DIGITAL PERFORMANCE GROUP

ASX Release

12 February 2014

Digital Performance Group Limited (ASX:DIG): proposed acquisition of Asia Pacific Digital Limited

Following Digital Performance Group's previous announcements to the ASX on 13 August 2013 and 14 October 2013 in connection with its proposed acquisition of 100% of the shares in Asia Pacific Digital Limited (**Asia Pacific Digital**), the Company is pleased to announce that it has entered into a binding share sale agreement with the owner of Asia Pacific Digital, Co-Investor Capital Partners Pty Ltd (**Co-Investor**).

The acquisition will bring together the operating businesses of Asia Pacific Digital (Next Digital, Jericho and Asia Pacific Digital eCommerce) with DPG's existing digital operations (Empowered and dgm). In addition to providing scale, greater diversification of operations and a full end-to-end e-commerce offering, the transaction will also allow DPG to:

- capitalise on Asia Pacific Digital's established position in Asia, which aligns with DPG's intention to build a leading presence in the digital marketing and eCommerce markets in Asia;
- achieve cost reductions; and
- realise revenue synergies through cross-selling.

If the transaction is approved by shareholders, the Company will issue to Co-Investor no more than 1,021,186,756 fully paid ordinary shares in the Company such that Co-Investor's aggregate shareholding in the Company will not exceed 90%.

Approval of the transaction by the Company's non-associated shareholders will be sought at an Extraordinary General Meeting on **17 March 2014** (**EGM**).

EGM

The purpose of the EGM is for non-associated shareholders to consider the transaction and vote on the various resolutions required to allow completion. A copy of the Notice of Meeting and Explanatory Statement is attached. **It is important to note that the resolutions contained in the Notice of Meeting are interdependent: if any resolution is not passed, none of the resolutions will be implemented by the Company.**

Independent Directors Recommendation

The Company's non-executive independent directors, Mr Fionn Hyndman and Mr David Sweet (**Independent Directors**), consider that Asia Pacific Digital and its wholly owned subsidiaries, Next Digital, eCommerce and Jericho are closely aligned digital commerce businesses that are highly complementary to the performance based digital commerce businesses currently owned and operated by the Company.

The Independent Directors believe that the proposed transaction is in the best interests of shareholders, providing certain terms, limited conditions, and (accordingly) low risk to completion.

The Independent Directors are pleased to put each of the resolutions contained in the Notice of Meeting to non-associated shareholders and **unanimously recommend** that shareholders vote in favour of each resolution.

Independent Expert's Reports

The Independent Directors appointed Lawler Corporate Finance Pty Limited to prepare an independent expert's report (attached to the Notice of Meeting) to provide an opinion as to whether the proposed acquisition and the related assumption of the Asia Pacific Digital debt facility is fair and reasonable to non-associated shareholders of the Company. After thorough consideration, the Independent Expert determined that the overall transaction is **fair and reasonable** to non-associated shareholders as a whole. Lawler have also concluded that assumption of Asia Pacific Digital's existing debt facility is **not fair but reasonable** to non-associated shareholders on the basis that the broader advantages of the facility outweigh the disadvantages identified in respect of the existing interest rate. A copy of the Independent Expert's Report is incorporated in the Notice of Meeting.

What to expect if the transaction is approved

Upon completion of the transaction:

- Asia Pacific Digital together with its subsidiaries, Next Digital, eCommerce and Jericho will be wholly-owned by the Company;
- the Company will change its name to Asia Pacific Digital; and
- the Company intends raising funds in the future to accelerate expansion in Asia and introduce liquidity into shares.

For more information:

David Sweet
Non-Executive Director
T: 0414 888 999
E: david@onwatch.com.au

or

Campbell Nicholas
Chief Financial Officer & Company Secretary
T: (02) 8569 0080
E:campbell.nicholas@dpgmedia.com.au

DIGITAL PERFORMANCE GROUP

ACN 000 386 685

Notice of Extraordinary General Meeting & Explanatory Memorandum

To be held on 17 March 2014

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD PLEASE CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER. ALL SHAREHOLDERS SHOULD REFER TO THE INDEPENDENT EXPERT'S REPORT ENCLOSED WITH THIS NOTICE OF EXTRAORDINARY GENERAL MEETING.

EXTRAORDINARY GENERAL MEETING OF DIGITAL PERFORMANCE GROUP LIMITED ACN 000 386 685

To be held at: Level 31, 1 O'Connell Street, Sydney NSW 2000

Commencing: 10.00am EST

TO BE VALID, FORMS OF PROXY FOR USE AT THE EXTRAORDINARY GENERAL MEETING MUST BE COMPLETED AND RETURNED TO THE COMPANY NO LATER THAN 10.00AM SYDNEY TIME ON 15 MARCH 2014

DPG
DIGITAL PERFORMANCE GROUP
ACN 000 386 685

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Independent Directors' Letter

Dear Shareholder,

I am pleased to invite you to the Extraordinary General Meeting (**EGM**) of Digital Performance Group Limited (**DPG**).

The Notice of Meeting and Explanatory Memorandum are enclosed. Please read these documents carefully.

Background to EGM

In 2013, the Board and senior management completed a comprehensive strategic review of DPG's operations, corporate structure, size and scale. The review confirmed that the acquisition of Asia Pacific Digital and the three digital businesses that it operates would benefit DPG and its shareholders as it would:

- capitalise on Asia Pacific Digital's established digital and emerging eCommerce businesses in Australia and Asia which aligns with DPG's intention to build a leading presence in the digital advertising and end-to-end eCommerce markets in Asia;
- establish a platform to facilitate DPG's and Asia Pacific Digital's long term Asian growth strategy; and
- enable cost reduction and revenue synergies through cross-selling.

Accordingly, the Board has agreed to acquire 100% of Asia Pacific Digital from its major shareholder, Co-Investor Capital Partners. Asia Pacific Digital and its subsidiaries Next Digital, eCommerce and Jericho are closely aligned digital commerce businesses that are highly complementary to the performance-based digital commerce businesses currently owned and operated by DPG.

What to expect once the Transaction is approved

Upon completion of the Transaction, DPG intends raising funds to introduce new capital and liquidity. In addition, the Directors intend growing your company in Asia through both organic growth and bolt-on acquisitions that leverage its existing capabilities and infrastructure. This growth will be funded by a combination of existing cash flows and new share issues. A detailed explanation and rationale for the Transaction is set out in the attached Explanatory Memorandum.

The purpose of the EGM is for Shareholders to consider the proposed Transaction, enable the Transaction to complete and pass the various Resolutions required for this to occur.

Content of the document

This document contains the following:

- the Notice of Meeting for the EGM which includes information about the business to be conducted at the EGM, including the Resolutions to be put to the EGM and details on how to vote (see section B of this booklet);
- the Explanatory Memorandum explaining the business to be conducted at the EGM (see section C of this booklet);
- the Independent Expert's Report which includes information and an independent assessment of whether or not, in the expert's opinion, the Transaction is considered fair and reasonable to Non Associated Shareholders (see Annexure B of this booklet). Please note that Lawler concluded that the Target Acquisition is **fair** and **reasonable** and the Debt is **not fair** but **reasonable** to the Non Associated Shareholders as a whole.

The enclosed Notice of Meeting and Explanatory Memorandum (together with the Independent Expert's Report) contain important information and you should read this document carefully as part of your consideration of the proposed Transaction.

What you need to do

Voting on the Resolutions

DPG Shareholders will have the opportunity to vote on the Resolutions at the EGM to to be held at Level 31, 1 O'Connell Street, Sydney NSW 2000 on 17 March 2014 at 10.00am EST.

Voting instructions are contained in the Notice of Meeting and a personalised proxy form is enclosed to enable any shareholder who is unable to attend the EGM to vote at the meeting (see Annexure A of this booklet).

Your vote is important and we encourage you to read the Explanatory Memorandum in its entirety, and to attend the EGM and vote on the Resolutions.

Recommendation of the Independent Directors

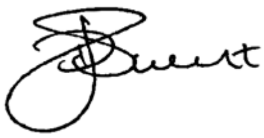
As the Independent Directors of DPG, we are pleased to put each of the Resolutions to Non Associated Shareholders and consider that they are in the best interests of Non Associated Shareholders. Accordingly, we unanimously recommend that you vote in favour of each Resolution.

Questions

Should you wish to discuss this notice of meeting you can contact Mr David Sweet on 0414 888 999 or the Company Secretary, Mr Campbell Nicholas on (02) 8569 0080.

We look forward to your participation at the EGM and thank you for your continued support.

Yours faithfully,



Mr Fionn Hyndman and Mr David Sweet
Independent Directors

Note: this letter contains general information only, and has been prepared without taking account of the objectives, financial situation or needs of any particular person. Accordingly, before acting on any information in this letter, you should consider the appropriateness of the information to your objectives, financial situation and needs and consult a professional adviser where necessary. DPG is not licensed to provide financial product advice.

DPG
DIGITAL PERFORMANCE GROUP
ACN 000 386 685

Section A – Glossary

1. DEFINITIONS

The following definitions are used in the Notice of Meeting and the Explanatory Memorandum:

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

ASX means the Australian Securities Exchange operated by the ASX Limited ACN 008 624 691.

ASX Listing Rules means the official listing rules issued and enforced by the ASX as amended from time to time.

Board or **Board of Directors** means the board of Directors of DPG.

Business Day means a day which is not a Saturday, Sunday or public holiday in Sydney.

Co-Investor means Co-Investor Capital Partners Pty Ltd ACN 110 402 134.

Combined Group means DPG and Asia Pacific Digital, Next Digital, eCommerce and Jericho after Completion.

Company or **DPG** means Digital Performance Group Limited ACN 000 386 685.

Completion means completion of the Target Acquisition pursuant to the Share Sale Agreement, which is expected to occur on or around 17 March 2014.

Consideration Shares means such number of Shares at the Issue Price calculated in accordance with the purchase price adjustment formula to be issued to the Vendors as consideration for the Target Acquisition.

Conversion Rights means rights which may in the future be exercised by a Financier under the Secured Debt Facility.

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

Debt Transaction means the transaction constituted by the assumption of Asia Pacific Digital's obligations under the Secured Debt Facility by DPG and grant of the Conversion Rights.

Director means a director of the Company.

EGM the EGM of Shareholders.

eCommerce means Asia Pacific Digital eCommerce Pty Ltd ACN 164 774 976.

Explanatory Memorandum means the explanatory memorandum set out in Section C of this document.

Extraordinary General Meeting means the EGM of the Company to be held on 17 March 2014 pursuant to the Notice of Meeting.

Financiers means each person who has severally committed to provide certain amounts by way of loan to Asia Pacific Digital under the Secured Debt Facility and who are each sophisticated investors within the meaning of section 708(8) of the Corporations Act.

Glossary means the glossary contained in Section A of this Booklet.

Independent Directors means Mr Fionn Hyndman, non-executive director and Mr David Sweet, non-executive director.

Independent Expert or **Lawler** means Lawler Corporate Finance Pty Limited ACN 097 893 957, Australian Financial Service Licence No. 295872.

Independent Expert's Report means the report prepared by the Independent Expert for inclusion in this Notice of Meeting at Annexure B.

Interested Directors means Mr Roger Sharp, non-executive director and Mr Peter Hynd, executive Chairman.

Issue Price means $0.02 per Consideration Share.

Jericho means Jericho Digital Holdings Pty Ltd ACN 111 322 055.

Listing Rules means the Listing Rules of the ASX as amended from time to time.

Next Digital means Next Digital Holdings Pty Ltd ACN 076 654 503.

Next Digital Asia means Next Digital Asia Pte Ltd (a Singapore company) and wholly-owned subsidiary of Next Digital.

Non Associated Shareholders means the Shareholders of DPG who are not excluded from voting on the Resolutions.

Non Related Party Financiers means other Financiers who are not related parties of the Company.

Notice of Meeting or **Notice** means the notice of the EGM set out in Section B of this document.

Outstanding Amount means so much of the aggregate principal amount outstanding in respect of all drawdowns made under the Secured Debt Facility together with any accrued interest which remains unpaid from time to time.

Preparation Date means 4 February 2014.

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

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

Related Party Financiers means:

(a) Wentworth Financial Pty Ltd as the trustee of the Wentworth Trust, an entity controlled by Mr Roger Sharp, director of DPG and director and shareholder of Co-Investor;

(b) Pyvis Nominees Pty Ltd as the trustee of the Pyvis Trust, an entity controlled by Mr Richard Pyvis, a director of Co-Investor; and

(c) VBS Investments Pty Ltd, a shareholder of Co-Investor.

each being a Related Party of the Company.

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

Resolution(s) means a resolution contained in the Notice of Meeting.

Secured Debt Facility means a $5.5 million secured debt facility ($3.3 million of which is currently drawn down) which has been provided by the Financiers and which is secured by the Security Interests.

Security Interests means a specific security interest granted by Asia Pacific Digital to the Security Trustee for the benefit of the Financiers over all of its present and future shares in Next Digital and Jericho.

Security Trustee means Co-Investor.

Share means a fully paid ordinary share in the capital of DPG.

Shareholder means a holder of a Share.

Share Sale Agreement means the share sale agreement between the Company as purchaser, the Target Company and the Vendors as sellers in respect of the Target Acquisition dated on or about 12 February 2014.

Target Company or **Asia Pacific Digital** means Asia Pacific Digital Limited ACN 123 287 025.

Target Acquisition means the acquisition by the Company of 100% of the issued share capital in the Target Company under the Share Sale Agreement.

Transaction means the interdependent transactions constituted by the Target Acquisition and Debt Transaction.

Vendors mean collectively:

(a) Co-Investor Capital Partners Pty Ltd ACN 110 402 134 as trustee of the Co-Investor No. 1 Fund (**Co-Investor No. 1 Fund**); and

(b) Valuestream Investment Management Limited ACN 094 107 034 as trustee of the Co-Investor No. 3 PIPE Fund (**Co-Investor No. 3 Fund**).

2. INTERPRETATION

For the purposes of interpreting the Explanatory Memorandum and the Notice of Meeting:

(a) the singular includes the plural and vice versa;

(b) words importing any gender include the other genders;

(c) reference to any statute, ordinance, regulation, rule or other law includes all regulations and other instruments and all considerations, amendments, re-enactments or replacements for the time being in force;

(d) all headings, bold typing and italics (if any) have been inserted for convenience of reference only and do not define, limit or affect the meaning or interpretation of the Independent Directors' Letter, the Explanatory Memorandum and the Notice of Meeting;

(e) reference to persons includes bodies corporate and government authorities and in each and every case, includes a reference to the person's executors, administrators, successors and substitutes (including without limitation persons taking by novation and assignment); and

(f) reference to **$, A$, Australian Dollars** or **dollars** is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia.

3. FORWARD LOOKING STATEMENTS

This Explanatory Memorandum includes certain forward looking statements which have been based on the information obtained by DPG during its due diligence and the current expectations about future events of DPG. The information on the Combined Group includes forward looking statements. Any forward looking statements in relation to the operations and financial performance of DPG, the Target Company or the Combined Group are not guarantees of performance. You should be aware that known and unknown risks, uncertainties and other factors could cause actual events or results to differ materially from the expectations expressed or implied by such statements. These factors include those risks identified in Section C and other matters not yet known to, or considered material by, DPG. These statements speak only as at the date of this document.

None of DPG, its officers or any other person gives any representation, assurance or guarantee that the results, performance or achievements expressed in or implied by the forward looking statements and forecast financial information in this Explanatory Memorandum will actually occur. Shareholders are cautioned not to give undue relevance to the forward looking statements.

DIGITAL PERFORMANCE GROUP
ACN 000 386 685

Section B – Notice of Extraordinary General Meeting

Time and place

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Shareholders of Digital Performance Group Limited ACN 000 386 685 (**DPG**) will be held as follows:

To be held at:	Level 31, 1 O'Connell Street, Sydney NSW 2000
To be held on:	17 March 2014
Commencing:	at 10.00am EST

Explanatory Memorandum

The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting (Section C of this booklet) describe the matters to be considered at the EGM.

Defined terms

Defined terms used in this Notice of Meeting have the meanings given to them in the Glossary accompanying this Notice of Meeting.

Ordinary Business

1. Resolution 1: Approval of the Target Acquisition

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

> *"That subject to the passing of Resolutions 2, 3, 4, 5 and 6, and for the purposes of Listing Rule 10.1 and section 208 of the Corporations Act and all other purposes, approval is given for the proposed Target Acquisition as described more fully in Section C of the Explanatory Memorandum."*

2. Resolution 2: Approval of the issue of Consideration Shares to the Vendors

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

> *"That subject to the passing of Resolutions 1, 3, 4, 5 and 6, and for the purposes of Listing Rule 10.11 and all other purposes, the Company be permitted to issue up to 1,021,186,756 Consideration Shares to the Vendors as more fully described in Section C of the Explanatory Memorandum."*

3. Resolution 3: Approval of the Target Acquisition and issue of Consideration Shares to the Vendors

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

> *"That subject to the passing of Resolutions 1, 2, 4, 5 and 6, and for the purposes of item 7 of section 611 of the Corporations Act and all other purposes, approval is given for the acquisition of Relevant Interests in the Company by the issue of the Consideration Shares to the Vendors as more fully described in Section C of the Explanatory Memorandum."*

4. Resolution 4: Change of nature and scale of activities

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

> *"That subject to the passing of the Resolutions and for the purposes of Listing Rule 11.1.2 and all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities as more fully described in Section C of the Explanatory Memorandum."*

5. Resolution 5: Approval of the Debt Transaction

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

> *"That subject to the passing of Resolutions 1, 2, 3, 4 and 6, and for the purposes of section 208 of the Corporations Act, Listing Rule 10.1 and all other purposes, approval is given for the Company to assume Asia Pacific Digital's obligations under the Secured Debt Facility and to grant the Conversion Rights to the Financiers as more fully described in Section C of the Explanatory Memorandum."*

6. Resolution 6: Change of name of Digital Performance Group Limited to Asia Pacific Digital Limited

Shareholders are asked to consider, and if thought fit, to pass the following Resolution as a **special resolution**:

> *"That subject to the passing of Resolutions 1, 2, 3, 4 and 5, and for the purposes of section 157(1) of the Corporations Act and all other purposes, the name of the Company be changed to Asia Pacific Digital Limited with effect on and from Completion of the Target Acquisition."*

Intention of DPG if some of the Resolutions are not passed

Resolutions 1, 2, 3, 4, 5 and 6 are all interdependent.

If any Resolution contained in the Notice of Meeting is **not passed**, none of these Resolutions will be effected or implemented by DPG.

7. Voting exclusion statements

Resolution 1

In accordance with the notice requirements of Listing Rule 10.10.1 for approval under Listing Rule 10.1 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 1 by:

(a) Co-Investor, the Vendors and the Interested Directors; and

(b) any Associate of Co-Investor, the Vendors and the Interested Directors.

Resolution 2

In accordance with the notice requirements of Listing Rule 10.13.6 for approval under Listing Rule 10.11 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 2 by:

(a) Co-Investor, the Vendors and the Interested Directors;

(b) any Associate of Co-Investor, the Vendors and the Interested Directors; and

(c) a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder of the Company, if Resolution 2 is passed, and an Associate of any such person.

Resolution 3

In accordance with item 7 of section 611 of the Corporations Act, the Company will disregard any votes cast on Resolution 3 by:

(a) Co-Investor, the Vendors and the Interested Directors; and

(b) any Associate of Co-Investor, the Vendors and the Interested Directors.

Resolution 4

In accordance with the notice requirements for approval under Listing Rule 11.1.2 and Listing Rule 14.11.1, the Company will disregard any votes cast on Resolution 4 by:

(a) Co-Investor, the Vendors and the Interested Directors;

(b) any Associate of Co-Investor, the Vendors and the Interested Directors; and

(c) a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder of the Company, if Resolution 4 is passed, and an Associate of any such person.

Resolution 5

In accordance with the notice requirements of Listing Rule 10.10.1 for approval under Listing Rule 10.1 and Listing Rule 14.11.1 and section 208 of the Corporations Act, the Company will disregard any votes cast on Resolution 5 by:

(a) Co-Investor, the Vendors, the Financiers and the Interested Directors; and

(b) any Associate of Co-Investor, the Vendors, the Financiers and the Interested Directors.

However, the Company will not disregard a vote on Resolutions 1, 2, 3, 4 and 5 if it is cast by:

(a) a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy from to vote as the proxy decides.

HOW TO VOTE

If you are entitled to vote at the EGM, you may by attending the meeting in person or by proxy, or in the case of corporate shareholders, corporate representative.

1. DETERMINATION OF MEMBERSHIP AND VOTING ENTITLEMENT AT THE EGM

For the purpose of determining a person's entitlement to vote at the EGM, a person will be recognised as a Shareholder if that person is registered as a holder of those Shares at 7.00pm EST on 14 March 2014, being the second Business Day prior to the date of the EGM.

2. VOTES OF MEMBERS

On a show of hands, each member present in person or by proxy or, in the case of a body corporate, by a corporate representative at the EGM shall have one vote.

On a poll, every member present in person or by attorney or by proxy or, in the case of a body corporate, by a representative shall have one vote for each Share held by him, her or it provided that all Shares are fully paid.

3. VOTING BY PROXY

Please note that:

(a) a member entitled to attend and vote at the EGM is entitled to appoint no more than two proxies;

(b) an instrument appointing a proxy must be in the form of the proxy form attached to this Notice of Meeting;

(c) where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. If a member appoints two proxies, and the appointment does not specify the proportion of the member's voting rights, each proxy may exercise one-half of the voting rights;

(d) a proxy need not be a member of the Company;

(e) a proxy form may specify the manner in which the proxy is to vote in respect of a particular Resolution and, where the proxy form so provides, the proxy is not entitled to vote on the Resolution except as specified in the proxy form;

(f) a proxy has the authority to vote on the member's behalf as he or she thinks fit, on any motion to adjourn the EGM, or any other procedural motion, unless the member gives a direction to the contrary;

(g) a valid proxy form will be deemed to confer authority to demand or join in demanding a poll;

(h) to be valid, a proxy form must be signed by the member or the member's attorney or, if the member is a corporation, executed in accordance with the corporation's constitution and the Corporations Act (and may be signed on behalf of the corporation by its attorney); and

(i) to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed (or an attested copy of it) must be received by no later than **10.00am EST on 15 March 2014**:

by the Company's Share Registry, Computershare Investor Services Pty Ltd:

– by mail:	GPO Box 242 Melbourne VIC 3001
– by facsimile:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

or you may vote online at www.investorvote.com.au. You will need the control number, holder number and postcode as shown on your proxy form.

A form of proxy accompanies this Notice of Meeting and is set out in Annexure A (Proxy Form).

By order of the Board

Campbell Nicholas
Company Secretary

Dated: 4 February 2014

DIGITAL PERFORMANCE GROUP

ACN 000 386 685

Section C – Explanatory Memorandum

This Explanatory Memorandum forms part of the Notice of Meeting of Digital Performance Group Limited (**DPG**) to be held at Level 31, 1 O'Connell Street, Sydney NSW 2000 on 17 March 2014 at 10.00am EST.

The Explanatory Memorandum is to be read in conjunction with the Notice of Meeting.

The purpose of the Explanatory Memorandum is to provide information which the Directors believe is material to Shareholders in deciding whether or not to pass the Resolutions to be put forward in the EGM.

Read the Notice of Meeting

The Directors recommend Shareholders read the Notice of Meeting and this Explanatory Memorandum in full before making any decisions relating to the Resolutions contained in the Notice of Meeting.

Defined terms

All capitalised terms are defined in the Glossary in Section B of this Explanatory Memorandum.

1. The Transaction

1.1 Overview of the Transaction

The Transaction involves the following:

(a) the acquisition by DPG of 100% of the issued shares in a related company (and from its majority shareholder), Asia Pacific Digital. This requires resolutions to approve the acquisition (Resolutions 1 and 3).

(b) DPG will issue, in lieu of cash, new Shares in DPG to the sellers of Asia Pacific Digital, namely, Co-Investor No. 1 Fund and Co-Investor No. 3 Fund. This requires resolutions to approve the issue of new Shares (Resolutions 2 and 3)

(c) as part of the purchase of Asia Pacific Digital, DPG will assume all obligations under an existing working capital facility, which arrangement includes the grant of Conversion Rights in favour of the relevant Financiers. This requires a resolution to approve the assumption of the secured debt arrangements (Resolution 5).

(d) the acquisition by DPG of the digital businesses currently operated by Asia Pacific Digital will result in a change in both the nature, scale and geographic focus of DPG's existing activities. This requires a resolution to approve the change in nature and scale of activities (Resolution 4).

(e) DPG proposes to change its company name to Asia Pacific Digital Limited. This requires a resolution to approve the change of name (Resolution 6).

1.2 Background to the Transaction

In 2013, DPG's Board and senior management completed a comprehensive strategic review of DPG's operations, corporate and capital structures. A key outcome of the review was to recognise that DPG needed to confirm its strategy in Australia and position itself to take advantage of the burgeoning digital advertising market in Asia. At the same time, DPG's major shareholder put forward a proposal outlining Asia Pacific Digital's complimentary digital commerce businesses, its established position across Australia, New Zealand and South East Asia, and expected future growth plans for Asia.

On 13 August 2013 the Company announced the potential restructuring of DPG by the proposed acquisition by DPG of all of the shares in Asia Pacific Digital.

The Target Company entered into the Secured Debt Facility to provide general working capital of up to $5.5 million for the Target Company's business. Under the Facility, the Target Company entered into separate syndicated facility agreements with each Financier and Co-Investor as facility agent and Co-Investor in its capacity as trustee of the Asia Pacific Digital Security Trust. A total of $3.3 million has been drawn down by the Target Company under the Secured Debt Facility, with the remaining undrawn funds providing additional working capital and headroom for the growth of the businesses within the Combined Group.

The Financiers comprise eight persons who have severally committed to provide a total amount of $5.5 million under the Secured Debt Facility. The Financiers consist of Related Party Financiers and Non Related Party Financiers. The Related Party Financiers have committed in aggregate $2.7 million of the maximum $5.5 million facility amount. The Related Party Financiers comprise:

(a) Wentworth Financial Pty Ltd as the trustee of the Wentworth Trust, an entity controlled by Mr Roger Sharp, director of DPG and Co-Investor (with a commitment of $1.2 million, of which $800,000 has been advanced);

(b) Pyvis Nominees Pty Ltd as the trustee of the Pyvis Trust, an entity controlled by Mr Richard Pyvis, a director of Co-Investor (with a commitment of $500,000, of which $300,000 has been advanced); and

(c) VBS Investments Pty Ltd, a shareholder in Co-Investor (with a commitment of $1.0 million, of which $600,000 has been advanced).

The other Financiers are neither directors nor associated with any directors of the Company or Co-Investor, nor shareholders of Co-Investor.

The assumption of Asia Pacific Digital's obligations under the Secured Debt Facility by DPG includes the grant of the Conversion Rights in favour of the Financiers (which is a condition of the Target Acquisition).

The Independent Directors of DPG have conducted due diligence on Asia Pacific Digital and each of its businesses and have engaged Lawler Corporate Finance Pty Limited ACN 097 893 957 to prepare an Independent Expert's Report on the Target Acquisition principally for the purposes of Listing Rule 10.1 and section 208 of the Corporations Act and assist Shareholders to decide whether or not to vote in favour of the Resolutions.

On 12 February 2014, the Directors announced on the ASX Company Announcements Platform that DPG had entered into a binding and definitive Share Sale Agreement to acquire 100% of the issued share capital of Asia Pacific Digital.

DPG considers the Transaction to be an ideal platform to strengthen its existing Businesses and allow it to pursue its growth strategy.

1.3 Rationale for the Transaction

DPG is a sub-scale listed company seeking a broader growth strategy. While it owns two important building blocks in the digital value chain, dgm and Empowered Communications, the Company's ability to grow is impeded by its narrow geographic focus, its small capitalisation and a general lack of investor interest.

Recognising that a transformational strategy is needed, DPG's directors have been evaluating alternatives for some time. Bringing together the Asia Pacific Digital, Next Digital and Jericho businesses within the DPG listed company structure will enable the new company to provide an end-to-end digital commerce offering in growth markets around the Asia Pacific region.

DPG believes that completion of the Transaction will be fundamentally transformational.

Today DPG has revenues of ~ $29.9 million and employs around 72 employees in two offices in Sydney and Melbourne, offering lead generation, market research and digital marketing services to companies in Australia. By contrast, the Combined Group will:

- have more than 350 digital professionals across the region servicing more than 1,000 clients;
- operate from seven offices in Auckland, Melbourne, Sydney, Shanghai, Manila, Kuala Lumpur and Singapore;
- offer its clients the complete digital commerce value chain through three divisions: Strategy and Technology Solutions, Customer Acquisition and Customer Management;
- offer a unique end-to-end digital commerce value proposition to brands and retailers wishing to sell online to consumers;
- derive broadly a quarter of its revenues from outside Australia, with plan to increase this ratio significantly in the next three years; and
- will offer an increasing exposure to the high growth Asian digital markets.

Asia

Asia now ranks as the world's largest digital commerce market, its second largest digital advertising market, and the fastest-growing digital market. Asia Pacific Digital has been building its operations in Asia for the past three years and now employs more than 100 qualified digital personnel in Shanghai, Manila, Kuala Lumpur and Singapore. These employees design and implement a full suite of digital strategy, marketing and customer retention strategies for global organisations (e.g. the Ford Motor Company, Mercedes-Benz, Fonterra and 7-Eleven), for local and regional clients (such as Maxis and Far East Hotels) and for entrepreneurial digital commerce ventures such as Wine Talk in Malaysia and Cellarmaster Wines in Hong Kong.

There has been a 'land grab' underway in Asia in recent years as global digital advertising, marketing and eCommerce firms have acquired local firms. As a result there are now very few independent digital firms of scale such as Asia Pacific Digital left in the region.

If the Transaction is approved, the Combined Group will relocate head office to Singapore and will open further offices across the region to service its existing and new clients.

Benefits of Amalgamation

Asia Pacific Digital and DPG have been working together in a formal alliance for the past twelve months. During this time it has become clear that as a single entity both companies could accelerate their growth into Asia, reduce costs and achieve revenue synergies through cross-selling.

In addition, both the Target Company and DPG believe that the higher growth nature of the Asian region and the scarcity of comparable businesses are conducive to a higher market valuation than that currently ascribed to DPG. Directors note that the new company will need to execute well and gain traction in both Asia and in digital commerce for this to occur.

Amalgamation risks

The Directors are aware that "roll-ups" and aggregations of similar businesses can carry with them certain risks. Both the Target Company and DPG have been actively addressing these risks through the past year, working together on important issues such as culture, internal communications, business rules and cross-selling. Importantly, there is a high level of trust and familiarity between the senior members of both management teams.

Post-Transaction

The Directors intend growing the Company in Asia through both organic growth and bolt-on acquisitions that leverage its existing capabilities and infrastructure. This growth will be funded by a combination of existing cash flows and new share issues. Directors believe that this approach will create significantly more value and will be less dilutive to shareholders than raising new capital to embark on an acquisition-only strategy, particularly with the pricing of technology companies returning to historic highs.

Shareholders should therefore expect the merged company to deliberately operate at reduced profitability and even modest losses for the next two to three years while earnings from existing operations are used to fund new operations in Singapore and other new markets.

Finally, recognising that the new company will be a service organisation with high dependence on its key employees, the Directors intend implementing a long term incentive plan to encourage its well-qualified and highly portable employees to make the Combined Group their long term home.

1.4 Organisational Structure of Combined Group

DPG proposes to acquire a number of entities including the Target Company, eCommerce, Next Digital, Jericho and their respective operating subsidiaries. After the acquisition the businesses within the Combined Group would operate in three divisions, as set out below:

Channel	Business
Strategies and Solutions	Next Digital, eCommerce
Customer Acquisition	Digital Performance Group (Empowered and dgm)
Customer Management	Jericho

Strategies and Solutions

Next Digital and eCommerce devise online strategies for local, regional and global corporate clients ranging from micro-strategies in specific disciplines (such as mobile, social media and campaign websites) to comprehensive digital strategies which incorporate the group's technology solutions and its end-to-end eCommerce Solutions (which includes eCommerce platforms, customer acquisition and management strategies and partnerships in related fields such as freight and logistics).

Next Digital and eCommerce have employees located in Shanghai, Manila, Kuala Lumpur, Singapore, Sydney and Melbourne. Next Digital has developed proprietary platforms based on Umbraco, Sitecore and Magento software that enable clients to build their brands online quickly, efficiently and cost-effectively.

Customer Acquisition

Empowered Communications and dgm acquire new consumer customers for their corporate clients using a range of digital strategies.

dgm is a leading digital affiliate network and search marketing agency in Australia. dgm's mission is to deliver online marketing programs that help fulfil business objectives such as increased sales, leads, revenues and brand awareness. In addition to affiliate and search, dgm offers a suite of online acquisition based products and services including lead generation, performance display, and website analytics and conversion rate optimisation.

Empowered delivers customer lead generation campaigns via email and SMS and operates one of Australia's leading online consumer research panels.

Customer relationship management

Jericho optimises the way its corporate clients manage their communications with existing customers through email, SMS and social media channels. Jericho's SmartMailPro software platform, accessed via the internet, manages the communications needs of hundreds of companies across the Asia Pacific region, and provides deep insights into engaging and managing relationships with consumers. Jericho also provides creative services and data analytics.

Jericho has offices in Auckland, New Zealand, Sydney, Melbourne and Singapore.

Next Digital, Asia Pacific Digital eCommerce, Jericho and the Digital Performance Group businesses currently operate as a group under a marketing affiliation (branded Asia Pacific Digital) and undertake digital strategies and marketing for clients across multiple businesses.

Directors of the Target Company

As at the Preparation Date the directors of the Target Company are Messrs. Roger Croker, Roger Sharp and Peter Hynd.

