

# Explanatory Memorandum and Notice of Meeting

In relation to the proposed capital restructure involving:

- the sale of all of the shares in EpiBlu Technologies Pty Ltd (“**EpiBlu**”) held by SPTS Technologies UK Limited (“**SPTS**”) (“**Sale Shares**”) to BluGlass Limited (“**BluGlass**”); and
- the issue of 15,973,678 fully paid ordinary shares (“**Subscription Shares**”) in the capital of BluGlass to SPTS, which equates to 5% of BluGlass’ enlarged share capital, (the “**Capital Restructure**”).

This is an important document and requires your immediate attention. You should read this document in its entirety before deciding whether or not to vote in favour of the Capital Restructure, and, if necessary, consult your legal, investment, taxation or other professional adviser.

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE CAPITAL RESTRUCTURE IS FAIR AND REASONABLE TO SHAREHOLDERS NOT ASSOCIATED WITH SPTS.

YOUR NON-ASSOCIATED DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE CAPITAL RESTRUCTURE.

If, after reading this Explanatory Memorandum, you have any questions about the Capital Restructure, please call the Company Secretary on (+61 2) 9334 2300 Monday to Friday between 9.00am and 5.00pm (Sydney time).

**BluGlass Limited** (ACN 116 825 793).

# Important Notices

This explanatory memorandum (“**Explanatory Memorandum**”) is issued by **BluGlass Limited** (ACN 116 825 793) (“**BluGlass**”).

## **This Explanatory Memorandum**

This Explanatory Memorandum provides Shareholders with information about the Capital Restructure. The Notice of Meeting is included as Appendix 2 of this Explanatory Memorandum.

You should read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the Resolution to be considered at the Meeting and, if necessary, consult an independent legal, investment, taxation or other professional adviser.

## **Defined terms**

Capitalised terms used in this Explanatory Memorandum have the meaning given to them in the Glossary of this Explanatory Memorandum.

## **Disclaimer**

The information in this Explanatory Memorandum should be read in conjunction with BluGlass’ other periodic and continuous disclosure announcements, including the BluGlass Annual Report for the year ended 30 June 2012 and other announcements to ASX which are available at [www.asx.com.au](http://www.asx.com.au).

The information in this Explanatory Memorandum remains subject to change without notice. BluGlass reserves the right to withdraw or vary the timetable for the Capital Restructure without notice.

This Explanatory Memorandum has been prepared without taking account of any individual person’s specific investment objectives, financial situation or particular needs. This Explanatory Memorandum should not be relied upon as the sole basis for any investment decision. Shareholders should consider the appropriateness of any investment, taking into account their specific investment objectives, financial situation and particular needs, and should seek independent financial and taxation advice before making any decision in relation to the Capital Restructure.

## **ASIC and ASX involvement**

A draft of this Explanatory Memorandum (including the Independent Expert’s Report) has been provided to ASIC. A copy of this Explanatory Memorandum has also been lodged with ASX. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

## **Responsibility for information**

Except as outlined below, the information contained in this Explanatory Memorandum has been provided by BluGlass and is the responsibility of BluGlass. Except as outlined below, neither SPTS nor any of its direct or indirect partners, members, directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of any information in this Explanatory Memorandum.

SPTS has prepared and is solely responsible for the SPTS Information (except to the extent that BluGlass has provided SPTS with information for the purpose of SPTS preparing the SPTS Information). Neither BluGlass nor any of its directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of the SPTS Information.

The Independent Expert has provided and is responsible for the information contained in the Independent Expert’s Report.

Neither BluGlass nor SPTS nor any of their respective direct or indirect partners, members, directors, officers, employees, agents, advisers or intermediaries assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert’s Report. The Independent Expert does not assume any responsibility for the accuracy or completeness of the information contained in this Explanatory Memorandum other than that contained in the Independent Expert’s Report.

## **Privacy and personal information**

BluGlass will need to collect personal information in connection with the Meeting. The personal information may include the names, contact details and details of holdings of Shareholders, plus contact details of individuals appointed by Shareholders as proxies, corporate representatives or attorneys at the Meeting. The collection of some of this information is required or authorised by the Corporations Act. Shareholders who are individuals, and other individuals in respect of whom personal information is collected, may have certain rights to access personal information about them which is collected. You can contact BluGlass’ Company Secretary if you wish to exercise those rights.

The personal information collected by BluGlass may be disclosed to print and mail service providers and to BluGlass’ advisers. If the information outlined above is not collected, BluGlass may be hindered in, or prevented from, conducting the Meeting. Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meeting should inform that individual of the matters outlined above.

It is noted that all persons are entitled under section 173 of the Corporations Act to inspect and copy the Register. The Register contains personal information about Shareholders.

## **Disclosures regarding forward looking statements**

The forward looking statements contained in this Explanatory Memorandum involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of BluGlass and may involve significant elements of subjective judgment and assumptions as to future events which may or may not be correct. There can be no assurance that actual outcomes will not differ materially from those forward-looking statements.

Any forward looking statements included in this Explanatory Memorandum are made only as at the date of this Explanatory Memorandum. Neither BluGlass nor SPTS nor any of the respective direct or indirect partners, members, directors or officers of any of those entities, nor any other person, makes or gives any assurances or guarantee to Shareholders that the matters described in any forward looking statements will actually occur, or be achieved, and Shareholders are cautioned not to place undue reliance on such forward looking statements.

## **Currency**

All dollar values in this Explanatory Memorandum are expressed in Australian dollars.

## **Date**

This Explanatory Memorandum is dated 4 September 2012.

## **Contents**

<b>Important Notices</b>	<b>2</b>
<b>Key Dates</b>	<b>4</b>
<b>Letter from the Chairman</b>	<b>5</b>
<b>Section 1 – How you might vote on the Resolution</b>	<b>7</b>
<b>Section 2 – Meeting details and how to vote</b>	<b>8</b>
<b>Section 3 – Transaction overview</b>	<b>12</b>
<b>Section 4 – Information about SPTS</b>	<b>15</b>
<b>Section 5 – Additional Information</b>	<b>16</b>
<b>Appendix 1 - Independent Expert's Report</b>	<b>19</b>
<b>Appendix 2 - Notice of Meeting</b>	<b>44</b>
<b>Glossary</b>	<b>47</b>

## Key Dates

Last time to lodge Proxy Forms with the Registry	Tuesday, 2 October 2012, 10:00am
Meeting Record Date	Tuesday, 2 October 2012, 7:00pm
Meeting to be held at Grant Thornton, Level 17, 383 Kent Street, Sydney, NSW	Thursday, 4 October 2012, 10:00am
<b>If the Capital Restructure is approved by Shareholders:</b>	
Completion Date	Monday, 8 October 2012

Note: Dates and times are indicative only and subject to change. Any changes to the above timetable will be announced through ASX and notified on BluGlass' website at <http://www.bluglass.com.au>. Unless otherwise specified, all times and dates refer to Sydney time.

# Letter from the Chairman

4 September, 2012

Dear Shareholder,

On 24 July 2012, BluGlass Limited (“**BluGlass**”) announced that it had agreed with SPTS Technologies Ltd (“**SPTS**”) to acquire SPTS’ 49% interest in the EpiBlu joint venture in return for an issue of shares in BluGlass (“**Capital Restructure**”).

The EpiBlu joint venture was formed in August 2010 by BluGlass and SPTS - a leading provider of plasma based process equipment. The aim of the joint venture was to jointly develop BluGlass’ proprietary Remote Plasma Chemical Vapour Deposition technology (“**RPCVD Technology**”), capitalising on SPTS’ plasma expertise.

Since the EpiBlu joint venture was formed, BluGlass and SPTS have had a successful collaboration, resulting in major technical breakthroughs that bring the RPCVD Technology closer to reaching its key milestones and to commercialisation.

BluGlass and SPTS have now decided that the best commercialisation strategy is to consider a range of partners beyond SPTS that can most quickly and effectively take the RPCVD Technology to market. BluGlass has accordingly agreed to acquire SPTS’ interest in the EpiBlu joint venture on the terms and subject to the conditions set out below.

## Transaction Summary

BluGlass has agreed to acquire SPTS’ 49% interest in the EpiBlu joint venture in return for issuing SPTS 15,973,678 fully paid ordinary shares in BluGlass. If implemented, this will increase SPTS’ shareholding in BluGlass from 19.9% to 24.9%.

Given that SPTS shareholding in BluGlass will increase as a result of the Capital Restructure, SPTS has undertaken that if BluGlass conducts a capital raising before 24 July 2013, it will not participate in that capital raising without the written consent of BluGlass if it would result in SPTS and/or SPTS’ Associates holding a Relevant Interest in issued voting shares in BluGlass of more than 19.9%.<sup>1</sup>

SPTS will also provide a licence to BluGlass of certain Intellectual Property that it previously contributed to EpiBlu to enable BluGlass to develop and commercialise EpiBlu’s Intellectual Property.

SPTS President and Chief Executive Officer, Dr William Johnson, will remain on the Board of BluGlass. This will ensure continuity of the collaboration that BluGlass has established with SPTS over the past two years.

Completion of the Capital Restructure is subject to conditions including the approval of BluGlass shareholders. Shareholder approval will be sought at an extraordinary general meeting of shareholders to be held on Thursday, 4 October 2012.

## Directors Unanimous Recommendation

The Directors of BluGlass, other than Dr Johnson who is an associate of SPTS (“**Non-Associated Directors**”), unanimously recommend that BluGlass shareholders approve the Resolution, subject to the Independent Expert not changing its view prior to the Meeting. Each Non-Associated Director of BluGlass intends to vote all shares they own or control the right to vote in favour of the Resolution. The reason for the recommendation

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<sup>1</sup> Note, this restriction only applies to the first capital rising by way of rights issue undertaken by BluGlass up to 24 July 2013.

is that the Capital Restructure is expected to deliver significant benefits to Shareholders, including:

- providing to BluGlass 100% of the potential returns from commercialisation of the RPCVD Technology;
- allowing BluGlass the freedom to pursue the full range of commercialisation avenues to maximise the value of the RPCVD Technology and preventing a circumstance in which BluGlass and SPTS may both seek to commercialise the RPCVD Technology in competition with each other; and
- further aligning the interests of SPTS and other BluGlass Shareholders.

### **Independent Expert**

The Non-Associated Directors have obtained an Independent Expert's Report from Lonergan Edwards & Associates Limited to assist BluGlass Shareholders in deciding whether or not to approve the Resolution. In that report, the Independent Expert has concluded that the Capital Restructure is fair and reasonable to BluGlass Shareholders not associated with SPTS. The Independent Expert's Report is set out in Appendix 1 of this Explanatory Memorandum.

