shareholders	51
16/09/2015	Becoming a substantial holder	3
09/09/2015	Ceasing to be a substantial holder	1
27/08/2015	Preliminary Final Report	15
28/05/2015	Final Director's Interest Notice	2
28/05/2015	Director Resignation	1
28/05/2015	Initial Director's Interest Notice	2
28/05/2015	Director Appointment/Resignation	1
15/05/2015	Change of registry address	1

7 VALUATION METHODOLOGIES

7.1 Selection of Methodology

7.1.1 In order to assess the fairness of the Offer a value needs to be attributed to FGI shares.

7.1.2 In assessing the value of FGI we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- Market Value of Shares: the quoted price for listed securities in a liquid and active market;
- Discounted Cash Flow: the net present value of future cash flows;
- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings;
- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realisation of assets;
- Comparable Market Transactions: the identification of comparable sale or market transactions or trading multiples.

We consider each of these valuation methodologies below.

7.1.3 Market Value of Shares

This method involves the valuation of an entity based on its actively traded equities, which represent the market capitalisation of the share capital of the entity, in a liquid and knowledgeable market.

Any assessment of the market value of the quoted equities needs to consider the following:

- The liquidity of the quoted equity based on the volume and frequency of trading;
- The number of ‘unusual’ and/or ‘abnormal’ trades that occur; and
- The timing and level of dissemination of information to the market.

If a quoted ordinary equity is traded in an active, liquid and knowledgeable market, then the market price of the quoted ordinary equity should represent the ‘fair’ market value of the quoted ordinary equity.

A premium may also need to be applied to the value of the quoted ordinary equity to determine the value of the equity holding in the circumstances where a party is acquiring or increasing a controlling equity position.

We consider that adopting a market value of shares methodology to determine an indicative value of FGI is appropriate as it reflects all publicly available information on the Company and therefore we believe it is a reliable reflection of the current value of FGI shares.

7.1.4 *Capitalisation of Future Maintainable Earnings*

Under the earnings based valuation method, the value of the business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiplier of earnings. The multiple is a coefficient, representing the risk that the business may not achieve the estimated future maintainable earnings.

The capitalisation of earnings or future maintainable profits is the most frequently used method of valuing an ongoing and established business. This method of valuation is used in the majority of business valuations where there is a history of earnings in an established business. Under this methodology, a valuation is assessed by determining expected future earnings and capitalising the earnings at an appropriate earnings multiple, representing the required investor return.

The earnings multiple used to value an asset reflects the risk of investing in the asset and the investor's required return on the investment. Many assets or businesses are valued or compared on reported price earnings ratios, which examines the value based upon a multiple of net profit after tax. EBITDA (earnings before interest, tax, depreciation and amortisation), EBITA (earnings before interest, tax and amortisation) or EBIT (earnings before interest and tax) or some other earnings substitute can also be used in determining a valuation for a company.

This approach is an appropriate method for the valuation of FGI as the business has recent historical earnings and short term forecasts on which a valuation can be based.

7.1.5 *Discounted Cash Flow – Net Present Value*

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flows that will be generated from the business over its life. The cash flows are discounted to reflect the time value of money and the risk involved with achieving the forecast cash flows. A terminal value at the end of the forecast period is then determined and that value is also discounted back to the valuation date to give an overall value of the business.

Although the discounted cash flow approach relies on the availability of long-term earnings and cash flow forecasts, it is particularly suited to situations where cash flows are not stable or where significant cash outflows will be incurred prior to cash inflows being earned. The forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operational cycle for more cyclical industries.

Given the history of losses and uncertainty of future trading results there is not sufficient reasonable basis on which long term forecast cash flows can be disclosed for FGI. Therefore the discounted cash flow method has not been used for the valuation of FGI. FGI has provided short term forecasts and we have determined that FGI is more appropriately valued under the capitalisation of earnings approach.

7.1.6 *Realisation of Assets*

The net assets or cost based approach is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the entity. The net asset value is determined by marking every asset and liability on and off the company's balance sheet to current market values.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital. It is often used as a cross check to assess the relative riskiness of the business.

As FGI is predominantly a revenue based business, the book value of the assets is not representative of the inherent value of the business and accordingly this method is not appropriate.

7.1.7 *Comparable Market Offers*

This methodology involves the identification of comparable sale transactions and trading multiples for a similar business or asset to that being valued.

We have considered transactions and trading activity involving comparable companies in determining the appropriate earnings multiple to apply to the valuation of FGI.