Key Personnel of the Target Company

The management personnel of the Target Company, Next Digital, eCommerce and Jericho are detailed in the attached Independent Experts' Report.

Pro forma Balance Sheet of the Combined Group

This section contains a summary pro-forma balance sheet of DPG and the Target Company as at 31 October 2013 prepared based on the assumptions specified below and the unaudited management accounts of DPG and the Target Company as at 31 October 2013.

Summary pro-forma balance sheet as at 31 October 2013

$000's	Target (i)	DPG (ii)	Merged Entity (iii)
ASSETS			
Current Assets			
Cash and cash equivalents	3,676	168	3,844
Trade and other receivables	4,668	5,895	10,563
Other	1,317	102	1,419
Total current assets (iv)	**9,661**	**6,165**	**15,826**
Non Current Assets			
Other financial assets	(25)	59	34
Investments	–	–	–
Plant and equipment	704	121	825
Deferred tax assets	1,346	436	1,782
Intangible assets	707	1,181	1,888
Goodwill	5,365	7,593	12,958
Total non–current assets	**8,097**	**9,390**	**17,487**
Total assets	**17,758**	**15,555**	**33,313**
LIABILITIES			
Current Liabilities			
Trade and other payables	6,537	4,662	11,345
Provisions	844	713	1,557
Interest bearing loans and borrowings	–	3,579	3,579
Income tax payable	77	–	77
Deferred settlement liability	415	–	415
Deferred income	10	181	191
Total current liabilities (iv)	**7,883**	**9,135**	**17,164**
Non current liabilities			
Interest bearing loans and borrowings	3,022	241	3,263
Deferred tax liability	613	–	613
Provisions	139	142	281
Total non–current liabilities	**3,774**	**383**	**4,157**
Total liabilities	**11,657**	**9,518**	**21,321**
Net assets	**6,101**	**6,037**	**11,992**

$000's	Target (i)	DPG (ii)	Merged Entity (iii)
Issued shares	118,601	109,273	128,112
Reserves	(41)	3,728	(9,010)
Accumulated losses	(112,459)	(106,964)	(107,110)
Total equity	**6,101**	**6,037**	**11,992**

(i) Represents the unadjusted balance sheet of the Target Company as at 31 October 2013.

(ii) Represents the unadjusted balance sheet of DPG as at 31 October 2013.

(iii) Represents the pro forma balance sheet as if the Target Acquisition was completed as at 31 October 2013. The balance sheet of DPG as at 31 October 2013 has been adjusted for the following transactions, detailed in this Notice of Meeting, that will arise if the Target Acquisition is successful:

a. Based upon the above balance sheet of the Target Company as at 31 October 2013, the estimated DPG cost of the investment to acquire 100% of Target Company is $18,838,370. This assumes that 941,918,483 Consideration Shares are issued at the Issue Price of 2 cents per share.

b. A common control reserve of $12,737,429 arises upon acquisition of the Target Company. As the entities involved in the business combination are controlled by the same party before and after Completion, no goodwill is recognised. The estimated difference between the consideration and the existing value of the Target Company's net assets of $12,737,429 is recorded within equity.

(iv) The Merged Entity pro-forma balance as at 31 October 2013 indicates an excess of current liabilities over current assets of $1.3 million. Included within DPG's current liabilities is a secured loan payable to Co-Investor of $1.1 million. The Directors note the financial support that the Company has received in the past from Co-Investor since it became the majority shareholder in 2008. Co-Investor initially provided the secured loan facility in 2008 and has in the past demonstrated a willingness to re-negotiate the term of the facility to support the working capital requirements of the Company. If required, the Directors expect to continue to receive flexibility from Co-Investor in respect of the secured loan in order to meet its obligations as and when they fall due.

1.5 Effect of the Transaction

In summary, if the Transaction is completed and all Resolutions contained in the Notice of Meeting are passed and implemented:

(a) the Target Company will become a wholly-owned subsidiary of the Company, as will Jericho, eCommerce and Next Digital;

(b) 941,918,483 Consideration Shares would be issued to the Vendors if the Transaction took place on 31 October 2013 such that the Vendors would hold approximately 89.5% of the issued Shares of the Company after Completion. This is consistent with the methodology adopted in the Independent Expert's report. The actual number will be determined by the Completion adjustments set out in Section 2.1(c)(ii) of this document and subject to the maximum number of 1,021,186,756 Consideration Shares being issued.

The actual percentage of Shares that the Vendors are expected to hold if the Transaction is approved is projected to be less than 89.5% as the Target Company has continued to invest cash balances in growth opportunities in the period through to Completion;

(c) Non Associated Shareholders will hold approximately 10.5% of DPG. This number has been calculated as if the Transaction took place on 31 October 2013;

(d) the voting power of the Vendors and their Associates (i.e. Co-Investor and the Interested Directors) will increase from approximately 78% to approximately 89.5%;

(e) the Company will change its name to Asia Pacific Digital Limited;

(f) the members of the Board of DPG will not change. However, Mr Roger Sharp and Mr Peter Hynd will be appointed executive directors of the Company; and

(g) the Company will assume Asia Pacific Digital's obligations under the Secured Debt Facility ($3.3 million of which has been currently drawn down). The Secured Debt Facility is secured by the Security Interests. Under the Secured Debt Facility, a Financier may elect, at its discretion, have part or all of their proportion of the Outstanding Amount repaid by exercising their Conversion Rights and the Company issuing Shares at certain future interest payment and conversion dates prior to the maturity date of the facility (i.e. 15 October 2016) at the prevailing 90-day volume weighted average price. The Company may repay the Secured Debt Facility at any time at its discretion.

The effect that the issue of the Consideration Shares will have on the capital structure of the Company after Completion is summarised below.

Shareholder	Consideration Shares (and Percentage of total issued capital after Completion) as if the Transaction took place on 31 October 2013	Maximum number of Consideration Shares (and Percentage of total issued capital after Completion)
Existing Shareholders (excluding Vendors)	nil (10.5%)	nil (10.1%)
Vendors	941,918,483 (89.5%)	1,021,186,756 (89.9%)
Total number of Shares on Issue	**1,783,105,239**	**1,862,373,512**

There are currently 841,186,756 Shares on issue as at the Preparation Date.

The following unlisted options over unissued Shares are also on issue:

- 1,260,000 options which expire 31 October 2014 and have a nil exercise price. These options have vested;
- 2,250,000 unvested options which expire 31 October 2014 and have an exercise price of 6 cents;
- 9,610,714 unvested options which expire 31 October 2017 and have an exercise price of 4.1 cents;
- 1,080,000 unvested options which expire 31 October 2017 and have a nil exercise price; and
- 3,126,254 unvested options which expire 31 October 2017 and have an exercise price of 2.4 cents.

The above table assumes that none of the outstanding vested options are exercised.

1.6 Profile of the Combined Group

(a) Overview of the Combined Group

On completion of the Target Acquisition, the Target Company will be a 100% owned subsidiary of the Company. The Target Company's wholly owned subsidiaries are Asia Pacific Digital Pte Ltd (a Singapore company), eCommerce, Next Digital and Jericho.

(b) Benefits of the Target Acquisition

The Combined Group will enjoy the benefits as set out in Section C.

The Independent Directors believe that the Target Acquisition is a strategic opportunity to enable the Company to continue with its strategy of building a leading digital commerce group in Asia Pacific.

Duplicated costs would also be removed upon acquiring the Target Company's business.

(c) Board and senior management of the Combined Group

The composition of the Board of the Company will not change on Completion of the Target Acquisition. However, the existing Asia Pacific Digital management team, led by Mr Roger Sharp and Mr Peter Hynd, will transfer into the Combined Group to provide executive leadership. Mr Roger Sharp will act as Executive Chairman and Mr Peter Hynd will act as Chief Operating Officer. Mr Campbell Nicholas will continue as Chief Financial Officer and Company Secretary of the Company.

(d) Ownership structure of DPG post completion of the Transaction

Following completion of the Target Acquisition, DPG would be owned approximately 11% by Non Associated Shareholders and approximately 89% by the Vendors and their Associates (being Co-Investor and the Interested Directors). Refer to the table in Section C setting out the share ownership of the Company after Completion.

(e) Co-Investor's intentions if the Transaction is completed

Co-Investor does not intend as a result of the Transaction to acquire a voting power in the Company in excess of 90%, and to exercise any compulsory acquisition rights it and its Associates may obtain under the Corporations Act. Co-Investor and the Independent Directors have agreed an intention to develop a consolidated earnings profile for the Combined Group and then at some point in the future undertake a capital raising. Such capital raising would provide funds to complete the build of the Combined Group's regional network, provide additional working capital, introduce new investors to DPG and progressively reduce the majority holding of Co-Investor to promote greater liquidity.

There is no intention to change the business of the Company, other than to conduct the Target Company's business as part of the newly aggregated business of the Combined Group. Co-Investor intends to maintain the existing senior secured facility provided to the Company.

(f) Prospects for the Combined Group

The operation and financial performance of the Combined Group are subject to various risks some of which may be beyond the control of the Combined Group. As a result, the actual results of the Combined Group's operations following completion of the Target Acquisition and the actual advantages of the Target Acquisition may differ from those that are anticipated or may not be achieved.

Projected Pro-Forma Earnings of the Combined Group for the twelve month period ending 30 June 2014

Set out below is the Directors projected pro-forma underlying earnings before interest, tax, depreciation and amortisation (**Underlying EBITDA ***) of the Combined Group (assuming successful completion of the Target Acquisition) for the financial year ending 30 June 2014.

The projected financial information has been prepared by the Directors and assumes successful completion of the Target Acquisition effective from 1 July 2013.

$000's	FY2014 pro-forma Underlying EBITDA *
Base Operations	
DPG	2,900
Asia Pacific Digital	2,400
Total Base Operations	**5,300**
Growth Initiatives	
Asia Pacific Digital (eCommerce, Jericho Asia)	(1,100)
Trading EBITDA	**4,200**
Corporate Operations	
DPG	(1,100)
APD regional headquarters (see note (i) below)	(1,200)
Underlying EBITDA*	**1,900**

(i) Longer term, the Combined Group can rely upon the existing corporate infrastructure of DPG.

Asia Pacific Digital's regional headquarters in Singapore has been established to provide:

- an Asian business development hub for the broader Asia Pacific Digital group (including Next Digital and Jericho);
- a base from which to manage the growth of technology and administrative functions into Asia to reduce the group's cost base; and
- a project team that will drive the Combined Group's aggressive three year revenue growth targets (to generate 50% of revenues outside Australia).

As a result, combined corporate costs will be materially reduced once the initial growth phase in Asia is complete.

* Underlying EBITDA excludes business acquisition costs, impairment, restructuring expenses and non-cash share option expense. Underlying EBITDA has been used because the Directors consider that this amount reflects the operating earnings result and excludes costs that aren't attributable to the normal trading activities of the Combined Group, and is consistent with the previous reporting of earnings by DPG.

The FY2014 Combined Group pro-forma Underlying EBITDA of $1.9 million as per the table above is reconciled to the statutory EBITDA of $1.1 million by subtracting the following items: non cash share option expenses of $200,000, restructuring costs of $340,000 and business acquisition costs of $260,000.

Projected Pro-Forma Earnings Commentary

Co-Investor is an active investor that acquires cornerstone shareholdings in companies that are strategically valuable, but typically require operational or structural changes to deliver shareholder value. Consistent with this investment model, Co-Investor restructured the Next Digital and Jericho businesses, and established the eCommerce division as a new business unit during FY2012 and FY2013. As a result, the historical earnings performances of Asia Pacific Digital are significantly impacted by these planned restructurings and consequently are not reflective of the projected FY2014 EBITDA or long term earnings.

The initiatives implemented by Next Digital were:

- implementing new technology to measure client and job profitability and the subsequent rationalisation of unprofitable clients;
- a significant investment in developing its base technology offer into a replicable product suite, enabling it to deliver high quality digital platforms to its clients quickly and cost effectively with transparent margins;
- re-building its sales team around specific industries and the new product offering; and
- transferring its production capacity to its own offices in Shanghai and Manila.

Jericho undertook the following restructuring and investment initiatives:

- acquired its New Zealand business in June 2012;
- migrated its proprietary technology platform (SmartMail Pro) to an offering accessed via the internet;
- implemented a strategy to migrate clients from several legacy technology platforms onto SmartMail Pro (this project is expected to be completed during FY2014);
- recruited new CEOs in New Zealand and Australia; and
- launched its new business in Singapore.

As a start-up business, Asia Pacific Digital eCommerce spent its first twelve months recruiting personnel, establishing partnerships and winning proof of concept mandates. This business is projected to generate losses in the short term during its start-up and investment phase.

Projected Pro-Forma Earnings Assumptions

The major assumptions in respect of Next Digital's FY2014 projections are:

- total revenue is expected to increase by 9.5% in FY2014 as a result of the restructuring initiatives undertaken during FY2013. The company has now signed up a number of higher spending, blue-chip clients and has a strong pipeline of new business;

- the gross profit percentage is also projected to increase in FY2014 from 35.6% to 47.7% because of increased utilisation rates and a reduced cost base from the restructuring;
- 51% of projected revenues are expected to be derived in Australia and 49% internationally;
- the continuation of business from Next Digital's largest client (~46% of total revenue). Next Digital has successfully renegotiated terms with this core client for the prior 10 years negotiations for 2014 are in an advanced state.

The major Jericho FY2014 projection assumptions are:

- total revenue is expected to increase by 21.8% in FY2014. This revenue growth is attributable to a number of factors including the relaunch of Jericho Australia and its launch in Singapore, as well as a broader service offering;
- the majority of projected revenue in FY2014 results from existing client relationships from which regular and ongoing revenue is being generated.

As noted above, Asia Pacific Digital eCommerce is a start-up venture and is expected to post losses in the short term (EBITDA of approximately $(1.1) million in FY2014). This business has developed a strong new business pipeline including recently entering into a five year agreement with www.cellarmasterwines.com in Hong Kong to outsource its entire digital commerce operations for a combination of retainer, revenue share and equity.

On 29 November 2013, Digital Performance Group announced at its Annual General Meeting that the FY2014 underlying EBITDA is projected to fall into a range of $1.50 to $1.75 million, an increase over the previous corresponding period of 29% to 50%. The Combined Group projection above assumes that DPG achieves the upper end of this range and takes into account the following factors:

- the impact of client restructurings (iTunes and Westpac) which have seen affiliate business transferred to inhouse / lead agencies. In early FY2014, the dgm division staff count was reduced by three positions as a result;
- the full year impact of cost savings in the corporate overhead such as the CEO of the Company being made redundant;
- the Viva9 business was acquired by DPG on 1 September 2012 and therefore only contributed ten months in FY2013; and
- during FY2013, the Company made a number of redundancies, predominately in relation to Viva 9 employees for duplicated roles as a result of the acquisition. In addition, dgm did not seek to replace several positions which were voluntarily vacated. In combination, dgm's / Viva 9 staff count reduced by six (6) persons and Empowered's staff count reduced by three (3) persons, during FY2013.

Projection Risks

There is a considerable degree of subjective judgment involved in preparing the projected financial information since they relate to events and transactions that have not yet occurred and may not occur.

In particular, due to the recent completion of a majority of the restructuring processes noted above, the majority of the FY2014 earnings are projected to be delivered in the second half of the financial year. The short term predictability of earnings is lower for Jericho than it is for Next Digital due to two factors: (a) it has recently launched new businesses in both Australia and Asia, and while prospects are highly encouraging for those businesses it is difficult to predict with accuracy the timing of cash flows in any new business; and (b) the technology consolidation and migration programme is being timed to suit Jericho's clients' needs rather than a financial year end timetable.

Directors note that the pro forma financial performance in the six months to 31 December 2013 is in line with projections, and recent business development activity and client wins across the group are consistent with the new business targets assumed in the projections. Notwithstanding that the year to date actual performance is in line with the projection for the period to December 2013, actual results are likely to be different from the projection since anticipated events and transactions frequently do not occur and the variation may be material.

The projections have been built up based upon the individual projections of the businesses. Additional expenses may be incurred by the Combined Group through the integration process and in repositioning the combined businesses (such as updating of marketing collateral for the Combined Group).

The Company is a disclosing entity and will report to the market any material variances to the forecast information as required by the continuous disclosure requirements of the Corporation Acts and Listing Rules.

1.7 Interests of the Interested Directors

Co-Investor is the financier of a senior secured loan facility provided to the Company. Co-Investor is the investment manager of Co-Investor No. 3 Fund and is the investment manager and trustee of Co-Investor No. 1 Fund, exercising management and control over the funds (who are the Vendors under the Proposed Transaction). The Vendors in aggregate hold approximately 78% of the issued capital as at the Preparation Date.

Mr Peter Hynd and Mr Roger Sharp are each a director of DPG and Co-Investor, as well as shareholders of Co-Investor. Mr Roger Sharp is also a unitholder in each of the Vendors (Co-Investor No. 1 Fund and Co-Investor No. 3 Fund). Mr Roger Sharp is Chairman of the Target Company and Mr Peter Hynd is a Director of the Target Company.

After Completion of the Target Acquisition Mr Roger Sharp will be appointed Executive Chairman and Mr Peter Hynd will be appointed Chief Operating Officer to provide executive leadership to the Combined Group.

Mr Roger Sharp is also a Related Party Financier (who has committed up to $1.2 million of a total $5.5 million facility) who will obtain financial benefits as a Financier under the Secured Debt Facility (including the right to receive interest) and rights in respect of Conversion Rights if Resolution 5 is passed.

Accordingly, each of Mr Peter Hynd and Mr Roger Sharp have a material personal interest in the outcome of Resolutions 1, 2, 3 and 4 concerning the Target Acquisition and Mr Roger Sharp has a material personal interest in the approval of the Debt Transaction pursuant to Resolution 5.

1.8 Advantages and disadvantages of the Transaction

The Directors are of the view that the following non-exhaustive list of advantages and disadvantages may be relevant to a DPG Shareholders decision on how to vote on the Resolutions.

Advantages of the Transaction	Disadvantages of the Transaction
The capacity of DPG to market itself and raise capital will be improved.	
There is alignment of interests given that the consideration for the Transaction will be the issue of Consideration Shares and therefore the Company is not required to pay for the acquisition in cash.	The proposed issue of Consideration Shares to the Vendors will have a dilutionary effect on the shareholding of current Non-Associated Shareholders. The voting power of the Non-Associated Shareholders will be diluted from holding in aggregate 22% of the total issued Share capital of the Company (prior to Completion) to approximately 11% of the total issued Share capital of the Company (after Completion).
The Combined Group will comprise a unique independent, end-to-end digital commerce offering in the world's fastest growing digital region, providing the opportunity to offer individual services from a menu, or as an end-to-end solution.	
Improved risk diversification across geographies, products, services, clients and personnel.	
The Combined Group will provide an increased scale of operations, revenues and earnings profile and the potential for cost reduction and effective cross selling between the complimentary businesses.	
DPG will have immediate access to infrastructure in Asia that will provide DPG's existing businesses a platform to expand in that region at significantly lower cost than if it had to establish a new regional operation independently.	
DPG has potential upside from a range of partnership and equity participation arrangements that Asia Pacific Digital has been negotiating with its eCommerce partners and clients.	
Assumption of the Secured Debt Facility will provide DPG with additional funding headroom for growth and expansion of the Combined Group's businesses. The funds will also be available for general corporate purposes and to support the commercialisation of the key assets.	Assumption of Asia Pacific Digital's obligations under the Secured Debt Facility may impact on the Company's ability to pay amounts owing to its other creditors if there is a default under the Secured Debt Facility and the Company is called upon to immediately repay amounts by cash (and not repayment by the issue of Shares upon exercise of the Conversion Rights by Financiers). Further, if the Financiers are entitled to enforce any of their rights under the Security Interests, the enforcement may have a materially adverse impact on the Target Company by enabling the Financiers to procure the sale of the Target Company's assets, being its shares in Next Digital and Jericho.

Advantages of the Transaction	Disadvantages of the Transaction
DPG will be able to repay part or all of the Secured Debt Facility in Shares in circumstances where some or all of the Financiers exercise their right to have part or all of their proportion of the Outstanding Amount repaid by the Company issuing Shares (rather than repaid in cash) at certain future interest payment and conversion dates prior to the maturity date.	If a Financier elects to exercise its right in respect of the Conversion Rights, the voting power of Non-Associated Shareholders would be further diluted by the issue of new Shares. Default interest at the rate of 18% is payable on overdue amounts. Under the terms of the Security Interests granted over the shares held by Asia Pacific Digital in Jericho and Next Digital, upon an event of default, the Financiers have the right to exercise voting rights attaching to the shares in Next Digital and Jericho, the right to receive dividends or any distributions in respect of these shares and the right to appoint a receiver to sell the thir shares and use the proceeds of sale to repay any Outstanding Amount (together with any enforcement costs).

1.9 Investment Risks associated with the Transaction

General risks associated with the Transaction are:

(a) (**economic conditions**) the performance of the Target Company and DPG following the Target Acquisition may be significantly affected by changes in economic conditions, particularly conditions which affect the digital commerce and media industry. The profitability of the business may be affected by factors such as competition, market conditions, interest rates, inflation and consumer demand;

(b) (**geo-political factors**) the Target Company may be affected by the impact that geo-political factors have on the various world economies, including the Asia Pacific region in which the Combined Group will operate, the Australian economy or on financial markets and investments generally or specifically;

(c) (**technological developments**) the digital and eCommerce industry is characterised by change, evolving industry standards, frequent introduction of new products and services, continuing advances in technology and changes in customer requirements and preferences. A failure by the Company to secure a leading market position for its products and services and adapt to these changes could lead to a loss of market opportunities and adversely impact on the Company's operating results and financial position. No assurance is given that technological developments will not cause the Company's technology to be rendered obsolete or non-competitive.

(d) (**competition**) the Company conducts business in a highly competitive industry in which there are a number of well established competitors that have substantially greater financial resources, sales and marketing organisations, market penetration and research and development capabilities, as well as broader product offerings and greater market presence and name recognition. The Company's business is risky, but this risk is increased in such an industry with such competitors.

There can be no assurance given in respect of the Company's ability to compete in the competitive markets in which it operates. Amongst other things, competition will affect the Company's ability to obtain and sustain proprietary rights to technology, marketing, sales and distribution of products and developing products for existing and new markets. No assurances can be given that the actions of existing and future competitors will not have material adverse effects on the Company's ability to implement its business plan and on the Company's operating and financial performance. Competition and new technologies can reduce product prices and profit margins and decrease the financial value of products and services.

(e) (**share market conditions**) DPG, being a company listed on ASX, will continue to be subject to market forces that influence broad share market trends and the price of securities of individual companies. Accordingly, the price of Shares when quoted on ASX will be subject to varied and often unpredictable influences on the market for equities in general. Further, the future share trading price of the Shares over the term of the Secured Debt Facility will determine the number of Shares that may ultimately be issued to a Financier if a Financier elects to exercise their Conversion Rights;

(f) (**no guarantee of future earnings risk**) there is no guarantee of profitability, dividends, return of capital, or the price at which the Shares will trade on ASX after quotation; and

(g) (**uncontrollable factors**) the Target Company and DPG will be exposed to general risks factors that are associated with conducting a business including litigation resulting from the breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise), loss of service of key management or operational personnel, non-insurable risks, delay in the resumption of activities after reinstatement following the occurrence of an insurable risk, acts of terrorism and acts of God and other matters or force majeure events that may interfere with the business or trade of the Company.

Specific risks associated with the Transaction are:

(a) (**liquidity**) the liquidity of Shares may be further affected as the Vendors and their Associates will hold a significant stake in the Company (approximately 89% of the Company's Shares) and 90% of the Consideration Shares are subject to escrow restrictions for 12 months from Completion. Future investors may be reluctant to acquire Shares in these circumstances;

(b) (**financial risks**) the ability of the Combined Group to implement its business strategy may require it or the Company to raise additional funds. No assurances can be given that such funding will be available or that it will be available on terms attractive to the Company; and

(c) (**employee risk**) the future success of the Combined Group may depend in part on its continued access to highly qualified managerial, sales and IT personnel. The loss of key staff could have a material adverse effect on the Company and its growth strategy.

1.10 Risks for the Company if the Transaction is not approved

If the Transaction is not approved by Non-Associated Shareholders, the Company intends to continue to operate its existing Empowered and dgm business. Specific risks associated with DPG continuing it existing operation only are:

(a) (**market risk / competition**) the existing businesses of Empowered and dgm are currently operating in narrow niches within the Australian digital commerce market. The businesses will continue to face competitive forces within the respective markets in which they operate, and unless they can achieve product or geographic diversification, they face heightened risk due to a reliance on a relatively small geographic and product market; and

(b) (**funding risk**) the Company has drawn down funds from Co-Investor under a secured debt facility and has previously relied upon amendments to this facility to provide flexibility in meeting its working capital obligations. If the assumption of the Secured Debt Facility is not approved, the Company may need to obtain funding from alternative sources and funding may not be available at all or on commercially reasonable terms.

1.11 Recommendations of the Independent Directors

Both Mr Roger Sharp and Mr Peter Hynd as Interested Directors and their respective Associates will refrain from voting on Resolutions 1, 2, 3, 4 and 5.

Mr Fionn Hyndman and Mr David Sweet are each an Independent Director who do not have a material personal interest in the outcome of Resolutions 1, 2, 3, 4 and 5 by virtue of not having any direct or Associated interest in the Target Acquisition, the Target Company, the Vendors, the Debt Transaction or the Financiers, except for any interest they may have solely in their capacity as an officer of DPG or a Shareholder which they hold in common with all DPG Shareholders.

Each of the Independent Directors considers himself justified in making a recommendation in relation to each of the Resolutions and they intend to vote any Shares in favour of the Resolutions.

Based on the information available, including that contained in this Explanatory Memorandum and the risks outlined Section C, all of the Independent Directors consider the Transaction on the terms described in this Explanatory Memorandum to be in the best interests of the Company and Non Associated Shareholders.

In making their recommendations, the Independent Directors have considered:

(a) the rationale for the benefits of the Target Acquisition as set out in Section C of this Explanatory Memorandum;

(b) the risks associated with the Target Acquisition as set out in Section C;

(c) the advantages and disadvantages of the Target Acquisition and Debt Transaction as set out in Section C;

(d) The Independent Directors have considered the availability of accessing funds from external financial institutions and the equity markets and the consequence that if the Debt Transaction is not approved the Target Acquisition will not proceed; and.

(e) the reasoning and conclusions of Lawler Corporate Finance Pty Limited ACN 097 893 957 in the Independent Expert's Report set out in Annexure B.

1.12 Conclusion of the Independent Expert

Lawler, the Independent Expert, has concluded that the **Target Acquisition is fair and reasonable** and the **Debt Transaction is not fair but reasonable** to DPG's Non Associated Shareholders on a whole. Shareholders are urged to consider the Independent Expert's report set out in **Annexure B**.

(a) Target Acquisition

In forming an opinion in relation to the fairness of the Target Acquisition, Lawler have concluded that the minority interest value of a share in the Combined Group is likely to exceed the controlling interest value of a DPG Share (as DPG currently stands). The Target Acquisition is therefore considered to be fair. ASIC Regulatory Guide 111 indicates that if a proposed transaction is "**fair**", it is automatically "**reasonable**".

This conclusion results from the re-rating of the Combined Group that, in Lawler's opinion, will come about once the Transaction is approved and successfully completes. In particular, Lawler observed that, as compared with DPG as it currently stands the introduction of the businesses carried on by Asia Pacific Digital provides DPG with:

- a broader service offering and significantly larger business with diversified operations;
- an established operating base in various parts of Asia; and
- immediate growth opportunities and prospects that are not currently available to it on a stand-alone basis.

(b) Debt Transaction

In forming an opinion as to whether the proposal to transfer the Secured Debt Facility from Asia Pacific Digital to DPG is "fair" and "reasonable" to the Non Associated Shareholders of DPG, Lawler considered the terms and conditions of this facility together with the practical and commercial considerations of the Transaction.

Lawler concluded that the applicable interest rates under the Secured Debt Facility (15% p.a. on funds drawn and 2% p.a. on funds committed but undrawn) are likely to be appropriate for a loan to Asia Pacific Digital, but considered too high to be on arm's length terms for the Combined Group. Notwithstanding this, Lawler concluded that the balance of the terms and conditions of the Secured Debt Facility are, in their opinion, at arm's length terms or in fact better than terms that could be obtained on an arm's length basis.

Overall Lawler concluded that the transfer of the Debt Transaction to DPG is "**not fair**" but is "**reasonable**" to Non-associated Shareholders as a whole on the basis the advantages outweigh the disadvantages. A summary of Lawler's assessment of the Debt Transaction is as follows (further information and detailed analysis is contained in the Independent Experts Report in **Annexure B**):

Advantages of the Debt Transaction	Disadvantages of the Debt Transaction
Provides funding for Asia Pacific Digital's short term cash, working capital requirements and "headroom" to pursue growth strategies.	The applicable interest rates in connection with drawn and undrawn funds.
Contains favourable terms and conditions such as the absence of any ongoing performance covenants (apart from an event of insolvency), and there is no fixed principal repayment schedule, except repayment in full in circumstances where the arrangement terminates or otherwise comes to end.	Potential dilution of Non Associated Shareholders' if interest payments and principal repayments are settled by the issue of new Shares in the Combined Group

Resolution 1 – Approval of the Target Acquisition

(a) Purpose of Resolution

Resolution 1 is sought to approve the acquisition by DPG of 100% of the shares in Asia Pacific Digital.

Resolution 1 is an ordinary resolution which means that more that 50% of the votes cast by Shareholders entitled to vote must be in favour of the Resolution for it to be passed.

(b) The regulatory requirements

Under Listing Rule 10.1 the Company is required to obtain Shareholder approval prior to the acquisition of a substantial asset from a related party or an Associate of a related party. A substantial asset is an asset valued at greater than 5% of the equity interests of DPG as set out in the latest accounts given to ASX by DPG.

For the purposes of ASX Listing Rule 10.1, the Target Acquisition is subject to Shareholder approval because:

(i) the Vendors in aggregate currently hold approximately 78% of the issued capital of the Company. Co-Investor is the manager of Co-Investor No. 3 Fund and the trustee of Co-Investor No. 1 Fund. Co-Investor is a senior secured financier of the Company. The Vendors hold 100% of the issued shares in the Target Company; and

(ii) the value of the maximum number of Consideration Shares to be provided in respect of the Target Acquisition is greater than 5% of DPG's equity interests.

Additionally, Listing Rule 10.10.2 provides that shareholder approval sought for the purpose of Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert. Accompanying this Explanatory Statement is an Independent Expert's Report prepared by Lawler Corporate Finance Pty Limited.

The Corporations Act regulates the giving of a "financial benefit" to a "related party" of a public company. In general terms, a related party means a director of the public company and his or her relatives or Associated companies.

The Vendors are the sellers of 100% of the shares in the Target Company and are related parties of DPG. A financial benefit is a broad concept including any benefit or advantage, the economic and commercial substance of which is financial, and regardless of whether the recipient gives consideration for the benefit. The Vendors are parties to the Share Sale Agreement under which they will sell shares in the Target Company to DPG and receive as consideration an investment in DPG (by the issue of the Consideration Shares). Section 208 of the Corporations Act sets out the circumstances in which a financial benefit may be given to a related party. An exception to the requirement to seek shareholder approval arises where the financial benefits are given on terms that would be reasonable in the circumstances if DPG and the related parties were dealing at arms' length. Notwithstanding this exception, the Independent Directors believe that it is prudent to obtain Shareholder approval to:

(i) the proposed Target Acquisition and issue of Consideration Shares to the Vendors (see Resolution 1); and

(ii) the assumption of the Secured Debt Facility and grant to the Financiers of the Shares (see Resolution 5).

(c) Information in respect of the Target Acquisition

Accordingly, pursuant to Resolution 1, DPG seeks the approval of its Shareholders under Listing Rule 10.1 and section 208 of the Corporations Act and provides the following specific information in accordance with the requirements of section 219 of the Corporations Act.

(i) The related parties to whom Resolution 1 would permit the financial benefits to be given are the Vendors. The Vendors hold in aggregate 78% of the issued capital of the Company, a controlling stake in the Company. Co-Investor is the investment manager of Co-Investor No. 3 Fund and the trustee of Co-Investor No. 1 Fund, exercising management and control over the funds. Co-Investor is also a senior secured financier to the Company.

(ii) The nature of the financial benefit to be given is the issue of the Consideration Shares to the Vendors as consideration for the sale of the shares in the Target Company to DPG under the terms of the Share Sale Agreement. The details of the voting power of the Vendor related parties in respect of the Consideration Shares immediately following Completion of the Target Acquisition are set out in Section C of the Explanatory Statement.

(iii) Each of Mr Roger Sharp and Mr Peter Hynd decline to make a recommendation to Shareholders in relation to Resolution 1 due to their material personal interest in the outcome of the Resolution on the basis that both are directors of Co-Investor that exercise management and/or trustee powers in respect of the Co-Investor No. 3 Fund and Co-Investor No. 1 Fund respectively and Mr Sharp is a unitholder in Co-Investor No. 3 Fund and Co-Investor No. 1 Fund. Mr Roger Sharp is Chairman of the Target Company and Mr Peter Hynd is a Director of the Target Company. After Completion of the Target Acquisition Mr Roger Sharp will be appointed Executive Chairman and Mr Peter Hynd will be appointed Chief Operating Officer to provide executive leadership to the Combined Group.

(d) Independent Directors' recommendation

The Independent Directors' recommend that Shareholders vote in favour of Resolution 1 for the following reasons:

(i) After full and proper assessment of all available information, they believe that Resolution 1 is in the best interest of the Company and Shareholders.

(ii) the benefits of the Target Acquisition outweigh its disadvantages referred to in section 1.8 of this Explanatory Memorandum.