### **Further Information**

This Explanatory Memorandum sets out further details of the proposed Capital Restructure. While the Non-Associated Directors unanimously recommend that you vote in favour of the Capital Restructure, there are a number of potential disadvantages and risks associated with it that are set out in detail in section 1.2 of this Explanatory Memorandum. Please read this Explanatory Memorandum in full before making your decision and voting on the Resolution at the Extraordinary General Meeting ("**EGM**").

The Non-Associated Directors encourage you to participate in the vote. You can vote in person at the EGM on 4 October 2012 or, if you cannot attend the EGM in person, you can vote by proxy or through an assigned power of attorney or corporate representative using the proxy form enclosed with the Explanatory Memorandum.

If you have any questions about the proposed Capital Restructure, you should consult your independent financial, legal and/or tax adviser. For assistance with matters concerning the Capital Restructure, the EGM, or voting procedures, please call the Company Secretary on (+61 2) 9334 2300 Monday to Friday between 9.00am and 5.00pm (Sydney time).

The Non-Associated Directors believe that the Capital Restructure will put BluGlass on a stronger footing to pursue the full range of commercialisation options open to it to capitalise on the BluGlass RPCVD Technology for the benefit of Shareholders. If you would like the Capital Restructure to proceed, it is important that you vote in favour of the Resolution.

Yours faithfully

**George Venardos**  
Chairman  
BluGlass Limited

# Section 1 – How you might vote on the Resolution

## 1.1 Why you might vote in favour of the Capital Restructure

The Non-Associated Directors expect the Capital Restructure to deliver material benefits to BluGlass, including the following:

- providing to BluGlass 100% of the potential returns from commercialisation of the RPCVD Technology;
- allowing BluGlass the freedom to pursue the full range of commercialisation avenues to maximise the value of the RPCVD Technology and preventing a circumstance in which BluGlass and SPTS may both seek to commercialise the RPCVD Technology in competition with each other; and
- further aligning the interests of SPTS and other Shareholders.

The Non-Associated Directors note that the Independent Expert has opined that the Capital Restructure is fair and reasonable to Shareholders who are not associated with SPTS. You are advised to review in detail this report which is contained in Appendix 1 of this Explanatory Memorandum.

## 1.2 Why you might vote against the Capital Restructure

The Non-Associated Directors note that there are a number of risks and disadvantages of the Capital Restructure of which you should be aware, namely:

- your percentage shareholding and voting power in BluGlass will be diluted as a further 5% of BluGlass shares will be issued to SPTS;
- BluGlass will be solely responsible for the funding of all future R&D expenditure of EpiBlu, which will place an increased burden on BluGlass' financial position until revenue is generated by EpiBlu;
- BluGlass will be potentially exposed to greater financial losses if the RPCVD Technology cannot be successfully commercialised because it will have a 100% stake in EpiBlu; and
- SPTS will increase its voting power from 19.9% to 24.9%. This may discourage a potential bidder from proposing a control transaction in relation to BluGlass.

## Section 2 – Meeting details and how to vote

### 2.1 Time and date of Meeting

Location: Grant Thornton, Level 17, 383 Kent Street, Sydney, NSW

Date: Thursday, 4 October 2012

Time: 10:00am

The Notice of Meeting is set out in Appendix 2 of this Explanatory Memorandum. There is a personalised Proxy Form for the Meeting enclosed with this Explanatory Memorandum.

### 2.2 The Resolution

The Notice of Meeting in Appendix 2 of this Explanatory Memorandum provides full details of the Resolution. Under the Resolution Shareholders, other than SPTS or its Associates, are asked to approve the Capital Restructure for all purposes including for the purposes of:

- (a) ASX Listing Rule 10.1; and
- (b) item 7 of section 611 of the Corporations Act.

#### 2.2.1 ASX Listing Rule 10.1 approval

Under ASX Listing Rule 10.1, BluGlass may only acquire a "*substantial asset*" from a "*substantial holder*" with the approval of its Shareholders.

SPTS, with a 19.9% interest in BluGlass, is a "*substantial holder*" for these purposes.

The acquisition of SPTS's 49% shareholding in EpiBlu is an acquisition of a "*substantial asset*" because the value of those shares (or the value of the shares in BluGlass to be issued to SPTS in consideration for those shares) is equal to 5% or more of BluGlass' "*equity interests*". "*Equity interest*" is defined as the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests, as shown in BluGlass' consolidated financial statements.

#### 2.2.2 Item 7 of section 611 of the Corporations Act approval

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a Relevant Interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% to below 90%.

Under the Capital Restructure, SPTS' voting power in BluGlass will increase from 19.9% to 24.9%.

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a Relevant Interest in a company's voting shares if shareholders of the company approve the acquisition.



### **2.3 Entitlement to Vote**

All Eligible Shareholders on the Register at 7:00pm (Sydney time) on Tuesday, 2 October 2012 are entitled to vote at the Meeting.

Your vote is important. In order for the Capital Restructure to proceed, the Resolution must be approved by at least 50% of the votes cast by Eligible Shareholders.

The Non-Associated Directors unanimously recommend that you vote in favour of the Resolution to approve the Capital Restructure. All Non-Associated Directors intend to vote all shares they own or control the right to vote in favour of the Resolution.

If you are unable to attend the Meeting, your Non-Associated Directors urge you to complete and return, in the enclosed reply-paid envelope, the Proxy Form that accompanies this Explanatory Memorandum.

Item 7 of section 611 of the Corporations Act requires that no votes be cast in favour of the Resolution by SPTS or any of its associates.

Under the ASX Listing Rules, BluGlass must disregard any votes cast on the Resolution by a party to the Capital Restructure and an associate of a party to the Capital Restructure. However, BluGlass need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form; or
- (b) it is cast by the Chair of the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

BluGlass has appointed Mr George Venardos to Chair the Meeting. If the Chair of the Meeting is your proxy and you do not specifically direct how your proxy is to vote on the Resolution, you will be taken (provided you have marked the appropriate box on your Proxy Form) to have directed the Chair of the Meeting to vote in favour of the Resolution and the Chair of the Meeting will exercise your votes in favour of the Resolution.

### **2.4 Voting in person, by attorney or corporate representative**

If you wish to vote in person, you must attend the Meeting.

If you cannot attend the Meeting, you may vote:

- (a) by proxy (see section 2.5 of this Explanatory Memorandum);
- (b) through your attorney; or
- (c) if you are a body corporate, by appointing a corporate representative.

For an appointment of attorney to be valid, the power of attorney must be received by the Registry, Security Transfer Registrars, by no later than 10.00am (Sydney time) on Tuesday, 2 October 2012.

Attorneys may be returned to the Registry by:

- post, to Security Transfer Registrars:
  - PO Box 535, Applecross WA 6953, Australia; or
  - 770 Canning Highway, Applecross WA 6153, Australia;

- facsimile to Security Transfer Registrars on facsimile number (+61 8) 9315 2233; or
- email to Security Transfer Registrars at registrar@securitytransfer.com.au.

Attorneys who plan to attend the Meeting must also bring with them the original, or a certified copy of, the power of attorney under which they have been authorised to attend and vote at the Meeting.

A body corporate that is a Shareholder may appoint an individual to act as its corporate representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which it is signed.

## **2.5 Voting by proxy**

If you wish to appoint a proxy to attend and vote at the Meeting on your behalf, please complete and sign the personalised Proxy Form accompanying this Explanatory Memorandum in accordance with the instructions set out on the Proxy Form. You may complete the Proxy Form in favour of the Chair of the Meeting, or appoint up to two proxies to attend and vote on your behalf at the Meeting.

If you wish to appoint two proxies to attend and vote at the Meeting on your behalf, you must return two completed Proxy Forms, in accordance with the instructions set out on the Proxy Form, together. If two proxies are appointed and the appointment does not specify the proportion or number of the Shareholder's vote each proxy may exercise, each proxy may exercise half the votes on a poll.

If a proxy appointment is signed by, or validly authenticated by, the Shareholder but does not name the proxy in whose favour it is given, the Chair of the Meeting will act as proxy.

Shareholders who complete and return a Proxy Form may still attend the Meeting in person and vote on the Resolution (in which case their proxy will be revoked).

**THE PROXY FORM SHOULD BE COMPLETED AND RETURNED IN ACCORDANCE WITH THE INSTRUCTIONS ON THE PROXY FORM.**

**TO BE VALID, PROXY FORMS MUST BE RECEIVED BY THE REGISTRY, SECURITY TRANSFER REGISTRARS, BY NO LATER THAN 10.00AM (Sydney time) ON TUESDAY, 2 OCTOBER 2012.**

Proxy Forms, duly completed in accordance with the instructions set out on the Proxy Form, may be returned to the Registry by:

- post, to Security Transfer Registrars:
  - PO Box 535, Applecross WA 6953, Australia; or
  - 770 Canning Highway, Applecross WA 6153, Australia;
- facsimile, to Security Transfer Registrars on facsimile number (+61 8) 9315 2233; or
- email, to Security Transfer Registrars at registrar@securitytransfer.com.au.

## **2.6 Additional information**

If, after reading this Explanatory Memorandum, you have any questions about the Capital Restructure, please call the Company Secretary on (+61 2) 9334 2300, Monday to Friday between 9.00am and 5.00pm (Sydney time).

# Section 3 – Transaction overview

## 3.1 Description of Capital Restructure

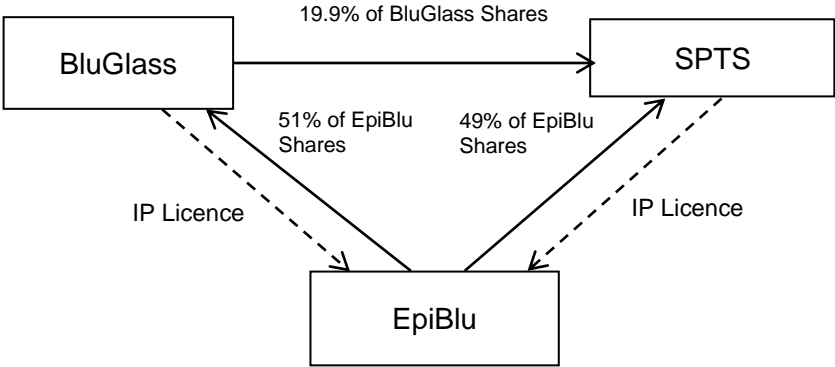
Under the Capital Restructure, SPTS will sell to BluGlass all of the EpiBlu Shares held by SPTS. In consideration for SPTS transferring all of its EpiBlu Shares to BluGlass, BluGlass will issue the Subscription Shares to SPTS being 5% of the capital of BluGlass after the Capital Restructure is implemented.