7.2 Premium for Control

7.2.1 When considering transactions involving a substantial equity holding of a company, it is appropriate to address whether a premium for control should attach to the Offer. A premium for control is the difference between the price for each share that a buyer would be prepared to pay to obtain a controlling interest in a company and the price per share that would be required to purchase a share that does not carry with it a controlling interest. In most cases, the value of a controlling interest in the shares in a company significantly exceeds the listed market value of the shares. This reflects the fact that:

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

7.2.2 Empirical evidence indicates that the average premium for control (over and above the market price of the company's shares) in successful takeovers in Australia generally range between 20% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). However, the appropriate premium for control depends on the specific circumstances and, in particular, the level of synergy benefits able to be extracted by potential acquirers and the degree of confidence about the level and achievability of potential synergies and their timing.

- 7.2.3 Caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply a premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors.
- 7.2.4 A shareholder or group of associated shareholders are deemed to influence a company when they have control of more than 20% of the issued shares in a company. At this time a premium for control should normally be considered.
- 7.2.5 As the Offer is for a 100% takeover of FGI by MHG, a premium for control is relevant to assessing the fairness of the Offer.
- 7.2.6 We have applied a premium for control of 20% to the value of FGI shares based on the following:
- a) MHG will obtain full control of FGI and shareholders will have no future opportunity to obtain a premium from the sale of their shares;
 - b) FGI have traded at a loss for a number of years;
 - c) Nominal free cash flows are available to be extracted by MHG obtaining control of FGI;
 - d) Liquidity in FGI shares has been low, at only 19.8% in the last 12 months, and less than 1% in the last six months. The majority of trading in the last 12 months was on 4 September 2015, being 15,591,580 shares traded at \$0.05 per share.

We believe that a premium for control of 20% fairly represents the value that a potential investor would be willing to pay to obtain a controlling interest in the Company.

8 VALUE OF FGI

8.1 General

8.1.1 This section sets out our assessment of the underlying value of FGI shareholdings.

8.1.2 We have selected the market value of shares and capitalisation of earnings as the valuation methodologies for FGI as detailed in section 7.

8.1.3 In forming an opinion on the valuation of FGI, and the selected methodologies, HCC has considered the following:

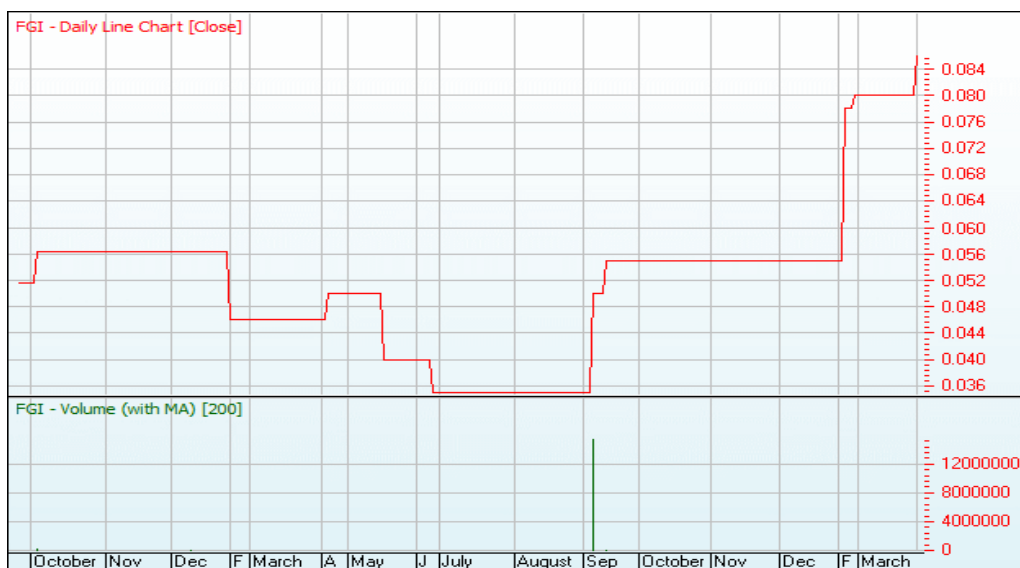
- The historical and forecast operations of the business;
- The industry in which the business operates;
- The period of time for which the business has been operating;
- Information provided by management regarding future operations of the business.