(iii) the Target Acquisition is, in the opinion of the Independent Expert, **fair and reasonable** to Non Associated Shareholders.

Resolution 2 – Approval of the issue of Consideration Shares

(a) Purpose of Resolution

Resolution 2 is sought to approve the issue of the Consideration Shares to the Vendors for the acquisition of 100% of the shares in Asia Pacific Digital.

Resolution 2 is an ordinary resolution which means that more that 50% of the votes cast by Shareholders entitled to vote must be in favour of the Resolution for it to be passed.

(b) The regulatory requirements

ASX Listing Rule 10.11 requires shareholder approval for the issue of securities by a company to a related party or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

(c) Information in respect of the issue of Consideration Shares

The information required to be given to Shareholders for the purposes of approval of the proposed issue of Consideration Shares under Listing Rule 10.11 is set out below.

Name of persons:	The Consideration Shares will be issued to the Vendors in the following proportions: Co-Investor No. 1 Fund – 3.47%; and Co-Investor No. 3 Fund – 96.53%.
Maximum number of securities to be issued and formula used to calculate the Consideration Shares/ Purchase Price under the Share Sale Agreement:	The purchase price payable and number of Consideration Shares shall be calculated as follows: (Base Consideration plus Cash and Investments less Debt and Earn-Out) divided by the Issue Price ($0.02) where: (A) Base Consideration equals $18,600,000; (B) Cash means the cash deposited in the bank of the Target Company at Completion; (C) Investments means equity investments or assets acquired by drawdown under the Secured Debt Facility; (D) Debt means the amount of principal drawn down by the Target Company under the Secured Debt Facility as at Completion; (E) Earn-Out means the amount payable by Next Digital Asia under the Earn Out Provision, which amount is capped at $410,000; subject to a maximum amount of 1,021,186,756 Consideration Shares.
Issue Date:	The Consideration Shares will be issued on the Completion Date, being the date of this meeting, 17 March 2014 (or in any event within 1 month of the date of the EGM).

Relationship between the Vendors and DPG	Co-Investor is the manager of Co-Investor No. 3 Fund and the trustee of Co-Investor No. 1 Fund. Prior to the issue of the Consideration Shares, the Vendors hold in aggregate 78% of the total issued capital of the Company. Both Mr Peter Hynd and Mr Roger Sharp, directors of DPG are directors of Co-Investor and the Target Company. Co-Investor is senior secured financier of the Company.
Issue Price:	$0.02 per Consideration Share (note that this is a deemed issue price for each Consideration Share and no funds will be paid to the Vendors).
Terms of Securities:	The Shares will be fully paid ordinary shares in the capital of the Company and will rank equally with the existing Shares on issue.
The use of the funds raised:	No funds will be raised by the issue of the Consideration Shares.
Escrow Agreement	Each of the Vendors and DPG have entered into an Escrow Agreement which provides that 90% of the Consideration Shares to be issued in accordance with Resolution 2 will be restricted from trading for a period of 12 months from the Completion Date.

(d) Independent Directors' recommendation

The Independent Directors' recommend that Shareholders vote in favour of Resolution 2 for the following reasons:

(i) after full and proper assessment of all available information, they believe that Resolution 2 is in the best interest of the Company and Shareholders.

(ii) the benefits of the Target Acquisition and issue of the Consideration Shares outweigh its disadvantages referred to in section 1.8 of this Explanatory Memorandum.

(iii) the issue of the Consideration Shares is, in the opinion of the Independent Expert, **fair and reasonable** to Non Associated Shareholders.

Resolution 3 – Approval of the Target Acquisition and issue of the Consideration Shares

(a) Purpose of Resolution

Resolution 3 is sought to approve both the Target Acquisition and issue of Consideration Shares to the Vendors for the acquisition of 100% of the shares in Asia Pacific Digital.

Resolution 3 is an ordinary resolution which means that more that 50% of the votes cast by Shareholders entitled to vote must be in favour of the Resolution for it to be passed.

(b) Requirements of the Corporations Act

Section 606(1) of the Corporations Act provides that a person must not acquire a relevant interest in issued voting shares in a company if:

(i) the company is a listed company;

(ii) the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person; and

(iii) because of the transaction, that person's or someone else's voting power in the company increases from 20% or below to more than 20% or from a starting point that is above 20% and below 90%.

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition in section 606(1) if an acquisition is approved previously by a resolution passed by shareholders at a general meeting of the company.

(c) Information in respect of the Target Acquisition and issue of Consideration Shares

The information required to be given to Shareholders for the purposes of approval of the Target Acquisition and issue of the Consideration Shares to the Vendors under item 7 of section 611 of the Corporations Act is set out below.

Identity of persons proposing to make the acquisition of Relevant Interests:	The Vendors will receive the Consideration Shares and as such will acquire Relevant Interests in the Shares. The Associates of the Vendors are Co-Investor and the Interested Directors.
The maximum extent of the increase in the voting power of the Vendors as a result of the Target Acquisition:	The voting power of the Vendors will increase from approximately 78% to approximately 89%.
The voting power that the Vendors will have as a result of the Target Acquisition:	Voting power of approximately 89%.
The maximum extent of the increase in the voting power of the associates of the Vendors as a result of the Target Acquisition:	The voting power of the Vendors and their Associates will increase from approximately 78% (before Completion) to approximately 89%.
The voting power that the associates of the Vendors will have as a result of the Target Acquisition:	Co-Investor in its personal capacity and the Interested Directors do not receive any Consideration Shares.

(d) Independent Directors' recommendation

The Independent Directors' recommend that Shareholders vote in favour of Resolution 3 for the following reasons:

(i) After full and proper assessment of all available information, they believe that Resolution 3 is in the best interest of Shareholders.

(ii) the benefits of the Target Acquisition and issue of the Consideration Shares outweigh the disadvantages referred to in section 1.8 of this Explanatory Memorandum.

(iii) the Target Acquisition and issue of the Consideration Shares is, in the opinion of the Independent Expert, **fair and reasonable** to Non Associated Shareholders.

Resolution 4 – Approval of change in nature and scale of activities

(a) Purpose of Resolution

Resolution 4 is sought to approve the change in nature and scale of activities for the purposes of Listing Rule 11.1.2.

Resolution 4 is an ordinary resolution which means that more that 50% of the votes cast by Shareholders entitled to vote must be in favour of the Resolution for it to be passed.

(b) The regulatory requirements

The ASX has advised that the Company must seek shareholder approval for the purposes of Listing Rule 11.1.2 to approve the change in nature and scale of the Company's activities as a result of the Target Acquisition.

The ASX has advised the Company that the change in the nature and scale of the Company's activities does not require the Company to re-comply with the admission requirements set out in Chapters 1 and 2 of the Listing Rules in accordance with Listing Rule 11.1.3.

(c) Information in respect of the change in nature and scale of activities

DPG's current business operates in the digital industry and involves the selling of targeted online advertising campaigns and the provision of internet affiliate marketing, lead generation and search services in Australia.

The Target Acquisition (subject to and on completion) will result in a change in the nature and scale of the Company's activities given the expanded geographic focus across the Asia Pacific region and the expanded product offering of the Combined Group to be able to provide end-to-end digital eCommerce services across digital strategies, customer acquisition and relationship management channels.

The composition of the Board of the Company will not change on Completion of the Transaction. However, Mr Roger Sharp and Mr Peter Hynd will be appointed as executive directors of the Company.

(d) Independent Directors' recommendation

The Independent Directors' recommend that Shareholders vote in favour of Resolution 4 as, after full and proper assessment of all available information, they believe that Resolution 4 is in the best interest of DPG and its Shareholders.

Resolution 5 – Approval of Debt Transaction

(a) Purpose of Resolution

Resolution 5 is sought to approve the assumption of obligations by DPG under the Secured Debt Facility and grant of the Conversion Rights to the Financiers.

Resolution 5 is an ordinary resolution which means that more that 50% of the votes cast by Shareholders entitled to vote must be in favour of the Resolution for it to be passed.

(b) The regulatory requirements

The Company provides the information contained in this Explanatory Statement and the following specific information in accordance with the requirements of section 219 of the Corporations Act and Listing Rule 10.1:

(i) The assumption of APD's obligations under the Secured Debt Facility is deemed by the Listing Rules to be a disposal of a substantial asset as the amount of the secured debt and the value of the assets over which security interests have been granted to secure repayment of the debt are greater than 5% of the Company's equity interests in the last set of accounts given to ASX.

(ii) The nature of the financial benefit is the assumption of Asia Pacific Digital's obligations under the Secured Debt Facility in favour of the Financiers (which include the Related Party Financiers) to repay all amounts outstanding under the Secured Debt Facility, the right to receive payment of interest under the Secured Debt Facility and the right to elect to have part or all of their proportion of the Outstanding Amount repaid by the Company issuing new Shares.

(c) Information in respect of the Debt Transaction

(i) The related parties to whom Resolution 5 would permit the financial benefits to be given are the Related Party Financiers. The Related Party Financiers are Wentworth Financial Pty Ltd as trustee of the Wentworth Trust (committed to provide $1.2 million), an entity controlled by Mr Roger Sharp, director of DPG and Co-investor, Pyvis Nominees Pty Ltd as the trustee of the Pyvis Trust (committed to provide $500,000), an entity controlled by Mr Richard Pyvis, a director of Co-Investor and VBS Investments Pty Ltd (committed to provide $1 million), a shareholder of Co-Investor.

(ii) The Directors do not have any reason to believe that the Company is likely to default in its obligations under the Secured Debt Facility.

(iii) Shareholders are referred to the Independent Expert's Report in Annexure B. The Independent Expert has concluded that the Debt Transaction is **not fair but reasonable** to the Non-Associated Shareholders.

(iv) The Independent Directors considered the Target Company's need for funding and other forms of funding available to the Company from financial institutions dealing on an arm's length basis.

(v) The Directors are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 5.

(d) Summary of the key terms and conditions of the Secured Debt Transaction

Facility Limit	$5.5 million as reduced or varied in accordance with the Secured Debt Facility.
Term	The facility must be repaid in full on 15 October 2016, or earlier if an event of default occurs.
Interest	15.0% per annum on funds drawn down plus 2.0% per annum on funds committed but undrawn, accrued in arrears on a daily basis, payable 10 calendar days after the last day of an 'Interest Period' (being a six month period ending 31 March and 30 September of each calendar year). The first Interest Period will end on 31 March 2014.
Conversion Dates	On 15 October 2015 and 15 October 2016 the Financiers may elect to have part or all of their proportion of the Outstanding Amount repaid by the exercise of Conversion Rights and the Company issuing new Shares to the Financiers.
Security Interests	Repayment of Outstanding Amounts will continue to be secured by the Security Interests granted by Asia Pacific Digital over its shares in Next Digital and Jericho.
Early redemption	The Company may repay all Outstanding Amounts in full or part before the maturity date of 15 October 2016 provided that it gives the Financiers 5 Business Days' notice and the amount of the prepayment is not less than $500,000.
Events of default	'Events of Default' include non-payment or other non-compliance not remedied within 10 Business Days' notice, insolvency of a member of the Combined Group, cross-default under any other loan or financial accommodation of a member of the Combined Group or enforcement of a security over property of a member of the Combined Group. If an Event of Default occurs, Co-Investor as facility agent (acting on the instructions of Financiers whose aggregate commitment exceeds 75% of the total commitments provided under the Secured Debt Facility) may declare all outstanding amounts immediately due and payable, cancel all or any part of the facility limit with immediate effect and enforce the Security Interests. Default interest at the rate of 18% is payable on overdue amounts.
Restricted dealings	The consent of Co-Investor as facility agent (acting on the instructions of Financiers whose aggregate commitment exceeds 75% of the total commitments provided under the Secured Debt Facility) is required to permit the creation of any other security interests, disposal of assets of the Company and Target Company, incurring any debt or repaying any subordinated shareholder debt or entering into any related body corporate non-arm's length transaction.
Interest repayable by Shares	Each Financier may elect at its discretion at the end of each Interest Period to have part or all of the outstanding interest amount repaid by the Company issuing such number of Shares to the relevant Financier as determined by dividing the relevant outstanding interest amount by the 'Interest Conversion Price'. The Interest Conversion Price is the prevailing volume weighted average price for one Share for the 90 day period immediately preceding the respective interest payment date.

Principal repayable by Shares	Each Financier may elect at its discretion on each Conversion Date (being 15 October 2015 and 15 October 2016), to have part or all of their proportion of the then outstanding amount repaid by the Company issuing such number of Shares to the relevant Financier as determined by dividing the relevant outstanding amount by the 'Conversion Price'. The Conversion Price is the prevailing volume weighted average price for one Share for the 90 day period immediately preceding the respective Conversion Date.

(e) Independent Directors' recommendation

The Independent Directors' recommend that Shareholders vote in favour of Resolution 5 as, after full and proper assessment of all available information, they believe that Resolution 5 is in the best interest of Shareholders.

Resolution 6 – Approval of change of Company name from Digital Performance Group Limited to Asia Pacific Digital Limited

Subject to approval and Completion of the Transaction, Resolution 6 seeks Shareholder approval to change the Company's name to Asia Pacific Digital Limited with effect from Completion of the Transaction. The Company is required to pass this resolution under Section 157 of the Corporations Act as a special resolution. Accordingly, it will be necessary for at least 75% of Shareholders to vote in favour of Resolution 6.

The Board proposes this change of name on the basis that it will more accurately reflect the proposed future operations of the Company.

DIGITAL PERFORMANCE GROUP

ACN 000 386 685

Annexure A – Proxy Form

DIGITAL PERFORMANCE GROUP

ACN 000 386 685

Annexure B – Independent Expert's Report

DPG
DIGITAL PERFORMANCE GROUP

www.dpgmedia.com.au

DPG
DIGITAL PERFORMANCE GROUP LIMITED
ABN 30 000 386 685

⊢ 000001 000 DIG
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

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Alternatively you can fax your form to
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For all enquiries call:
(within Australia) 1300 556 161
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 **PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Sydney time) on Saturday 15 March 2014

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 IND

Proxy Form

Please mark X to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Digital Performance Group Limited hereby appoint

☐ **the Chairman of the Meeting** **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Digital Performance Group Limited to be held at Level 31, 1 O'Connell Street, Sydney NSW 2000 on Monday, 17 March 2014 at 10:00 am and at any adjournment or postponement of that meeting.

STEP 2 Items of Business

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

		For	Against	Abstain
1	Approval of the Target Acquisition for the purposes of Listing Rule 10.1 and section 208 of the Corporations Act	☐	☐	☐
2	Approval of the issue of Consideration Shares to the Vendors for the purposes of Listing Rule 10.11	☐	☐	☐
3	Approval of the Target Acquisition and issue of Consideration Shares to the Vendors for the purposes of item 7 of section 611 of the Corporations Act	☐	☐	☐
4	Change of nature and scale of activities	☐	☐	☐
5	Approval of the Debt Transaction for the purposes of section 208 of the Corporations Act and Listing Rule 10.1	☐	☐	☐
6	Change of name of Digital Performance Group Limited to Asia Pacific Digital Limited	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________________ **Contact Daytime Telephone** ____________________ **Date** / /

Digital Performance Group Limited

Independent Expert's Report

29 January 2014

lawler corporate finance

29 January 2014

The Independent Directors
Digital Performance Group Limited
Ground Floor, 33-35 Saunders Street
PYRMONT NSW 2009

Dear Sirs,

INDEPENDENT EXPERT'S REPORT IN RELATION TO PROPOSED ACQUISITION

Introduction

On 13 August 2013, Digital Performance Group Limited ("**DPG**") announced a proposal ("**Proposed Transaction**") to acquire the holding company Asia Pacific Digital Limited ("**APDL**") and its three core businesses ("**Businesses**") (collectively, "**APD**") from its major shareholders, being funds managed by Co-Investor Capital Partners Pty Limited ("**Co-Investor Funds**"). As consideration for the acquisition of APD, DPG will issue to Co-Investor Funds an estimated 941,918,483 fully paid ordinary shares in DPG ("**DPG Shares**"), subject to a number of settlement adjustments ("**Consideration Shares**"). The final number of Consideration Shares will not exceed 1,021,186,756. Assuming that the Proposed Transaction is approved and 941,918,483 Consideration Shares are issued, Co-Investor's shareholding in DPG will increase from 77.7% to approximately 89.5%.

Other key points of the Proposed Transaction include:

- APDL divesting to Co-Investor Funds its interests in The Smart Group and Countrywide Austral prior to DPG acquiring APD;
- the acquisition of APDL will result in a $5.5 million convertible debt facility ("**Convertible Debt Facility**") being transferred to DPG and equity conversion rights transferred from APDL shares to DPG Shares;
- DPG will immediately be renamed as "Asia Pacific Digital Limited"; and
- Co-Investor executives Messrs Roger Sharp, Peter Hynd and Chris Tran, transferring into the newly merged business ("**Merged Group**") to provide executive leadership.

Requirement for an Independent Expert's Report

This Report has been prepared by Lawler Corporate Finance Pty Limited ("**LCF**") to assist the directors of DPG not associated with Co-Investor ("**Independent Directors**") in relation to their obligations arising under:

- **Sections 606** and **611** of the Corporations Act (Cth) ("**Corporations Act**"), relating to approval by DPG's shareholders not associated with Co-Investor ("**Non-associated Shareholders**") of the increase in voting power of Co-Investor in DPG from a starting point already above 20% (approximately 78%) to approximately 90%, resulting from the Proposed Transaction; and
- **Chapter 2E** of the Corporations Act, which relates to the provision of a financial benefit to the related party, Co-Investor. In the present case, DPG and Co-Investor share the same directors.

This Report has also been prepared to assist Non-associated Shareholders in considering how to vote on the various resolutions.

Further details of the above regulatory requirements can be found in **Section 1.4** of this Report.

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Summary of Conclusions – Proposed Transaction

In our opinion, the Proposed Transaction as a whole is "**fair**" and is "**reasonable**", to the Non-associated Shareholders as a whole.

Set out below is a summary of how we have reached our conclusions.

Fairness

Our fairness assessment has been undertaken on the basis that the Proposed Transaction is a "control transaction" for the purposes of Regulatory Guide 111 *Content of Expert Reports* issued by the Australian Securities and Investments Commission ("**ASIC**") ("**RG 111**"), (as Co-Investor would increase its voting power in DPG from approximately 78% to approximately 89.5%).

Our assessment as to whether or not the Proposed Transaction is "fair" under RG 111 has been undertaken assuming the number of Consideration Shares to be issued is based on the pro-forma consolidated balance sheet of APDL as at 31 October 2013. Our assessment is set out in the following table:

Table 1: Fairness Assessment

	Report Reference / Note	Low	Mid-Point	High
Fair Market Value of DPG as at 31 October 2013 (Control Basis, Per Share) ($)	Section 8.5	0.008	0.009	0.009
Fair Market Value of the Merged Entity as at 31 October 2013 (Minority Basis, Per Share) ($)	Section 9.1	0.012	0.013	0.014
Fair / (Not Fair) - $		**0.0038**	**0.0045**	**0.0053**
Fair / (Not Fair) - %		**47.3%**	**52.8%**	**58.2%**

Source: LCF analysis

In accordance with the requirements of RG 111, the comparison of value must be made between the controlling interest value of a DPG Share as DPG stands before the Proposed Transaction, and the minority interest value of a share in the Merged Group. This form of analysis does not reflect the fact that Non-associated Shareholders currently hold a minority interest in DPG.

As our assessment is that the minority interest value a share in the Merged Group is likely to exceed the controlling interest value of a DPG Share (as DPG currently stands), we have concluded that the Proposed Transaction is "fair" to the Non-associated Shareholders of DPG, as a whole. In forming our opinion on the value of the Merged Group on a minority basis, we have had regard to a number of considerations, including the earnings of the Merged Group multiples of Australian and overseas entities. Additionally, we have used the value of the DPG Share price since the date of the announcement as a Proposed Transaction as further support to the conclusion reached.

Reasonableness

ASIC RG 111 indicates that if a proposed transaction is "fair", it is automatically "reasonable. As we have concluded that the Proposed Transaction is fair, then it is also to be considered to be "reasonable". However, for completeness, we have assessed whether the perceived advantages of implementing the Proposed Transaction outweigh the perceived disadvantages of doing so. Set out below is our assessment of the advantages and disadvantages of the Proposed Transaction.

Advantages of the Proposed Transaction

Increased Growth & Exit Opportunities

Currently, DPG predominately operates in Australia and only provides a limited range of products and services within the combined media and advertising sectors. Further, given DPG's lack of size and ability to access capital and/or debt, growth and alternative investor exit opportunities are limited, particularly in relation to any expansion into international growth markets which could prove costly.

The acquisition of APD provides DPG with several growth opportunities which may not otherwise be available to DPG (not without making an acquisition or incurring its own start-up costs to establish a similar business), in particular, access to South-East Asian markets and the ability to expand DPG's product and service offering.

Increase in Scale of Operations

The Proposed Acquisition will result in a significantly larger business with more diversified operations. In particular we note the following:

- DPG as it currently stands, is expected to generate revenues of approximately $33 million in FY2014. The acquisition of APD will contribute approximately $20 million additional revenue to DPG;
- the acquisition of APD will provide Non-associated Shareholders with access to an expanded geographic markets including New Zealand and growth markets in South-East Asia; and
- the acquisition of APD will enable DPG to provide a more diversified product and service offering combining end-to-end advertising and media products and services. This improved product and service offering, combined with increases in scale will provide the Merged Group with the opportunity to secure a greater number of higher spending, blue-chip clientele.

Synergies

The acquisition of APD will enable the Merged Group to provide a more diversified product and service offering. Where APD is unable to currently provide its clients with certain products and services, there is an opportunity for DPG to capitalise on these underserviced clients through DPG's existing businesses.

We note however, that due to the existing relationship between DPG and APD, including the cross-referral of clients, this advantage has already been partly realised. However, the Proposed Transaction would eliminate any potential for conflicts of interests to arise.

There are also identified opportunities to realise costs saving within the Merged Group that have not been taken into account in the FY2014(F) budgets. The extent and timing of achievement of these is not certain, but the opportunities exist.

Alignment of interest of Co-Investor

Currently Co-Investor is in effect managing two businesses – DPG and ADP and as a result, their interests are not 100% aligned with that of the Non Associated Shareholders. This is particularly relevant in the circumstances where new client opportunities arise that may be applicable to either DPG or ADP. By having both companies under one umbrella, this mitigates any loss of opportunity by one company as compared with the other. The Proposed Transaction will also assist in reducing the time spent by the entities on administrative matters, such as the production of an annual financial report, separate website development and so on. Further the commitment of the senior management team from Co-Investor (two of the three being based in Singapore) on a full-time, short term basis to assist in growing the Merged Group business is seen as an advantage.

Decline in the DPG Share price

Since the announcement of the Proposed Transaction, the DPG Share price has traded at a premium to that price immediately prior to the announcement. If the Proposed Transaction does not proceed, there is a risk in the DPG Share price reverting back to the lower levels.

Disadvantages of the Proposed Transaction

Dilution of Non-associated Shareholders' Interest in DPG

The Non-associated Shareholders currently hold a combined 22.3% interest in the Shares of DPG. Should the Proposed Transaction be approved, the equity interests of Non-associated Shareholders will be reduced to a minimum of 10.1%. The final number of Consideration Shares to be issued is dependent upon the level of working capital on the date of completion of the Proposed Transaction, assuming that that this was approved by the Non-associated Shareholders. Moreover, it is quite possible that going forward, DPG will need to raise funds from the equity markets in order to fund the Merged Group and this could result in further dilution to the Non Associated Shareholders.

Uncertainty of Earnings from APD Businesses

The acquisition of APD includes the acquisition of Next Digital and Jericho. These businesses have historically been loss making. Despite this history, both businesses are expected to generate positive EBITDA in FY2014 and subsequent years.

Whilst is appears that management have taken steps to enable this result, we note that a number of these changes are relatively recent, and there is no guarantee that these businesses will achieve the levels of profitability indicated, or within the time frames indicated into the future. Whilst we have provided for these specific risks associated with the APD Businesses in our capitalisation multiples, there is the possibility that such risks may in fact be higher than the allowance in our valuation.

Exposure to New Business Ventures

The acquisition of APD includes the acquisition of eCommerce. eCommerce is a relatively new business established to promote the full end-to-end e-commerce offering of APD across Australia, New Zealand and South-East Asia. As at the date of this Report, eCommerce has not been profitable and is not expected to be profitable in the short-term (i.e. 12 to 24 months).

The acquisition of APD exposes the Non-associated Shareholders to a loss making business which may place additional financial pressure on the Merged Group.

Reduced liquidity

The impact of the Proposed Transaction may have an adverse impact on the liquidity of the trading in DPG Shares on the ASX. This is due to the high level of concentration of shareholding that will be owned by Co-Investor, if the Proposed Transaction proceeds.

Liquidity is measured as a percentage of the total shares on issue by a company. As Co-Investor Funds will hold a greater proportion of the total number of Shares on issue subsequent to completion of the Proposed Transaction, liquidity is likely to reduce. We note however that the total number of Shares which could be described as available to be traded (i.e. those held by Non-associated Shareholders) will remain the same.

Implications for Non-Associated Shareholder of Rejecting the Proposed Transaction

In our opinion, in the event that the Proposed Transaction is rejected, Non-associated Shareholders of DPG would be subject to the following issues:

Potentially adverse

The current scale of operations of DPG is considered by Management to be insufficient to allow the company to grow in the future. The Australian marketplace is regarded as being mature and international expansion requires investment of funds. Rejection of the Proposed Transaction will likely prevent DPG from aggressively increasing its scale and variety of services, at least in the short-term.

DPG currently has minimal operations outside of Australia. The acquisition of APD will provide DPG with access to international markets, particularly in New Zealand and South-East Asia. Rejection of the Proposed Transaction will likely prevent DPG from entering international markets in any strength, at least in the short-term.

Management of Co-Investor Funds, as the current major shareholder of both DPG and APD, believe that the Proposed Transaction provides the best growth opportunities to both companies. Should the Proposed Transaction be rejected, alternative growth opportunities available to DPG may not be supported by Co-Investor.

In the event that the Proposed Transaction is rejected, in our opinion it is possible that the DPG Share trading price will fall to the levels prevailing before the announcement of the Proposed Transaction.

Potentially beneficial

The current equity interests of Non-associated Shareholders will not be diluted.

DPG would not be exposed to the risks associated with historical loss making businesses, including eCommerce which is a new operation that is not expected to generate profits in the short-term.

Summary of Conclusions – Convertible Debt facility

In our opinion, the Convertible Debt facility as a whole is "not fair" but is "reasonable", to the Non-associated Shareholders as a whole. In forming our view, we note that we have taken into consideration in the value of the Merged Group the difference between our assessed fair value of an interest rate for the Convertible Debt facility and the amount to be incurred as per the agreed terms of the facility - refer to paragraph 9.10.

Set out below is a summary of how we have reached our conclusions.

Fairness

We have compared the interest rate of 15% p.a. to other benchmark transactions and formed the view that an interest rate in the range of 12% to 13% p.a. would be more appropriate for the Convertible Debt facility, particularly having regard to the fact that there is some security for the facility.

Reasonableness

In forming the opinion that the Convertible Debt facility is reasonable, we have had regard to the following:

- our conclusion on the overall fairness and reasonableness of the Proposed Transaction;
- it provides funding for the operations of the Merged Group;
- lack of covenants applicable to the facility;
- no fixed repayment schedule; and
- the conversion of the debt facility into Merged Group shares results in the issue of approximately 15% of the expanded issued shares of the Merged Group and therefore is not a controlling stake, requiring a premium for control.

Other matters

Summary

This section sets out a summary of our Report and its conclusions. You should read our complete Report, which sets out in full the purpose, scope, sources of information, basis of evaluation, limitations, analysis and our findings.

Scope, limitations and use of this Report

Full details of the scope, limitations and other qualifications to this Report are set out in **Section** 3. The scope of the procedures undertaken in preparing this Report does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards.

The Report was prepared in accordance with APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited.

The Report has been prepared at the request, and for the benefit, of the Independent Directors and for the benefit of the Non-associated Shareholders of DPG. The Report was not prepared for any purpose or for the benefit of any other person.

Investors' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. LCF has not considered the effect of the Proposed Transaction on the particular circumstances of individual Non-associated Shareholders. Some individual Non-associated Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in this Report. Accordingly, individual Non-associated Shareholders may reach different conclusions as to whether or not the Proposed Transaction is *"fair"* and "reasonable" in their individual circumstances. As the decision of individual Non-associated Shareholders in relation to the Proposed Transaction may be influenced by their particular circumstances (including their taxation position), Non-associated Shareholders are advised to seek their own independent advice.

Financial Services Guide

A financial services guide is attached to this Report.

Yours faithfully

Vince Fayad
Director

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1. The Proposed Transaction

1.1. Components

On 13 August 2013, DPG announced on the Australian Securities Exchange ("**ASX**"), the Proposed Transaction to acquire APDL and its three core Businesses from Co-Investor Funds, for consideration comprising the issue of the Consideration Shares.

We understand that other key points of the Proposed Transaction include:

- APDL divesting to Co-Investor Funds its interests in Smart Group and Countrywide Austral;
- a $5.5 million Convertible Debt Facility to be transferred from APDL to DPG;
- DPG to be immediately renamed as "Asia Pacific Digital Limited"; and
- Messrs Roger Sharp, Peter Hynd and Chris Tran, transferring into the business to provide executive leadership.

As consideration, DPG will issue the Consideration Shares. The number of Consideration Shares to be issued is to be calculated as follows:

Number of Consideration Shares = *$18,600,000 / $0.02*

+/- *Net debt at settlement / $0.02*

In any case, *the final number of Consideration Shares to be issued will not exceed 1,021,186,756, such that Co-Investor Funds' shareholding will not exceed 90% upon completion.*

As at the Valuation Date (I.e. 31 October 2013), ADP had net debt as follows:

Table 2: ADP had net debt

Details	$
Cash & Cash Equivalents	$3,675,513
Interest-Bearing Liabilities	($3,022,144)
Deferred Consideration Payable	($415,000)
Total Net Debt	**$283,370**

Source: Pro-Forma Consolidated Balance Sheet of DPG as at 31 October 2013 on Completion of the Proposed Transaction

Based on the above, the total number Consideration Shares to be issued would amount to 941,918,483 and the total number of DPG Shares then on issue would be 1,783,105,239.

The following events are expected to occur upon the approval of the Proposed Transaction (but which do not form conditions to the Proposed Transaction occurring):

- duplicated costs would be removed upon acquiring the Businesses; and
- after developing a consolidated earnings profile, the Merged Group would undertake a capital raising to:
  - complete the build out of its proposed Asian regional network;
  - acquire or partner with data and analytics business(es); and
  - provide additional working capital.

1.2. Convertible Debt Facility

The Convertible Debt Facility was entered into by APD on 15 October 2013 and provides up to $5.5 million for APD. A summary of the key terms of the Convertible Debt Facility is set out in **Section 6.6** of this Report.

The providers of the Convertible Debt facility are a syndicate of entities, and were procured by Co-Investor. Co-Investor is the manager of the facility on behalf of the investor entities to the Convertible Debt Facility.

We set out a table of the following persons who are the investors of the Convertible Debt Facility:

Table 3: Convertible Debt Facility Investor Entities

Investor Entity	Total Allocation	Funds Drawn as at Date of this Report
Wentworth Financial Pty Ltd ATF Wentworth Trust*	$1,200,000	$720,000
Pyvis Nominees Pty Ltd ATF The Pyvis Trust **	$500,000	$300,000
VBS Investments Pty Ltd ***	$1,000,000	$600,000
Unrelated, Third-Party Investors	$2,800,000	$1,680,000
TOTAL	**$5,500,000**	**$3,300,000**

* Wentworth Financial Pty Ltd is an entity associated with and under the control of Mr Roger Sharp.

** Pyvis Nominees Pty Ltd is an entity associated with and under the control of Mr Richard Pyvis, a director of Co-Investor.

*** VBS Investments Pty Ltd is an entity associated with the Victor Smorgon Group, a shareholder of Co-Investor, and Mr Peter Edwards, a director of Co-Investor.

Source: Syndicated Facility Agreement dated 15 October 2013; debt facility allocation schedule provided by management of APD; LCF analysis

1.3. Impact on Shareholder Interests

Implementing the Proposed Transaction will have a material impact on existing Shareholders' voting and equity participation interest in DPG and the impact will vary, depending upon the circumstances.