If the Capital Restructure Proceeds, it is BluGlass’ intention, either itself or through a subsidiary (including, but not limited to EpiBlu), to commercialise the RPCVD Technology, including by granting rights to third parties.

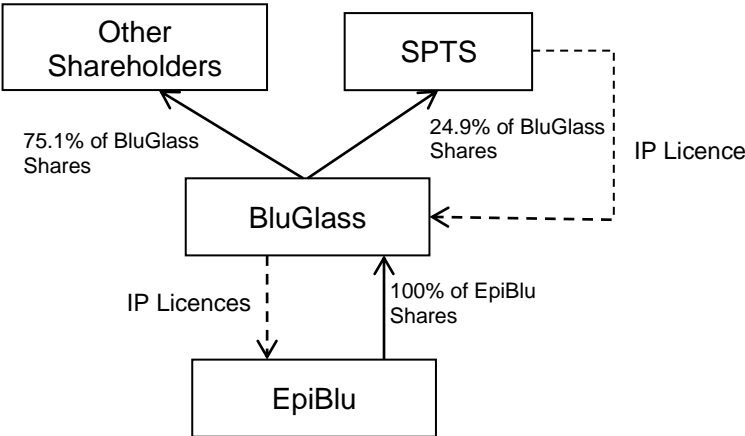
Accordingly, on and from Registration, SPTS will grant to BluGlass a non-exclusive, perpetual, irrevocable, royalty-free licence to certain Intellectual Property that has been contributed to EpiBlu by SPTS to enable BluGlass to develop and commercialise the RPCVD Technology.

The following structural diagrams illustrate the Capital Restructure.

### (a) Current capital structure



### (b) Capital structure following Capital Restructure



## 3.2 About EpiBlu

EpiBlu was established in August 2010. EpiBlu is owned 51% by BluGlass and 49% by SPTS. EpiBlu was established to focus on the development of BluGlass’ RPCVD Technology with the objective of developing that technology towards commercialisation.

BluGlass' wholly owned subsidiary exclusively licensed the RPCVD Technology to EpiBlu and SPTS granted a licence of certain of its Intellectual Property to EpiBlu, to enable EpiBlu to further develop the RPCVD Technology. EpiBlu owns all rights to the improvements to the RPCVD Technology since the joint venture's formation.

Under the Licence Agreement between BluGlass and EpiBlu, if the joint venture is terminated then there is a significant risk that both BluGlass and SPTS would be entitled to commercialise the RPCVD Technology in competition with each other.

BluGlass and SPTS have now decided that the best commercialisation strategy is to consider a range of partners beyond SPTS that can most quickly and effectively take the RPCVD Technology to market.

Accordingly, both parties have decided to implement the Capital Restructure so as to ensure that (subject to the following paragraph) BluGlass and EpiBlu are the sole parties that would be responsible for, and benefit from, the commercialisation of the RPCVD Technology.

SPTS is supportive of, and has agreed to implement the Capital Restructure, on the basis that it will benefit from the commercialisation of the RPCVD Technology as a substantial holder in BluGlass.

### **3.3 Commercial rationale**

The Capital Restructure is expected to deliver significant commercial benefits to BluGlass, including:

- providing to BluGlass 100% of the potential returns from commercialisation of the RPCVD Technology;
- allowing BluGlass the freedom to pursue the full range of commercialisation avenues to maximise the value of the RPCVD Technology and preventing a circumstance in which BluGlass and SPTS may both seek to commercialise the RPCVD Technology in competition with each other; and
- further aligning the interests of SPTS and other BluGlass Shareholders.

While BluGlass has a material opportunity to exploit its RPCVD Technology in the solar and other industries, the LED equipment market (which is where EpiBlu is focused) remains the most significant, near-term opportunity to realise value from the RPCVD Technology. The potential for BluGlass to reap 100% of the benefits from the commercialisation of the RPCVD Technology in the LED equipment market (rather than 51% as would be the case if the joint venture remains in place) represents a significant opportunity for BluGlass.

### **3.4 Steps involved in implementing Capital Restructure**

Subject to the satisfaction of the conditions under the Sale and Implementation Deed that are outlined in section 5.1 of this Explanatory Memorandum, the following steps must be taken to implement the Capital Restructure:

- 1 Eligible Shareholders approve the Resolution by the requisite majority under ASX Listing Rule 10.1 and section 611, item 7 of the Corporations Act, at the Meeting.
- 2 Completion will take place on the Completion Date or such other date agreed between BluGlass and SPTS in writing. On Completion, SPTS will:
  - a. transfer all of SPTS' EpiBlu Shares to BluGlass; and
  - b. subscribe for, and BluGlass will issue, the Subscription Shares.

### **3.5 Independent Expert's Report**

The Independent Expert concluded that the Capital Restructure is fair and reasonable to the Shareholders not associated with SPTS. The Independent Expert formed this opinion primarily because the values attributed by the Capital Restructure to EpiBlu's Intellectual Property and contractual rights are low relative to both:

- 1 the recent level of R&D expenditure incurred by EpiBlu; and
- 2 the value of the Intellectual Property / contractual rights implied by the market value of BluGlass shares (as BluGlass currently has a 51% interest in EpiBlu).

### **3.6 Recommendation of Non-Associated Directors**

The Non-Associated Directors have considered the reasons to vote for or against the Capital Restructure set out in section 1 of this Explanatory Memorandum. They have also considered the Independent Expert's Report in Appendix 1 to this Explanatory Memorandum. Having done so, the Non-Associated Directors **UNANIMOUSLY RECOMMEND** that Shareholders approve the Resolution, subject to the Independent Expert not changing its view prior to the Meeting.

## Section 4 – Information about SPTS

### 4.1 General information

SPTS is a wholly owned subsidiary of SPTS Technologies Group Limited, a private company which was the vehicle for a management led buy-out of SPTS Technologies during 2011. The group is backed by Bridgepoint, a European private equity provider, and designs, manufactures, sells and supports etch, PVD, CVD and thermal wafer processing solutions for the MEMS, advanced packaging, LEDs, high speed RF on GaAs, and power management device markets. With manufacturing facilities in Newport, Wales, Allentown, Pennsylvania, and San Jose, California, the company operates across 19 countries in Europe, North America and Asia-Pacific and provides its processing equipment to the world's leading semiconductor device manufacturers and research institutions through its network of international offices and agents.

SPTS was formed in 2009, following the acquisition of certain assets of Aviza Inc by Sumitomo Precision Products and merger of those assets with its subsidiary, Surface Technology Systems, followed by the acquisition of Primaxx Inc and DRIE assets of Tegal. The company has a worldwide installed base, and over 25 years' experience in advanced process technologies.

### 4.2 Intentions of SPTS

If the Shareholders pass the Resolution and the Capital Restructure completes, on the basis of the facts and information that are available to SPTS:

- (a) SPTS does not intend to change the business of BluGlass as conducted by the current management and otherwise outlined in this Explanatory Memorandum.
- (b) SPTS does not intend to inject further capital into BluGlass, SPTS has undertaken that, if BluGlass conducts a capital raising before 24 July 2013, it will not participate in that capital raising without the written consent of BluGlass if it would result in SPTS and/or SPTS' Associates holding a Relevant Interest in issued voting shares in BluGlass of more than 19.9%.<sup>2</sup>
- (c) SPTS does not intend to seek any changes in relation to the future employment of the present employees of BluGlass.
- (d) SPTS does not intend to redeploy any fixed assets of BluGlass.
- (e) SPTS does not intend to change the financial or dividend policies of BluGlass.

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<sup>2</sup> Note, this restriction only applies to the first capital raising by way of rights issue undertaken by BluGlass up to 24 July 2013.

## Section 5 – Additional Information

### 5.1 Material Contracts

#### Summary of Sale and Implementation Deed

The Sale and Implementation Deed was entered into by BluGlass, SPTS, EpiBlu and Gallium on 24 July 2012.

SPTS agrees to sell, and BluGlass agrees to purchase, all of the EpiBlu Shares held by SPTS in consideration for the issue of the Subscription Shares (equating to 5% of BluGlass' share capital after the Capital Restructure is implemented) to SPTS. The sale and purchase of the EpiBlu Shares held by SPTS, and the issue of the Subscription Shares to SPTS, will occur on Completion.

#### *Conditions*

Completion is conditional on the satisfaction or, where permitted, waiver of each of the following conditions precedent:

- **Non-Associated Directors' recommendation** – The Non-Associated Directors not changing their unanimous recommendation that Shareholders approve the Resolution prior to the Meeting Date.
- **Independent Expert** – The Independent Expert not publicly changing its view that the Capital Restructure is fair and reasonable to Shareholders prior to the Meeting Date.
- **BluGlass Shareholders' Approval** – Eligible Shareholders approving Resolution by the requisite majority under ASX Listing Rule 10.1 and section 611, item 7 of the Corporations Act at the Meeting on the Meeting Date.
- **Restraints** – No court or regulatory authority has issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Capital Restructure and no such order, decree, ruling, other action or refusal is in effect at any time up to and including the Completion Date.
- **Termination** – the Sale and Implementation Deed has not been terminated prior to the Completion Date.

If a condition has not been satisfied or becomes incapable of being satisfied within the required time frame for that condition, then BluGlass and SPTS must consult in good faith with a view to determining whether the Capital Restructure may proceed by way of alternate means or methods or to extend the time for satisfaction of the relevant condition or to extend the Completion End Date.

If all of the conditions have been satisfied, or in respect of certain conditions, no event has occurred that would prevent any of those conditions from being satisfied, or in any case, waived, then Completion is scheduled to occur on 8 October 2012.

#### *Standstill Restriction*

Given that SPTS' shareholding in BluGlass will increase as a result of the Capital Restructure, SPTS has undertaken that, if BluGlass conducts a capital raising before 24 July 2013, it will not participate in that capital raising without the written consent of BluGlass if it



would result in SPTS and/or SPTS' Associates holding a Relevant Interest in issued voting shares in BluGlass of more than 19.9%.<sup>3</sup>

#### *SPTS Warranties*

SPTS has given a number of warranties to BluGlass including warranties as to title and capacity.

## **5.2 Information required by s 611, Item 7 of the Corporations Act**

### **Identity of the acquirer**

SPTS is the entity proposing to make the acquisition of the Subscription Shares. See section 4 of this Explanatory Memorandum for more information about SPTS.