8.1.4 *Financial information relied upon in applying selected valuation methods:* We have reviewed the financial information of FGI. Ultimately, the management of FGI are responsible for the preparation and presentation of the financial information provided. The purpose of our review is to establish that the financial information used is not materially misstated. This review does not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

8.2 Market Value of Shares

8.2.1 In our opinion the value of FGI for the purpose of assessing the fairness of the Offer should be examined on the basis of the current market value of the shares listed on the ASX. The market value of the shares listed on the ASX reflects all publicly available information on the company and therefore we believe it is a reliable reflection of the current value of the Company.

8.2.2 Following is a graph of the trading of FGI shares in the last 12 months:



8.2.3 The table below sets out the movement of FGI share prices and trading up to 31 March 2016, the day prior to the announcement of the Offer:

	Low \$	High \$	VWAP (1)	Volume
1 month	0.080	0.081	0.080	21,300
2 months	0.055	0.081	0.065	97,110
3 months	0.055	0.081	0.065	97,110
6 months	0.055	0.081	0.065	97,110
12 months	0.035	0.081	0.050	16,051,790

(1) The VWAP was calculated using the total value of all transactions divided by the total trading volume in the time period considered.

8.2.4 Liquidity in FGI shares has been low, at only 19.8% in the last 12 months, and less than 1% in the last six months. The majority of trading in the last 12 months was on 4 September 2015, being 15,591,580 shares traded at \$0.05 per share.

8.2.5 We conclude that the value of the FGI shares under the market value approach for the purpose of this report is a VWAP of \$0.065, within a range of \$0.050 to \$0.080 per share, being the VWAP in the two months prior to the announcement of the Offer on 1 April 2016. We have not based our valuation on only the last month of trading as the volume of shares traded in that time is far too low to rely on as a reflection of the fair market value of the FGI shares. We note this valuation is on a portfolio basis and does not reflect a premium for control.

8.2.6 Inclusive of a 20% premium for control, the value of FGI shares under the market value approach is in the range of \$0.060 to \$0.096, with a midpoint of **\$0.078 per share**.

8.3 Capitalisation of Future Maintainable Earnings

Future Maintainable Earnings

8.3.1 Future maintainable earnings (“FME”) represent the level of earnings that the existing operations could reasonably be expected to generate, in the absence of unforeseen and exceptional circumstances. We have selected EBITDA as an appropriate measure of the FME of FGI as earnings multiples based on EBITDA removes the effect of different gearing or financing structures and effective tax rates as compared to multiples based on net profit after tax (“NPAT”).

8.3.2 We have estimated FME of FGI for the purpose of this valuation to be **\$2,786,702** EBITDA, based on the FY2016 forecast results, incorporating actuals to 31 March 2016.

Earnings Multiple

8.3.3 Businesses of a similar size, nature and life cycle stage to FGI, based on our experience, generally sell at multiples of 3-8 times EBITDA. The businesses achieving the higher multiple of earnings on sale are usually well established, with a mature trading history, have established clientele without a great reliance on one or two clients, and for which there may be significant barriers to entry to their operations.

8.3.4 We have considered the earnings multiples observed in the market for comparable companies to attribute a value to FGI:

- a) Comparable companies in the construction materials and building products sectors in Australia with positive net earnings are currently trading at between 5.79 and 8.86 times EBITDA, with a mean average of **7.08 times EBITDA**.
- b) FGI's closest comparable with respect to glass processing services is CSR Limited, which currently has a market capitalisation of \$1,628.4million and trading at a multiple of **5.88 times EBITDA**.

8.3.5 After reviewing the financial and non-financial information gathered on FGI, and our assessment concerning profit multiples for comparable companies, HCC has chosen to apply an earnings multiple range of 3 – 4 times EBITDA. This equates to a midpoint discount of 50% to the average comparable trading multiple and a 40% discount to the current trading multiple of CSR Limited. We consider this is reasonable due to the following:

- FGI has only recently began earning net profits and is significantly smaller than many of the listed comparable companies;
- FGI does not have access to the working capital and funding opportunities of larger listed companies;
- FGI does not have the same diversity of larger listed companies and may be more susceptible to earnings fluctuations;
- The multiple selected for FGI is being applied to partly forecast earnings, whereas the comparable trading and transaction multiples are based on historical financial performance.

8.3.6 The main risks that the future maintainable earnings used in the valuation will not be achieved are:

- i) Loss or non-renewal of main contracts;
- ii) Failure to or delays in collecting revenues;
- iii) Cost overruns for unforeseen events;
- iv) The continuing employment of key management;
- v) Competitors entering the market or unforeseen changes in demand for the products FGI sell;
- vi) Unexpected costs to comply with laws and regulations;
- vii) Changes in the general economic climate in which the Company operates.