Set out below is an analysis of various potential outcomes

Table 4: Impact of the Proposed Transaction on Existing Shareholders' Voting & Equity Interest

Ordinary Shareholder	Current Position		Issue of Consideration Shares based on the Balance Sheet of APD as at 31 October 2013				Maximum Issue of Consideration Shares			
			Shares to be Issued Under the Proposed Transaction		Position on Completion of the Proposed Transaction		Shares to be Issued Under the Proposed Transaction		Position on Completion of the Proposed Transaction	
	# Held	%	#	%	# Held	%	#	%	# Held	%
Funds Managed by Co-Investor Capital Partners Pty Limited (Including any of its Related Parties)	653,896,038	77.7%	941,918,483	100.0%	1,595,814,521	89.5%	1,021,186,756	100.0%	1,675,082,794	89.9%
Non-associated Shareholders	187,290,718	22.3%	-	0.0%	187,290,718	10.5%	-	0.0%	187,290,718	10.1%
Total	**841,186,756**	**100.0%**	**941,918,483**	**100.0%**	**1,783,105,239**	**100.0%**	**1,021,186,756**	**100.0%**	**1,862,373,512**	**100.0%**

Source: Notice of Meeting; LCF analysis

1.4. Pro-Forma Balance Sheet

Set out below is the pro-forma balance sheet of DPG as at 31 October 2013 on the basis that the Proposed Transaction is approved and APD becomes a wholly owned subsidiary of DPG:

Table 5: Pro-Forma Balance Sheet of DPG on Completion of the Proposed Transaction

$'000	Actual DPG as at 31 October 2013	Actual APD as at 31 October 2013	Pro-Forma Adjustments	Pro-Forma DPG as at 31 October 2013
ASSETS				
Current Assets				
Cash and cash equivalents	168	3,676		3,843
Trade and other receivables	5,895	4,668		10,562
Other	102	1,317		1,419
Total Current Assets	**6,165**	**9,660**	**-**	**15,824**
Non-Current Assets				
Other financial assets	59	(25)		34
Plant and equipment	121	704		824
Deferred tax assets	436	1,346		1,781
Intangible assets	1,181	707		1,887
Goodwill	7,593	5,365		12,958
Total Non-Current Assets	**9,389**	**8,096**	**-**	**17,485**
TOTAL ASSETS	**15,554**	**17,756**	**-**	**33,310**
LIABILITIES				
Current Liabilities				
Trade and other payables	4,661	6,536	145	11,342
Provisions	713	844		1,557
Interest-bearing loans and borrowings	3,579	-		3,579
Income tax payable	-	77		77
Deferred settlement liability	-	415		415
Deferred income	181	10		191
Total Current Liabilities	**9,134**	**7,881**	**145**	**17,161**
Non-Current Liabilities				
Interest-bearing loans and borrowings	241	3,022		3,263
Deferred tax liability	-	613		613
Provisions	142	139		281
Total Non-Current Liabilities	**383**	**3,774**	**-**	**4,157**
TOTAL LIABILITIES	**9,518**	**11,655**	**145**	**21,318**
NET ASSETS	**6,036**	**6,101**	**(145)**	**11,992**
EQUITY				
Issued Shares	109,273	118,601	(99,763)	128,112
Reserves	3,728	(41)	(12,696)	(9,010)
Accumulated losses	(106,965)	(112,459)	112,314	(107,110)
Equity attributable to owners of the Company				
TOTAL EQUITY	**6,036**	**6,101**	**(145)**	**11,992**

Source: Pro-forma balance sheet of the Merged Entity prepared by management of DPG; LCF Analysis

2. Regulatory requirements

2.1. Shareholder Approvals Required

Implementing the Proposed Transaction is subject to a number of Shareholder approvals. Details of the Proposed Transaction and related approvals required are set out in the Notice of Meeting and Explanatory Statement issued by DPG ("**Documents**") accompanying this Report.

2.2. ASX Listing Rule Requirements

2.2.1. ASX Listing Rule 10.1

Co-Investor Funds are a substantial shareholder of DPG and Roger Sharp and Peter Hynd are directors of Co-Investor, DPG and Asia Pacific Digital. Therefore, Co-Investor is a related party of DPG for the purposes of ASX Listing Rule 10.1.

ASX Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from, or disposing of a substantial asset to, a related party without the approval of holders of the entity's ordinary securities who are entitled to vote on the matter (i.e. the Non-associated Shareholders). ASX Listing Rule 10.4 extends this requirement to associates of a related party (as defined).

A substantial asset is defined by ASX Listing Rule 10.2 as an asset with a value of 5% or more of the equity interests of the listed entity.

Accordingly, approval of the Proposed Transaction by Non-associated Shareholders pursuant to ASX Listing Rule 10.1 is being sought by Resolution 1 in the Notice of Meeting.

2.2.2. Requirement for an independent expert report

Where approval is being sought under ASX Listing Rule 10.1 and/or 10.4, ASX Listing Rule 10.10.2 states that the notice of meeting must be accompanied by a report on the transaction from an independent expert stating whether or not, in the expert's opinion, the transaction is "fair and reasonable" to the Non-associated Shareholders.

2.3. Corporations Act Requirements

2.3.1. Section 606 of the Corporations Act

Subsection 606(1) ("**s606(1)**") of the Corporations Act prohibits a person from acquiring a relevant interest in voting securities of a listed entity if the acquisition would increase a person's voting power in the entity:

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

Implementing the Proposed Transaction will result in Co-Investor increasing its shareholding and voting power in DPG from the current amount of approximately 77% to approximately 89%-90% of the expanded share capital, (depending upon the settlement adjustments involved).

Sub-section 611(7) of the Corporations Act ("**s611 (7)**") allows a transaction prohibited by s606 (1) to be approved by shareholders not having an interest in the transaction (i.e. Non-associated Shareholders).

Accordingly, approval of the Proposed Transaction by Non-associated Shareholders pursuant to s611 (7) is being sought by Resolutions 1 and 3 in the Notice of Meeting.

2.3.2. Chapter 2E Corporations Act

Under Chapter 2E of the Corporations Act ("**Chapter 2E**") the giving by DPG of a financial benefit to a related party (as defined) is prohibited, except in certain circumstances, including:

- approval by DPG's shareholders other than any related party of Co-Investor who would obtain a financial benefit or any associate of such person (i.e. the Non-associated Shareholders); or

- the arrangement is on arm's length terms (or less favourable to the related party than arm's length terms).

Section 228 of the Corporations Act defines a "related party" of a public company as including (among others):

- an entity that controls a public company;
- directors of the public company;
- directors of an entity that controls the public company;
- an entity controlled by a related party referred to above, unless the entity is also controlled by the public company;
- an entity (including an individual) that has reasonable grounds to believe it will become related party in future (such as an individual intending to become a director); and
- an entity (including an individual) if the entity acts in concert with a related party of the public company on the understanding that the related party will receive a financial benefit if the public company gives the entity a financial benefit.

Implementing the Proposed Transaction will result in the provision of a financial benefit (as defined) to a related party of DPG, namely Co-Investor. We note that Co-Investor currently holds approximately 78% of DPG Shares and 100% of APDL Shares. Moreover, Messrs Roger Sharp and Peter Hynd are currently directors of DPG, Co-Investor and APDL.

Accordingly, approval of the related party aspects of the Proposed Transaction, including the transfer of the Convertible Debt Facility pursuant to Chapter 2E is being sought by Resolution 1 and Resolution 5 in the Notice of Meeting. The Independent Directors of DPG are seeking separate approval of the Convertible Debt Facility from the Non-associated Shareholders as required by Chapter 2E.

2.3.3. Requirement for an independent expert report

Where approval is being sought under s611 (7), the shareholders of the company must be given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution.

This requirement is usually fulfilled by providing an independent expert's report.

There is no express requirement in Chapter 2E of the Corporations Act for an independent expert's report in relation to the related party aspects of the Proposed Transaction, including (separately) the transfer of the Convertible Debt Facility. However, under Listing Rule 10.1 an independent expert's report is required in relation to the Proposed Transaction (see above).

However, Regulatory Guide 76 *Related party transactions* ("**RG 76**") issued by ASIC indicates that meeting materials provided to shareholders must provide sufficient information to enable them to decide whether or not the financial benefit to be given to the related party is in the interests of the company.

2.3.4. Role of LCF

The Independent Directors of DPG have requested LCF to provide an independent expert's report in relation to the Proposed Transaction to satisfy the various information requirements outlined above and to set out an opinion as to whether or not the Proposed Transaction is "fair" and "reasonable" (as those terms are defined in RG 111) to the Non-associated Shareholders as a whole, and separately, whether the related party aspects of the Convertible Debt Facility are "fair" and "reasonable" (as those terms are defined in RG 111) to the Non-associated Shareholders as a whole, to assist Non-associated Shareholders in considering whether to vote to approve the Proposed Transaction.

3. Purpose, Scope & Reliance on Information

3.1. Purpose

This Report has been prepared at the request, of and for the benefit, of the Independent Directors and for the benefit of the Non-associated Shareholders, to assist the Independent Directors in fulfilling their obligation to provide Shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transaction and to decide whether to agree to the various resolutions set out in the Notice of Meeting to implement the Proposed Transaction. This Report is to accompany the Documents to be provided to the Shareholders.

This Report was not prepared for any other purpose or for use by any other person. LCF does not accept any responsibility to any person other than the Independent Directors and Non-associated Shareholders or for the use of the Report outside the stated purpose without the written consent of LCF. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

LCF has provided its consent to the Report accompanying the Documents. Apart from the Report, LCF is not responsible for the contents of the Documents, or any other document or announcement associated with the Proposed Transaction. LCF acknowledges that its Report may be lodged with regulatory bodies.

Approval or rejection of the Proposed Transaction is a matter for individual Non-associated Shareholders based on their expectations as to various factors including the value and future prospects of DPG and APD, the terms of the Proposed Transaction, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Non-associated Shareholders should carefully consider the Documents. Non-associated Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their professional adviser.

3.2. Scope

The scope of the procedures we undertook in forming our opinions was limited to those procedures we believe are required in order to form our opinion.

In preparing the Report, LCF's procedures may have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we do not express an audit or review opinion.

3.3. Sources of Information

Appendix 2 identifies the information referred to, and relied upon, by LCF during the course of preparing this Report and forming our opinion. The information provided has been evaluated through analysis, inquiry and review for the purpose of forming our opinion.

3.3.1. Reliance on Information

General

This Report relies upon information provided by the DPG and the assumptions that we were asked to make (or are necessary to make). Information provided was accepted in good faith. LCF does not assume any responsibility for, and does not make any representation with respect to, the accuracy or completeness of any information provided during the course of the engagement.

The statements and opinions contained in this Report are given in good faith and are based upon LCF's consideration and assessment of information provided by DPG and Asia Pacific Digital. LCF believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

It was not LCF's role to undertake, and LCF has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Proposed Transaction. LCF understands that DPG directors have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary.

LCF does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by DPG directors and/or their advisors.

An opinion as to whether a corporate transaction is "fair" and/or "reasonable" is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that LCF advises that it is not in a position, nor is it practical for LCF, to undertake a detailed investigation or extensive verification exercise.

It is understood that, except where noted, the accounting information provided to LCF was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by DPG in previous accounting periods.

In accordance with normal practice, prior to finalising the Report, we confirmed facts with DPG. This was undertaken by means of providing DPG with a draft report. LCF obtained a representation letter from DPG confirming that, to the best knowledge of DPG, the information provided to, and relied upon by, LCF was complete and accurate, and that no significant information essential to the Report was withheld.

DPG agreed to indemnify LCF and Lawler Partners and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to LCF by DPG and/or Asia Pacific Digital, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

Prospective Financial Information

In preparing the Report, LCF had regard to prospective financial information for the financial year ending 30 June 2014 in relation to DPG and APD ("**Prospective Financial Information**"). LCF understands that the Prospective Financial Information has been prepared as part of the ongoing management processes of DPG and APD, respectively.

For the purposes of the Report, LCF understands and has assumed that the Prospective Financial Information:

- has been prepared fairly and honestly, on a reasonable basis and is based on the best information available to the management and directors of DPG and APD, respectively and within the practical constraints and limitations of such information; and
- does not reflect any material bias either positive or negative.

We understand that the Prospective Financial Information has been based on assumptions concerning future events and market conditions and while prepared with due care and attention and the relevant directors consider the assumptions to be reasonable, future events and conditions are not accurately predictable and the assumptions and outcomes are subject to significant uncertainties. Actual results are likely to vary from the Prospective Financial Information and any variation may be materially positive or negative.

Accordingly, neither the directors of DPG or APD nor LCF guarantee that the Prospective Financial Information or any other prospective statement contained in the Report or otherwise relied upon will be achieved.

For present purposes, LCF has not been engaged to undertake an independent review of the Prospective Financial Information in accordance with Australian Auditing or Assurance standards, and has not undertaken such a review. However in order to disclose and to rely on the Prospective Financial Information in the Report, LCF is required to satisfy itself that the Prospective Financial Information has a reasonable basis.

Set out below are some of the factors that, in our opinion, support a conclusion that the Prospective Financial Information has a reasonable basis:

- a material portion of the Prospective Financial Information incorporates established trends in the businesses and current arrangements in place, for example:
  - Prospective Financial Information largely reflects an established history of operations, sales and profitability of the businesses; and/or
  - Prospective Financial Information reflects contractual or other forms of written arrangements in place to establish some surety as to future revenues; and
- the reporting and budgeting processes of DGP and APD has been in place for some time and involves regular reporting of actual performance to budget variances, management follow up, input from senior management and that process itself is under continuous review;
- Prospective Financial Information is based on detailed financial models that are designed to be driven by specific key inputs;
- Prospective Financial Information has been endorsed by the management and directors of DPG and APD, respectively; and
- Prospective Financial Information makes appropriate allowance for known contingencies.

In order to ascertain the above, the scope of LCF's work in this regard has comprised the following:

- obtain details of the Prospective Financial Information and the process by which this information was prepared;
- discussed with directors of DPG and APD (including divisional directors and managers) regarding the basis on which the Prospective Financial Information was formulated and where possible on a "desktop" level, undertaking evaluation of such information, by reference to past trading performance, available evidence and/or other documentation provided;
- reviewed any assumed growth over historical earnings, determining the source of growth;
- enquired if the Prospective Financial Information is adopted by the directors of DPG and APD;
- investigated previous forecasting history and experience;
- reviewed the most recently available monthly management accounts; and
- considered the relevant industry trends and the position of DPG and APD within its respective industry.

3.3.2. Valuation Date

The opinion expressed in this Report is made as at 31 October 2013 ("**Valuation Date**").

3.3.3. Valuation

Fair market value

The assessment of whether the Proposed Transaction is "fair" and "reasonable" necessarily involves determining the "fair market value" of various securities, assets and interests.

For the purposes of our opinion, the term "fair market value" is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Therefore, there is no indisputable value and we normally express our valuation opinion as falling within a likely range.

Special value

We have not considered special value in forming our opinion as to whether the Proposed Transaction is "fair". Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the particular potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

3.3.4. Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly out dated and in need of revision. LCF reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to LCF.

3.3.5. Assumptions

In forming our opinion, we made certain assumptions, including the following:

- other than as publicly disclosed, all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts are in good standing, and will remain so and there is no alleged or actual material breach of the same or dispute in relation thereto (including, but not limited to, legal proceedings), and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding;
- that matters such as retention of key personnel and ownership of assets are in good standing, and will remain so;
- any public information used in relation to DPG and Asia Pacific Digital and any other publicly available information relied on by us, is accurate and not misleading and up to date;
- information in relation to the Proposed Transaction that is distributed to Shareholders, or any information issued by a statutory body is complete, accurate and fairly presented in all material respects;
- the legal mechanisms proposed to implement the Proposed Transaction are valid and effective; and
- if the Proposed Transaction is implemented, it will be implemented in accordance with the draft transaction documents provided to us.

4. Basis of Assessment

4.1. "Fair" and "Reasonable"

In preparing this Report we considered the Regulatory Guides issued by ASIC and in particular, RG 76 and RG 111.

RG 111 indicates that, in the context of approval of a proposal under s611(7), where the effect on a company's shareholding is comparable to a takeover bid (i.e. a "control transaction"), an expert should analyse the proposal as if it were a takeover bid. In such a case, the words "fair" and "reasonable" establish two distinct criteria:

- is the offer "fair"; and
- is it "reasonable".

RG 111 states that:

- an offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, and assuming 100% ownership of the 'target' company irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the 'target' company; and
- an offer is considered to be "reasonable" if it is "fair". If the offer is "not fair" it may still be "reasonable", if the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher offer.

RG 111 indicates that where non-cash consideration is being offered in a control transaction (as is proposed in the Proposed Transaction), the expert should examine the value of that consideration and compare it with the valuation of DPG's securities. The comparison should be made between the value of the securities being offered (that is, the value of the securities in the Merged Group), (allowing for a minority discount (reflecting the fact that security holders in the target (i.e. Co-Investor Funds) will be receiving scrip constituting minority interests in the combined entity)) and the value of DPG's securities, assuming 100% of the securities are available for sale.

RG 111 indicates that in relation to a proposal subject to Chapter 2E, RG 111 indicates that is made up of a number of separate components, the expert should consider the overall effect of the related party transaction. Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members. This analysis is specifically required where the report is also intended to accompany meeting materials for member approval of an asset acquisition or disposal under ASX Listing Rule 10.1. In this context, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction, as discussed above.

A proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

(a) assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and

(b) for control transactions, on the same basis as for a control transaction, as discussed above.

A proposed related party transaction is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons for members to vote for the proposal.

4.2. LCF approach

LCF has undertaken the following in assessing each element of the Proposed Transaction.

4.2.1. "Fair"

Given the size of Co-Investor's shareholding in DPG, Co-Investor clearly has control over DPG. Accordingly, the effect of the Proposed Transaction is to increase its level of control over the Merged Group/DPG. Conversely, the Non-associated Shareholders are minority shareholders of and will remain minority shareholders in the Merged Group. The Proposed Transaction represents a giving up of further control to Co-Investor and accordingly the transaction is considered to be a "control" transaction for the purposes of RG 111.

In view of the above conclusion, for the purpose of the Proposed Transaction, LCF compared the fair market value of:

- a DPG ordinary share on a controlling interest basis, before the Proposed Transaction, being the price that Co-Investor would have to pay to acquire full control of DPG; with
- the consideration being offered to the Non-associated Shareholders to allow the Proposed Transaction to proceed. This consideration is an ordinary share in the Merged Group comprising DPG and the Businesses to be acquired (including the head office costs and the convertible secured financing facility), on a minority interest basis, assuming that the Proposed Transaction is approved.

In the event that the latter value exceeds the former value, the Proposed Transaction would be regarded as "fair" to the Non-associated Shareholders as a whole. Conversely, if the former value exceeds the latter value, then the Proposed Transaction would be regarded as "not fair" to the Non-Associated Shareholders as a whole.

As noted above, our assessment of a DPG Share has been undertaken on a controlling-interest basis despite Non-associated Shareholders only holding minority interests. This is a requirement of RG111. We have however undertaken an assessment utilising the minority value of a DPG Share which is set out in our assessment of reasonableness.

4.2.2. "Reasonable"

Under RG 111, the Proposed Transaction will be "reasonable" if it is "fair". It may also be "reasonable" if, despite being "not fair", there are sufficient reasons for Non-associated Shareholders to approve the Proposed Transaction in the absence of any better opportunities at the time of voting.

Having regard to the factors listed by ASIC in RG 111.12, we considered the following factors in assessing the reasonableness of the Proposed Transaction:

- the value of a DPG Share prior to the Proposed Transaction on a minority basis compared to the value of the value of a share in the Merged Group on a minority basis;
- the pre-existing voting power of Co-Investor in DPG and APD;
- other significant security holdings in DPG;
- the liquidity of the market in DPG's securities;
- taxation losses, cash flow or other benefits of the Proposed Transaction;
- any special value of APD to DPG, such as particular technology;
- the value of DPG and/ or APD to an alternative offeror; and
- the likelihood of an alternative offer being made to DPG shareholders.

5. Profile of Digital Performance Group

5.1. Background

DPG is an Australian publicly listed company with a market capitalisation as at 18 December 2013 of approximately $10.1 million. DPG is engaged in the performance based digital business in Australia and is based in Pyrmont, Australia.

Co-Investor is DPG's largest shareholder, and owns approximately 77.7% of the Shares. Implementing the Proposed Transaction will result in Co-Investor increasing its shareholding to between 88.9% and 89.9% of the expanded share capital of the Merged Group.

DPG is an independent performance based marketing communications group comprising of two divisions:

- Empowered Communications ("**Empowered**"). Empowered provides performance based digital marketing services, a form of online advertising that focuses on customer acquisition and lead generation; and
- dgm Australia ("**dgm**"). dgm offers Internet based services, such as Internet search engine optimization, paid search, display marketing, affiliate marketing, and lead generation services.

Below is an overview of the above divisions:

Empowered

Empowered operates one of Australia's largest online permission marketing and media network with approximately 650,000 active members Australia-wide. The division provides two (2) types of campaigns – Direct Marketing campaigns and Market Research campaigns. Direct Marketing campaigns offer a variety of eMarketing options through:

- email;
- SMS marketing;
- display marketing; and
- performance marketing.

Market Research campaign is an active online research panel that collates information via:

- brand trackers;
- quick polls;
- pre-qualified sub-panel groups;
- sms polls; and
- quantitative and qualitative research.

Empowered runs a network of websites and loyalty programmes, that reward members for responding to or taking part in promotional and marketing research projects for which they have pre-specified an interest in receiving.

dgm

dgm works with advertisers, affiliates, publishers and agencies to define and deliver high-performing online marketing programs. The division offers marketing solutions across single or multiple channels with a clear focus on performance and return on investment. dgm offers the following solutions:

- Search Engine Marketing - dgm offers clients a unique SEM solution by combining their proprietary software and human expertise, enabling dgm to match a search strategy to their clients' business objectives;
- Search Engine Optimisation – dgm offers a variety of managed and consultancy based search engine optimisation ("**SEO**") services in the natural search space. dgm assists its clients to deliver additional qualified traffic and increases in rankings plus provides performance based metrics.

- Affiliate Marketing - dgm has pioneered the performance based affiliate marketing channel in Australia. The dgm affiliate network links advertisers with an extensive range of premium independent websites allowing advertisers to leverage the 'long tail' effect of the internet; and

5.2. Directors

As at the date of this Report, the Directors of DPG are as follows:

Table 6: Directors of DPG

Director	Background
Peter Hynd Chairman, Non-Executive Director	Mr Hynd has over 16 years of experience in managing, financing and investing in emerging listed and private companies. Mr Hynd has spent the last 8 years as Investment Director and more recently, Managing Director of Co-Investor. Prior to that, Mr Hynd has worked for a range of firms including Ernst & Young where he worked as a small cap corporate financier, Burdett Buckeridge Young and Paterson Securities. His roles have accumulated him over 15 years experience in small caps in the Australian Financial Markets.
David Sweet Non-Executive Director	Mr Sweet has a Bachelor of Business degree and has held a number of executive roles over the past 14 years, including at Vodafone and iTouch in Australia and New Zealand. As a Director of Vodafone Australia, Mr Sweet was responsible for the restructure of the sales and distribution group by streamlining and focusing operations as they relate to customer markets. Mr. Sweet served as Managing Director of DPG until September 2009.
Fionn Hyndman Non-Executive Director	Mr Hyndman has held executive roles in a number of online advertising businesses including having been Managing Director of Deal Group Media Pty Ltd, the entity acquired by DPG in October 2010.
Roger Sharp Non-Executive Director	Mr Sharp founded Co-Investor during 2004. He has more than 20 years experience in finance and international markets. His roles have included Chief Executive Officer of Asia-Pacific Equities of ABN AMRO Bank and senior positions with Ord Minnett and its parent Jardine Fleming for 15 years. He has represented Co-Investor as a director of several companies. He serves as Chairman of Asia Pacific Digital Limited. He has been a Director of Webjet limited since January 2012. Mr Sharp was non-executive chairman of travel.com.au Limited, in which Co-Investor was the major shareholder from 2005 to 2008 and was instrumental in its turnaround and sale to Wotif.com Holdings Limited in 2008. He was also a non-executive director of Software of Excellence International Limited, in which Co-Investor was the major shareholder from 2004 to 2007, and was heavily engaged in its turnaround and sale to Henry Schein, Inc. in 2007.

5.3. Historical & Budget Income Statements

The audited historical consolidated income statements of DPG for the years ended 30 June 2011, 2012 and 2013 are summarised in the table below, along with the budgeted consolidated income statement of DPG for the year ending 30 June 2014 as prepared by Management of DPG.

Table 7: Historical and Budgeted Consolidated Income Statements of DPG

$'000	Note	Year Ended / Ending 30 June			
		FY2011 (Audited)	FY2012 (Audited)	FY2013 (Audited)	FY2014 (Budgeted)
Revenue	1	19,018	23,861	29,856	33,443
Cost of Sales	2	(9,536)	(13,586)	(19,061)	(22,671)
Gross Profit	**2**	**9,482**	**10,275**	**10,795**	**10,772**
Gross Profit Margin	*2*	*49.86%*	*43.06%*	*36.16%*	*32.21%*
Employee Expenses	3	(5,214)	(6,620)	(6,682)	(6,618)
Other Operating Expenses	4	(1,949)	(2,780)	(2,588)	(2,608)
Business Acquisition Costs		(626)	(74)	(146)	-
Restructuring Costs		(371)	(121)	(371)	(181)
Total Operating Expenses		**(8,160)**	**(9,595)**	**(9,787)**	**(9,407)**
Earnings Before Interest, Tax, Depreciation, Amortisaion & Impairment Losses (EBITDA)		**1,322**	**680**	**1,008**	**1,365**
Depreciation & Amortisation		(518)	(936)	(1,148)	(1,145)
Impairment Losses		-	(14,935)	-	-
Finance Income		300	49	8	-
Finance Costs		(1,382)	(441)	(483)	(314)
Net Profit/(Loss) from Continuing Operations Before Income Tax		**(278)**	**(15,583)**	**(615)**	**(95)**
Income Tax Benefit/(Expense)		535	(477)	237	-
Net Profit/(Loss) from Continuing Operations After Income Tax		**257**	**(16,060)**	**(378)**	**(95)**
Net Profit/(Loss) from Discontinued Operations After Income Tax		413	-	-	-
Net Profit/(Loss) After Income Tax		**670**	**(16,060)**	**(378)**	**(95)**

Source: Annual Reports of DPG for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; Management budgets for the year ending 30 June 2014, LCF Analysis

The "as reported" and underlying EBITDA of DPG for FY2011, FY2012 and FY2013 were as follows:

Table 8: Historical and underlying EBITDA of DPG

$'000	Year Ended		
	2011 (Audited)	2012 (Audited)	2013 (Audited)
EBITDA (Statutory Reported)	**1,322**	**680**	**1,008**
Restructuring Costs	371	121	371
Acquisition Costs	626	74	146
Share Based Payment Expense	84	248	(248)
FY2012 Bonus Reversal in FY2013	-	113	(113)
Underlying EBITDA	**2,403**	**1,236**	**1,164**

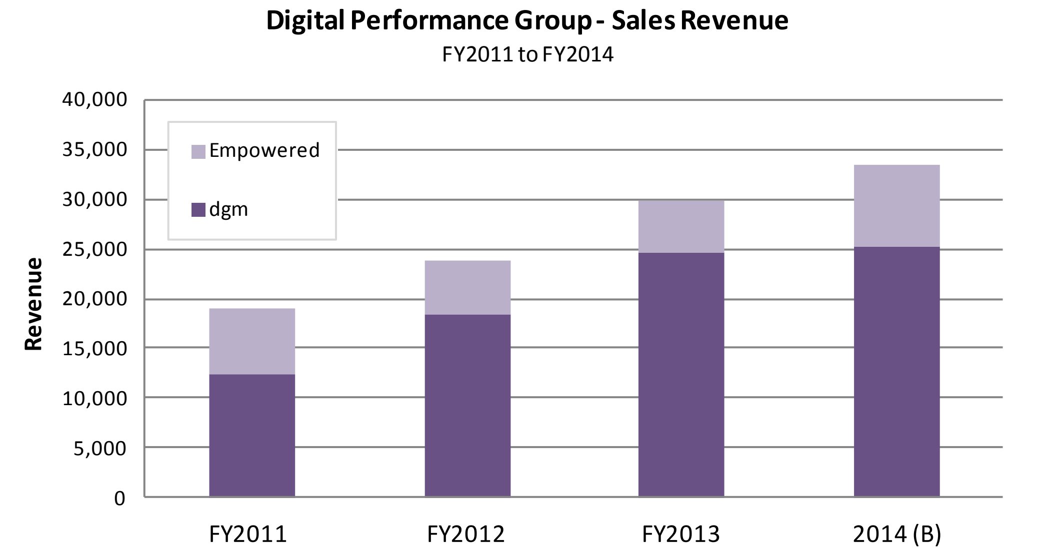
Source: Annual Reports of DPG for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; LCF Analysis

The following notes provide commentary in relation to material items pertaining to the above historical and budgeted financial information.

Note 1: Revenue

Set out below is an analysis of DPG's revenue for the years ended 30 June 2011, 2012 and 2013 and budgeted for the year ending 30 June 2014, broken down by division:

Table 9: Historical & Budgeted Consolidated Revenue of DPG



Source: Annual Reports of DPG for the years ended 30 June 2011, 2012, 2013; Management's budget for 2014; LCF analysis

In relation to the above, we make the following comments:

- throughout the period of review, dgm has represented the majority of revenue generated by the group, accounting for between approximately 64% in FY2011 and 82% in FY2013. dgm is expected to represent approximately 75% of group revenue during the year ending 30 June 2014;
- dgm generates revenue predominately through two service offerings, being 'Affiliate' and 'Search'. Empowered is predominately an email marketing and lead generation business;
- on a group basis, revenue grew by approximately 25% year-on-year during FY2012 and FY2013. Group revenue is expected to grow by a further 12% in FY2014;
- revenue growth in FY2012 was substantially driven by the acquisition of the dgm business during the year ended 30 June 2011 (i.e. FY2012 was the first full year in which revenue from the dgm business was recognised).

  This growth in revenue from the dgm business was partially offset by decreasing revenue from the Empowered business of approximately $1.22 million. Following this loss in revenue, Management has taken steps to stop this trend through the implementation of a new business model predominately centred around a 'lead generation' as opposed to a 'pay-per-click' model previously adopted throughout the industry but which has lost favour with advertisers;
- revenue growth in FY2013 was substantially driven by the acquisition of the Viva 9 Affiliate and Performance Marketing Solutions business during the year which contributed approximately $4.07 million to revenue. From 1 July 2013 onwards, part of the Viva 9 business has been integrated into the dgm business unit and accordingly, we are unable to separately assess the expected contribution of Viva 9 for FY14;

- revenue growth in FY2014 is predominately expected to be driven by growth in revenue from ‘Affiliate’ and ‘Search’ services ($1.2 million and $0.6 million respectively) and ‘Lead Generation’ services ($0.7 million); and
- for the three months ended 30 September 2013 (i.e. the first quarter of FY2014), DPG’s revenue has been in line with that budgeted for the period.

Note 2: Cost of Sales & Gross Profit

Set out below is an analysis of DPG's gross profits and gross profit margins for the years ended 30 June 2011, 2012 and 2013 and budgeted for the year ending 30 June 2014:

Table 10: Historical & Budgeted Gross Profit & Gross Profit Margin of DPG

$'000	Year Ended/Ending 30 June			
	FY2011 (Management)	FY2012 (Management)	FY2013 (Management)	FY2014 (Budget)
Gross Profit	**9,482**	**10,275**	**10,795**	**10,772**
Growth / (Decline) - $	3,805	793	520	(23)
Growth / (Decline) - %	67.01%	8.36%	5.06%	(0.21%)
Gross Profit Margin	**49.86%**	**43.06%**	**36.16%**	**32.21%**
Growth / (Decline)	-27.94%	-6.80%	-6.91%	-3.95%
Growth / (Decline) - %	(35.92%)	(13.63%)	(16.04%)	(10.91%)

Source: Management Reports of DPG for the years ended 30 June 2011 to 2013; FY2014 budget of DPG for the year ending 30 June 2014; LCF Analysis

As can be seen from the above table, gross profit margins have decreased significantly during the review period. During the year ended 30 June 2011, gross profit margins were approximately 49.9%. This is expected to decrease to 32.2% during FY2014.

This decrease in gross profit margins has been driven by the following factors:

- the Viva 9 business, which was acquired by DPG during FY2013, operates a business which is lower margin in nature and is the biggest contributor to the decline in gross profit margin for the group. During FY2013 the gross profit margin achieved by Viva 9 was 29.7%;
- increased proportion of revenues delivered by dgm, which operates at a lower gross profit margin than Empowered; and
- other divisions of DPG also suffered slight declines in gross profit margins, substantially due to increased competitive pressures within the industry. We have been advised that current margins are more in line with international markets, which historically have been at a more mature stage (and lower) when compared to the Australian market.

Note 3: Employee Expenses

Despite the acquisition of Viva 9 during FY2013 and general wage inflation pressures, DPG has been able to maintain employee expenses at a relatively stable level, which is expected to continue into FY2014. This has been achieved through the following initiatives:

- in May 2013, the CEO of DPG was made redundant, saving DPG approximately $287,000 in recurring costs at a corporate level; and
- during FY2013, the company made a number of redundancies, predominately in relation to Viva 9 employees for duplicated roles as a result of the acquisition. In addition, dgm did not seek to replace several positions which were voluntarily vacated. In combination, dgm’s / Viva 9 staff count reduced by six (6) persons and Empowered’s staff count reduced by three (3) persons, during FY2013; and
- in early FY2014, the dgm division staff count was reduced by three (3) position in relation to the expected loss of a significant client.

Note 4: Other Operating Expenses

Subsequently to the acquisition of the dgm business in FY2011, DPG has been able to maintain other recurring overhead expenses at a relatively stable level.

This has been achieved predominately through the relocation of the business to a more cost effective premises, several head office administrative positions being made redundant, as well as general strong cost control across the group.

Contributing to other operating expenses are corporate overhead costs. Set out below is an analysis of corporate overhead costs for FY2011, FY2012 and FY2013 and the budget for FY2014.

Table 11: Historical & Budgeted Corporate Overhead Expenses Analysis - DPG

$'000	Year Ended / Ending 30 June			
	2011 (Audited)	2012 (Audited)	2013 (Audited)	2014 (Budget)
Corporate Overheads (Including Corporate Employee Expenses)	1,590,154	1,932,330	1,602,269	1,103,818
Less: Corporate Employee Expenses	(941,094)	(1,200,142)	(903,125)	(576,501)
Corporate Overheads (Excluding Corporate Employee Expenses)	**649,060**	**732,188**	**699,144**	**527,316**
Growth / (Decline) - $	(133,808)	83,128	(33,044)	(171,827)
Growth / (Decline) - %	(17.09%)	5.23%	(1.71%)	(10.72%)

Source: Management accounts of DPG for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; Management budgets for the year ending 30 June 2014, LCF Analysis

As can be seen from the above table, DPG has been able to maintain a reasonably stable level of corporate overhead expenses (excluding employee expenses). Additional savings in FY2014 are expected to be driven predominately by a reduction in rental expenses (resulting from the premises relocation).