### **Identity of SPTS' Associates**

The following SPTS group companies have a Relevant Interest in any BluGlass shares that SPTS has a Relevant Interest in:

- SPTS Technologies Sapphire Limited, which owns 100% of the issued share capital of SPTS;
- SPTS Technologies Investments Limited, which owns 100% of the issued share capital of SPTS Technologies Sapphire Limited;
- SPTS Technologies Holdings Limited which owns 100% of the issued share capital of SPTS Technologies Investments Limited;
- SPTS Technologies Group Limited which owns 100% of the issued share capital of SPTS Technologies Holdings Limited; and
- Bridgepoint Europe IV (Nominees) Limited which owns approximately 53.53% of the issued share capital of SPTS Technologies Group Limited,

(the **SPTS Group Companies**).

Other Associates of SPTS, including SPTS' subsidiaries in the SPTS group, do not have a Relevant Interest in any BluGlass shares other than the BluGlass shares currently held by SPTS and the Subscription Shares to be acquired by SPTS itself under the Capital Restructure.

### **Increase in SPTS' voting power in BluGlass**

SPTS' total voting power in BluGlass, as a result of the Capital Restructure, will be 24.9%.

By virtue of the SPTS Group Companies' interest in SPTS as outlined above and the operation of section 608(3) of the Corporations Act, the SPTS Group Companies will also have a Relevant Interest in the Subscription Shares and the issue of the Subscription Shares will also increase the total voting power of the SPTS Group Companies in BluGlass from 19.9% to 24.9%.

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<sup>3</sup> Note, this restriction only applies to the first capital raising by way of rights issue undertaken by BluGlass up to 24 July 2013.

### **Reasons for the proposed allotment of Subscription Shares to SPTS**

BluGlass will allot the Subscription Shares to SPTS in consideration for SPTS transferring the Sale Shares to BluGlass.

### **When the proposed allotment of Subscription Shares to SPTS is to occur**

The Subscription Shares will be allotted to SPTS on Completion, which is expected to occur on or about 8 October 2012.

### **Material terms of the proposed allotment of Subscription Shares to SPTS**

The material terms of the proposed allotment of Subscription Shares to SPTS are described in this Explanatory Memorandum.

### **Details of the terms of any other relevant agreement between SPTS and BluGlass (or any of their associates) that is conditional on (or directly or indirectly depends on) Shareholders' approval of the proposed allotment**

There are no relevant agreements between SPTS and BluGlass (or any of their associates), that have not been described in this Explanatory Memorandum, that are conditional on (or directly or indirectly depends on) shareholders' approval of the proposed allotment of Subscription Shares to SPTS.

## **5.3 Interests of the Directors**

### **Interests in BluGlass held by Directors**

The number of shares or rights to shares in BluGlass in which each of the Directors has a Relevant Interest as at the date of this Explanatory Memorandum are set out in the table below:

<b>Director</b>	<b>Number of Shares</b>	<b>Number of Options<sup>4</sup></b>
George Venardos	600,118	1,160,000
Greg Cornelsen	927,941	580,000
Chandra Kantamneni	117,647	580,000
William Johnson	Nil	580,000

### **Interests in BluGlass held by SPTS Directors**

The number of rights to shares in BluGlass in which the following director of SPTS has a Relevant Interest as at the date of this Explanatory Memorandum are set out in the table below:

<b>Director</b>	<b>Number of Options<sup>5</sup></b>
William Johnson	580,000

<sup>4</sup> Note, these Options are subject to vesting hurdles.

<sup>5</sup> Note, these Options are subject to vesting hurdles.

# Appendix 1 - Independent Expert's Report

## LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Directors  
BluGlass Limited  
74 Asquith Street  
Silverwater NSW 2128

4 September 2012

**Subject: Proposed issue of shares to SPTS**

Dear Directors

### The Proposal

- 1 On 24 July 2012 BluGlass Limited (BluGlass) announced that it would acquire SPTS Technologies UK Limited's (SPTS) 49% interest in the EpiBlu Joint Venture. SPTS will receive, as consideration, 15,973,678 shares in BluGlass, increasing SPTS' shareholding in BluGlass from 19.9% to 24.9% (the Proposal).
- 2 If the Proposal is implemented BluGlass will obtain 100% ownership of the Remote Plasma Chemical Vapour Deposition (RPCVD) technology that was developed by the EpiBlu Joint Venture (the Technology), and will receive all future benefits from commercialisation of the Technology.
- 3 BluGlass will also retain a royalty free licence to certain SPTS intellectual property that it previously contributed to the EpiBlu Joint Venture (but excluding intellectual property in any plasma source products or product design relating to plasma source) to enable BluGlass to develop and commercialise the Technology.

### BluGlass

- 4 BluGlass is an Australian company established to develop and commercialise a process called Remote Plasma Chemical Vapour Deposition (RPCVD), which is used in the fabrication of semiconductor equipment for devices such as light emitting diodes (LED) and solar cells.

### SPTS

- 5 SPTS is a wholly owned subsidiary of SPTS Technologies Group Limited, a private company which was the vehicle for a management led buy-out of SPTS Technologies during 2011. The group is backed by Bridgepoint (a European private equity firm) and designs, manufactures, sells and supports wafer etch, plasma vapour deposition (PVD), chemical vapour deposition (CVD) and thermal wafer processing solutions for the MEMS, advanced packaging, LEDs, high speed RF on GaAs, and power management device markets. The company operates across 19 countries in Europe, North America and Asia-Pacific and provides its processing equipment to the world's leading semiconductor device manufacturers and research institutions through its network of international offices and agents.

## Scope

- 6 Completion of the Proposal is subject to certain conditions (set out in Section I), including the approval of BluGlass shareholders and receipt of an Independent Expert's Report (IER) concluding that the Proposal is fair and reasonable. There is also a regulatory requirement for BluGlass to commission an IER pursuant to ASX Listing Rule 10.1 and Section 611(7) of the Corporations Act.
- 7 Consequently, the Directors of BluGlass have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Proposal is fair and reasonable to the shareholders of BluGlass not associated with SPTS (the non-associated shareholders).
- 8 LEA is independent of BluGlass and SPTS and has no involvement with or interest in the outcome of the Proposal other than the preparation of this report.

## Summary of opinion

- 9 We summarise below the advantages and disadvantages of the Proposal from the perspective of BluGlass shareholders not associated with SPTS:

Advantages and disadvantages of the Proposal	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The purchase price of the 49% interest in the EpiBlu JV attributes a low value to its intellectual property and right to future income from commercialisation compared to the value implicit in the BluGlass share price.</li> <li>• The purchase price of the 49% interest in the EpiBlu JV appears low when compared to the level of R&amp;D expenditure undertaken since August 2010 and the milestones achieved.</li> <li>• The potential returns to BluGlass are increased through acquiring 100% of the Technology.</li> <li>• The Proposal will simplify the ownership of the Technology which should make BluGlass shares more attractive to investors and potential acquirers. It will also reduce the risk of disputes arising in relation to ownership of the Technology.</li> </ul>	<ul style="list-style-type: none"> <li>• The ownership interest held by the non-associated shareholders in BluGlass will be diluted by around 5%.</li> <li>• BluGlass will need to fund 100% of all future R&amp;D expenditure, increasing its "cash burn" until revenue is generated.</li> <li>• The losses incurred by BluGlass will be larger if the Technology cannot be successfully commercialised.</li> </ul>

- 10 Based on the above we have concluded that the advantages of the proposal outweigh the disadvantages.

- 11 We have also concluded that the Proposal is fair and reasonable to the non-associated shareholders in BluGlass. We are of this opinion primarily because it appears that the values attributed by the Proposal to the EpiBlu JV's intellectual property and contractual rights are low relative to both:
- (a) the recent level of R&D expenditure incurred by the EpiBlu JV; and
  - (b) the value of the intellectual property / contractual rights implied by the value attributed to BluGlass shares based on ASX trading (as BluGlass currently has a 51% interest in the EpiBlu JV).

### General

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

Yours faithfully



Craig Edwards  
Authorised Representative



Tony Coleman  
Authorised Representative

## Table of contents

Section		Page
<b>I</b>	<b>The Proposal</b>	<b>5</b>
	Summary	5
	Conditions	5
<b>II</b>	<b>Scope of our report</b>	<b>6</b>
	Purpose	6
	Basis of assessment	7
	Limitations and reliance on information	8
<b>III</b>	<b>Profile of BluGlass</b>	<b>9</b>
	Overview	9
	The RPCVD process	9
	BluSolar	9
	Recent developments	10
	The EpiBlu Joint Venture	10
	Financial performance	11
	Financial position	12
	Share price performance	13
	Share capital	13
<b>IV</b>	<b>Assessment of Proposal</b>	<b>14</b>
	Value of BluGlass shares	14
	Value of EpiBlu JV interest being acquired	16
	Assessment of fairness and reasonableness	17
	Other matters	19
	Conclusion	21

## Appendices

<b>A</b>	<b>Financial Services Guide</b>
<b>B</b>	<b>Qualifications, declarations and consents</b>
<b>C</b>	<b>Glossary</b>

## I The Proposal

### Summary

- 14 On 24 July 2012 BluGlass Limited (BluGlass) announced that it would acquire SPTS Technologies UK Limited's (SPTS) 49% interest in the EpiBlu Joint Venture. SPTS will receive, as consideration, 15,973,678 shares in BluGlass, increasing SPTS' shareholding in BluGlass from 19.9% to 24.9% (the Proposal).
- 15 If the Proposal is implemented BluGlass will obtain 100% ownership of the Remote Plasma Chemical Vapour Deposition (RPCVD) technology that was developed by the EpiBlu Joint Venture (Technology), and will receive all future benefits from commercialisation of the Technology.
- 16 BluGlass will also retain a royalty free licence to certain SPTS intellectual property that the previously contributed to the EpiBlu Joint Venture (but excluding intellectual property in any plasma source products or product design relating to plasma source) to enable BluGlass to develop and commercialise the Technology.

### Conditions

- 17 The Proposal is subject to the following conditions:
  - (a) the Directors of BluGlass (not associated with SPTS) not withdrawing their unanimous recommendation that BluGlass shareholders approve the Proposal
  - (b) an Independent Experts report which concludes that the Proposal is fair and reasonable to BluGlass shareholders
  - (c) BluGlass shareholder approval of the Proposal under ASX Listing Rule 10.1 and Section 611(7) of the Corporations Act.
- 18 More detail on the above conditions is set out in the Explanatory Memorandum.