Enterprise Valuation

8.3.7 The following table sets out the enterprise value of FGI based on the FME and selected earnings multiple detailed above:

	LOW	HIGH	MIDPOINT
Future maintainable earnings (FME)	2,786,702	2,786,702	
EBITDA Multiple	3	4	
Enterprise Value	8,360,106	11,146,808	9,753,457

8.4 Equity Valuation

- 8.4.1 A valuation undertaken by capitalising EBITDA gives the aggregate fair market value or ‘enterprise value’ of the company on an ungeared basis. In order to obtain a value for the equity, an adjustment must be made to incorporate the value of surplus assets and deduct the value of net interest bearing debt.
- 8.4.2 Based on the consolidated balance sheet of FGI detailed at section 6.3.4, the net debt of FGI as at 31 December 2016 totals \$3,557,000.
- 8.4.3 The adjustment for net debt and the resulting equity value of FGI is shown in the following table:

	LOW	HIGH	MIDPOINT
Enterprise Value	8,360,106	11,146,808	9,753,457
Less net debt	(3,557,000)	(3,557,000)	(3,557,000)
Equity Value	4,803,106	7,589,808	6,196,457
Shares on issue	81,118,560	81,118,560	81,118,560
Value per share (\$)	0.059	0.094	0.076

8.5 Resultant Valuation of FGI

- 8.5.1 Based on the range of values determined in the two methods above, we conclude that the equity value of FGI on a controlling interest basis for the purpose of this report is in the range of \$0.059 to \$0.096, with a midpoint of **\$0.078 per share** as at the date of this report.

9 ADVANTAGES & DISADVANTAGES OF THE OFFER

9.1 Approach to assessing Fairness and Reasonableness

HCC has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Offer. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Shareholders if the Offer proceeds.

9.2 Advantages of the Offer

- 9.2.1 The Offer may represent an opportune time for FGI shareholders to realise the value of their investment in FGI at a premium. The Offer Price represents a premium of:
- 38% to the last closing price of \$0.08 prior to the announcement of the Offer;
 - 69% to the volume weighted price of \$0.065 at which FGI shares have traded over the last 2-6 months; and
 - 120% to the volume weighted price of \$0.05 at which FGI shares have traded over the last 12 months.
- 9.2.2 The Offer provides immediate value and certainty of cash to FGI Shareholders;
- 9.2.3 FGI Shareholders will not be required to pay any brokerage costs on the disposal of their FGI Shares under the Offer.
- 9.2.4 The FGI share price may fall to levels below the Offer Price following the conclusion of the Offer.
- 9.2.5 There may be reduced liquidity in FGI Shares following the completion of the Offer. Furthermore, If MHG acquires more than 75% but less than 100% of all FGI Shares, FGI may be delisted and Shareholders could become a minority shareholder in a private company and thereafter have limited opportunity to dispose of their FGI Shares. If MGH acquires more than 90% of all FGI Shares they are entitled to compulsorily acquire the remaining FGI Shares at the Offer Price.

9.3 Disadvantages of the Offer

- 9.3.1 The Offer will result in FGI Shareholders no longer holding an interest in the Company. They will therefore not benefit from any future capital growth or distributions from FGI.
- 9.3.2 Approval of the Offer may result in tax consequences for FGI Shareholders. Whilst tax implications will vary depending on the circumstances of each Shareholder, acceptance of the Offer may result in a tax event occurring, potentially crystallising these tax consequences, including capital gains.

10 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

10.1 Fairness

10.1.1 For the Offer to be fair, the value Offer Price must be equal to or greater than the value of the FGI shares being acquired by MHG.

10.1.2 Based on the analysis contained in section 8 of this report, the indicative value of FGI shares is between \$0.059 to \$0.096, with a midpoint of **\$0.078 per share**, inclusive of a 20% premium for control.

10.1.3 The Offer Price is **\$0.11** per FGI share.

10.1.4 Therefore, as the Offer Price exceeds the value range of FGI determined above, in our opinion **the Offer is fair**.

10.2 Reasonableness

10.2.1 ASIC Regulatory Guide 111 considers a Offer to be reasonable if:

- The Offer is fair; or
- Despite not being fair, but considering other significant factors, shareholders should obtain an overall benefit if the Offer proceeds.