5.4. Historical Statements of Financial Position

The audited historical consolidated statements of financial position of DPG as at 30 June 2011, 2012 and 2013 and as at 31 October 2013 are summarised in the table below:

Table 12: DPG Historical Consolidated Statements of Financial Position

$'000	Note	As at 30 June			As at 31 October 2013
		2011 (Audited)	2012 (Audited)	2013 (Audited)	
ASSETS					
Current Assets					
Cash and cash equivalents		657	199	76	168
Trade and other receivables		4,620	4,512	5,568	5,895
Interest bearing loan		1,128	-	-	-
Other financial Asset		24	248	-	-
Other		140	151	53	102
Total Current Assets		**6,569**	**5,110**	**5,697**	**6,165**
Non-Current Assets					
Other financial assets		238	-	59	59
Plant and equipment		244	89	126	121
Deferred tax assets		709	227	419	436
Intangible assets		1,727	1,720	1,418	1,181
Goodwill	1	21,668	6,733	7,593	7,593
Total Non-Current Assets		**24,586**	**8,769**	**9,615**	**9,389**
TOTAL ASSETS		**31,155**	**13,879**	**15,312**	**15,554**
LIABILITIES					
Current Liabilities					
Trade and other payables		5,710	3,838	4,534	4,661
Provisions		1,024	840	724	713
Interest-bearing loans and borrowings	2	1,046	1,300	3,038	3,579
Deferred income		158	96	90	181
Total Current Liabilities		**7,938**	**6,074**	**8,386**	**9,134**
Non-Current Liabilities					
Interest-bearing loans and borrowings	2	-	1,015	723	241
Other payables		18	-	-	-
Provisions		327	**85**	123	142
Total Non-Current Liabilities		**345**	**1,100**	**846**	**383**
TOTAL LIABILITIES		**8,283**	**7,174**	**9,232**	**9,518**
NET ASSETS		**22,872**	**6,705**	**6,080**	**6,036**
EQUITY					
Issued Shares		109,630	109,275	109,275	109,273
Reserves		3,728	3,976	3,728	3,728
Accumulated losses		(90,486)	(106,546)	(106,923)	(106,965)
Equity attributable to owners of the Company					
TOTAL EQUITY		**22,872**	**6,705**	**6,080**	**6,036**

Source: Annual Reports of DPG for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; Management accounts for the four (4) months ended 31 October 2013, LCF Analysis

Note 1: Goodwill

Goodwill represents the excess amounts paid over the value of tangible and identifiable intangible assets acquired on the acquisition of dgm, Empowered and Viva 9.

A breakdown of goodwill balances by cash generating unit is set out below:

Table 13: Goodwill

$'000	As at 30 June 2011 (Audited)	As at 30 June 2012 (Audited)	As at 30 June 2013 (Audited)	As at 31 October 2013
Carrying amount of goodwill				
- dgm (including Viva 9)	6,733	6,733	7,593	7,593
- Empowered	14,935	-	-	-
Total	**21,668**	**6,733**	**7,593**	**7,593**

Source: Annual Reports of DPG for the years ended 30 June 2011, 2012 and 2013; LCF Analysis

During FY2012, DPG recognised an impairment loss in the amount of $14.94 million against the Empowered cash generating unit.

During FY2013, additional goodwill in the amount of $860,000 was recognised in relation to the acquisition of Viva 9, which has been allocated to the dgm cash generating unit.

Note 2: Interest-bearing Loans and Borrowings

As at 31 October 2013, DPG had the following interest-bearing loans and borrowings outstanding:

Table 14: Interest-bearing loans and borrowings outstanding - DPG

	Note	$'000
Current		
Loan from Co-Investor Funds	(a)	857
Vendor Finance	(b)	729
NAB Financing Facility	(c)	1,993
Total Current		**3,579**
Non-Current		
Loan from Co-Investor Funds	(a)	241
Total Non-Current		**241**
Total		**3,820**

Source: Management accounts of DGM as at 31 October 2013; LCF analysis.

(a) Loan from Co-Investor

This relates to a senior secured loan facility provided by Co-Investor Funds. The principle is repayable over the period 31 December 2013 to 31 December 2014, and is secured by a fixed and floating charge over DPG.

(b) Vendor Finance

This unsecured loan facility was entered into on 31 August 2012 with IMPG Digital Pty Ltd to finance the acquisition of Viva 9 Pty Ltd, with the initial face value of the loan of $1,154,000.

The term of the loan is for 24 months to 30 November 2014 and the interest payable is 10% per annum, accrued daily and payment monthly in arrears.

(c) NAB Financing Facility

dgm and Empowered have trade receivable finance facilities with the National Australia Bank. The finance facility was implemented in August 2012, and these facilities are secured by fixed and floating charges over the both dgm and Empowered.

5.5. Historical Statements of Cash Flow

The historical audited consolidated cash flow statements of DPG for FY2011, FY2012 and FY2013 are summarised in the table below:

Table 15: DPG Historical Consolidated Statements of Cash Flow

	Note	Year Ended 30 June		
		2011 (Audited)	2012 (Audited)	2013 (Audited)
Cash Flows from Operating Activities				
Receipts from customers		30,980	26,331	32,596
Payments to suppliers and and employees		(33,770)	(26,390)	(31,775)
Payments for mobile business disposal costs		(302)	(9)	-
Payments for business acquisition costs		(608)	(91)	(146)
Payments for restructuring		(375)	(205)	(246)
Interest received		300	49	23
Borrowing costs paid		(888)	(324)	(301)
Income tax paid		-	(81)	-
Net Cash Generated by Operating Activities		**(4,663)**	**(720)**	**151**
Cash Flows from Investing Activities				
Payments for plant and equipment		(71)	(45)	(109)
Payments for intangible asset		(719)	(806)	(559)
Consideration paid for acquisition of subsidiaries		(3,836)	(500)	(339)
Cash acquired on acquisition of subsidiaries		-	-	424
Proceeds from sale of mobile business		3,732	-	-
Payment of term deposits		-	-	(59)
Refund of term deposits		-	-	233
Net Cash Used in Investing Activities		**(894)**	**(1,351)**	**(409)**
Cash Flows from Financing Activities				
Proceeds from issue of ordinary shares		7,058	-	-
Payments for share issue costs		(14)	(473)	-
Payments for share buyback		-	(252)	-
Proceeds from borrowings		6,350	1,390	816
Proceeds from vendor financing			1,128	-
Repayment of borrowings - Related party loan			(29)	(282)
Repayment of borrowings - Vendor financing		(9,374)	-	(288)
Repayment of finance lease liabilities		(86)	(18)	-
Payment of finance fees		(11)	(133)	(111)
Net Cash Provided by Financing Activities		**3,923**	**1,613**	**135**
Net increase/(decrease) in cash and cash equivalents		(1,634)	(458)	(123)
Cash and cash equivalents and the beginning of the financial year		2,291	657	199
Cash and Cash Equivalents at the end of the Financial Year		**657**	**199**	**76**

Source: Annual Reports of DPG for the years ended 30 June 2011, 2012 and 2013; LCF Analysis

5.6. Ownership

5.6.1. Overview

As at 1 November 2013, DPG had the following securities on issue:

Table 16: Issued Securities of DPG as at 1 November 2013

Description	Number
Fully paid ordinary shares	841,186,756
Employee share options	17,326,968

Source: DPG ASX announcements; Management of DPG.

The number of Shares on issue set out above is post the issue of 1,560,000 additional securities from the exercising of employee share options on 25 October 2013.

5.6.2. Employee Share Options

DPG has established an employee share option plan for employees under which they are issued with options over DPG Shares. The options are issued in accordance with performance guidelines established by the directors of DPG.

As at 1 November 2013, the following share options were outstanding:

Table 17: Employee Share Options outstanding as at 1 November 2013

Expiry date	Number of unlisted options	Exercise price for each ordinary share	"In the money"	Vested & "In the money"	Vested & "In the money" as % of expanded number of Shares
On or before 31 October 2014	1,260,000	nil	1,260,000	1,260,000	0.15%
On or before 31 October 2014	2,250,000	6 cents			-
On or before 31 October 2017	9,610,714	4.1 cents			-
On or before 31 October 2017	1,080,000	nil	1,080,000		-
On or before 31 October 2017	3,126,254	2.4 cents			-
Total	**17,326,968**		**2,340,000**	**1,260,000**	**0.15%**

Source: DPG.

Each option converts into one (1) DPG Share.

5.6.3. Top Twenty Ordinary Shareholders

Presented below are the top twenty (20) Shareholders of DPG as at 13 November 2013, according to Management.

Table 18: Top twenty (20) Shareholders of DPG as at 13 November 2013

#	Ordinary Shareholder	Number of Ordinary Shares Held	% Held of Ordinary Capital
1	Valuestream Investment Management <Co-Investor No.3 PIPE Fund A/C>	588,224,896	69.93%
2	Co-Investor Capital Partners Pty Ltd <Co-Investor No.1 Fund A/C>	65,671,142	7.81%
3	Cable Nominees Pty Ltd	20,800,000	2.47%
4	Dylide Pty Ltd	8,406,249	1.00%
5	Mr Brett A Orsler	8,325,430	0.99%
6	Connaught Consultants (Finance) Pty Ltd <Super Fund A/C>	6,000,000	0.71%
7	Mr Richards Mews & Mrs Wee Khoon Mews <Mews Super Fund A/C>	5,772,165	0.69%
8	JBWere (NZ) Nominees Ltd	5,571,428	0.66%
9	Mr Adam Hobson	5,250,473	0.62%
10	Eddagate Pty Ltd	5,100,000	0.61%
11	HSBC Custody Nominiees (Aust) Ltd	4,530,295	0.54%
12	Swan Key Pty Ltd	4,000,000	0.48%
13	Mr Ianaki Semerdziev	3,900,000	0.46%
14	Mrs Lilana Teofilova	3,575,771	0.43%
15	Globe Technology Pty Ltd	3,320,000	0.39%
16	First Charnock Nominees Pty Ltd	3,149,205	0.37%
17	Big Art Investments	2,779,008	0.33%
18	Weldon International Pty Ltd	2,736,400	0.33%
19	Risetime Media Pty Ltd	2,653,509	0.32%
20	HHH Group Pty Ltd	2,500,000	0.30%
Total Top 20 Shareholders		**752,265,971**	**89.43%**
Other Shareholders		**88,920,785**	10.57%
All Shareholders		**841,186,756**	100.00%

Source: Annual Report of DPG for the year ended 30 June 2013

5.6.4. Major Investors

Presented below are the substantial shareholders of DPG as at 29 August 2013 as contained in DPG's Annual Report for the year ended 30 June 2013:

Table 19: Substantial Shareholders

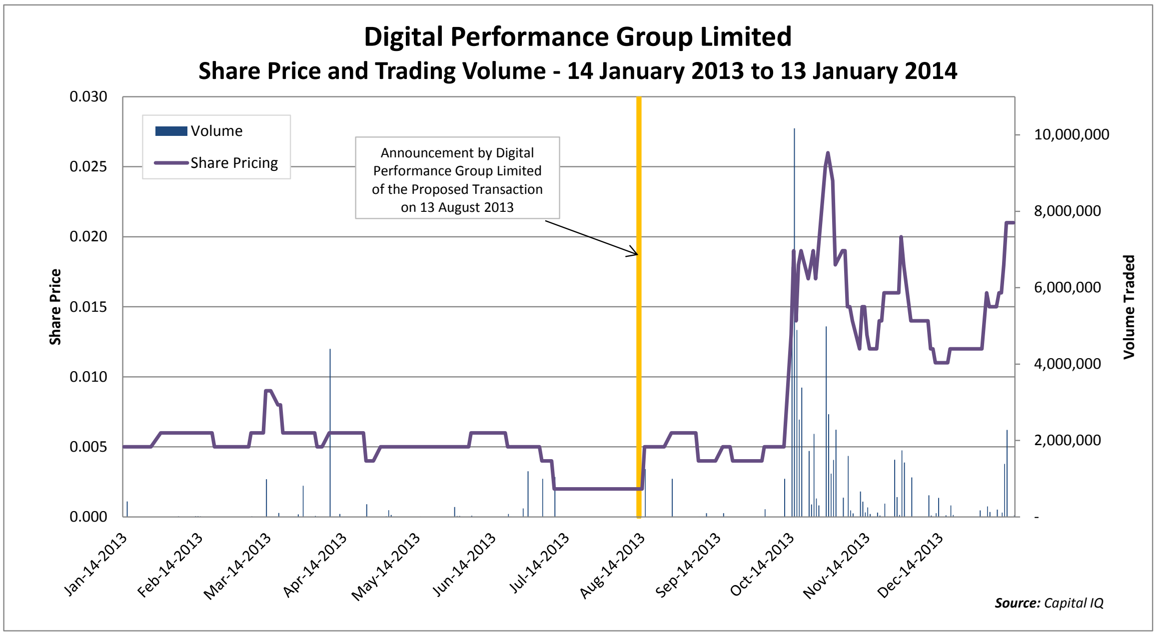
Shareholder	Number of Ordinary Shares Held	% Held of Ordinary Capital
Funds Managed by Co-Investor Capital Partners	653,896,038	77.73%

Source: Annual Report of DPG for the year ended 30 June 2013

5.6.5. Digital Performance Group Limited Security Trading Analysis

Set out below is a chart setting out movements in the share price and trading volumes pertaining to the DPG Shares during the period 14 January 2013 to 13 January 2014:

Figure 1: DPG Share Price and Trading Volumes



Set out below is a summary of the trading volumes, volume weighted average trading prices ("**VWAP**") and turnover of DPG's Shares during the period 14 January 2013 to 13 January 2014:

Table 20: DPG Trading Analysis

Period	Volume	Value ($)	VWAP	Average Shares on Issue	Turnover
1 Month	4,982,984	87,884	0.0176	841,186,756	0.59%
3 Months	61,939,581	1,115,512	0.0180	840,963,899	7.37%
6 Months	65,601,067	1,135,607	0.0173	840,284,881	7.81%
12 Months	77,063,407	1,199,067	0.0156	839,959,720	9.17%

Source: Capital IQ; LCF analysis

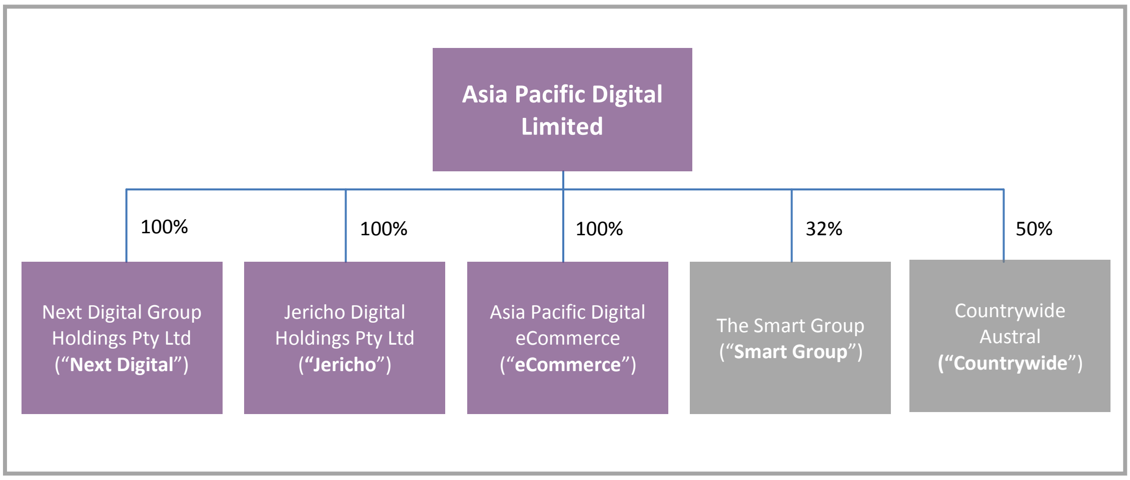
In relation to the above, we make the following observations:

- during the 12 months to 13 January 2014, DPG's shares had a low price of $0.002 (occurring during the period 9 July 2013 and 14 August 2013), a high price of $0.026 on 29 October 2013 and an average price (VWAP) of $0.0156. Subsequent to the announcement of the Proposed Transaction on 13 August 2013, DPG's Share price increased from $0.002 to $0.005 on 15 August 2013;
- over the 12 month period analysed above, 80% of the Shares traded in the period were traded post 14 October 2013 when volume increased considerably together with the price rise. The ASX has queried the company in light of the price and the associated volume increase, and DPG responded that it is unaware of any information concerning the company that has not been announced and which, if known, could reasonably explain the movement; and
- throughout the period analysed above, the overall trading volumes of DPG's Shares have been sporadic and very thin compared to other listed companies. Accordingly, it is LCF's view that the market trading prices do not represent a sound basis for determining the controlling interest value of DPG before the Proposed Transaction. However, it is a useful barometer for considering the fair value of a minority interest value of shares in the Merged Group assuming that the Proposed Transaction is implemented given the trading volumes of shares since the announcement of the Proposed Transaction.

6. Profile of Asia Pacific Digital Limited

6.1. Background

Asia Pacific Digital is an unlisted public company with the following corporate holding structure:



As set out in **Section 1.1**, the Proposed Transaction involves DPG acquiring APDL (holding company) and its subsidiaries Next Digital, Jericho and eCommerce. Smart Group and Countrywide will be divested by APDL prior to the acquisition by DPG. It is also proposed that DPG will assume the liability for a Convertible Debt Facility currently provided to APDL. The following sections provide an overview of each business unit to be acquired.

Co-Investor as trustee of the Co-Investor No.1 Fund currently holds a 3.47% equity interest in APDL while Valuestream Investment Management Limited ("**Valuestream**") as the external trustee of Co-Investor No.3 PIPE Fund holds the remaining 96.53% equity interest.

6.2. Directors

As at the date of this Report, the Directors of APDL are as follows:

Table 21: Directors of Asia Pacific Digital

Director	Background
Roger Sharp Chairman	Mr Sharp is also a Non-Executive Director of DPG and details on his background can be found in **Section 5.2** above.
Roger Croker Non-Executive Director and Company Secretary	Mr. Croker has more than 20 years' experience in finance and general management roles spanning the information technology, pharmaceuticals, aviation and property management sectors. Roger trained with KPMG in Audit, qualifying as a Chartered Accountant and was then seconded to their London office. On returning to Australia, he worked in KPMG's Insolvency and Reconstruction division before moving into commerce. Prior to joining Co-Investor, Mr. Croker held senior finance positions in Westfield, Qantas, Allergan, and Macquarie Telecommunications. He is a member of the Institute of Chartered Accountants in Australia and holds B.Bus Accountancy, B.App. Science and Masters of Business Administration degrees.
Peter Hynd Non-Executive Director	Mr Hynd is also Chairman and a Non-Executive Director of DPG and details on his background can be found in **Section 5.2** above.

6.3. Next Digital

Next Digital was established in 1996 and is a full service regional digital agency specialising in strategy, creative, technology and digital marketing. It is one of Asia Pacific's largest independent digital agencies with offices in Melbourne, Sydney, Shanghai, Kuala Lumpur, Singapore and Manila.

Next Digital is the core of the APD group's Strategies and Solutions division.

The business' operations in Kuala Lumpur were established when Next Digital acquired the Malaysian-based business known as FutureLab in FY2012.

The business currently employs approximately 170 people, with more than half of the team located in Shanghai, Manila, Kuala Lumpur and Singapore.

Next Digital services local, regional and global blue chip clients, including the Ford Motor Company, whose digital platform it manages in more than 100 countries in the Middle East, Asia-Pacific and Latin America.

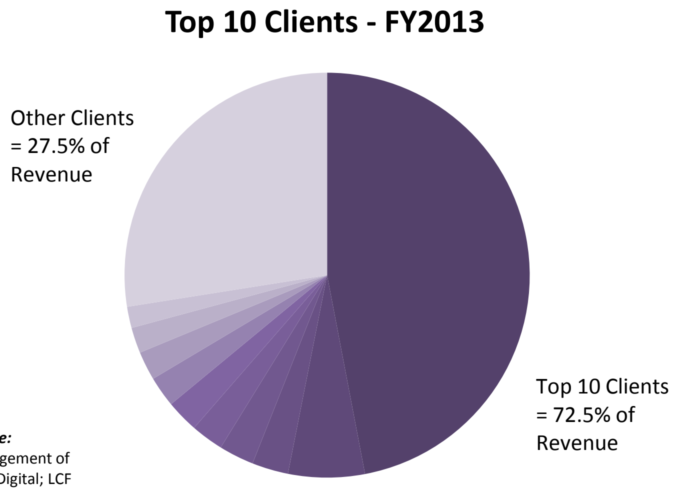
6.3.1. Client Profile

Next Digital has an established client base, with a number of blue-chip corporations being serviced by the business including Ford Motor Company, Qantas, Dairy Australia, Secure Parking and Lend Lease.

During FY2013, Next Digital's largest client accounted for approximately 46% of total revenue. Next Digital provides a full suite of services to this client in various international markets.

Set out below is a breakdown of the top 10 clients of Next Digital by revenue:

Table 22: Top 10 Client of Next Digital by Revenue:



Source: Management of Next Digital; LCF analysis

6.3.2. Management

As at the date of this Report, the Executive Management of Next Digital are as follows:

Table 23: Management of Next Digital

Director	Background
Andrew Burke CEO	Mr Burke has been CEO of Next Digital since 2010 and has been employed by Next Digital in a variety of client-facing roles since 1999.
Nick Iliomanis CFO	Mr Iliomanis has been CFO since 2010. Previously, he was the Group financial controller for CommQuest (now renamed Asia Pacific Digital) and prior to that an auditor with PKF and Deloitte.
Roger Gray Group GM, Operations	Mr Gray is responsible for overseeing the daily operations of Next Digital activities and ensuring quality of delivery. He joined after a 20 year career with Ford Motor Company in a variety of sales and marketing and strategic planning roles in Australia and the US.

Director	Background
Ben Kirton Head of Sales	Mr Kirton is responsible for building and managing the business development and sales team. Previously, he was an Account Director for Hewlett-Packard and Fuji Xerox.
Karl Kopp Group CTO	Mr Kopp joined Next Digital as IT Director in 1997. He is responsible for planning the technical strategy, analysing new technologies as well as estimating, planning and overseeing the implementation of major projects.
Andrew Burgess Ford Client Team Director	Mr Burgess has led accounts for key enterprise clients including Tourism Victoria, VMIA and Jetstar before taking responsibility for the Ford Motor Company account in 2010.
Ash McVey Director, Marketing and Strategy	Mr McVey joined Next Digital in 2010. He has 10 years' of agency and client-side digital experience in Australia and the UK with brands such as Crown Melbourne, Dairy Australia, Coca Cola, Nike and LastMinute.com. He is responsible for developing digital acquisition, retention and engagement strategies for online brands.
Vic Sithasanan Regional Director, Asia	Mr Sithasanan joined Next Digital in 2011 through the acquisition of FutureLab. He specialises in social media, online advertising, search marketing and content development for Asian markets.

6.3.3. Financial Information

Financial information and commentary in relation thereto regarding Next Digital can be found in **Section 9.3.1** of this Report.

6.4. Jericho

Jericho was formed from the merger of two e-mail, mobile and social communication businesses, viz: Jerico (NZ) (formed 12 years ago) and Insermo (Australia). Jericho is the core of APD's Customer Relationship Management division and helps its clients to manage their customer communications through multiple channels, including:

- ***Communications Strategy and Planning*** - delivering digital communication strategy, which includes the building, managing and optimisation of databases, the development of strategic content, defining operational processes, setting communication metrics, ongoing optimisation and market insights;
- ***Creative and Design*** - Jericho creates performance-driven designs to optimise delivery and improve the results of email, mobile and social communication campaigns;
- ***Campaign management*** - Jericho manages HTML production, campaign set up, testing and deployment, automation services to target and reach more customers, configuration services for increased campaign optimisation, content services for better conversions, database services to optimise the management of data, integration services to reduce workload, and reporting services for data-rich insights;
- ***Analytics*** - Jericho's analytics service provides individual campaign reports, email and mobile channel performance reports, integrated campaign reporting, social monitoring, website analytics integration and conversion and transaction metrics.
- ***Social CRM*** - Jericho captures customer data from each email, mobile and social interaction and is used in conjunction with traditional customer relationship management ("**CRM**") data such as demographic information, preference and transaction history to better understand customer base;
- ***E-mail marketing software and deliverability solutions*** - Jericho offers email deliverability audits covering complaint analysis, list hygiene analysis, bounce analysis and best practice review; and
- ***Messaging services*** - Jericho provides simple integration solutions to automate email and SMS messaging, including SMTP Email Service, interaction notification, bulk SMS, Email2SMS, SMS2Email, email extractor, triggered campaigns.

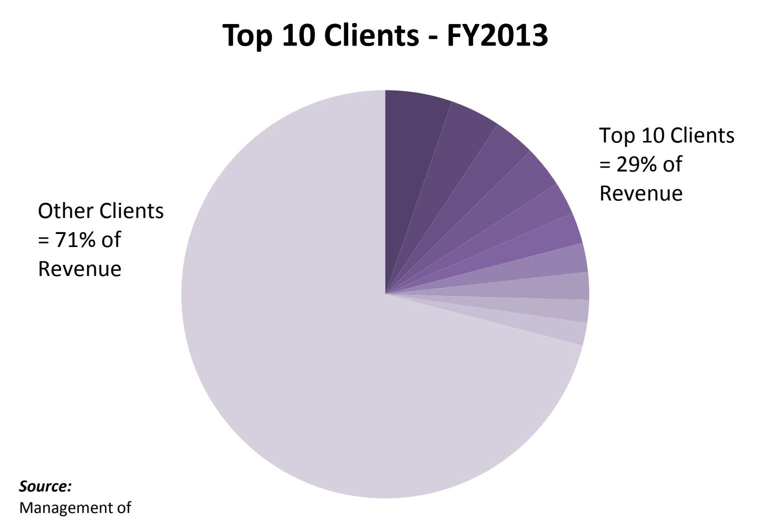
Jericho's cloud-based SmartMailPRO software platform manages the communications needs of hundreds of companies across the region and provides deep insights into engaging and managing relationship with consumers. The business has offices in Auckland, Melbourne, Sydney and Singapore.

6.4.1. Client Profile

Jericho has an established client base, with a number of blue-chip corporations being serviced by the business including Ford Motor Company, Nissan, Qantas, Flight Centre, Crown, One Path, Australia Post and St George Bank.

Set out below is a breakdown of the top 10 clients of Jericho by revenue:

Table 24: Top 10 Client of Jericho by Revenue:



Source: Management of Jericho; LCF analysis

6.4.2. Management

As at the date of this Report, the Executive Management of Jericho are as follows:

Table 25: Management of Jericho

Director	Background
Paula Harrison Group CEO	Ms Harrison became Managing Director of Returnity in 2004, following a successful stint as Sales and Marketing Director that began in 2000. Following the sale of Returnity to Salmat in 2010, Paula formed and headed up a new division of Salmat Digital, Consultancy and Data Insights. Ms Harrison joined Jericho in late 2012 as the Group CEO.
Chris Lowther CEO, New Zealand	Mr Lowther joined Jericho New Zealand as CEO in July 2013 with over two decades of intensive international IT industry experience. For the past 11 years he has specialised in enterprise CRM, marketing automation and customer analytics solutions. Prior to Jericho, Chris was VP Asia Pacific for Portrait Software International Ltd, leading a number of strategic customer experience programs for major B2C organisations in Australia, New Zealand and elsewhere in Asia.
Tony Davis CEO, Australia	Mr Davis became CEO of Jericho Australia in September 2013. He is a digital communications specialist with more than 15 years in data-driven marketing. He has successfully managed clients operating in the telecommunications, retail, financial services, education, publishing, government, IT and gaming industries. Previously Mr Davis held management roles with Silverpop APAC, Salmat Data Sciences and Returnity.
Steven Fast CFO	Mr Fast joined Jericho as Group CFO in January 2013 with over 20 years of financial management experience acquired in public accounting and in the telecommunications industry. A former partner at Deloitte & Touche, Steven spent 15 years with the firm focusing on audit and corporate finance work in France, West Africa and Central Europe. He was CFO of several wireless and fixed line operations in Europe, the United States, Africa and New Zealand.

Director	Background
	His roles included significant capital structuring and raising for three (3) wireless start-ups, SEC and US compliance reporting requirements, due diligence and telecom regulatory issues.

6.4.3. Financial Information

Financial information and commentary in relation thereto regarding Jericho can be found in **Section 9.4.1** of this Report.

6.5. Asia Pacific Digital eCommerce ("eCommerce")

eCommerce commenced operations during FY2013 and was established with the aim of building a market-leading eCommerce technology and services offer based on the highly successful Magento platform (owned by eBay™). The business has assembled an experienced team comprising consulting, product development and implementation personnel, servicing eCommerce clients across the region. Fundamental partnerships have been entered into with Magento, Temando (logistics), OMS (order management, pick and pack), Raffles Logistics, Neopost, and Inside to provide a seamless value chain of customers and provide lead referrals.

The eCommerce business has developed significant deal pipeline and has the capability to deliver long term, locked in revenues to all parts of the business.

The revenue model comprises three levels:

- Fee for service;
- Partnership – partial fee for service, partial revenue share; and
- Ventures – revenue share plus equity share.

6.5.1. Management

As at the date of this Report, the Executive Management of eCommerce are as follows:

Table 26: Executive Management of eCommerce

Director	Background
Sean Toohey Group Head	With 20 years of experience in the delivery of software solutions and the past three years working specifically in online retail, Mr Toohey brings a wealth of experience in all aspects of complex solutions go-to-market, including building high performance teams, software implementation, sales, management and partnership development.
Tim Till Principal Consultant	With over twelve years of eCommerce experience, with extensive global experience with brands such as Canon, Acer, Lenovo and GE across Asia Pacific, North America and Europe, Mr Till was hired as the Principal Consultant. Covering both B2C and B2B, he previously worked for Digital River a leading global cloud commerce solution platform. Mr Till is responsible for setting strategy and scoping end-to-end solutions including customer acquisition, customer retention, and logistics.
Steve Smorgon Head of Strategy, Retail and Brand	Mr Smorgon has a background running a successful B2C e-commerce site, a deep knowledge of retail, is a judge of the Webby Awards and brings a strong retail business and technical acumen.

6.5.2. Financial Information

Financial information and commentary in relation thereto regarding eCommerce can be found in **Section 9.7.1** of this Report.

6.6. Terms and Conditions of Convertible Secured Debt Facility

On 15 October 2013, APDL entered into convertible secured debt facility with Co-Investor acting as the manager for various investors (including several associated parties as set out in **Section 1.2** of this Report), with a face value of $5 million, for use for general working capital and funding headroom for APDL to pursue growth strategies. As at the date of this report, we understand that the facility has been drawn up to $3 million, and the total available facility increased to $5.5 million.

It is a condition of the facility that if APDL is sold to an exchange listed company, the facility be transferred to the acquirer on similar terms. In such a case, interest payments and a proportion of the outstanding loan principal repayments can be satisfied by the issue of shares in the listed entity, priced at periodical VWAP.

Set out below are the major terms of the Convertible Debt Facility, following implementation of the Proposed Transaction.

Table 27: Convertible Debt Facility

Term	Description
Debt Facility	Standby senior secured debt facility of $5.5 million, with the potential option to convert into ordinary shares in the Merged Group at the option of the Financier.
Investors	The majority of the debt facility has been funded by investors in the Co-Investor Funds.
Investment Term	3 years.
Interest Rates	On funds as drawn down: 15.0% per annum. On funds committed, but undrawn: 2.0% per annum. Interest accrued on a daily basis.
Equity in Lieu of Cash Interest Payments	Debt holders may elect to subscribe for new shares (based on VWAP) in the Merged Group in lieu of cash interest payments. Shares may only be issued during open periods and will require shareholder approval. APDL advises that certain Financiers have expressed interest in subscribing for shares in lieu of cash payments.
Interest Period	The first interest period for the facility begins on the first drawdown date and ends on 31 March 2014. Each subsequent interest period begins on the day immediately following the last day of the preceding interest period.
Calculation of Interest	Interest accrues and is calculated daily and: • in respect of each drawdown, accrues at the interest rate on and from the relevant drawdown date; and • accrues at the standby rate on the available amount. Interest will be determined for each interest period on the actual number of days from and including the first day of the interest period to the last day of the interest period.
Interest Payment Terms	Interest is accrued in arrears for each interest period.
Early Redemption	The Merged Group may repay the facility in full or in part before the end of the Investment Term.
Security	First ranking security over 100% of shares in Next Digital and Jericho.
Conversion Terms	The Merged Group will assume the Convertible Debt Facility from APDL and provide an option for Investors to convert a part or all of their debt participation into new ordinary shares on the following terms: • at the second and third anniversary of the establishment of the Convertible Debt Facility, at the prevailing 90-day VWAP of shares in the Merged Group; • if at any time during the term of the facility a capital raising is undertaken by the Merged Group, Financiers will be entitled to participate as sub-underwriters in such capital raising in its relevant proportions. • the above will be subject to at all times to any required related party or other shareholder approvals required.

7. Industry Overview

DPG's and APD's operations span a range of industry sectors, including the following:

- ***dgm***, ***Empowered, Next Digital*** and ***Jericho:*** strategic media management and online advertising sector; and
- ***eCommerce:*** electronic commerce sector.

In considering the conditions and prospects of the aforementioned sectors, we have considered the online advertising services industry, and the electronic commerce industry.

We note that these industries overlap. However, for the purpose of this Report, we have analysed the sectors independently. The following observations regarding industry conditions are based on LCF's review of generally available industry reports published by major economic/industry forecasting bodies at or about the date of this Report.