## II Scope of our report

### Purpose

- 19 If the Proposal is approved and all conditions are satisfied, the SPTS will increase its relevant interest in BluGlass from 19.9% to 24.9%.
- 20 Section 606 of the *Corporations Act 2001 (Cth)* (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a majority of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor or any of their respective associates.
- 21 RG 111 sets out the view of ASIC on the operation of s611(7) of the Corporations Act. s611(7) of the Corporations Act allows shareholders to waive the prohibition in s606 and requires that shareholders approving a resolution pursuant to this section be provided with all material information in relation to the proposed transaction including an IER.
- 22 As SPTS will acquire more than 20% of BluGlass shares there is a regulatory requirement for BluGlass to commission an IER.
- 23 Further, ASX Listing Rule 10.1 states that an entity must not acquire a substantial asset from a substantial shareholder (being one with a relevant interest of more than 10%) without the approval of the non-associated shareholders.
- 24 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.
- 25 Accordingly, the Proposal also requires approval under the ASX Listing rules. ASX Listing Rule 10.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity's ordinary securities.
- 26 Consequently, the Directors of BluGlass have requested that LEA prepare an IER stating whether, in LEA's opinion, the Proposal is fair and reasonable to the non-associated shareholders of BluGlass.
- 27 This report has been prepared to assist the Directors of BluGlass in making their recommendation to the shareholders of BluGlass not associated with SPTS, and to assist these shareholders assess the merits of the Proposal.



- 28 Our report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the Proposal 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 Proposal or matters dealt with in this report, BluGlass shareholders should seek independent professional advice.

### **Basis of assessment**

- 29 Under RG 111 the Proposal is fair if the value of the 49% interest in the EpiBlu JV being acquired by BluGlass is equal to or greater than the value of the BluGlass shares being issued as consideration. For the purposes of this comparison the value of the BluGlass shares being issued must be valued on a 100% controlling interest basis notwithstanding that SPST's relevant interest in BluGlass will only increase from 19.9% to 24.9% as a result of the Proposal.
- 30 Under RG 111 the Proposal is reasonable if it is fair. The Proposal may also be reasonable if, despite being "not fair", there are sufficient reasons for securityholders to approve the Proposal.
- 31 RG 111 also states that the expert should identify the advantages and disadvantages of the proposal to the shareholders not associated with the transaction, and should provide an opinion on whether the advantages of the proposal outweigh the disadvantages.
- 32 In LEA's opinion, the most appropriate basis on which to evaluate the Proposal is to assess the overall impact on BluGlass shareholders and to form an opinion as to whether, on balance, the advantages of the Proposal outweigh the disadvantages.
- 33 We have therefore considered a range of both qualitative and quantitative factors including:
- (a) the value of the 49% interest in the EpiBlu JV being acquired
  - (b) the value of the BluGlass shares (on a 100% controlling interest basis) being issued to SPTS under the Proposal
  - (c) the difference between (a) and (b) in order to assess whether the Proposal is fair to the non-associated shareholders of BluGlass (based on RG 111)
  - (d) the extent to which (if at all) SPTS is being issued shares at a premium or discount to the listed market price of BluGlass shares
  - (e) the impact of the Proposal on the ownership and control of BluGlass
  - (f) the relevant position of BluGlass shareholders before and after implementation of the Proposal
  - (g) other qualitative and strategic issues associated with the Proposal and the extent to which, on balance, they may advantage or disadvantage the non-associated BluGlass shareholders.

### Limitations and reliance on information

- 34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 35 Our report is also based upon financial and other information provided by BluGlass and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). 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.
- 36 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposal from the perspective of BluGlass securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 38 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 39 In forming our opinion, we have also assumed that:
  - (a) the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects
  - (b) if the Proposal is approved, it will be implemented in accordance with the terms set out in this report.

### III Profile of BluGlass

#### Overview

- 40 Founded in 2006, BluGlass is an Australian technology company established to develop and commercialise a process called Remote Plasma Chemical Vapour Deposition (RPCVD), which has potential applications in the fabrication of devices such as light emitting diodes (LED) and solar cells.

#### The RPCVD process

- 41 Evolved from more than 15 years of low temperature thin film growth research at Sydney's Macquarie University, the RPCVD process has been specifically developed for the low temperature growth of nitride thin films, such as gallium nitride (GaN), Indium Gallium Nitride (InGaN) and other thin films.
- 42 Currently a process called Metal Organic Chemical Vapour Deposition (MOCVD) is most widely used in the production of high brightness LEDs. This process requires much higher growth temperatures of typically over 1,000°C. With a lower growth temperature than MOCVD, RPCVD is very attractive to electronics device manufacturers as it has the potential to reduce costs and improve device efficiency.
- 43 The BluGlass IP portfolio now comprises patents in 15 countries in relation to the RPCVD process, in key semiconductor manufacturing countries including Japan, China and the USA. The EpiBlu Joint Venture lodged one provisional patent in July 2012 and one patent in August 2012, both patents the result of the EpiBlu Joint Venture research and development. If the Proposal does not proceed, SPTS would have equal access to these two patents.

#### BluSolar

- 44 BluSolar is a wholly owned subsidiary of BluGlass Limited, established in 2009 to develop nitride solar cells using the RPCVD process.
- 45 InGaN semiconductors have many advantages over current solar cell materials making them a potential alternative for high efficiency solar cell applications. In particular, InGaN solar cells have the potential to be long lasting and energy efficient.
- 46 This potential comes from the fact that InGaN has properties that allow more energy from the solar spectrum to be captured efficiently into the cell and converted to power. Research has indicated that InGaN solar cells could produce efficiencies of more than 50%, which would be a significant breakthrough in solar cell efficiency.
- 47 A low temperature process such as RPCVD is critical in InGaN development to grow indium rich InGaN layers. The high temperatures of other manufacturing methods inhibit the percentage of indium content in the InGaN layers.
- 48 BluSolar is working towards a high efficiency solar prototype and was awarded a Climate Ready grant of \$4.95 million to expedite its research progress (which was finalised in June 2012). The solar applications are outside of the EpiBlu JV agreement, but if RPCVD equipment were needed for the solar applications, BluGlass would need to purchase such equipment from the EpiBlu JV or enter into a separate commercial agreement.

## Recent developments

- 49 The following table summarises recent ASX announcements made by BluGlass in connection with the development of its technology:

Date	Announcement
30 Aug 10	BluGlass enters into a joint venture with SPP Technology Systems (SPTS), for the development and commercialisation of the RPCVD Technology. SPTS also acquires a 19.9% interest in BluGlass.
07 Jan 11	BluGlass appoints Rainbow Optoelectronics Materials Shanghai Co. Ltd as a supplier of foundry services.
07 Apr 11	The joint venture commences the establishment of a RPCVD research and demonstration site in the United Kingdom.
28 Jun 11	Management buyout of SPTS, backed by private equity firm Bridgepoint.
11 Jul 11	The UK demonstration site becomes operational.
17 Apr 12	BluGlass announces that the joint venture is eligible for tax credits for research and development expenditure.
20 Apr 12	BluGlass succeeds in the production of high quality GaN grown at low temperature using RPCVD.

Source: ASX company announcements.

## The EpiBlu Joint Venture

- 50 The EpiBlu Joint Venture (the EpiBlu JV) was formed by BluGlass and SPTS on 30 August 2010 for the purpose of developing and commercialising the RPCVD Technology for the LED, solar and other industries. At the same time SPTS acquired a 19.9% interest in BluGlass at 11 cents per share.
- 51 BluGlass and SPTS currently hold 51% and 49% of the shares in the EpiBlu JV respectively.

### JV Agreement

- 52 Pursuant to the Joint Venture Agreement dated 30 August 2010 each party retained its ownership of any intellectual property created before the formation of the EpiBlu JV (Background IP). However, any intellectual property created by or on behalf of the EpiBlu Joint Venture (the Developed IP) is the property of the EpiBlu JV.
- 53 Since the date of the Agreement, all Research and Development (R&D) expenditure associated with the Technology has been incurred by the EpiBlu JV. This R&D has resulted in a number of important improvements to the intellectual property, including the ability to grow high quality crystalline gallium nitride (GaN) at low temperature, which is essential in order to demonstrate the Technology's commercial potential for the LED equipment market. More recently we understand that the EpiBlu JV has continued to make good progress towards reducing impurities through both hardware and process improvements<sup>1</sup>. These achievements have therefore resulted in significant intellectual property which belongs to the EpiBlu JV.

<sup>1</sup> Source: BluGlass ASX Announcement dated 24 July 2012.

**Licence Agreement**

- 54 A Licence Agreement was also entered into on 30 August 2010 which provided the EpiBlu JV with the exclusive right to develop and commercialise the Technology, except in circumstances where either:
- (a) the EpiBlu JV was terminated (which can occur if both parties agree to do so, or if a Default Event occurs<sup>2</sup>)
  - (b) the parties cannot resolve a dispute regarding the operation of the EpiBlu JV.
- 55 Where the parties cannot resolve a dispute regarding the operation of the EpiBlu JV, SPTS and BluGlass must negotiate and seek to agree commercial terms which permit one of the parties to obtain a licence to use and commercialise the Technology in exchange for paying an agreed royalty amount to the other party. If no agreement can be reached then both parties will be granted a non-exclusive, perpetual, irrevocable, royalty free licence to use and commercialise the Technology.
- 56 Thus, in the event of an unresolved dispute both parties could potentially seek to commercialise the Technology in competition with each other.

**Financial performance**

- 57 The financial performance of BluGlass for the three years ended 30 June 2012 (FY12) is set out below:

<b>BluGlass – financial performance</b>			
	<b>Audited FY10 \$000</b>	<b>Audited FY11 \$000</b>	<b>Audited FY12 \$000</b>
Grant revenue	1,617	1,859	2,158
Sundry income	1	-	-
<b>Total revenue</b>	<b>1,618</b>	<b>1,859</b>	<b>2,158</b>
Operating expenses	(5,272)	(5,943)	(7,017)
Loss before interest, depreciation and amortisation	(3,654)	(4,084)	(4,859)
Depreciation and amortisation	(1,800)	(2,158)	(1,642)
Loss before interest	(5,454)	(6,242)	(6,501)
Interest revenue	105	227	270
Loss before tax	(5,349)	(6,015)	(6,231)
Income tax expense	-	-	-
Loss after tax	(5,349)	(6,015)	(6,231)
Loss attributable to minority interests	-	1,844	2,993
<b>Loss attributable to BluGlass shareholders</b>	<b>(5,349)</b>	<b>(4,171)</b>	<b>(3,237)</b>

**Note**

Rounding difference may exist.

<sup>2</sup> Defined as a disposal of either party's shares in the EpiBlu JV, insolvency or a change of control in respect of a shareholder, or if a shareholder fails to comply with a material obligation under the JV Agreement and related documents.

- 58 As BluGlass' technologies<sup>3</sup> remain in development (and are therefore yet to be commercialised) the company has not yet generated any material sales revenue. As all research and development (R&D) costs are expensed BluGlass has therefore generated significant losses to date.