10.2.2 We have concluded that the Offer is fair and therefore also reasonable. In forming our opinion we have also considered the following relevant factors.

- The Offer may represent an opportune time for FGI shareholders to realise the value of their investment in FGI at a premium. The Offer Price represents a premium of:
 - 38% to the last closing price of \$0.08 prior to the first announcement of the Offer;
 - 69% to the volume weighted price of \$0.065 at which FGI shares have traded over the last 2-6 months; and
 - 120% to the volume weighted price of \$0.05 at which FGI shares have traded over the last 12 months.
- The Offer provides immediate value and certainty of cash to FGI Shareholders;
- FGI Shareholders will not be required to pay any brokerage costs on the disposal of their FGI Shares under the Offer.
- The FGI share price may fall to levels below the Offer Price following the conclusion of the Offer. Since the announcement of the Offer FGI shares have traded at between \$0.080 and \$0.115 per share (to the date of this report).
- There may be reduced liquidity in FGI Shares following the completion of the Offer. Furthermore, If MHG acquires more than 75% but less than 90% of all FGI Shares, FGI may be delisted and Shareholders could become a minority shareholder in a private company and thereafter have limited opportunity to dispose of their FGI Shares. If MGH acquires more than 90% of all FGI Shares they are entitled to compulsorily acquire the remaining FGI Shares at the Offer Price.
- We are unaware of any alternative proposal at the date of this report that would realise better value for FGI Shareholders.

10.3 *In our opinion the Offer is fair and reasonable to FGI Shareholders.*

APPENDIX I - SOURCES OF INFORMATION

- FGI Audited Financial Reports for the financial years ended 30 June 2014 and 30 June 2015;
- FGI Reviewed Half Yearly Report to 31 December 2015;
- FGI Management accounts to 31 March 2016;
- FGI Forecasts for the financial year ending 30 June 2016;
- Bid Implementation Agreement between MHG Flat Glass Holdings Pty Limited and FGI;
- Publicly available information on FGI and MHG;
- Regulatory Guide 74 ‘Acquisitions Agreed to by Shareholders’;
- Regulatory Guide 111 ‘Content of Expert Reports’;
- Regulatory Guide 112 ‘Independence of Expert’s Reports’;
- APES 225 ‘Valuation Services’.

APPENDIX II – COMPARABLE COMPANIES ANALYSIS

Market Trading Multiples

The share market valuation of similar listed companies provides evidence in assessing appropriate earnings multiples for FGI. Detailed below are the current market capitalisations and trading multiples for companies in the construction materials and building products sectors in Australia with published EBITDA multiples:

Company Name and Listing Ticker	Market Capitalization (AUDmm)	EBITDA Multiple (x)
Chongherr Investments Ltd. (ASX:CDH)	-	8.86
GWA Group Limited (ASX:GWA)	582.9	7.78
CSR Limited (ASX:CSR)	1,628.4	5.88
Embelton Limited (ASX:EMB)	-	5.79
Mean Average		7.08

Source: S&P Capital IQ, 8 April 2016

Comparable Companies Detail

ChongHerr Investments Ltd, through its subsidiary, Australian Sandstones Industries Pty Ltd., engages in sandstone quarrying and production in Australia. The company's sandstone products include dimensional blocks and slabs, internal/external wall and floor tiles, building panels, colonial bricks, counter tops, furniture, paves, landscaping materials, and ornaments. Its products are used in a portfolio of finished developments, including museums, libraries, government buildings, residential and commercial estates, and hotels and resorts. The company also exports sandstone blocks to Southeast Asia. ChongHerr Investments Ltd is based in Sunnybank Hills, Australia.

GWA Group Limited engages in the research, design, manufacture, import, marketing, and distribution of building fixtures and fittings to residential and commercial premises in Australia, New Zealand, and international markets. It operates through two segments, Bathrooms & Kitchens; and Door & Access Systems. GWA Group Limited is headquartered in Fortitude Valley, Australia.

CSR Limited manufactures and supplies building products for residential and commercial construction in Australia and New Zealand. The company operates through four segments: Building Products, Glass, Aluminium, and Property. The Glass segment manufactures architectural glass, float glass and hard coated performance products, clear float, and coated and bulk laminate glass under the Viridian brand name. The company is headquartered in North Ryde, Australia.