7.1. Online Advertising Industry

7.1.1. Introduction

As a result of faster internet connections and increasing bandwidth limits, people are consuming more media online and via smartphones, and less through traditional media such as TV, newspapers and radio. According to Interactive Advertising Bureau ("**IAB**"), total online advertising revenue in Australia grew by 16% from H1 2012 to H1 2013.

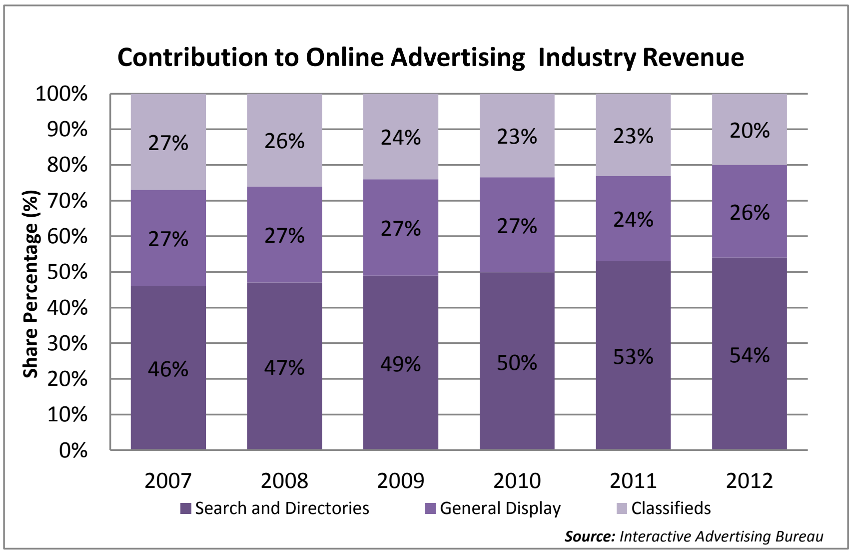
The move toward online has emphasised the trend towards integrated marketing campaigns using above- and below-the-line communication methods, otherwise known as through-the-line advertising. The wider trend of integrated campaigns has been motivated by clients' views that when using mass media advertising only, the message may be lost among the myriad of other advertisements or ignored by an audience that is becoming increasingly wise to techniques used by advertisers.

The major categories of on-line advertising media comprise the following:

- ***General Display*** – the display of a static or hyper-linked banner, logo or interactive advertisement of a customer through internet pages and email;
- ***Search and Directories*** – listing/linking of an advertising customer's domain/website to a specific search word or phrase (includes paid search revenues) by internet companies/online marketers; and
- ***Classifieds*** – online listing of a customer's products or services by online marketing companies.

An analysis of revenue contribution by the abovementioned major categories for the 2007 to 2012 period is set out in the figure below:

Figure 2: Contribution to Industry Revenue by Medium – 2007 to 2012



We note that over the period analysed, search and directories has seen an expansion in total contribution to online advertising revenue. The opposite may be said for classifieds and general display has remained relatively steady.

Services which have shifted the composition include:

- ***Search Engine Advertising*** – A form of direct advertising of a product, service or website on search engines such as Google™ and Yahoo®.
- ***Search Engine Optimisation*** (“**SEO**”) – A process which improves the volume of traffic to a website from search engines. SEO considers how a search engine works as well as what people search for, so as to maximise the presence of a website in search results.

7.1.2. Industry Drivers

The key drivers to the growth of the online advertising industry are as follows:

- ***business confidence*** – this influences the amount organisations and businesses are willing to invest in advertising their goods and services. During periods of strong economic growth, firms are likely to increase their advertising budgets; and
- ***household consumer expenditure*** – consumer expenditure is a significant factor in measuring the success of an advertising campaign. Low-growth periods mean less expenditure by consumers in the retail sector, as well as on housing, cars and travel, which are key advertising drivers.

7.1.3. Industry Performance

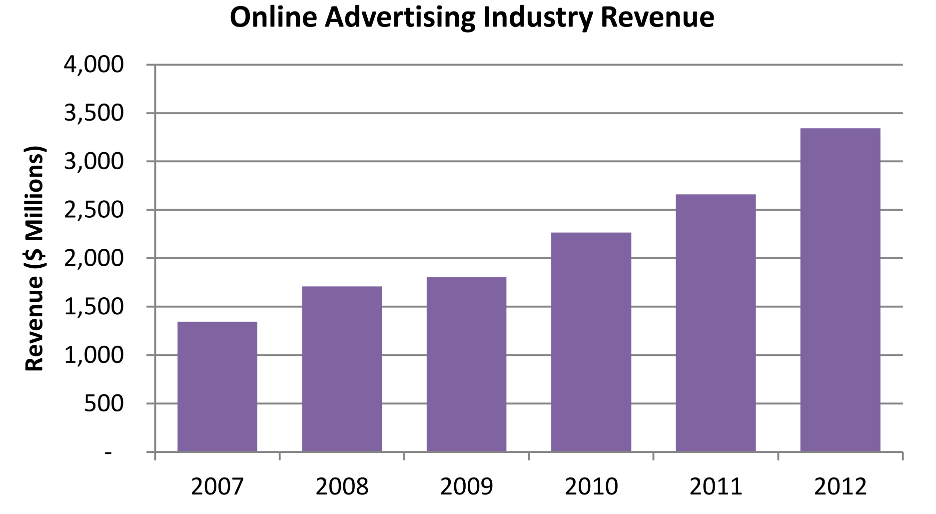
Growth in online advertising is outpacing the overall advertising market, with the Internet rapidly claiming a greater share of total advertising and marketing spending. According to ZenithOptimedia, online advertising will account for 25.4% of the Australian advertising market in 2015.

Online advertising expenditure in Australia reached $3.6bn for the financial year ended 30th June 2012, an increase of 14.6% year-on-year. Of the total online advertising expenditure, 53.8% was attributed to Search and Directories, 26.5% to General Display and the remaining 19.7% to Classifieds.

Total online advertising expenditure for the six months ended 30 June 2013 was $1,882.6m. This is the first time that online advertising revenue has exceeded advertising revenue for free to air television.

An analysis of revenue trends of Australian online advertising for the 2007 to 2012 period is set out in the figure below:

Figure 3: Online Advertising Revenue – 2007 to 2012



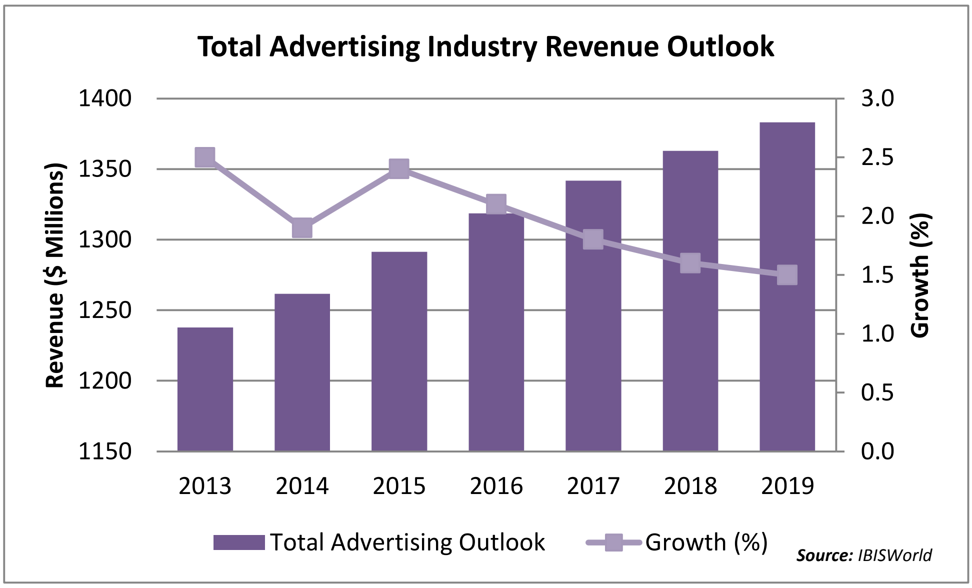
Source: *Interactive Advertising Bureau*

7.1.4. Industry Outlook

Over the five years through 2019-19, IBISWorld reports that the industry is expected to further reinvent its service in line with advertising and media fragmentation. This fragmentation is attributed to a wider variety of advertising media the digital age and the declining traditional media usage by younger people in favour of new digital media. Clients will also increasingly use direct promotions and require that payments for advertising services be based on a fee-for-service model rather than commissions.

With higher demand and revenue growth, total advertising (including online advertising) revenue is expected to increase at an average annual rate of 1.9% over the six years to FY2019 as illustrated in the below figure:

Figure 4: Total Advertising Revenue Outlook – 2014 to 2019



7.2. Electronic Commerce Industry

7.2.1. Introduction

Online retailing represents a paradigm shift in the way consumers transact. The industry is still in its infancy stage. However, both technologically and monetarily, it has grown dramatically over the past 5 years, and has become part of the mainstream consumer's psyche. This has been aided by the rapidly growing internet and broadband penetration, combined with the improvements to the security and reliability of electronic commerce. An estimated 94% of the Australian population have internet access, with almost 80% browsing online on a daily basis.

With the growth and acceptance of e-commerce, the industry has become innovative in online selling. There are several ways a business can sell goods online including its own website, specialised sites providing aggregation and auction services, and through emerging channels such as social media.

7.2.2. Industry Drivers

The key drivers to the growth of the electronic commerce industry are as follows:

- ***Internet Connections:*** With increased internet penetration, particularly in regional areas, the number of consumers able make transactions online will increase, boosting revenue for industry participants.
- ***Real household discretionary income:*** A rise in income enables consumers to spend more and hence demand a broader range of goods. On the other hand, a fall in discretionary income will result in consumers scaling back spending, posing a threat to industry revenue.
- ***Consumer sentiment index:*** During periods of low economic growth, consumer sentiment with regard to the state of the overall economy declines and consumers limit their expenditures.

- ***Demand from traditional "bricks and mortar shops":*** Online retailers face competition from traditional outlets.
- ***Median age of the population:*** Data suggests younger people are more likely to purchase products online. Trends in population age distribution also affect the type of merchandise demanded by various age groups.

7.2.3. Industry Performance and Outlook

Current Industry Performance

Australian Bureau of Statistics ("**ABS**") data reflects the increasing importance of the internet to business revenues. The ABS reports that Australian business received an estimated $237 billion via orders online during FY2012, and increase of 25% from the previous year.

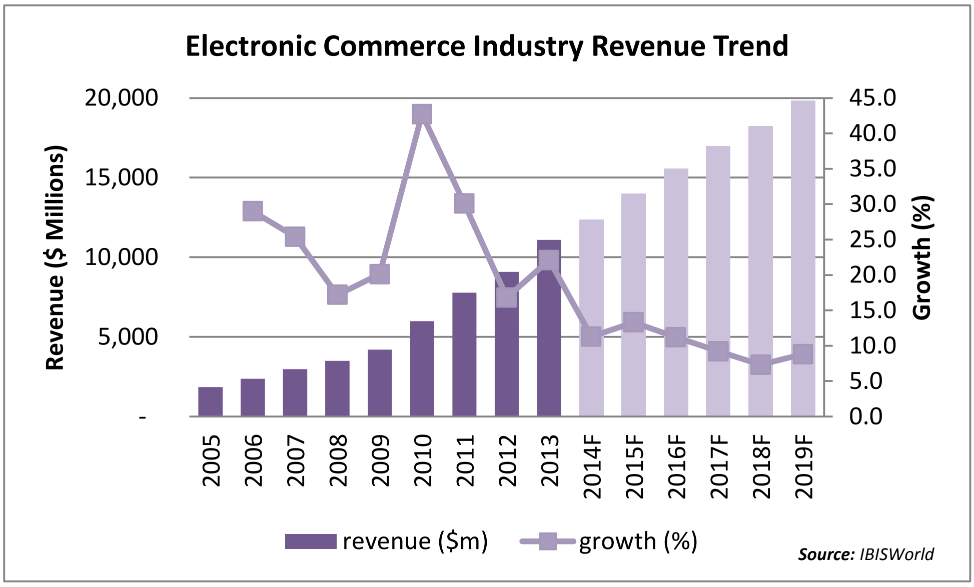
With the dramatic growth of the internet as a channel for commerce, faster internet speeds and higher internet penetration, together with the equally strong proliferation of online stores offering a range of products and services at competitive prices, the electronic commerce industry has built a robust foundation.

Industry Outlook

The electronic commerce industry is expected to continue to grow strongly. Demand for online goods and services will be driven by continued growth in computer literacy, internet speeds and security, and the number of consumers seeking greater convenience. Online retailers are expected to place greater focus on website layout, efficiency, security and reliability. The overall performance of the industry will be driven by movements in real household discretionary income, the average age of the population and consumer sentiment.

IBISWorld expects that over the five years to FY2019, industry revenue will grow by an average annualised rate of 9.9%, to $19.8 billion, as illustrated in the below figure:

Figure 5: Electronic Commerce Industry Revenue Trend – 2005 to 2019

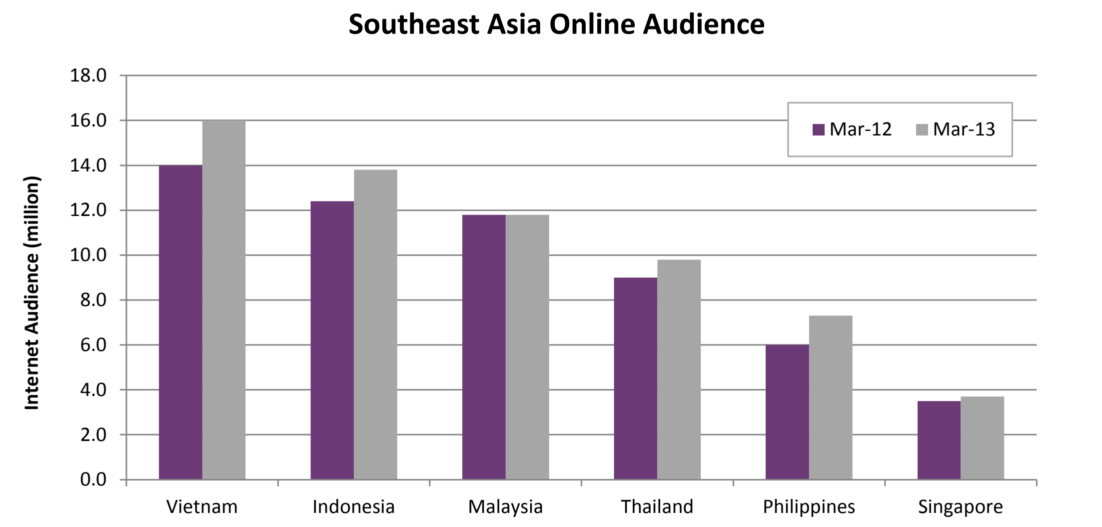


7.3. Southeast Asia

7.3.1. Internet Penetration

Today, the Asia Pacific region accounts for approximately 41% of the worldwide internet audience, of which Southeast Asia accounts for approximately 9.6% of the Asia Pacific online audience. Set out below is a breakdown of Southeast Asia internet audience numbers by region as at March 2013, which also shows the increases in audience numbers since March 2012:

Figure 6: Southeast Asia Audience Numbers



Source: comScore; LCF analysis

As can be seen from the above figure, Vietnam accounts for the largest internet audience in Southeast Asia. In the 12 months to March 2013, Vietnam added two million internet users, a growth rate of 14%. The Philippines has the fastest growing internet audience in the region, growing by 22% in the 12 months to March 2013.

Overall, internet audience grew by 9% within Southeast Asia.

The demographic spread of internet users is heavily skewed towards an audience under 35 years in age. In Vietnam and Thailand, under-35s each account for approximately 74% of internet users, with the Philippines at 71%, Indonesia at 70%, Malaysia at 63% and Singapore at 51%

7.3.2. Social Media

The use of social media amongst Southeast Asian users is high, with all regions having a usage index greater than worldwide averages.

The Philippines, Thailand and Malaysia are among the top 15 countries with the highest Facebook penetration globally, with reaches of 93%, 89% and 82% respectively. In Vietnam, Facebook's market penetration has increased from approximately 38% as at March 2012, to approximately 75% as at March 2013.

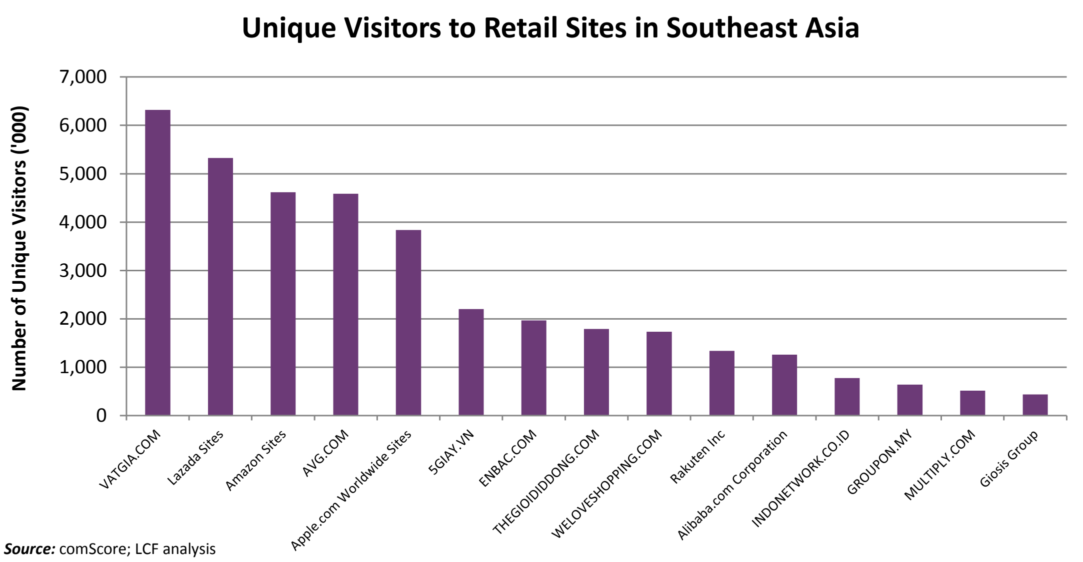
After Facebook, Twitter, LinkedIn and Tumblr are amongst the most popular social media platforms within the Southeast Asian market.

7.3.3. Online Retailing

Online retailing in the Southeast Asia region has also shown considerable growth with potential for further growth with overall penetration levels below world averages. As at March 2013, online retail penetration amongst internet users averaged approximately 62.5% across the region, compared to a worldwide average of approximately 73.7%.

The following table sets out the largest online retailing sites (by number of unique visitors) during the six months to March 2013:

Figure 7: Unique Visitors to Online Retailing Sites in Southeast Asia



Source: comScore; LCF analysis

We note that in particular, the number of unique visitors to Lazada sites has grown by approximately 58% in the six months to March 2013.

8. Valuation of Digital Performance Group

8.1. Selection of Valuation Methodology

In selecting an appropriate methodology to estimate the fair market value of the equity interests in DPG, we have considered common market practice and the widely accepted valuation methodologies which are summarised in **Appendix 3**.

Our estimate of the fair market value of DPG Shares has been assessed using the capitalisation of future maintainable earning method.

The capitalisation of earnings method is commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects.

We are of the view that capitalisation of future maintainable earnings valuation methodology is the most appropriate to apply in the case of DPG for the following reasons:

- DPG has provided adequate financial information in order to determine appropriate historical and budgeted normalised EBITDA results;
- sufficiently detailed and supportable financial information beyond 30 June 2016 is not available to enable the application of the discounted cash flow ("**DCF**") valuation methodology as our primary valuation methodology, i.e. whilst financial projections have been provided beyond 30 June 2016, we do not consider them sufficiently reliable to enable us to apply the DCF valuation methodology as a primary methodology. We have however relied on projections post 30 June 2014 in order to undertake a cross-check of the outcomes from our primary valuation methodology utilising the capitalisation of future maintainable earnings method;
- whilst DPG's Shares are traded on a public exchange (i.e. the ASX), we are of the view that due to the illiquidity of DPGs Shares (refer to **Section 5.6.5** of this Report), the trading prices of DPG's Shares cannot be relied upon for the purposes of assessing the value of DPG.

  This point is further emphasised by the high volatility (compared to the market as a whole) of DPG's Share price, particularly in the period following the announcement of the Proposed Transaction. Accordingly, the determination of a fair market value of DPG's shares based on recent market trading is not possible; and
- the net assets of DPG at accounting values do not necessarily reflect the total value of the goodwill inherent in the businesses and other intangible assets. Accordingly, an accounting asset based valuation is not considered appropriate.

Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow; earnings before interest, tax, depreciation and amortisation ("**EBITDA**"); earnings before interest, tax and amortisation ("**EBITA**"); earnings before interest and tax ("**EBIT**"), or net profit after tax.

The appropriate multiple to be applied to such earnings is usually derived from stock market trading of shares in (more or less) broadly comparable companies which provide some guidance as to value, and from precedent transactions involving (more or less) broadly comparable companies within the relevant industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable.

When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such surplus assets is separately added to the value of the business in order to derive the total value of the company.

In the absence of adequate comparable company information, a "build up" model may be used to determine an appropriate capitalisation rate. A capitalisation rate derived from a "build-up" model is a product of a risk free rate, which is then adjusted for all the identified risks applicable to the company.

Our valuation has not been prepared based on the existence of a special purchaser that may be prepared to pay in excess of the fair market value. Any such premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the business that would not be available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

8.2. Selection of Future Maintainable Earnings

8.2.1. Introduction

Future maintainable earnings ("**FME**") is the assessed level of sustainable earnings, in real terms, that can be expected to be derived by the existing operations of a business regardless of short term fluctuations and excludes any one off profits or losses.

In our opinion, the appropriate earnings to adopt in valuing most businesses and companies is EBITDA as it most accurately reflects the return generated by a business and ignores factors that may not be relevant to the earning capacity of a business such as the following:

- interest costs, which reflect the method of financing the business and which vary between businesses; and interest revenue, that reflects earnings on surplus assets;
- effective tax rates, that reflect both the tax regimes in different countries and different tax positions of, and the tax planning measures implemented by, businesses;
- historical costs of fixed assets at the time of their acquisition and different accounting policies, that will affect annual depreciation charges; and
- amortisation charges in respect of intangible assets that discriminate against companies that have accomplished business growth by acquisition of other companies as opposed to those that have organically grown their businesses.

Our estimate of FME for DPG has been determined after consideration of the following:

- DPG's normalised historical earnings, in particular, for FY2011, FY2012 and FY2013;
- DPG's budget normalised earnings for FY2014; and
- growth prospects and the effect of changes and trends in the industry that may impact DPG.

Note that the budget FY2014 normalised earnings information is predominantly based on DPG's own representations regarding management expectations of financial performance in the future. We have taken reasonable steps to consider the efficacy of the budget information for use in our assessment. However, we provide no opinion or assurance regarding the accuracy or completeness of DPG's budget or future financial performance generally.

8.2.2. Calculation of Normalised EBITDA Results of DPG

The following table summarises the normalisation adjustments that have been identified for DPG for FY2011, FY2012 and FY2013 and the budget for FY2014.

Table 28: Normalised Results for DPG

$'000	Report Reference / Note	Year Ended / Ending 30 June			
		2011 (Audited)	2012 (Audited)	2013 (Audited)	2014 (Budget)
EBITDA	Section 5.3 Note 1	**1,322**	**680**	**1,008**	**1,365**
Normalisation Adjustments:					
Corporate Costs	2	1,590	1,932	1,602	1,104
Restructuring Costs	3	371	121	371	181
Acquisition Costs	4	626	74	146	-
Share Based Payment Expense	5	84	248	(248)	200
Reversal of Accrued Bonuses	6	-	113	(113)	-
Capitalised Employee Expenses	7	(469)	(529)	(513)	(463)
Total Normalisation Adjustments		**2,202**	**1,960**	**1,245**	**1,022**
NORMALISED EBITDA		**3,524**	**2,640**	**2,253**	**2,387**

Source: Annual Reports and management reports of DPG for the years ended 30 June 2011, 30 June 2012 and 30 June 2013; Management budgets for the year ending 30 June 2014, LCF analysis.

In relation to the above, we make the following comments:

Note 1: We have been advised by Management of DPG that in relation to the review periods set out in the above table, apart from those noted, there are no non-arm's length (both with related and/or non-related parties) or one-off or non-recurring transactions contained in the financial information above. EBITDA excludes discontinued operations.

Note 2: Corporate costs represent cost incurred by DPG in maintaining the head office function for the group. These costs predominately consist of employment costs associated with the CEO, CFO and other finance and human resources staff, plus audit fees and listing-related fees. Together, these costs account for approximately 83% of forecast corporate overheads for the year ending 30 June 2014.

Whilst these costs are essential for carrying on the total operations of DPG in its current legal structure (i.e. a public company listed on the ASX), it is our view that a potential buyer of either DPG or dgm or Empowered would not take these costs into account when attributing a value to these businesses. Accordingly, we have taken up a normalisation adjustment to reverse the impact of these costs for the purpose of analysing the maintainable earnings of dgm and Empowered.

Notwithstanding the above, we have taken up the impact of corporate costs on the overall value of DPG (refer to **Section 8.5** of this Report for details).

Note 3: We have been advised by Management of DPG that restructuring costs relate to one-off redundancy costs often associated with business acquisitions (see Note 4 below). We have been advised that these redundancies relate to positions which have not been replaced and which are not required to be replaced in order to achieve the budget for FY2014. On this basis, we have normalised the impact of these redundancy payments.

Note 4: Acquisition costs represent costs incurred by DPG in relation to various business acquisitions (including unsuccessful potential acquisitions).

Acquisition costs incurred during FY2011 predominately ($0.56 million or 90% of total acquisition costs for the year) relate to the acquisition of dgm. Acquisition costs incurred during FY2012 relate entirely to the acquisition of dgm. Acquisition costs incurred during FY2013 relate entirely to the acquisition of Viva 9 Pty Limited.

Note 5: DPG provides benefits to certain employees in the form of share based payments. Amounts recognised in the financial statements of DPG represent the accounting treatment of said share based payments (i.e. the amounts do not represent actual cash transactions). In addition, we have been advised by Management of DPG that the non-provision of said share based payment would not be an incentive for recipients to cease employment on the basis that they are being under-remunerated. On this basis, we have normalised the accounting impact of the share based payments.

Note 6: We have been advised by Management of DPG that during FY2012, DPG recognised an accrual for bonuses. It was subsequently decided that these bonuses would not be paid and the accrual was reversed during FY2013. Accordingly, we have taken up normalisation adjustments to remove the impact of the accrual and its subsequent reversal.

Note 7: In accordance with DPG's accounting policies, DPG capitalises a portion of employee expenses which are deemed to relate to the development of software platforms utilised in the Empowered division. These costs are recurring in nature and have been reasonably consistent over the review period. Capitalised costs are subsequently amortised over a two and a half (2½) year period.

On the basis that these costs are recurring in nature, we have taken up a normalisation to reverse the impact of their capitalisation on the normalised EBITDA results.

8.2.3. Selection of FME

Based on the above analysis, we have selected a FME of **$2.387 million**, being the normalised budgeted EBITDA FY2014. In reaching this opinion, we have also taken into consideration the following factors:

- financial results prior to 1 July 2013 do not fully recognise the financial impact from the acquisition of Viva 9 during FY2013; and
- FY2014 year-to-date results to 31 October 2013 indicate that DPG is on track to achieve the full year FY2014 budget.

8.3. Selection of Capitalisation Multiple

8.3.1. Introduction

The selection of the appropriate EBITDA multiple to apply is a matter of judgement but normally involves consideration of a number of factors that may include, but not be limited to the following:

- the stability and quality of earnings;
- the quality and the likely continuity of the management;
- the nature and size of the business;
- the spread and financial standing of customers;
- the financial structure of the company and gearing level;
- the future prospects of the business, including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- the nature of the industry, such as whether it is cyclical;
- current and any expected changes in interest rates;
- the asset-backing of the underlying business of the company and the quality of the assets;
- the multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors;
- the multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors; and
- whether a premium of control is appropriate, and if so, the extent of the same.

The appropriate earnings multiple is usually assessed by collecting market evidence with respect to the earnings multiples of companies with operations that are broadly comparable to those of the entity being valued. Such multiples are derived from:

- share market prices of broadly comparable listed companies (usually reflecting a non-controlling interest status);
- prices achieved in mergers and acquisitions of broadly comparable companies (usually reflecting a controlling interest status); and
- initial public offering ("**IPO**") prices of shares in broadly comparable companies (where available) (usually reflecting a non-controlling interest status).

In selecting appropriate comparable companies, we have firstly had regard to listed Australian companies that have similar operations to DPG. Our review is set out below.

8.3.2. Comparable Listed Companies

Appendix 4 provides a summary of the identified broadly comparable listed companies, as well as stock market trading parameters for those companies.

The capitalisation rate should reflect the growth prospects of the business, the quality of its earnings and the risks of the business. In order to ascertain the appropriate multiple range to apply to DPG, we have undertaken a limited review of the characteristics of the companies that we consider most comparable and compared these with DPG and based on this review, derived a capitalisation multiple which would be applicable to DPG. Set out below is our analyses applicable to DPG using the multiples of the comparable companies as a starting point:

Table 29: Adjustments to derive DPG multiple

Factor	Explanation	Impact on DPG Multiple
Size of the business	We note that the revenues and enterprise values of most of the selected Australian comparable listed companies (with FY2014 forecast EV/EBITDA multiples not being outliers) are larger than DPG. Larger companies are generally valued at higher earnings multiples which reflect the benefits of size, particularly in relation to market power, control over prices and costs, depth of management, diversity of customers and general operational and financial robustness. In addition, larger listed companies may trade at higher earnings multiples because of the liquidity of their shares and the likelihood of greater interest in the shares from a wider base of investors (e.g. institutions or foreign investors). On the basis that DPG is smaller than most of the selected comparable listed companies, we have taken up a size risk adjustment in the case of DPG.	Discount
Growth Opportunities	A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth. We are of the view that growth opportunities available to DPG appear to be reasonably comparable to the selected Australian comparable listed companies.. Accordingly, we have not taken up any growth risk discount in the case of DPG.	Neutral
Diversity	A company which has a greater diversity in its operations and in the products and services it offers will tend to have a higher earnings multiple for a given level of earnings which reflects the lower operational and revenue risk of having more than a single product or service offering. We note that the operations of the some of the selected Australian comparable listed companies are more diverse than those of DPG. Accordingly, we have taken up a diversity discount in the case of DPG.	Discount

Factor	Explanation	Impact on DPG Multiple
Key Person Risk	Where there are only a small number of key personnel, key person risk is increased and may have a negative impact on the earnings multiple applied to a company. As set out in **Section 5.2** of this Report, DPG has a strong and diverse executive team. In addition, each of the business units of DPG has their own executive group. We are of the view that any key person risk attributable to DPG is similar to that applicable to the selected Australian comparable listed companies. Accordingly, we have not taken up any discount or premium for key person risk in the case of DPG.	Neutral
Control Premium	The trading multiples of the comparable listed companies represent trades in minority parcels of shares in those listed companies and not a controlling interest. As the interest in DPG that we are valuing represents a controlling interest, we have taken up an appropriate control premium in the case of DPG.	Premium

Source: LCF analysis

8.3.3. Merger & Acquisition Multiples

We have reviewed a number of transactions relating to businesses within the media, advertising and public relations industries. A summary of the results of our review is set out in **Appendix 5**. In relation to the transactions identified, we note the following:

- the majority of the identifying transactions were for controlling interests in the targets;
- the implied enterprise values of the targets ranged between $1.82 million and $539.40 million, averaging $162.36 million; and
- the implied EV/EBITDA multiples for the targets ranged between approximately 3.7 times to 119 times, averaging approximately 17 times.

8.3.4. Initial Public Offering Multiples

We have also considered recent IPO activity. We were not able to identify any sufficiently comparable IPO transactions.

8.3.5. Multiple Applicable to Digital Performance Group Limited

Based on our analysis above, we have arrived at a controlling interest basis EBITDA multiple range applicable to DPG's EBITDA FME of 8.0 times and 8.75 times.

8.4. Surplus Assets & Liabilities

Surplus assets are assets which form part of an entity but do not contribute to the business earnings or cash flow generation capacity of that entity. These are assets that, if sold, would not impact on the revenue or profit generating capacity of the active business undertaking.

Assets and liabilities that do not form part of the business undertaking must be valued separately. Such assets are considered to be 'surplus' to the business undertaking, but nevertheless represent value that should be reflected in the overall value of the entity as they could be sold separately and the cash added to the value of the business.

In determining the value of surplus assets and liabilities to add back in the case of DPG, we have taken into consideration net debt (comprising cash and interest-bearing liabilities) as at 31 October 2013.

8.4.1. Capital Expenditure Requirements

Based on discussions with Management of DPG and based on the nature of the business (i.e. predominately a service business with little capital requirements), we have not made an adjustment to reflect any immediately required capital expenditure.