### Financial position

- 59 The preliminary unaudited balance sheet for the EpiBlu JV and BluGlass (consolidated) as at 30 June 2012 is summarised below:

<b>Financial position as at 30 June 2012</b>			
	<b>EpiBlu JV</b>	<b>Other net assets</b>	<b>BluGlass</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cash	740	2,992	3,732
Inventory	134	77	211
R&D tax refund <sup>(2)</sup>	-	-	-
Other current assets	164	(96)	68
<b>Total current assets</b>	<b>1,038</b>	<b>2,973</b>	<b>4,011</b>
Acquired intellectual property	-	8,695	8,695
Fixed assets	135	1,246	1,381
<b>Total non-current assets</b>	<b>135</b>	<b>9,941</b>	<b>10,076</b>
<b>Total assets</b>	<b>1,173</b>	<b>12,914</b>	<b>14,087</b>
Creditors and accruals	374	(241)	133
Hire purchase liability	-	183	183
Lease make good provision	-	200	200
Other provisions	-	239	239
<b>Total liabilities</b>	<b>374</b>	<b>381</b>	<b>755</b>
<b>Net assets</b>	<b>799</b>	<b>12,533</b>	<b>13,332</b>
Minority interest in EpiBlu JV	392 <sup>(1)</sup>	-	392
<b>Net assets attributable to BluGlass shareholders</b>	<b>407</b>	<b>12,533</b>	<b>12,940</b>

**Note:**

- 1 49% of \$799,000.  
2 See paragraph 61.

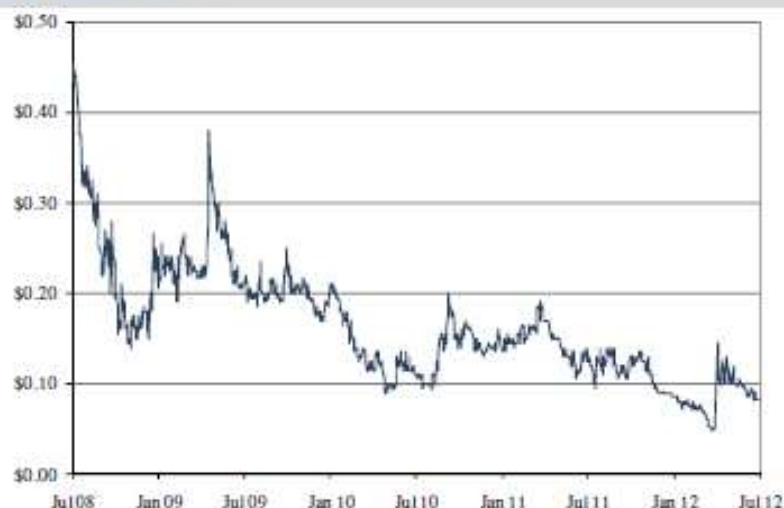
- 60 The intangible asset represents acquired R&D costs / intellectual property in connection with the formation of BluGlass in 2006. The net carrying value reflects acquisition cost of \$12.1 million less an impairment writedown of \$3.4 million. As stated above, R&D costs incurred by BluGlass have since been expensed as incurred.
- 61 In April 2012 BluGlass announced that it had received a private tax ruling confirming that the EpiBlu JV is eligible to seek a tax credit for R&D expenditure incurred within the EpiBlu JV. Preliminary estimates of the possible tax refund for FY12 based on this ruling are in the range of \$1.6 million to \$2.0 million (net of related fees). This receivable (net of costs associated with confirming the allowable R&D costs) is not reflected in the above balance sheet. Nevertheless, we have assumed a midpoint value of \$1.8 million for this refund in our valuation of the EpiBlu Joint Venture.

<sup>3</sup> Including those owned by the EpiBlu JV.

## Share price performance

- 62 The following graph illustrates the movement in BluGlass shares from 1 July 2008 to 23 July 2012 (the day prior to the announcement of the Proposal):

**BluGlass – share price history**



Source: Bloomberg.

- 63 The decline in the BluGlass share price since 1 July 2008 largely reflects the impact of the global financial crisis (GFC) on capital values generally. As shown above, the share price increased sharply in April 2012 following the announcement regarding the successful growth of high quality crystalline gallium nitride at low temperatures, which is essential in order to demonstrate the Technology's commercial potential in the LED equipment market.

## Share capital

- 64 As at 27 July 2012 BluGlass had 239,845,017 fully paid shares on issue. In addition the company has the following options on issue:

Class	Number outstanding	Exercise price	
		AS	Expiry date
Employee Incentive Plan Options	2,053,081	0.39	31 Dec 12 (subject to vesting criteria)
Incentive Plan Options	4,310,000	0.17	1 May 13 (subject to vesting criteria)
Director Incentive Plan Options	1,800,000	0.17	1 May 13 (subject to vesting criteria)
Incentive Plan Options	5,832,667	Nil	13 Oct 14 (subject to vesting criteria)
<b>Total</b>	<b>13,995,748</b>		

## IV Assessment of Proposal

### Value of BluGlass shares

- 65 Regulatory Guide 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and other proposals. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 66 As BluGlass' technologies<sup>4</sup> remain in development (and are therefore yet to be commercialised) the company has not yet generated any material sales revenue<sup>5</sup>. Further, the quantum and timing of BluGlass' future revenues and profitability are inherently uncertain and cannot be reliably estimated. Accordingly, it is not possible to value BluGlass shares (or its intellectual property<sup>6</sup>) using the capitalisation of earnings or DCF methods.
- 67 We have therefore valued BluGlass shares by reference to:
- (a) recent stock market trading in BluGlass shares; and
  - (b) the price at which BluGlass placed 19.9% of its shares to SPP Process Technology Systems (SPTS) in August 2010.

### ASX trading prices

- 68 The prices at which BluGlass shares have traded on the ASX in the one year period to 23 July 2012 (being the last trading date prior to the announcement of the Proposal) is summarised below:

<sup>4</sup> Including those owned by the EpiBlu JV.

<sup>5</sup> Revenue to date has largely been from government R&D grants.

<sup>6</sup> Including the intellectual property owned by the EpiBlu JV.



BluGlass share prices (cents)					
Period	High	Low	VWAP <sup>1)</sup>	Volume 000s	Value traded \$000
1 mth prior to 23 July 2012	9.5	7.5	8.5	1,133	97
3 mths prior to 23 July 2012	14.0	7.5	10.5	4,490	471
6 mths prior to 23 July 2012	16.5	4.6	9.3	16,524	1,540
1 year to 23 July 2012	16.5	4.6	10.5	29,764	3,112

**Note:**

1 Volume weighted average price.

- 69 Due to the relatively low trading volumes, in our opinion, more regard should be had to the volume weighted average price (VWAP) of BluGlass shares. As indicated above the VWAP over both the three months and one year prior to the announcement of the Proposal was 10.5 cents per share.

**Share placement**

- 70 SPTS acquired its 19.9% interest in BluGlass in a placement of ordinary shares at \$0.11 per share in 2010. However, since that date BluGlass has achieved further technical success. In particular, BluGlass announced in April 2012 that it had successfully produced “*high quality crystalline gallium nitride (GaN) at low temperature on a commercial metal-organic chemical vapour deposition (MOCVD) GaN template*”. This achievement was necessary to demonstrate the technology’s commercial potential for the LED equipment market and resulted in a significant increase in the BluGlass share price to a high of 16.5 cents per share. However, as indicated above this share price reaction was not sustained with the share price falling back to 8.3 cents on 23 July 2012.

**Conclusion on value of shares being issued**

- 71 If the Proposal is implemented SPTS will be issued with 15,973,678 ordinary shares in BluGlass, which will increase SPTS’ relevant interest in BluGlass from 19.9% to 24.9%. While SPTS will therefore not obtain voting control over BluGlass, RG 111 requires that the shares being issued to SPTS be valued on a 100% controlling interest basis, including a premium for control.
- 72 Empirical evidence undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company’s shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
  - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
  - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.
- 73 After including a premium for control the value of the shares being issued to SPTS (based on trading prices over the past year<sup>7</sup>) is as follows:

	Based on last trade	Based on 3 mth / 1 year VWAP	Based on highest price in last year
Share price (cents)	8.3	10.5	16.5
Control premium (32.5%)	2.7	3.4	5.4
Controlling interest value (cents)	11.0	13.9	21.9
Number of shares to be issued (m)	15.97	15.97	15.97
Value of shares to be issued (\$m)	1.8	2.2	3.5

### Value of EpiBlu JV interest being acquired

- 74 The value of the EpiBlu JV is a function of its net tangible asset backing plus the value of its intellectual property and rights to future revenues (net of expenses) from commercialisation of the Technology.
- 75 As set out in Section III the net tangible assets of the EpiBlu JV as at 30 June 2012 were approximately \$799,000. The pro-rata share of the net tangible assets attributable to the 49% interest were therefore approximately \$392,000.
- 76 The EpiBlu JV has conducted all research and development (R&D) activities in relation to the Technology since its formation, and has incurred R&D expenditure of some \$9.96 million<sup>8</sup> to 30 June 2012. In return the EpiBlu JV owns the Developed IP (discussed in Section III) and holds the exclusive right to all future revenues from the commercialisation of the Technology<sup>9</sup>.
- 77 Due to the difficulty associated with valuing the EpiBlu JV's intellectual property and the future net revenues from commercialisation (reflecting the inherent uncertainty associated with the quantum and timing of future revenues and profits), we have therefore considered the reasonableness of the value attributed to these assets under the Proposal by reference to:
- the level of R&D expenditure incurred by the EpiBlu JV to date; and
  - the value of the intellectual property / contractual rights implied by the value attributed to BluGlass shares based on ASX trading (as BluGlass currently has a 51% interest in the EpiBlu JV).

<sup>7</sup> Prior to the announcement of the Proposal on 24 July 2012.

<sup>8</sup> All R&D expenditure has been expensed.

<sup>9</sup> In the event of a unresolved dispute relating to the operation of the EpiBlu JV, both SPTS and BluGlass obtain a non-exclusive right to commercialise the Technology.