Embelton Limited manufactures, distributes, and sells flooring, structural noise and vibration control system, metal fabrication, rubber and cork sheeting, and other industrial products primarily in Australia. It engages in the distribution and merchandising of flooring and consumer products. The company also offers various industrial and construction products. In addition, it is involved in the manufacture of custom fabricators in steel, stainless steel, copper, aluminum, and nickel alloys. The company is headquartered in Coburg, Australia.

APPENDIX III - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement HCC determined its independence with respect to MHG and FGI with reference to ASIC Regulatory Guide 112 (RG 112) titled “Independence of Expert’s Reports”. HCC considers that it meets the requirements of RG 112 and that it is independent of MHG and FGI.

Also, in accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with MHG or FGI, its related parties or associates that would compromise our impartiality.

Mr Drew Townsend, director of Hall Chadwick Corporate (NSW) Limited, has prepared this report. Neither he nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of the Offer nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed Offer, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

HCC provided a draft copy of this report to the Directors and management of FGI for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of HCC alone. Changes made to this report, as a result of the review by the Directors and management of FGI have not changed the methodology or conclusions reached by HCC.

Reliance on Information

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report HCC has relied upon information provided on the basis it was reliable and accurate. HCC has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. HCC evaluated the information provided to it by FGI as well as other parties, through enquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base this report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS). HCC does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

The sources of information that we relied upon are outlined in Appendix I of this report.

FGI has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by FGI to HCC in preparation of this report.

Qualifications

Hall Chadwick Corporate (NSW) Limited (“HCC”) carries on business at Level 40, 2 Park Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients. HCC’s representatives are therefore qualified to provide this report.

Consent and Disclaimers

The preparation of this report has been undertaken at the request of the Directors of FGI. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any purpose other than to accompany the Target Statement to be sent to FGI Shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of HCC’s opinion as to whether or not the proposed Offer is fair and reasonable to FGI Shareholders.

HCC consent to the issue of this report in the form and context in which it is included in the Target Statement to be sent to FGI Shareholders.

Shareholders should read all documents issued by FGI that consider the proposed Offer its entirety, prior to proceeding with a decision. HCC had no involvement in the preparation of these documents, with the exception of our report.

This report has been prepared specifically for the shareholders of FGI. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than a shareholder of FGI, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS).

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for HCC to update this report for information that may become available subsequent to this date.

APPENDIX IV - FINANCIAL SERVICES GUIDE

Dated 27 April 2016

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by Hall Chadwick Corporate (NSW) Limited ABN 28 080 462 488, Australian Financial Services Licence Number 227902 (HCC).

This FSG includes information about:

- HCC and how they can be contacted
- the services HCC is authorised to provide
- how HCC are paid
- any relevant associations or relationships of HCC
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that HCC has in place.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that HCC is authorised to provide

HCC holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of finance products.

HCC's responsibility to you

HCC has been engaged by the independent directors of Flat Glass Industries Limited ("FGI" or the "Client") to provide general financial product advice in the form of a Report to be included in the Target Statement (Document) prepared in relation to the proposed Offer from MHG Flat Glass Holdings Pty Limited ("MHG") (the "Offer").

You have not engaged HCC directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither HCC nor its employees are acting for any person other than the Client.

HCC is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As HCC has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Offer.

Fees HCC may receive

HCC charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay HCC \$20,000 (excluding GST and out of pocket expenses) for preparing the Report. HCC and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Report.

HCC officers and representatives receive a salary, dividend or partnership distribution from Hall Chadwick Sydney professional advisory and accounting practice (the Hall Chadwick Sydney Partnership) and dividends from associated companies. Remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

HCC does not pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures HCC is controlled by and operates as part of the Hall Chadwick Sydney Partnership. HCC's directors may be partners in the Hall Chadwick Sydney Partnership. Mr Drew Townsend, director of HCC and partner in the Hall Chadwick Sydney Partnership, has prepared this report. The financial product advice in the Report is provided by HCC and not by the Hall Chadwick Sydney Partnership or other associated entities.

From time to time HCC, the Hall Chadwick Sydney Partnership and related entities (HC entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses. Over the past two years no professional fees have been received from the Client.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of the Client or has any other material financial interests in the Offer.

Complaints resolution

If you have a complaint, please let HCC know. Formal complaints should be sent in writing to:

The Complaints Officer
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001

If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9263 2600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If HCC cannot resolve the complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Financial Ombudsman Service Limited
GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 06
Facsimile (03) 9613 6399
Email: info@fos.org.au

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

HCC has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact HCC at:
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001
Telephone: 02 9263 2600
Facsimile: 02 9263 2800