8.5. Valuation Calculation

The value of all the issued shares of DPG as at 31 October 2013 has been determined as follows:

Table 30: Valuation Calculation

	Report Reference / Note	Low	Mid-Point	High
Selected Future Maintainable Earnings	Section 8.2	2,387	2,387	2,387
Multiplied by selected EV/EBITDA Multiple	Section 8.3	8.000	8.375	8.750
Enterprise Value as at 31 October 2013		**19,097**	**19,992**	**20,887**
Less: Capitalised Corporate Costs	Note 1	(8,831)	(9,244)	(9,658)
Add: Surplus Assets as at 31 October 2013				
Cash & Cash Equivalents	Section 8.4	168	168	168
Other Financial Assets	Section 8.4	59	59	59
Working Capital Adjustment	Note 2	-	-	-
Subtract: Surplus Liabilities as at 31 October 2013				
Loan from Co-Investor	Section 8.4	(1,098)	(1,098)	(1,098)
Vendor Finance Loan	Section 8.4	(729)	(729)	(729)
NAB Financing Facility	Section 8.4	(1,993)	(1,993)	(1,993)
Net Surplus Assets & Liabilities as at 31 October 2013 (Excluding Capitalised Corporate Costs)		**(3,593)**	**(3,593)**	**(3,593)**
Equity Value as at 31 October 2013 (Control Basis)		**6,674**	**7,155**	**7,636**
Number of Shares on Issue (Pre-Proposed Transaction)	Section 5.6	841,186,756	841,186,756	841,186,756
Equity Value as at 31 October 2013 (Control Basis-Per Share)		**0.0079**	**0.0085**	**0.0091**

Source: Management accounts of DPG as at 31 October 2013 , LCF analysis

In relation to the above, we make the following comments:

Note 1: As discussed in **Section 8.2** above, we have taken up an allowance for the impact of corporate costs associated with maintaining the operations of the Company. This has been undertaken by multiplying estimated ongoing corporate costs by a capitalisation multiple.

For the purpose of our analysis and based on discussions with Management of DPG, we have adopted the budgeted corporate overhead costs for the year ending 30 June 2014 (being $1.104 million) as the estimated ongoing corporate costs applicable to DPG.

Having regard to capitalisation rates used in other contexts, we have adopted the same capitalisation multiple as the DPG businesses to the estimated ongoing corporate overhead costs of DPG that is, a capitalisation rate of between 8.0 times and 8.75 times.

Based on the above, we have assessed the capitalised corporate costs to be as follows:

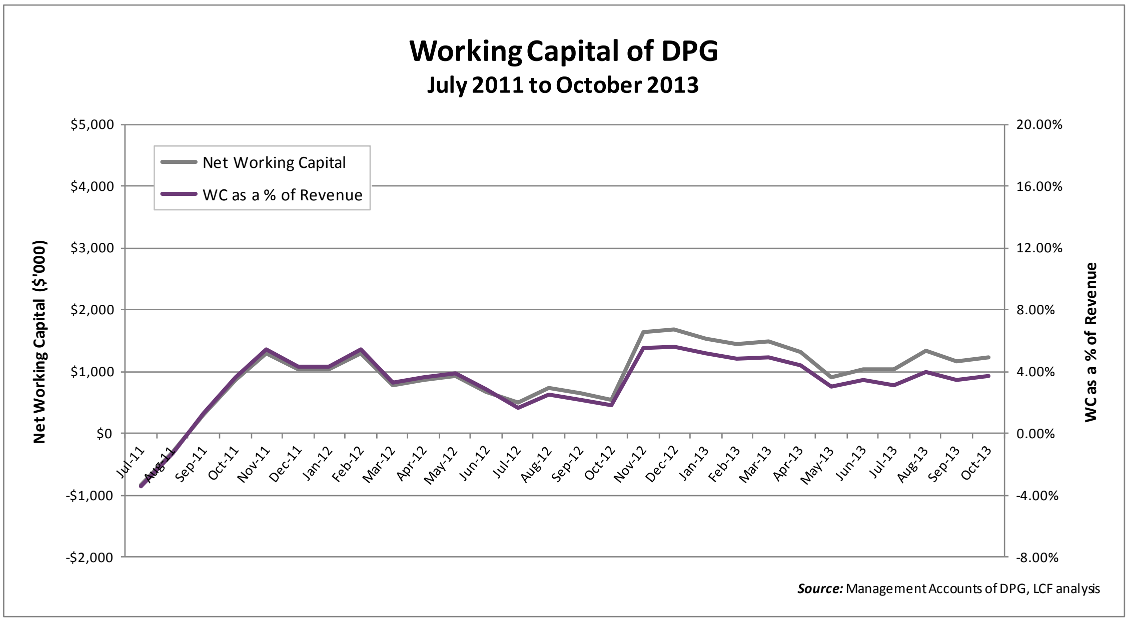
Table 31: Capitalised Corporate Costs of DPG

	Low	Mid-Point	High
Annual Corporate Costs	1,104	1,104	1,104
Capitalisation Multiple	8.000	8.375	8.750
Capitalised Corporate Costs	**8,831**	**9,244**	**9,658**

Source: Management accounts of DPG as at 31 October 2013 , LCF analysis.

Note 2: In certain circumstances, where at valuation date a company has insufficient or excess working capital, an adjustment may be required to be taken up by the valuer. Set out below is a summary analysis of DPG's working capital levels during the period July 2011 to October 2013:

Table 32: DPG's working capital levels during the period July 2011 to October 2013



In relation to the above analysis, we make the following observations:

- during the review period, DPG's net working capital ranged between negative $0.83 million (July 2011) and positive $1.68 million (December 2012), averaging $0.94 million;
- as a percentage of annual revenue, DPG's working capital ranged between negative 3.47% (July 2011) and positive 5.63% (December 2012), averaging 3.31%;
- DPG's net working capital ranges noted above fall within those noted for the comparable listed companies (excluding outliers) which are outlined in **Appendix 4**;
- during the review period, DPG's net working capital has remained fairly stable, particularly during the period after November 2012; and
- as at the Valuation Date (i.e. 31 October 2013), DPG's net working capital was $1.23 million, or 3.69% of forecast revenue for the year ending 30 June 2014.

Given the above, we are of the view that as at 31 October 2013, DPG's net working capital falls within an acceptable range. As such, we have not taken up any adjustment to reflect an insufficient level of, or excess, working capital as at 31 October 2013.

8.6. Valuation Conclusion - DPG

Based on the above, we are of the view that the fair market value of all DPG Shares (on a controlling interest basis) falls within the range of approximately $6.7 million and $7.6 million, with a mid-point of approximately $7.2 million.

Our assessed fair market value of all DPG Shares on a per Share basis (on a controlling interest basis) falls within the range of $0.0079 and $0.0091 per Share, with a mid-point of $0.0085 per Share.

8.7. Valuation Cross-Check

8.7.1. Introduction

As discussed in **Section 8.1** above, we have utilised the DCF valuation methodology as a cross check to our valuation conclusion determined using the capitalisation of future maintainable earnings methodology.

In undertaking our cross-check, we have relied upon cash flow projections prepared by Management of DPG. We have undertaken a review of the projections and a summary of our observations follows:

- the cash flow projections provided have been prepared for the ten (10) years ending 30 June 2014 to 30 June 2023;
- for the years ending 30 June 2014 to 30 June 2016, detailed assumptions and financial models have been prepared by individual business unit managers; and
- for the years following 30 June 2016, projections have been based on high level growth and inflation assumptions.

Further details regarding the assumption adopted for each business unit are set out below.

8.7.2. Empowered

Detailed financial projections for Empowered for the years ending 30 June 2014 to 30 June 2023 containing assumptions and models have been prepared by management. In constructing the financial projections for Empowered for the years ending 30 June 2014 to 30 June 2023, management have adopted the following assumptions:

- for the years ending 30 June 2014, 2015 and 2016, annual revenue growth of 9.5%, 17.2% and 9.3%, respectively, have been adopted. This growth is predominately driven by the business capitalising on:
  a) the use of the expanded member database obtained through the acquisition of Viva 9 which will be utilised through the Empowered business' product offerings; and
  b) the introduction of the "Co-Registration" service offering during the year ended 30 June 2013.

  Co-registration online marketing is when an advertiser uses another company's website traffic to deliver it leads or customers from advertised offers. Respondents accept an advertised offer by ticking a box online or by completing the opt-in registration fields. Website owners such as Empowered earn revenue from the display of third party promotional offers on its web-sites based upon the number of leads or customers it generates for the advertisers.
- The Empowered co-registration platform delivers leads to its advertiser clients from its own member websites and secondly from external partner websites. For its own websites, Empowered recruits approximately 200,000 new members per annum. As part of the process of signing up to the Empowered websites, new members also have the opportunity to respond to a number of displayed co-registration offers. For example, a new member who is signing up to an Empowered website accepts a displayed offer to be contacted by an insurer about their life insurance product. Empowered also has agreements with external partners to display the co-registration offers of its advertisers on the partners websites. The external partners choose specific offers from the Empowered co-registration platform and display these offers on their websites. These offers may be displayed as part of member log-in process, on a promotional offers page, through its newsletters or on a log out page.for the years ending 30 June 2017 and beyond, the following revenue growth rates have been adopted:

Year ending 30 June 2017:	7.5%
Years ending 30 June 2018 to 2020:	5.0%
Years ending 30 June 2021 to 2023:	3.0%.

  The growth rates are the product of the financial projections discussed above.
- Gross profit margins have been projected to decline from 60% in FY2013, to a long term gross profit margin of 50%; and
- Direct overheads have been projected to increase by 3.1% in FY2014, 7.5% in FY2015 and then reduce to a long term increase of 3.0% per annum.

8.7.3. dgm

In constructing the financial projections for dgm for the years ending 30 June 2014 to 30 June 2023, management have adopted the following assumptions:

- for the years ending 30 June 2014, 2015 and 2016, revenue growth of 10.9%, 9.1% and 9.5%, respectively, have been adopted. This growth is predominately driven by the Affiliate business and the Viva 9 acquisition.

  As discussed above, detailed assumptions and financial models have been prepared by management and the final growth rates are the product of these assumptions and models; and

- for the years ending 30 June 2017 and beyond, the following revenue growth rates have been adopted:

  Year ending 30 June 2017: 9.0%

  Years ending 30 June 2018 to 2019: 7.5%

  Years ending 30 June 2020 to 2021: 5.0%

  Years ending 30 June 2022 to 2023: 3.0%

- Gross profit margins have been projected to decline from 27% in FY2013, to a long term gross profit margin of 22%; and
- Direct overheads have been projected to decrease by 4.9% in FY2014, increase by 7.5% in FY2015 and then reduce to a long term increase of 3.0% per annum.

8.7.4. Corporate Overhead Costs

In constructing the financial projections for corporate overhead costs for the years ended 30 June 2014 to 30 June 2023, management have assumed a decrease of 28% in FY2014 (refer to **Section 5.3** of this Report for details of this decrease) and then increases of 3% per annum for the years ended 30 June 2015 and beyond.

8.7.5. Implied Discount Rate & Conclusion

Based on the projections prepared by DPG for the ten (10) years to 30 June 2023 as described above, we have determined the implied discount rates which result in the same enterprise values as determined by our capitalisation of future maintainable earnings valuation methodology. These are summarised below:

Table 33: DPG's working capital levels during the period July 2011 to October 2013

	Report Reference / Note	Low	Mid-Point	High
Enterprise Value as at 31 October 2013 (Before Capitalised Corporate Costs)	Section 8.5	19,097	19,992	20,887
Less: Capitalised Corporate Costs	Section 8.5	(8,831)	(9,244)	(9,658)
Enterprise Value		**10,266**	**10,748**	**11,229**
Implied Discount Rate		**22.1%**	**21.3%**	**20.7%**

Source: LCF analysis

In our opinion, the implied discount rates set out above are reasonable given:

- the revenue growth rates adopted in the early years of the projection period; and
- the risk associated with Co-registration online revenue stream which is projected to underpin projected revenue growth.

  Prima facie, the implied discount rate is higher than that would we have considered necessary. However, given the above identified risks, it is our opinion the application of the DCF valuation methodology supports our valuation conclusions determined using the capitalisation of future maintainable earnings methodology, as set out above.

8.7.6. Share price

We note that the mid-point of our $0.0085 per Share (on control basis) or, $0.06375 (on a minority basis) compares favourably to the DPG Share price prior to the announcement of the Proposed Transaction and that price was approximately $0.005. The difference represents the lack of liquidity in the DPG Share price.

9. Valuation of the Merged Group

9.1. Valuation

We are of the view that the fair market value of all the equity of the Merged Group (on a controlling interest basis) as at 31 October 2013 falls within the range of **$27.8 million** and **$32.0 million**, with a mid-point of **$29.9 million**. Our valuation of the Merged Group as at 31 October 2013 has been determined as follows:

Table 34: Merged Group Valuation Calculation

$'000	Report Reference/ Note	Low	Mid-Point	High
DPG EBITDA (before Corporate Costs)	Section 8.5	2,387	2,387	2,387
DPG Corporate Costs		(1,104)	(1,104)	(1,104)
DPG EBITDA		**1,283**	**1,283**	**1,283**
Next Digital EBITDA (before Corporate Costs)	Section 9.3.2	1,655	1,655	1,655
Jericho EBITDA (before Corporate Costs)	Section 9.4.2	567	567	567
APD ongoing corporate costs	Section 9.5	(546)	(546)	(546)
Merged Group EBITDA (after ongoing Corporate Costs)		**2,960**	**2,960**	**2,960**
Multiplied by selected EV/EBITDA Multiple	Section 9.6	11.00	11.50	12.00
Enterprise Value as at 31 October 2013		**32,558**	**34,038**	**35,518**
Add: Surplus Assets as at 31 October 2013				
- DPG				
Cash & Cash Equivalents	Section 8.4; Section 8.5	168	168	168
Other Financial Assets		59	59	59
- APD				
Cash & Cash Equivalents		3,676	3,676	3,676
eCommerce - Investment Rights	Section 9.7.2	1,778	1,778	1,778
Sub-total - Surplus assets		**5,681**	**5,681**	**5,681**
Subtract: Surplus Liabilities as at 31 October 2013				
- DPG				
Loan from Co-Investor	Section 8.4; Section 8.5	(1,098)	(1,098)	(1,098)
Vendor Finance Loan		(729)	(729)	(729)
NAB Financing Facility		(1,993)	(1,993)	(1,993)
- APD				
Capitalised Short-Term Corporate Costs	Section 9.5	(1,705)	(1,705)	(1,705)
eCommerce - operations	Section 9.7.2	(1,192)	(596)	0
Interest-Bearing Liabilities	Section 9.9	(3,022)	(3,022)	(3,022)
Deferred Consideration Payable		(415)	(415)	(415)
Convertible Debt Facility - fair value adjustment	Section 9.10	(298)	(264)	(231)
Sub-total - Surplus liabilities		**(10,452)**	**(9,822)**	**(9,193)**
Equity Value as at 31 October 2013 (Control Basis)		**27,787**	**29,897**	**32,006**

$'000	Report Reference/ Note	Low	Mid-Point	High
Number of Shares on Issue on Completion of the Proposed Transaction (Based on Net Debt of APD as at 31 October 2013)	Section 1.3	1,783,105,239	1,783,105,239	1,783,105,239
Fair Market Value of the Merged Group (Control Basis, Per Share)		**$0.0156**	**$0.0168**	**$0.0179**
Less: Minority Interest Discount		(25.0%)	(22.5%)	(20.0%)
Fair Market Value of the Merged Group (Minority Basis, Per Share)		**$0.012**	**$0.013**	**$0.014**

Source: Budgets of DPG & APD for the year ending 30 June 2014; Pro-forma balance sheet of the Merged Entity as at 31 October 2013; Notice of Meeting, LCF analysis.

In forming our opinion on the value of the Merged Group on a minority basis, we have had regard to a number of considerations, including the earnings of the Merged Group multiples of Australian and overseas entities. Additionally, we have used the value of the DPG Share price since the date of the announcement as a Proposed Transaction as further support to the conclusion reached. Further details of the DPG Share trading history can be found in **Section 5.6.5.**

9.2. Selection of Valuation Methodology

In selecting an appropriate methodology to estimate the fair market value of the equity interests in the Merged Group, we considered common market practice and the widely accepted valuation methodologies, which are summarised in **Appendix 3**.

As set out in **Section 1.1** of this Report, under the Proposed Transaction, DPG will be acquiring three of the existing divisions operating under APDL (being Next Digital, Jericho and eCommerce) and APDL (the holding company). In assessing the fair market value of the group of the Merged Group including DPG and the APDL Businesses to be acquired by DPG, we have adopted a capitalisation of future maintainable earnings methodology for the Merged Group comprising DPG, Next Digital and Jericho and separately considered eCommerce, as discussed in the table below.

Table 35: Merged Group - Next Digital, Jericho and eCommerce valuation methodologies

Division	Adopted Valuation Methodology	Reasons for Adoption
Next Digital	Capitalisation of Future Maintainable Earnings	• Next Digital has provided adequate financial information in order to determine appropriate historical and budget normalised EBITDA results; • Next Digital is an established business; • financial forecasts beyond 30 June 2014 are not available to enable the application of the DCF valuation methodology; • Next Digital's shares are not publicly traded; and • the net assets of Next Digital do not necessarily reflect the total value of goodwill and other intangible assets inherit in the business. Accordingly, an asset based valuation is not considered appropriate.
Jericho	Capitalisation of Future Maintainable Earnings	• Jericho has provided adequate financial information in order to determine appropriate historical and budget normalised EBITDA results; • Jericho is an established business; • financial forecasts beyond 30 June 2014 are not available to enable the application of the DCF valuation methodology; • Jericho's shares are not publicly traded; and • the net assets of Jericho do not necessarily reflect the total value of goodwill and other intangible assets inherit in the business. Accordingly, an asset based valuation is not considered appropriate.

Division	Adopted Valuation Methodology	Reasons for Adoption
eCommerce	One (1) Year Cash Flow Analysis	• eCommerce is a young business, having only been established during FY2013 and has generated very little revenue to date; • the business generated a loss for FY2013 and is expected to generate a loss for FY2014; • financial forecasts beyond 30 June 2014 are not available to enable the application of the DCF valuation methodology; and • eCommerce's shares are not publicly traded.

Source: LCF analysis

Our valuation has not been prepared based on the existence of a special purchaser that may be prepared to pay in excess of the fair market value. Any such premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the business that would not be available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

9.3. Information on Next Digital

9.3.1. Analysis of Historical & Budgeted Earnings

The following table summarises the normalised historical and budgeted earnings of Next Digital (on a standalone basis) for FY2011, FY2012, FY2013 and FY2014 (budget).

Table 36: Normalised Historical & Budgeted Earnings of Next Digital

		Year Ended / Ending 30 June			
$'000	Note	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Revenue	1	14,920	14,041	13,013	14,244
Cost of Sales	2	(4,556)	(4,469)	(8,380)	(7,446)
Gross Profit	**2**	**10,365**	**9,572**	**4,633**	**6,798**
Gross Profit Margin	*2*	*69.47%*	*68.17%*	*35.60%*	*47.72%*
Other Income		202	147	110	-
Advertising		(103)	(152)	(164)	(127)
Consulting Fees		(116)	(268)	(210)	(194)
Employee Expenses	3	(7,923)	(7,633)	(2,567)	(2,940)
IT & Telecommunications		(277)	(257)	(225)	(204)
Motor Vehicle Expenses		(44)	(43)	(31)	(33)
Occupancy		(1,095)	(1,045)	(1,047)	(1,082)
Operating Lease Rental		(4)	(7)	(10)	(10)
Other Expenses		(386)	(357)	(357)	(279)
Travel & Accommodation		(228)	(333)	(311)	(274)
Total Operating Expenses		**(10,175)**	**(10,094)**	**(4,921)**	**(5,143)**
Normalised Earnings Before Interest, Tax, Depreciation, Amortisaion & Impairment Losses (EBITDA)	**4**	**392**	**(375)**	**(178)**	**1,655**

Source: Management reports and budget of Next Digital; LCF Analysis

The following notes provide commentary in relation to material items pertaining to the above historical and forecast financial information.

Note 1: Revenue

Set out below is an analysis of Next Digital's revenue for FY2011, FY2012 and FY2013 and FY2014 (budget).

Table 37: Next Digital Revenue Analysis

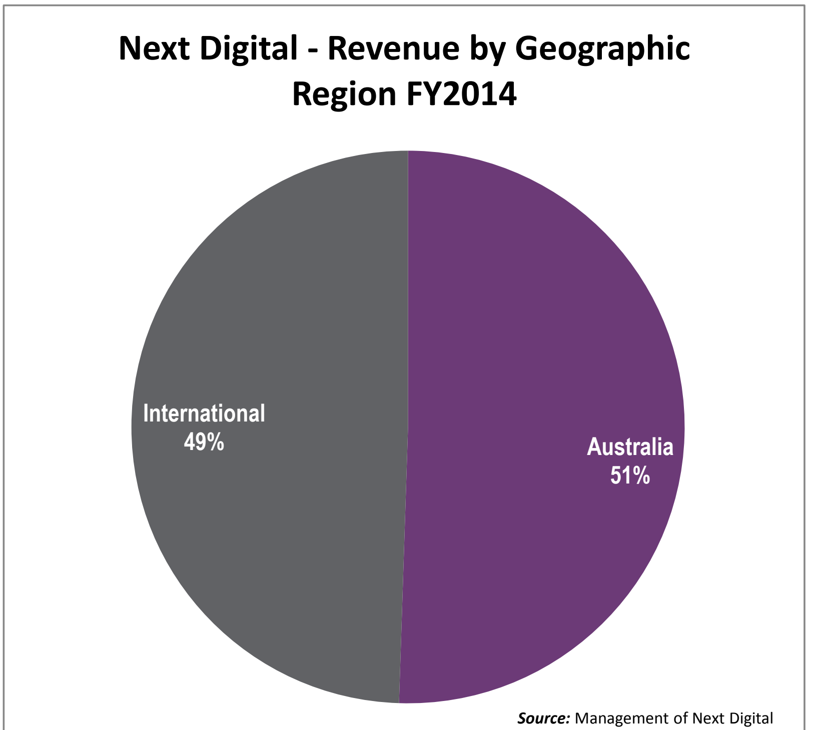
	Year Ended/Ending 30 June			
	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Revenue	**14,920**	**14,041**	**13,013**	**14,244**
Growth / (Decline) - $	n/a	(879)	(1,029)	1,231
Growth / (Decline) - %	n/a	-5.89%	-7.33%	9.46%

Source: Management reports and budget of Next Digital; LCF Analysis

In relation to the above revenue analysis, we make the following comments:

- revenue derived by Next Digital during the year ending 30 June 2014 is expected to be derived geographically as follows:

  Table 38: FY2014 Next Digital Revenue Analysis - by Geographic Region



Source: Management of Next Digital

- during FY2012 and FY2013, revenue declined by 5.9% and 7.3%, respectively. This decline in revenue is attributable to a number of factors including:

  a) Next Digital identified a large number of clients that were either not profitable or produced very thin margins for the business. Consequently, during FY2012, management took the decision to cease servicing these clients, resulting in Next Digital's customer based reducing from approximately 300 clients to approximately 110 clients across FY2012 and FY2013; and

  b) Next Digital undertook a substantial restructuring of its website deployment strategy in FY2012 and FY2013 and undertook the development of a range of base website products. This 'productised' approach lessens the custom development component of website deployment and allows for greater speed to market and more sustainable product margins. While the product development phase was underway, sales in this area were constrained and full and unfettered revenue generation activities only commenced again in the latter part of CY2012; and

c) competition within the industry has been strong, placing fee pressures on the business;

- revenue is budgeted to increase by 9.5% in FY2014, predominantly due to increased management focus on acquiring new business subsequent to the restructuring activities undertaken during FY2013. We have been advised by management that to date, this focus on acquiring new business is already starting to yield higher spending, blue-chip clients for the business;
- in FY2013, the top 10 clients of Next Digital accounted for approximately 73% of total revenue generated by the business;
- in FY2014, Next Digital's largest client is expected to account for approximately 46% of total revenue generated by the business. We have been advised by management that approximately 58% of revenue from this client is generated through monthly retainer arrangements. Current retainer arrangements cease on 31 December 2013. However, management are confident that the arrangements will be renewed with a slight increase in monthly revenues. In this regard, we have been advised by management that:
  - annual renegotiations of agreements are a recurring part of the business due to the clients' internal requirements. Next Digital has successfully renegotiated terms with this client for the prior 10 years and management have advised that there is no reason to suggest that the retainer agreements would not be renewed;
  - renewed retained agreements will be for a period of 12 months; and
  - renewed agreements are expected to be completed by 31 January 2014;
- we have been advised by management of Next Digital that for the period 1 November 2013 to 30 June 2014, approximately 50% of budgeted revenue is already contracted and known; and
- for the four months ended 31 October 2013, Next Digital's actual revenue was $4.61 million compared to $4.28 million budgeted for the period.

Note 2: Cost of Sales & Gross Profit

Set out below is an analysis of Next Digital's gross profits and gross profit margins for FY2011, FY2012, FY2013 and FY2014 (budget):

Table 39: Next Digital Gross Profit & Gross Profit Margin Analysis

$'000	Year Ended/Ending 30 June			
	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Gross Profit	**10,365**	**9,572**	**4,633**	**6,798**
Growth / (Decline) - $	n/a	(792)	(4,939)	2,165
Growth / (Decline) - %	n/a	-7.64%	-51.60%	46.73%
Gross Profit Margin	**69.47%**	**68.17%**	**35.60%**	**47.72%**
Growth / (Decline) - $	n/a	-1.29%	-32.57%	12.12%
Growth / (Decline) - %	n/a	-1.86%	-47.78%	34.05%

Source: Management reports and budget of Next Digital; LCF Analysis

As can be seen from the above table, gross profit margins decreased significantly in FY2013 to 35.6%, with a budgeted increase to 47.7% in FY2014. The significant decrease in FY2013 predominately was due to a change in accounting policy which resulted in a number of employee related expenses being reallocated from overhead to cost of sales. This change in accounting policy applied from 1 July 2012.

The subsequent increase in gross profit margins in FY2014 is substantially the result of:

- the rationalisation of the business' client base as discussed above;
- increased utilisation of the current resource base (a fixed cost base); and
- increasing resourcing in lower cost geographic regions, including Shanghai and Manila.

Note 3: Employee Expenses

Set out below is an analysis of Next Digital's normalised employee expenses for FY2011, FY2012, FY2013 and FY2014 (budget).

Table 40: Next Digital Employee Expenses Analysis

	Year Ended/Ending 30 June			
	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Employee Expenses (Normalised)	**7,923**	**7,633**	**2,567**	**2,940**
Growth / (Decline) - $	n/a	(291)	(5,066)	373
Growth / (Decline) - %	n/a	-3.67%	-66.37%	14.52%

Source: Management reports and budget of Next Digital; LCF Analysis

As can be seen from the above table, normalised employee expenses decreased significantly during FY2013. Further reductions in employee expenses are expected for FY2014.

The reductions in employee expenses have predominately been driven by:

- a change in accounting policy from 1 July 2012 as discussed above; and
- staff changes as discussed above.

There is no allowance for any head office/ corporate-type costs in the analysis set out in **Table 40.**

Note 4: Reconciliation of Normalised EBITDA to Net Profit After Tax (NPAT)

Set out below is a reconciliation of Normalised EBITDA to NPAT for FY2011, FY2012, FY2013 and FY2014 (budget):

Table 41: Reconciliation of Normalised EBITDA to NPAT

$'000	Report Reference / Note	Year Ended / Ending 30 June			
		FY2011	FY2012	FY2013	FY2014 (Budget)
Normalised EBITDA		**392**	**(375)**	**(178)**	**1,655**
EBITDA Adjustments:					
Depreciation & Amortisation		(420)	(307)	(736)	-
Finance Income		35	74	190	-
Finance Costs		(98)	(122)	(324)	-
Income Tax		380	(163)	628	-
Total EBITDA Adjustments		**(103)**	**(518)**	**(242)**	**-**
Normalisation Adjustments:					
Non-Recurring Consulting Fees	4(a)	(150)	(389)	(329)	-
Non-Recurring Redundancy Costs	4(b)	-	-	(231)	-
eCommerce Start-Up Costs	4(c)	-	-	(1,005)	-
Non-Recurring Other Expenses	4(d)	-	-	(3)	(88)
Capitalised Employee Expenses	4 (e)	-	212	274	-
Intercompany Debt Forgiveness	4(f)	(1,062)	-	-	-
Total Normalisation Adjustments		**(1,212)**	**(177)**	**(1,295)**	**(88)**
Net Profit/(Loss) After Income Tax		**(923)**	**(1,070)**	**(1,716)**	**1,567**

Source: Management reports and budget of Next Digital; LCF Analysis

In relation to the above reconciliation, we make the following comments:

Note 4(a): APDL is currently owned by funds under the management of Co-Investor. Co-Investor is a private equity operation with an investment mandate focused on small listed companies, and other growth companies. During the review period, Next Digital incurred a range of costs such as consultancy retainers and acquisition services that arose due to the fee arrangement structures of the Co-Investor investment portfolio.

These costs will not apply to DPG or any other third party buyer. Accordingly, we have made an adjustment to reverse the impact of these consultancy costs on the normalised EBITDA results of Next Digital.

Note 4(b): During the review period and predominately during FY2013, Next Digital undertook a restructuring of its employees which resulted in a number of Australian and Shanghai positions being made redundant. An adjustment has been to reverse the impact of these redundancy costs on the normalised EBITDA results of Next Digital.

Note 4(c): As detailed in **Section 6.5** of this Report, the eCommerce business was established during FY2013. Costs associated with the establishment of eCommerce were incurred through Next Digital. Accordingly, we have taken up an adjustment to remove the impact of these costs on the normalised EBITDA results of Next Digital.

These costs have been included in our assessment of the fair market value of eCommerce in **Section 9.7** below.

Note 4(d): Other non-recurring expenses of $88,000 in FY2014 relate to costs associated with the relocation of the business' data room centre during the year.

Note 4(e): In accordance with the company's accounting policies, Next Digital capitalises a portion of employee expenses which are deemed to relate to the development of software platforms utilised by the business. These costs are recurring in nature and have been reasonable consistent over the review period (i.e. in FY2012 and FY2013 capitalised development costs amounted to $212,010 and $274,148 respectively, and are budgeted to amount to $236,884 in FY2014). Capitalised costs are subsequently amortised over a two and a half (2½) year period.

On the basis that these costs are recurring in nature and having regard to the above analysis, we have taken up a normalisation adjustment to reverse the impact of their capitalisation on the normalised EBITDA results. There are no budgeted capitalised costs for FY2014.

Note 4(f): During FY2011, Next Digital forgave a loan receivable from a related entity in the amount of $1.062 million. The financial impact of this debt forgiveness has been has been reversed for the purpose of determining normalised EBITDA.

9.3.2. Selection of Future Maintainable Earnings

Our estimate of FME for Next Digital has been determined after considering the following:

- Next Digital's normalised historical earnings, in particular, for FY2011, FY2012 and FY2013;
- Next Digital's budget normalised earnings for FY2014;
- detailed discussions with management of Next Digital regarding business plans and strategies currently being implemented by the business, the strengths, weaknesses, opportunities and threats impacting the business and assumptions adopted in Next Digital's FY2014 budget; and
- growth prospects and the effect of changes and trends in the industry that may impact on future earnings.

Note that the budget normalised earnings for FY2014 information is based on Next Digital's representations regarding management expectations of financial performance in the future. We have taken reasonable steps to consider the efficacy of the forecast information for use in our assessment. However, we provide no opinion or assurance regarding the achievement, accuracy or completeness of Next Digital's budgeted future financial performance.

Based on the above analysis, we have selected a FME of **$1.655 million**, being the budgeted FY2014 normalised EBITDA. In reaching this opinion, we have also taken into consideration the following factors:

- historical results of Next Digital do not reflect the beneficial impact of the rationalisation of the business' client base during FY2013 and the 'productisation' of website deployment services (as discussed above);
- historical results of Next Digital do not reflect the impact of the restructuring initiatives undertaken during FY2013, which will produce significant employee costs savings in FY2014 and future periods (as discussed above);
- for the four (4) months to 31 October 2013, Next Digital's actual EBITDA was $0.29 million, compared to budgeted EBITDA of $0.04 million; and
- a very large proportion of the budgeted EBITDA for FY2014 is expected to be derived subsequent to 31 October 2013. However, we have formed the view that there is a reasonable basis for the overall FY2014 budgeted earnings.

9.4. Information on Jericho

9.4.1. Analysis of Historical & Budgeted Earnings

The following table summarises the normalised historical and budgeted earnings of Jericho (on a standalone basis) for FY2011, FY2012, FY2013 and FY2014 (budget).

Table 42: Normalised Historical & Budgeted Earnings of Jericho

		Year Ended / Ending 30 June			
$'000	Note	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Rendering of Services	1	1,972	2,610	5,254	6,455
Other Revenue		0	29	61	20
Total Revenue		**1,972**	**2,639**	**5,315**	**6,475**
Advertising		(54)	(38)	(47)	(104)
Consulting Fees		64	(79)	(188)	(137)
Contractor Expenses		(17)	(55)	(220)	-
Employee Expenses	2	(1,199)	(1,681)	(3,074)	(4,155)
IT & Telecommunications		(32)	(79)	(529)	-
Motor Vehicle Expenses		(9)	(4)	(22)	-
Occupancy Costs		(83)	(96)	(207)	(268)
Operating Lease Rental		-	(1)	(0)	-
Other Expenses		(147)	(226)	(340)	(493)
Platform & Send Costs		(519)	(465)	(453)	(750)
Travel & Accommodation		(9)	(11)	(79)	-
Total Operating Expenses		**(2,005)**	**(2,734)**	**(5,158)**	**(5,907)**
Normalised Earnings Before Interest, Tax, Depreciation, Amortisaion & Impairment Losses (EBITDA)	**3**	**(33)**	**(96)**	**157**	**567**

Source: Management reports and budget of Jericho; LCF Analysis

The following notes provide commentary in relation to material items pertaining to the above historical and budget information.

Note 1: Revenue

Set out below is an analysis of Jericho's revenue for FY2011, FY2012, FY2013 and FY2014 (budget).