### Assessment of fairness and reasonableness

- 78 In order for the Proposal to be fair and reasonable under RG 111 the value of the 49% interest in the EpiBlu JV being acquired by BluGlass must be equal to, or greater than, the value of the BluGlass shares being issued as consideration. Thus, in order for the Proposal to be fair and reasonable the value of the EpiBlu JV's intellectual property and contractual rights must exceed the following amounts:

Para	Based on last trade \$m	Based on 3 mth / 1 year VWAP \$m	Based on highest price in last year \$m
Value of shares to be issued (as consideration for 49% interest in EpiBlu JV being acquired)	73	1.8	3.5
Less pro-rata share of NTA of EpiBlu JV	59, 75	0.4	0.4
Less pro-rata share of R&D tax receivable	61	0.9	0.9
Minimum value which must be attributed to the 49% interest in EpiBlu JV's IP and right to future net revenues in order for the Proposal to be fair under RG 111		0.5	2.2
Minimum value which must be attributed to 100% of EpiBlu JV's IP and rights to future net revenues from commercialisation in order for the Proposal to be fair under RG 111		1.0	4.5

### R&D costs

- 79 As stated above the BluGlass JV has incurred some \$9.96 million in R&D expenditure since it was formed on 30 August 2010. Thus the value attributed by the Proposal to the EpiBlu JV's IP and right to future net revenue from commercialisation represents only some 10% to 50% of the total R&D expenditure over the period from 30 August 2010 to 30 June 2012.
- 80 Further, the Proposal attributes a value to the intellectual property and contractual rights of the EpiBlu JV which is considerably less than the R&D spend in FY12 of \$6.1million. This is despite the EpiBlu JV achieving significant milestones in that year (refer to paragraphs 50 to 54).

### Value of BluGlass IP

- 81 The value of the BluGlass' intellectual property (including its 51% share of the intellectual property and contractual rights held by the EpiBlu JV) implied by recent share trading (prior to the announcement of the Proposal) is shown below:

	Based on last trade <sup>(1)</sup>	Based on 1 mth / 1 year VWAP <sup>(1)</sup>	Based on highest price <sup>(1)</sup>
Share price (cents)	8.3	10.5	16.5
Control premium (32.5%)	2.7	3.4	5.4
Implied controlling interest value (cents)	11.0	13.9	21.9
Shares on issue (million)	239.8	239.8	239.8
Market capitalisation (\$m) <sup>(2)</sup>	26.4	33.3	52.5
Less NTA of BluGlass <sup>(3)</sup> (\$m)	(4.2)	(4.2)	(4.2)

	Based on last trade <sup>(1)</sup>	Based on 1 mth / 1 year VWAP <sup>(2)</sup>	Based on highest price <sup>(3)</sup>
Value attributed to BluGlass' intellectual property (\$m)	22.2	29.1	48.3

**Note:**

- 1 Based on BluGlass share price prior to the announcement of the Proposal on 24 July 2012.
- 2 Excluding the value of options which would not be material give their terms.
- 3 Represents:

	<b>\$000</b>
Net assets attributable to BluGlass shareholders	12,940
Less intangible assets	(8,695)
Net tangible assets (NTA) of BluGlass	4,245

- 82 As indicated above, recent share trading in BluGlass shares (adjusted for a control premium) implies a value for BluGlass' intellectual property (including its 51% share of the intellectual property and rights to future net revenues from commercialisation held by the EpiBlu JV) of some \$22.2 million to \$48.3 million.
- 83 While not all this value can be attributed to BluGlass' 51% interest in the EpiBlu JV (because BluGlass is also the holder of patents in 15 countries relating to the RPCVD Technology and owns 100% of BluSolar), given that the EpiBlu JV holds the exclusive right to future commercialisation revenue from the Technology and BluSolar's intellectual property is at a very early stage of development, in our view, the majority of this value should be attributed to its 51% interest in the BluGlass JV.
- 84 Accordingly, in our view, it is appropriate to compare these values with the value implied by the Proposal to the EpiBlu JV's intellectual property and rights to future revenue from commercialisation.
- 85 As set out in paragraph 78 the terms of the Proposal imply a total value for the EpiBlu JV's intellectual property and its right to the future net revenues from commercialisation from the RPCVD Technology of \$1.0 million to \$4.5 million (using the same BluGlass share price assumptions). The comparison with the value for BluGlass' intellectual property (including its 51% share of the intellectual property and rights to future net revenues from commercialisation held by the EpiBlu JV) from paragraphs 81 and 82 is set out in the table below:

	Based on last trade \$m	Based on 3 mth / 1 year VWAP \$m	Based on highest price in last year \$m
Minimum value of 100% of the EpiBlu JV IP and commercial rights in order for the Proposal to be fair (paragraph 78)	1.0	1.8	4.5
Value of BluGlass IP, including 51% of EpiBlu JV, implied by BluGlass share price <sup>(1)</sup>	22.2	29.1	48.3

**Note:**

1 While not all this value can be attributed to BluGlass' 51% interest in the EpiBlu JV (because BluGlass is also the holder of patents in 15 countries relating to the RPCVD Technology and owns 100% of BluSolar), given that the EpiBlu JV holds the exclusive right to future commercialisation revenue from the Technology and BluSolar's intellectual property is at a very early stage of development, in our view, the majority of this value should be attributed to its 51% interest in the BluGlass JV.

- 86 Thus, it appears that the values attributed to the EpiBlu JV's intellectual property and contractual rights to future revenues by the terms of the Proposal are significantly less than the value of those same assets based on the listed market price of BluGlass shares (after adjusting for a control premium).
- 87 More simply, the Proposal involves BluGlass acquiring the 49% interest in the EpiBlu JV not already owned in return for issuing a 5% interest in BluGlass to SPTS. Prima facie, as BluGlass' existing 51% interest in the EpiBlu JV appears to be its most valuable asset (as the EpiBlu JV holds the rights to all future commercialisation revenue from the Technology) the terms of the Proposal appear to favour BluGlass as the number of shares being issued to SPTS appears low relative to the number of BluGlass shares on issue.
- 88 As a result we have concluded that the terms of the Proposal are fair and reasonable to the non-associated shareholders of BluGlass.

**Other matters**

**Dilution**

- 89 As stated above, if the Proposal is implemented SPTS will increase its voting interest in SPTS from 19.9% to 24.9%. Accordingly, the voting interest of BluGlass shareholders other than SPTS will reduce from 80.1% to 75.1%, as shown below:

	Existing shares on issue million	Proposed share issue million	Pro-forma shares on issue million
SPTS	47.7	16.0	63.7
Other shareholders	192.2	-	192.2
<b>Total</b>	<b>239.9</b>	<b>16.0</b>	<b>255.9</b>
Shareholdings:			
SPTS	19.9%	-	24.9%
Other shareholders	80.1%	-	75.1%

**Note:**

Rounding differences may exist.

- 90 The non-associated shareholders in BluGlass will therefore have their ownership interests in BluGlass diluted by around 5% as a result of the Proposal. However, in our view, this is likely to occur in future in any event as BluGlass is likely to require further equity funding in the short to medium term given its cash position.

**Impact on short term cash flow**

- 91 As at 30 June 2012 BluGlass had cash on hand or deposit of \$3.7 million. In comparison, in FY12 BluGlass had net operating and investing cash outflows of \$6.1 million, of which \$2.6 million was spent on R&D activities (being BluGlass' 51% share of the R&D costs incurred by the EpiBlu JV).
- 92 If the Proposal is implemented BluGlass will be responsible for 100% of all future R&D expenditure. As a result, BluGlass will need to fund all ongoing research and development (R&D) costs if the Proposal is implemented.

**Impact on risk and return**

- 93 Both the EpiBlu JV and BluGlass shares are high risk investments as there is significant uncertainty as to, inter alia:
- (a) whether the RPCVD Technology will be able to be successfully commercialised; and
  - (b) the likely future returns from commercialisation.
- 94 While the Proposal will result in BluGlass being entitled to 100% of the net revenues from commercialising the RPCVD Technology, as stated above BluGlass will also need to fund 100% of the costs.
- 95 Accordingly, the Proposal significantly increases both the dollar amount of potential returns (if commercialisation is successful) and the level of potential losses (in the event that the RPCVD Technology cannot be successfully commercialised).

**Consolidation of IP portfolio**

- 96 As set out in Section III BluGlass owns 15 patents in relation to the Technology. However, all intellectual property created by or on behalf of the EpiBlu JV (the Developed IP) belongs to the EpiBlu JV.
- 97 As all R&D since 30 August 2010 has been incurred by the EpiBlu JV and significant improvements to the Technology have been achieved since that date, the EpiBlu JV would appear to have a significant interest in the Technology. In addition, as stated above, the EpiBlu JV holds the rights to the net revenues from commercialisation of the Technology.
- 98 Further, in the event SPTS and BluGlass cannot resolve a dispute regarding the operation of the EpiBlu JV, then both parties will be granted a non-exclusive, perpetual, irrevocable, royalty free licence to use and commercialise the Technology. Thus, if the Proposal is not implemented it is possible that both parties to the EpiBlu JV could end up commercialising the Technology in competition with each other.
- 99 In contrast, if the Proposal is implemented 100% ownership of the intellectual property and 100% of the right to future commercialisation revenue will be held solely by BluGlass. As a result the risk of disputes arising in relation to ownership of the Technology is reduced if the Proposal is implemented.

- 100 In our view such a consolidation of the intellectual property portfolio (and the related simplification of the corporate structure) is also likely to be more attractive to investors. Further, such a outcome is likely to be more attractive to potential acquirers of BluGlass because it provides them with the opportunity to acquire 100% of the Technology.

## Conclusion

- 101 Based on the above, we summarise below the advantages and disadvantages of the Proposal from the perspective of BluGlass shareholders not associated with SPTS:

Advantages and disadvantages of the Proposal	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>The purchase price of the 49% interest in the EpiBlu JV attributes a low value to its intellectual property and right to future income from commercialisation compared to the values implicit in the BluGlass share price.</li> <li>The purchase price of the 49% interest in the EpiBlu JV appears low when compared to the level of R&amp;D expenditure undertaken since August 2010 and the milestones achieved.</li> <li>The potential returns to BluGlass are increased through acquiring 100% of the Technology.</li> <li>The Proposal will simplify the ownership of the Technology which should make BluGlass shares more attractive to investors and potential acquirers. It will also reduce the risk of disputes arising in relation to ownership of the Technology.</li> </ul>	<ul style="list-style-type: none"> <li>The ownership interest held by the non-associated shareholders in BluGlass will be diluted by around 5%.</li> <li>BluGlass will need to fund 100% of all future R&amp;D expenditure, increasing its "cash burn" until revenue is generated.</li> <li>The losses incurred by BluGlass will be larger if the Technology cannot be successfully commercialised.</li> </ul>

- 102 Based on the above we have concluded that the advantages of the proposal outweigh the disadvantages.
- 103 We have also concluded that the Proposal is fair and reasonable to the non-associated shareholders in BluGlass. We are of this opinion primarily because it appears that the values attributed by the Proposal to the EpiBlu JV's intellectual property and contractual rights are low relative to both:
- the recent level of R&D expenditure incurred by the EpiBlu JV; and
  - the value of the intellectual property / contractual rights implied by the value attributed to BluGlass shares based on ASX trading (as BluGlass currently has a 51% interest in the EpiBlu JV).

## Financial Services Guide

### LonerGAN Edwards & Associates Limited

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

### Financial Services Guide

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

### Financial services we are licensed to provide

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

### General financial product advice

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

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

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$35,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.



## Appendix A

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

### Complaints

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

### Contact details

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

Level 27  
363 George Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## **Qualifications, declarations and consents**

### **Qualifications**

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.
- 2 This report was prepared by Mr Craig Edwards and Mr Tony Coleman, who are each authorised representatives of LEA. Mr Edwards and Mr Coleman have over 18 years and 25 years experience respectively in the provision of valuation advice (and related advisory services).

### **Declarations**

- 3 This report has been prepared at the request of the Directors of BluGlass to accompany the Explanatory Memorandum to be sent to BluGlass shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposal is fair and reasonable to BluGlass shareholders not associated with SPTS.

### **Interests**

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Coleman have any interest in the outcome of the Proposal. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with BluGlass or SPTS prior to the preparation of this report.

### **Indemnification**

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

### **Consents**

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in BluGlass's Explanatory Memorandum.

## Glossary

Term	Meaning
AIFRS	Australian equivalent to International Financial Reporting Standards
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Background IP	Any intellectual property created before the formation of the EpiBlu JV
BluGlass	BluGlass Limited
Corporations Act	<i>Corporations Act 2001 (Crh)</i>
CPV	Concentrated photovoltaics
CVD	Chemical vapour deposition
DCF	Discounted cash flow
Developed IP	Intellectual property created by or on behalf of the EpiBlu Joint Venture
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EpiBlu JV	EpiBlu Joint Venture
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GaN	Gallium nitride
GFC	Global financial crisis
IER	Independent expert's report
InGaN	Indium gallium nitride
LEA	LonerGAN Edwards & Associates Limited
LED	Light emitting diodes
MOCVD	Metal Organic Chemical Vapour Decomposition
Non-associated shareholders	Shareholders of BluGlass not associated with SPTS
NPV	Net present value
NTA	Net tangible assets
PE	Price earnings
Proposal	The acquisition of a 49% interest in the EpiBlu JV and the issue of 15,973,678 shares in BluGlass to SPTS
PVD	Plasma vapour deposition
R&D	Research and Development
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
RPCVD	Remote Plasma Chemical Vapour Deposition
SPP	Sumitomo Precision Products
SPTS	SPTS Technologies UK Limited
Technology	All intellectual property associated with the RPCVD process developed by BluGlass or the EpiBlu JV
VWAP	Volume weighted average trading price

## Appendix 2 - Notice of Meeting

### **BluGlass Limited (ACN 116 825 793)**

Notice is hereby given that a Meeting of the shareholders of BluGlass will be held on Thursday, 4 October 2012 commencing at 10.00am (EST) at Grant Thornton, Level 17, 383 Kent Street, Sydney, New South Wales, Australia.

The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting describes the matters to be considered at the Meeting.

### **Business of the Meeting**

The purpose of the Meeting is to consider and, if thought fit, pass the following resolution as an ordinary resolution:

*That, the acquisition by BluGlass of all of the shares in the capital of EpiBlu Technologies Pty Ltd that are held by SPTS Technologies UK Limited (“SPTS”), and the issue of 15,973,678 fully paid ordinary shares in BluGlass to SPTS as consideration for the acquisition, details of which are set out in the Explanatory Memorandum, be approved for the purposes of ASX Listing Rule 10.1, section 611 item 7 of the Corporations Act 2001 (Cth), and for all other purposes.*

### **Explanatory Notes to the Notice of Meeting**

#### ***Explanatory statement***

To enable you to make an informed decision on the Resolution, further information on the Capital Restructure is set out in the Explanatory Memorandum accompanying this Notice of Meeting. Terms used in this Notice of Meeting have the same respective meanings as set out in the Glossary of the Explanatory Memorandum.

#### ***Approvals under ASX Listing Rule 10.1***

Under ASX Listing Rule 10.1, BluGlass may only acquire a ‘substantial asset’ from a ‘substantial holder’ with the approval of its Shareholders.

SPTS, with a 19.9% interest in BluGlass, is a ‘substantial holder’ for these purposes.

The acquisition of SPTS’s 49% shareholding in EpiBlu is an acquisition of a “substantial asset” because the value of those shares (or the value of the shares in BluGlass to be issued to SPTS in consideration for those shares) is equal to 5% or more of BluGlass’ ‘equity interests’. ‘Equity interest’ is defined as the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests, as shown in BluGlass’ consolidated financial statements.

#### ***Approvals under section 611 Corporations Act***

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a Relevant Interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person’s or someone else’s voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% to below 90%.

Under the Capital Restructure, SPTS' voting power in BluGlass will increase from 19.9% to 24.9%.

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a Relevant Interest in a company's voting shares if shareholders of the company approve the acquisition.

### ***Voting Exclusion Statements for the Resolution***

Under the ASX Listing Rules, BluGlass will disregard any votes cast on the Resolution by:

- (a) SPTS or any of SPTS' associates.
- (b) However, BluGlass need not disregard a vote if it:
  - (i) is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
  - (ii) is cast by the person chairing the meeting as proxy for person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Item 7 of section 611 of the Corporations Act requires that no votes be cast in favour of the Resolution by SPTS or any of its associates.

### ***Voting in person***

To vote in person, attend the Meeting on the date and at the time and place set out above.

### ***Voting by proxy***

To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post, to Security Transfer Registrars:
  - (i) PO Box 535, Applecross WA 6953, Australia; or
  - (ii) 770 Canning Highway, Applecross WA 6153, Australia;
- (b) facsimile, to Security Transfer Registrars on facsimile number (+61 8) 9315 2233; or
- (c) email, to Security Transfer Registrars at [registrar@securitytransfer.com.au](mailto:registrar@securitytransfer.com.au),

so that it is received not later than 10.00am (EST) on Tuesday, 2 October 2012.

The Proxy Form forms part of this Notice of Meeting.

**Proxy Forms received later than this time will be invalid.**

### ***Proxy vote if appointment specifies way to vote***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and

- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of BluGlass' members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - the proxy is not recorded as attending the meeting; or
  - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

***Approval threshold***

The Resolution will not be passed unless at least 50% of the votes cast on the Resolution by the Eligible Shareholders are cast in favour of the Resolution.

***Entitlement to vote***

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders of BluGlass at 7:00pm (Sydney time) on Tuesday, 2 October 2012.

***Queries***

Shareholders should contact the call the Company Secretary on (+61 2) 9334 2300 Monday to Friday between 9.00am and 5.00pm (Sydney time) with any queries.

# Glossary

**ACN** means Australian Company Number.

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

**Associate** has the meaning given to that term in section 12 of the Corporations Act.

**ASX** means ASX Limited (ACN 008 624 691) or the market operated by it, as the context requires.

**Business Day** means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in Sydney, Australia.

**BluGlass** means BluGlass Limited (ABN 20 116 825 793).

**Capital Restructure** means the transaction involving the simultaneous:

- (a) purchase of Sale Shares from SPTS by BluGlass; and
- (b) issue of Subscription Shares by BluGlass to SPTS.

**Completion** means the completion of the Capital Restructure in accordance with the Sale and Implementation Deed.

**Completion Date** means the date which is two Business Days after the Meeting Date.

**Completion End Date** means 1 December 2012 or such other date as BluGlass and SPTS agree in writing before that date.

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

**Director** means a director of BluGlass.

**Eligible Shareholders** means, in relation to the Resolution, Shareholders as at the Meeting Record Date, entitled to vote on the Resolution, which excludes those identified in the 'Voting Exclusion' statement in the Notice of Meeting.

**EpiBlu** means EpiBlu Technologies Pty Ltd (ABN 84 146 033 838).

**EpiBlu Share** means a share in the capital of EpiBlu.

**Explanatory Memorandum** means this document, which includes the Notice of Meeting.

**Gallium** means Gallium Enterprises Pty Ltd (ABN 11 104 736 870).

**Independent Expert** means Lonergan Edwards & Associates Limited (ACN 095 445 560) (AFSL 246532).

**Independent Expert's Report** means the report prepared by the Independent Expert set out in Appendix 1 of this Explanatory Memorandum.

**Intellectual Property** means all present and future rights conferred by law in or in relation to copyright, trademarks, designs, patents, circuit layouts, plant varieties, business and domain names, inventions and confidential information, and other results of intellectual activity in the commercial, scientific, literary or artistic fields whether or not registrable, registered, or patentable that exist or that may come to exist anywhere in the world.

These rights include:

- (a) all rights in applications to register these rights;
- (b) all renewals and extensions of these rights; and
- (c) all rights in the nature of these rights, excluding moral rights.

**Licence Agreement** means the Licence Agreement, dated on or about 30 August 2010, between Gallium, EpiBlu and BluGlass.

**Listing Rules** means the ASX Listing Rules and any other rules of ASX that are applicable while BluGlass is admitted to the official list of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.

**Meeting** means the meeting of Shareholders convened under the Notice of Meeting to consider the Resolution and includes any adjournment of such meeting.

**Meeting Date** means 4 October 2012 or such other date as is agreed between the parties.

**Meeting Record Date** means 7:00pm (Sydney time) on 2 October 2012.

**Non-Associated Directors** means each Director other than William Johnson who is SPTS' nominee Director.

**Notice of Meeting** or **Notice** means the Notice of Meeting included as Appendix 2 of this Explanatory Memorandum.

**Proxy Form** means the form, so titled, enclosed with this Explanatory Memorandum.

**Register** means the share register of BluGlass.

**Registration** means the registration of SPTS as the beneficial holder of the Subscription Shares in the Register.

**Registry** means the manager of the Register, being Link Market Services Limited.

**Relevant Interest** has the meaning that term is given in section 12 of the Corporations Act.

**Resolution** means the resolution to be put to Shareholders at the Meeting as set out in the Notice of Meeting.

**RPCVD Technology** means BluGlass' proprietary Remote Plasma Chemical Vapour Deposition technology.

**Sale and Implementation Deed** means the Sale and Implementation Deed dated 24 July 2012, between BluGlass, SPTS, EpiBlu and Gallium.

**Sale Shares** means all of the EpiBlu Shares held by SPTS.

**Shareholder** means the shareholders of BluGlass.

**SPTS** means SPTS Technologies UK Limited.

**SPTS Director** means a director of SPTS.



**SPTS Information** means the information SPTS has prepared and given to BluGlass in accordance with its obligation to do so under the Sale and Implementation Deed and which is set out in Section 4 of this Explanatory Memorandum.

**Subscription Shares** means 15,973,678 fully paid ordinary shares in the capital of BluGlass.