Table 43: Jericho Revenue Analysis

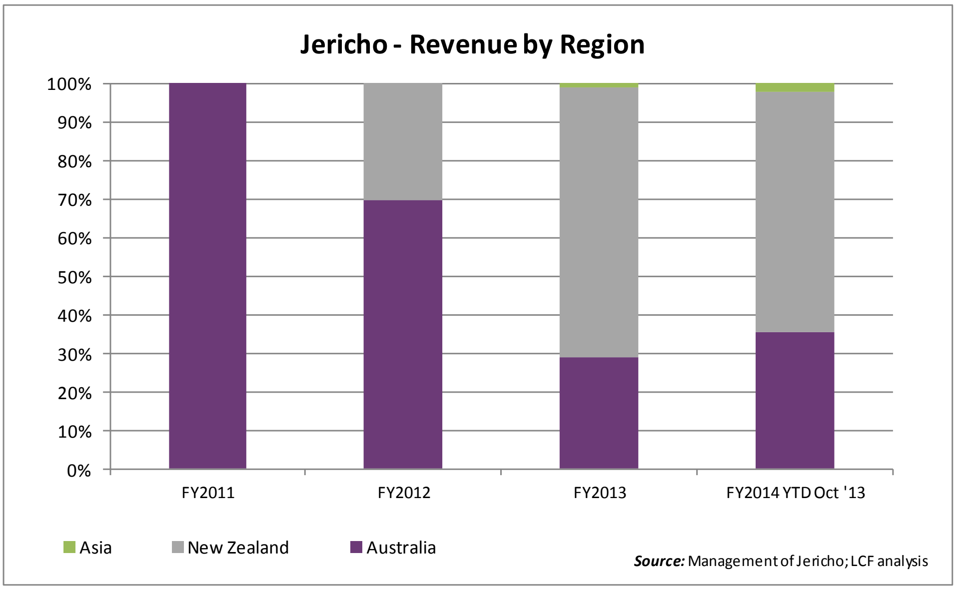
	Year Ended/Ending 30 June			
	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Revenue	**1,972**	**2,639**	**5,315**	**6,475**
Growth / (Decline) - $	n/a	666	2,676	1,160
Growth / (Decline) - %	n/a	33.78%	101.42%	21.83%

Source: Management reports and budget of Jericho; LCF Analysis

In relation to the above revenue analysis, we make the following comments:

- revenue derived by Jericho during the review period was derived geographically as follows:

  Table 44: Jericho Revenue Analysis - by Geographic Region

- during FY2012 and FY2013, revenue increased by 33.8% and 101.4%, respectively. Revenue is budgeted to grow by a further 21.8% in FY2014. This growth in revenue is attributable to a number of factors, including:

  a) in or around March 2012, Jericho acquired what is now known as Jericho (New Zealand). Jericho (New Zealand) accounted for approximately 120% of the revenue growth in FY2012 and 103% of revenue growth in FY2013;

  b) during FY2013, revenue generated by the Australian division of Jericho fell by approximately 20% offsetting revenue growth achieved in New Zealand. This decline in revenue was predominately due to a highly mature and competitive industry environment resulting in pricing pressures on platform services, particularly SMS services;

  c) revenue generated by Jericho (Australia) is expected to grow by approximately 57% in FY2014 driven by an expanded service offering resulting from the merger with Jericho (New Zealand) (e.g. new platform services including creation, email, social media aspects and enhanced analytical services) and a greater focus on blue-chip clients; and

  d) in January 2013, Jericho (Asia) was established and contributed $47,000 (or approximately 2%) of revenue in FY2013. Revenue generated by Jericho (Asia) is expected to grow to approximately $0.7 million in FY2014 driven by the acquisition of new clients in the region;

- in FY2013, the top 10 clients of Jericho accounted for approximately 29% of total revenue generated by the business;
- we have been advised by management of Jericho that for the period 1 November 2013 to 30 June 2014, the majority of budgeted revenue results from existing client relationships from which regular and ongoing revenue is being generated; and
- for the four months ended 31 October 2013, Jericho's actual revenue was $1.69 million as compared to budgeted revenue of $1.96 million.

Note 2: Employee Expenses

Set out below is an analysis of Jericho's employee expenses for FY2011, FY2012, FY2013 and FY2014 (budget).

Table 45: Jericho Employee Expenses Analysis

	Year Ended/Ending 30 June			
	FY2011 (Management Normalised)	FY2012 (Management Normalised)	FY2013 (Management Normalised)	FY2014 (Budget)
Employee Expenses (Normalised)	**1,199**	**1,681**	**3,074**	**4,155**
Growth / (Decline) - $	n/a	482	1,393	1,081
Growth / (Decline) - %	n/a	40.19%	82.89%	35.18%

Source: Management reports and budget of Jericho; LCF Analysis

As can be seen from the above table, employee expenses increased significantly during FY2012 and FY2013, with lower growth expected to continue in FY2014. The increases in employee expenses have predominately have been driven by the acquisition of Jericho (New Zealand) during FY2012 and the commencement of operations in Asia in FY2013.

Note 3: Reconciliation of Normalised EBITDA to Net Profit After Tax (NPAT)

Set out below is a reconciliation of Normalised EBITDA to NPAT for FY2011, FY2012, FY2013 and FY2014 (budget):

Table 46: Reconciliation of Normalised EBITDA to NPAT

	Report Reference / Note	Year Ended / Ending 30 June			
$'000		FY2011	FY2012	FY2013	FY2014 (Budget)
Normalised EBITDA		**(33)**	**(96)**	**157**	**567**
EBITDA Adjustments:					
Depreciation & Amortisation		(39)	(55)	(78)	-
Finance Income		-	-	7	-
Finance Costs		(17)	(37)	(86)	-
Income Tax		54	166	16	-
Total EBITDA Adjustments		**(2)**	**75**	**(141)**	**-**
Normalisation Adjustments:					
Non-Recurring Consultancy Fees	3(a)	(75)	(83)	(138)	-
Non-Recurring Jericho Asia Costs	3(b)	-	-	(100)	-
Non-Recurring IT Costs	3(c)	-	-	(272)	(205)
Non-Recurring Acquisition & Restructuring Costs	3(d)	-	(285)	(32)	-
Intercompany Debt Forgiveness	3(e)	(211)	-	-	-
Unearned Revenue Adjustment	3(f)	-	-	(232)	-
Capitalised Employee Expenses	3(g)	-	-	-	246
Total Normalisation Adjustments		**(286)**	**(368)**	**(773)**	**41**
Net Profit/(Loss) After Income Tax		**(321)**	**(389)**	**(758)**	**609**

Source: Management reports and budget of Jericho; LCF Analysis

In relation to the above, we make the following comments:

Note 3(a): APDL is currently owned by funds under the management of Co-Investor. Co-Investor is a private equity operation with an investment mandate focused on small listed companies and other growth companies. During the review period, Jericho incurred a range of costs such as consultancy retainers and acquisition services that arose due to the fee arrangement structures of the Co-Investor investment portfolio.

These costs will not apply to DPG or any other third party buyer. Accordingly, we have made an adjustment to reverse the impact of these consultancy costs on the normalised EBITDA results of Jericho.

Note 3(b): In January 2013, the Jericho business was launched into Asia. Jericho incurred several one-off costs in relation to the establishment of the business in Asia and as such, we have taken up an adjustment to reverse the financial impact of these one-off costs.

Note 3(c): During FY2013, Jericho commenced a major project of migrating a large number of clients from various third-party technology platforms to a common, proprietary platform (SmartMail Pro) which, according to management, provides greater functionality, is easier to use by both Jericho staff and clients, provides a cloud-based solution and is more stable and reliable. This project is expected to be completed during FY2014.

In undertaking this migration project, Jericho is incurring a number of expenses, predominately IT consultancy related, which will not be incurred subsequent to the completion of the migration project.

Accordingly, we have taken up an adjustment to reverse the impact of these expenses on the historical and budget EBITDA results presented above.

Note 3(d): Non-recurring acquisition costs and audit fees in relation to the earn-out payment relating to the acquisition of Jericho (New Zealand). As these costs are non-recurring, an adjustment has been taken up to reverse the impact of these costs on the normalised EBITDA results of Jericho.

Note 3(e): During the year ended 30 June 2011, Jericho forgave a loan receivable from a related entity in the amount of $0.211 million. The financial impact of this debt forgiveness has been has been reversed for the purpose of determining normalised EBITDA.

Note 3(f): During the year ended 30 June 2013, Jericho recognised unearned revenue in its balance sheet for the first time. We have been advised by management that had Jericho accounted for unearned revenue in previous periods, the net impact on revenue during FY2013 would have been minimal. Accordingly, we have taken up an adjustment to reverse the impact of the unearned revenue adjustment take up by Jericho due to the change in accounting policy.

Note 3(g): In accordance with the company's accounting policies, Jericho capitalises a portion of employee expenses which are deemed to relate to the development of software platforms utilised by the business. Capitalised costs are subsequently amortised over a two and a half (2½) year period. For the purpose of determining normalised EBITDA, an adjustment has been taken up to reverse the impact of the capitalisation of these costs.

9.4.2. Selection of Future Maintainable Earnings

Our estimate of FME for Jericho has been determined after consideration of the following:

- Jericho's normalised historical earnings, in particular, for FY2011, FY2012 and FY2013;
- Jericho's normalised FY2014 (budget);
- detailed discussions with management of Jericho regarding business plans and strategies currently being implemented by the business, the strengths, weaknesses, opportunities and threats impacting the business and assumptions adopted in Jericho's FY2014 budget; and
- growth prospects and the effect of changes and trends in the industry that may impact on future earnings.

Note that Jericho's normalised FY2014 (budget) is based on Jericho's representations regarding management expectations of financial performance in the future. We have taken reasonable steps to consider the efficacy of the budget information for use in our assessment. However, we provide no opinion or assurance regarding the achievement, accuracy or completeness of Jericho's FY2014 budget.

Based on the above analysis, we have selected a FME of **$0.567 million**, being the FY2014 budget normalised EBITDA. In reaching this opinion, we have also taken into consideration the following factors:

- for the four (4) months to 31 October 2013, actual EBITDA was negative $289,000 compared to negative $39,128 budgeted; and
- a very large proportion of the budgeted EBITDA for FY2014 is expected to be derived subsequent to 31 October 2013. However, we have formed the view that there is a reasonable basis for the overall FY2014 budgeted earnings.

9.5. APD Corporate Costs

We have taken up an allowance for the impact of corporate costs associated with maintaining the operations of APD. For the purpose of our analysis, and based on discussions with management of APD, we have split corporate costs between "ongoing" corporate costs and "short-term" corporate costs, with the later relating specifically to the future costs of a short-term project team tasked with driving APD's aggressive three year revenue growth targets. Short-term corporate costs are expected to cease in June 2016.

We believe that it is appropriate to include the estimated "ongoing" corporate overhead costs of APD in the calculation of the Merged Group EBITDA, but to exclude the "short term" costs and capitalise the latter and deduct the capitalised value from the enterprise value otherwise determined.

We have adopted a capitalisation multiple to apply to the estimated "short-term" corporate overhead costs of APD of 2.58x (i.e. the number of years from November 2013 to June 2016). This ignores the time value of money (which would lead to a discount), but also allows for any inflation in the costs.

Based on the above, we have assessed:

- the ongoing" corporate overhead costs of APD to be $546,000 per annum; and
- the capitalised "short term" corporate costs to be as follows:

Table 47: Capitalised "Short-Term" Corporate Costs of APD

	Low	Mid-Point	High
Annual Short-Term Corporate Costs	660,000	660,000	660,000
Capitalisation Multiple	2.58	2.58	2.58
Capitalised Short-Term Corporate Costs	**1,705,000**	**1,705,000**	**1,705,000**

Source: Budget of APD; Management of APD; LCF analysis

9.6. Selection of Earnings Multiple – Merged Group

A discussion regarding the factors to be considered in selecting an appropriate earnings multiple to apply to a business is set out in **Section 8.3.1** of this Report.

In selecting an appropriate earnings multiple to apply to the Merged Group, we had regard to listed Australian and international companies that have similar operations to the merged Group, merger and acquisition activity and IPO activity within the media, advertising and public relations industries. A summary of our review in this regard is set out **Appendix 4** (selected comparable companies analysis) and **Appendix 5** (selected transactions analysis) of this Report. We were not able to identify any sufficiently comparable IPO transactions.

In determining the appropriate capitalisation multiple to apply in the case of the Merged Group, we have considered various characteristics of the selected comparable companies and the Merged Group businesses. The Merged Group will be larger and have a more diverse product and service offering than DPG on a stand-alone basis and will have improved growth opportunities.

The capitalisation rate should reflect the growth prospects of the business, the quality of its earnings and the risks of the business. In order to ascertain the appropriate multiple range to apply to the Merged Group, we have undertaken a limited review of the characteristics of the companies that we consider most comparable. Having regard to the comparable companies multiples, we have made certain adjustments in order to arrive a multiple applicable to the Merged Group.

Set out below is our analysis in this regard:

Table 48: Adjustments to derive Merged Group multiple

Factor	Explanation	Impact on Next Digital Multiple
Size of the business	We note that the annual revenues and enterprise values of most of the selected comparable listed companies (with FY2014 (F) EV/EBITDA multiples not being outliers) are larger than the Merged Group. Larger companies are generally valued at higher earnings multiples which reflect the benefits of size, particularly in relation to market power, control over prices and costs, depth of management, diversity of customers and general operational and financial robustness. In addition, larger listed companies may trade at higher earnings multiples because of the liquidity of their shares and the likelihood of greater interest in the shares from a wider base of investors (e.g. institutions or foreign investors). On the basis that annual revenues and enterprise values of most of the selected comparable listed companies are larger than the Merged Group, we have taken up a size risk adjustment in the case of the Merged Group.	Discount
Growth Opportunities	A company which is expected to grow more strongly will tend to have a higher earnings multiple for a given level of earnings than one which is expected to experience slower growth. We are of the view that growth opportunities available to the Merged Group appear to be at least equal to the selected comparable companies. Accordingly, we have not taken up any premium or discount in the case of the Merged Group.	Neutral
Diversity	A company which has a greater diversity in its operations and in the products and services it offers will tend to have a higher earnings multiple for a given level of earnings which reflects the lower operational and revenue risk of having more than a single product or service offering. We note that the operations of most of the selected comparable listed companies are more diverse than those of the Merged Group. Accordingly, we have taken up a diversity discount in the case of Digital.	Discount
Key Person Risk	Where there are only a small number of key personnel, key person risk is increased and may have a negative impact on the earnings multiple applied to a company. The Merged Group has a strong and diverse executive team. Accordingly, we are of the view that any key person risk attributable to the Merged Group is similar to that applicable to the selected comparable companies. Accordingly, we have not taken up any discount or premium for key person risk in the case of Next Digital.	Neutral
Budget Risk	Where a valuation is based on budgets or projections which are based on business plans and strategies not reflective of the past operations of a business, higher than normal budget risk may arise. The components of the Merged Group have recently implemented a number of changes to the operations of the respective businesses, with the benefits being recognised in the FY2014 budget. Given the historical losses of Next Digital and Jericho and the skewing of the FY2014 budgeted earnings to the second half of the year, we have taken up a discount to recognise the risk inherent in the FY2014 budget and selected FME.	Discount
Control Premium	The trading multiples of the selected comparable listed companies represent trades in minority parcels of shares in those companies and not a controlling interest. As the interest in the Merged Group that we are valuing represents a controlling interest, we have taken up an appropriate control premium.	Premium

Source: LCF analysis.

Multiple Applicable to the Merged Group

Based on our analysis above, we have arrived at a controlling interest basis EBITDA multiple range applicable to the Merged Group's EBITDA FME of between 11.0 times and 12.0 times.

9.7. Valuation of eCommerce

9.7.1. Analysis of Historical & Budgeted Earnings

The following table summarises the historical and budgeted earnings of eCommerce (on a standalone basis) for FY2013 and FY2014 (budget).

Table 49: Historical & Budgeted Earnings of eCommerce

	Note	Year Ended/Ending 30 June	
		FY2013 (Management)	FY2014 (Budget)
Rendering of Services	1	119,301	780,030
Other Revenue		-	-
Total Revenue		**119,301**	**780,030**
IT & Telecommunications		(21,724)	(22,177)
Advertising		(15,097)	(74,865)
Occupancy		(88,806)	(121,902)
Employee Benefits Expenses	2	(932,554)	(1,410,622)
Travel & Accommodation		(29,080)	(79,306)
Other Expenses		(37,273)	(169,747)
Earnings Before Interest, Tax, Depreciation, Amortisaion & Impairment Losses (EBITDA)		**(1,005,233)**	**(1,098,590)**

Source: Management reports and budget of eCommerce; LCF Analysis

The following notes provide commentary in relation to material items pertaining to the above historical and budgeted financial information.

Note 1: Revenue

Having commenced operations during FY2013, eCommerce only generated a small amount of revenue during this period.

Budgeted revenue in FY2014 has been estimated at $780,000. At the time of the budget's preparation, only a very small portion of this revenue was contracted, i.e. approximately 8%. We note that as at 31 October 2013, eCommerce had generated revenue of $121,460, as compared with budgeted revenue of $212,360 for the period.

In October 2013, eCommerce entered into a five (5) year agreement with Macro Wines & Spirits Asia Limited ("**MWSA**") to provide a range of e-commerce services, including the provision of digital infrastructure, marketing services and CRM services, in relation to its on-line Hong-Kong online liquor business venture. In exchange for its services, eCommerce's fees will be made up of three (3) components as follows:

a) a fixed monthly retainer commencing from January 2014;

b) a revenue share; and

c) an equity interest in the venture.

We note that the FY2014 budget of eCommerce presented above does not specifically take into account the full value of the MWSA monthly retainer payable commencing from January 2014, nor does it take into account any other revenue generated from the revenue share and equity interest components of the agreement.

In addition, we have been advised by management that eCommerce is in advanced discussions with an online liquor company based in New Zealand. It is expected that any final agreement will be structured in a similar way to the MWSA agreement. As at the date of this Report however, the likelihood and amount of revenues to be generated from a final agreement are undetermined.

Note 2: Employee Expenses

Set out below is an analysis of eCommerce's employee expenses for FY2013 and FY2014 (budget).

Table 50: eCommerce Employee Expenses Analysis

	Year Ended/Ending 30 June	
	FY2013 (Management)	FY2014 (Budget)
Employee Expenses	**(932,554)**	**(1,410,622)**
Growth / (Decline) - $	n/a	(478,068)
Growth / (Decline) - %	n/a	51.26%

Source: Management reports and budget of eCommerce; LCF Analysis

This significant increase in employment expenses expected in FY2014 is due to the fact eCommerce was only operational for part of FY2013.

In addition, we have been advised that employment expenses relating to a senior executive who commenced employment with eCommerce on 1 November 2013, have not been included in budgeted expenses. Management have advised that expenses associated with the employment of this person are expected to be at least offset by additional revenue attributable to his activities. The additional revenue and expenses associated with the employment of this executive have been considered in our determination of the fair market value of eCommerce as set out in **Section 9.7.2** below.

9.7.2. eCommerce Valuation Calculation

Business activities

For the purpose of this Report, we have determined that the fair market value of the eCommerce business activities falls within the range of **negative $1.192 million** and $**NIL**.

Our conclusion has been based on a number of factors, as detailed below:

- the low end of our valuation range has been determined after assessing the current annualised losses being generated by eCommerce. In determining this value, we have taken into consideration actual revenue and expenses incurred by eCommerce for the four (4) months to 31 October 2013, and future monthly retainer revenue to be received from MWSA.

  In taking this approach, we are assuming that should the financial performance of eCommerce not improve significantly within 12 months of 31 October 2013, prudent management would take steps to wind back the operations of eCommerce and significantly reduce costs, thereby limiting the future cash losses from the business;
- eCommerce is an early stage venture and as such its operations are projected to generate losses in the short-term;
- eCommerce does have a small amount of budgeted revenue contracted. Where eCommerce has entered into contracts for services, potential revenue is uncertain and in some circumstances, linked to the underlying financial performance of clients; and
- no budgets have been prepared or are available for eCommerce subsequent to 1 July 2014.

Equity investment rights

As noted in **Section 9.7.1** above, APD entered into a five (5) year agreement with MWSA which entitles APD to a 16% equity holding in MWSA (post any capital raisings undertaken by MWSA).

As at the valuation date, APD was yet to be issued with an equity interest in MWSA. Accordingly, the asset which APD holds is a *right* to the equity investment.

In order to assess the value of this right, we have relied upon other recent equity investments in MWSA undertaken by unrelated third-party investors.

On 29 October 2013, an unrelated third-party investor (which has experience in the relevant industry in Australia) entered into a convertible debt agreement with MWSA for an amount of US$250,000.

The debt is convertible into ordinary shares of MWSA representing 2.5% of the entire issued share capital of MWSA. We note that the unconverted debt attracts a nil interest rate and is convertible into equity at the discretion of either MWSA and/or the lender. Accordingly, we have treated this investment as if it was a simple equity investment.

On the basis of the abovementioned conversion terms, we have assessed the 2.5% equity interest in MWSA to have a fair value of US$250,000 (or AU$277,778 using an exchange rate of AU$1.00 = US$0.90). On the same basis, we have assessed APD's right to a 16% equity interest in MWSA to have a fair value of AU$1.778 million.

9.8. APD Surplus Assets And Liabilities

Surplus assets are assets which form part of an entity but do not contribute to the business earnings or cash flow generation capacity of that entity. These are assets that, if sold, would not impact on the revenue or profit generating capacity of the active business undertaking.

Assets and liabilities that do not form part of the business undertaking must be valued separately. Such assets are considered to be 'surplus' to the business undertaking, but nevertheless represent value that should be reflected in the overall value of the entity as they could be sold separately and the cash added to the value of the business.

9.9. Borrowings and Deferred Consideration Payable by Next Digital

In determining the value of APD's surplus assets and liabilities to add back in the case of the Merged Group we have taken into consideration net debt (comprising cash and interest-bearing liabilities, including an amount of $415,000 payable in May 2014 representing deferred consideration payable by Next Digital in relation to its purchase of FutureLab) as at 31 October 2013.

9.10. Convertible Debt Facility

In addition, we have taken up a discount to reflect our opinion that the interest rate applicable to the Convertible Debt Facility is not at arm's length in the context of a loan to the Merged Entity (as distinct from the context of a loan to APD) (refer to **Section 11.3.1** of this Report for details). In making this assessment, we have considered the context of a loan to the Merged Entity (as distinct from the context of a loan to APD) and the quantum of the difference between the face value and fair value of the Convertible Debt Facility.

9.11. Working Capital Adjustment

In certain circumstances, where at valuation date a company has insufficient or excess working capital, an adjustment may be required to be taken up by the valuer. Set out below is a summary analysis of APD's working capital levels as at 31 October 2013.

Table 51: APD Working Capital Analysis (Based on a Pro-Forma Statement of Financial Position of APD as at 31 October 2013)

Details	
Net Working Capital as at 31 October 2013	
Trade & Other Debtors	5,069
Trade & Other Creditors	(6,536)
Net Working Capital	**(1,467)**
FY2013 Revenue	
Next Digital	13,013
Jericho	5,083
eCommerce	-
Total FY2013 Revenue	**18,096**
Net Working Capital as a % of FY2013 Revenue	**-8.11%**
FY2014 (Budgeted) Revenue	
Next Digital	12,546
Jericho	6,475
eCommerce	780
Total FY2014 (Budgeted) Revenue	**19,801**
Net Working Capital as a % of FY2014 (Budgeted) Revenue	**-7.41%**

Source: Budget of APD for the year ending 30 June 2014; Pro-forma balance sheet of the Merged Entity as at 31 October 2013; LCF analysis

In relation to the above analysis, we make the following observations on the position as at 31 October 2013:

- APD's net working capital was negative $1.47 million;
- APD's net working capital represented negative 8.11% of FY2013 revenue;
- APD’s net working capital represented negative 7.41% of FY2014 budgeted revenue;
- APD's net working capital falls within a range noted for the comparable listed companies (excluding outliers) which are outlined in **Appendix 4**; and
- whilst we would typically undertake our analysis of working capital applicable to a particular entity over a period of time, in APD’s case this is not appropriate as such historical analysis would not adequately allow for the impact of:
  - the commencement of the Jericho (Asia) operation in January 2013;
  - the acquisition of Jericho (NZ) in March 2012; and
  - the commencement of the eCommerce business during FY2013.

Given the above, we are of the view that as at 31 October 2013, APD's net working capital falls within an acceptable range. As such, we have not taken up any adjustment in the valuation of the Merged Group to reflect an insufficient level of or excess working capital as at 31 October 2013.

10. Assessment of the Proposed Transaction

10.1. Approach

We have assessed whether the Proposed Transaction is *"fair"* to the Non-associated Shareholders by comparing:

- the fair market value of a DPG Share on a controlling interest basis, before the Proposed Transaction (i.e. the price that a bidder would have to pay to acquire full control of DPG); with
- the fair market value of the consideration being offered to the Non-associated Shareholders to vote to allow the Proposed Transaction to proceed. This consideration is an ordinary share in the Merged Group on a minority interest basis, assuming that the Proposed Transaction is approved.

In the event that the latter value exceeds the former value, the Proposed Transaction would be regarded as "fair" to the Non-associated Shareholders as a whole. Conversely, if the former value exceeds the latter value, then the Proposed Transaction would be regarded as "not fair" to the Non-Associated Shareholders as a whole.

In order to assess whether the Proposed Transaction is reasonable, we consider whether the Proposed Transaction is "fair" and if it is not, whether we consider that there are sufficient reasons for the Non-associated Shareholders of DPG to approve the Proposed Transaction. This assessment has largely been undertaken by considering whether in our opinion, the advantages of the Proposed Transaction sufficiently outweigh its disadvantages for the Non-associated Shareholders of DPG as a whole.

10.2. Fairness of the Proposed Transaction

Based on the analysis set out in this Report, the following table set out our assessment as to whether or not the Proposed Transaction is "fair" to the Non-associated Shareholder of DPG. Our assessment has been undertaken assuming the number of Consideration Shares to be issued is based on the pro-forma statement of financial position of APD as at 31 October 2013.

Table 52: Fairness Assessment

	Report Reference / Note	Low	Mid-Point	High
Fair Market Value of DPG as at 31 October 2013 (Control Basis, Per Share) ($)	Section 8.5	0.008	0.009	0.009
Fair Market Value of the Merged Entity as at 31 October 2013 (Minority Basis, Per Share) ($)	Section 9.1	0.012	0.013	0.014
Fair / (Not Fair) - $		**0.0038**	**0.0045**	**0.0053**
Fair / (Not Fair) - %		**47.3%**	**52.8%**	**58.2%**

Source: LCF analysis

Based on the above, we have determined that the Proposed Transaction is "**fair**" to the Non-associated Shareholders of DPG as a whole.

The above conclusion results from the re-rating of the Merged Group that, in our opinion, will come about following the Proposed Transaction. As compared with DPG as it currently stands the combination with the APD Businesses provides the Merged Group with a wider variety of service offering and opportunities, an existing operating base in various parts of Asia and growth opportunities that, in our opinion, are not available to DPG on a stand-alone basis, (at least in the immediate future).

We note that in the five (5) months period since the announcement of the Proposed Transaction to the ASX on 13 August 2013 to 13 January 2014, approximately 35% of the DPG Shares not held by Co-Investor have traded on the ASX at an average VWAP price of approximately $0.011 per Share. This compares with trading on the ASX in the nine (9) months prior to the announcement of the Proposed Transaction, in which approximately 8.5% of the DPG Shares not held by Co-Investor traded at an average VWAP price of approximately $0.005 per Share. Moreover, we note that for the period of 14 October 2013 through to 13 January 2014, 33.2 % of the DPG Shares traded at a VWAP of $0.015 per Share. We believe that the above results are indicative of supporting our valuation conclusion.

10.3. Reasonableness of the Proposed Transaction

Under ASIC RG 111, a proposed transaction is "reasonable" if it "fair". As we have concluded that the Proposed Transaction is "fair", then it is also automatically "reasonable. However, for completeness, we have also considered the perceived advantages and disadvantages of the Proposed Transaction and these are set out below. Based on this assessment, we have formed the view that the advantages of the Proposed Transaction to the Non-associated Shareholders as a whole outweigh the disadvantages.

10.3.1. Advantages of the Proposed Transaction

Increased Growth & Exit Opportunities

Currently, DPG predominately operates in Australia and only provides a limited range of products and services within the combined media and advertising sectors. Further, given DPG's lack of size and ability to access capital and/or debt, growth and alternative investor exit opportunities are limited, particularly in relation to any expansion into international growth markets which could prove costly.

The acquisition of APD provides DPG with several growth opportunities which may not otherwise be available to DPG, in particular, access to South-East Asian markets and the ability to expand DPG's product and service offering.

Increase in Scale of Operations

The Proposed Acquisition will result in a significantly larger business with more diversified operations. In particular we note the following:

- DPG as it currently stands, is expected to generate revenues of approximately $33 million in FY2014. The acquisition of APD will contribute approximately $20 million additional revenue to DPG;
- the acquisition of APD will provide Non-associated Shareholders with access to an expanded geographic markets including New Zealand and growth markets in South-East Asia; and
- the acquisition of APD will enable DPG to provide a more diversified product and service offering combining end-to-end advertising and media products and services. This improved product and service offering, combined with increases in scale will provide the Merged Group with the opportunity to secure a greater number of higher spending, blue-chip clientele.

Synergies

The acquisition of APD will enable the Merged Group to provide a more diversified product and service offering. Where APD is unable to currently provide its clients with certain products and services, there is an opportunity for DPG to capitalise on these underserviced clients through DPG's existing businesses.

We note however, that due to the existing relationship between DPG and APD, including the cross-referral of clients, this advantage has already been partly realised. However, the Proposed Transaction would eliminate any potential for conflicts of interests to arise.

There are also identified opportunities to realise costs saving within the Merged Group that have not been taken into account in the FY2014(F) budgets. The extent and timing of achievement of these is not certain, but the opportunities exist.

Alignment of interest of Co-Investor

Currently Co-Investor is in effect managing two businesses – DPG and ADP and as a result, their interests are not 100% aligned with that of the Non Associated Shareholders. This is particularly relevant in the circumstances where new client opportunities arise that may be applicable to either DPG or ADP. By having both companies under one umbrella, this mitigates any loss of opportunity by one company as compared with the other. The Proposed Transaction will also assist in reducing the time spent by the entities on administrative matters, such as the production of an annual financial report, separate website development and so on. Further the commitment of the senior management team from Co-Investor (two of the three being based in Singapore) on a full-time, short term basis to assist in growing the Merged Group business is seen as an advantage.

Decline in the DPG Share price

Since the announcement of the Proposed Transaction, the DPG Share price has traded at a premium to that price immediately prior to the announcement. If the Proposed Transaction does not proceed, there is a risk in the DPG Share price reverting back to the lower levels.

10.3.2. Disadvantages of the Proposed Transaction

Dilution of Non-associated Shareholders' Interest in DPG

The Non-associated Shareholders currently hold a combined 22.3% interest in the Shares of DPG. Should the Proposed Transaction be approved, the equity interests of Non-associated Shareholders will be reduced to a minimum of 10.1%. The final number of Consideration Shares to be issued is dependent upon the level of working capital on the date of completion of the Proposed Transaction, assuming that that this was approved by the Non-associated Shareholders. Moreover, it is quite possible that going forward, DPG will need to raise funds from the equity markets in order to fund the Merged Group and this could result in further dilution to the Non Associated Shareholders.

Uncertainty of Earnings from APD Businesses

The acquisition of APD includes the acquisition of Next Digital and Jericho. These businesses have historically been loss making. Despite this history, both businesses are expected to generate positive EBITDA in FY2014 and subsequent years.

Whilst is appears that management have taken steps to enable this result, we note that a number of these changes are relatively recent, and there is no guarantee that these businesses will achieve the levels of profitability indicated, or within the time frames indicated into the future. Whilst we have provided for these specific risks associated with the APD Businesses in our capitalisation multiples, there is the possibility that such risks may in fact be higher than the allowance in our valuation.

Exposure to New Business Ventures

The acquisition of APD includes the acquisition of eCommerce. eCommerce is a relatively new business established to promote the full end-to-end e-commerce offering of APD across Australia, New Zealand and South-East Asia. As at the date of this Report, eCommerce has not been profitable and is not expected to be profitable in the short-term (i.e. 12 to 24 months).

The acquisition of APD exposes the Non-associated Shareholders to a loss making business which may place additional financial pressure on the Merged Group.

Reduced liquidity

The impact of the Proposed Transaction may have an adverse impact on the liquidity of the trading in DPG Shares on the ASX. This is due to the high level of concentration of shareholding that will be owned by Co-Investor, if the Proposed Transaction proceeds.

Liquidity is measured as a percentage of the total shares on issue by a company. As Co-Investor Funds will hold a greater proportion of the total number of Shares on issue subsequent to completion of the Proposed Transaction, liquidity is likely to reduce. We note however that the total number of Shares which could be described as available to be traded (i.e. those held by Non-associated Shareholders) will remain the same.

10.3.3. Implications for Non-Associated Shareholder of Rejecting the Proposed Transaction

In our opinion, in the event that the Proposed Transaction is rejected, Non-associated Shareholders of DPG would be subject to the following issues:

Potentially adverse

The current scale of operations of DPG is considered by Management to be insufficient to allow the company to grow in the future. The Australian marketplace is regarded as being mature and international expansion requires investment of funds. Rejection of the Proposed Transaction will likely prevent DPG from aggressively increasing its scale and variety of services, at least in the short-term.

DPG currently has minimal operations outside of Australia. The acquisition of APD will provide DPG with access to international markets, particularly in New Zealand and South-East Asia. Rejection of the Proposed Transaction will likely prevent DPG from entering international markets in any strength, at least in the short-term.

Management of Co-Investor Funds, as the current major shareholder of both DPG and APD, believe that the Proposed Transaction provides the best growth opportunities to both companies. Should the Proposed Transaction be rejected, alternative growth opportunities available to DPG may not be supported by Co-Investor.

In the event that the Proposed Transaction is rejected, in our opinion it is possible that the DPG Share trading price will fall to the levels prevailing before the announcement of the Proposed Transaction.

Potentially beneficial

The current equity interests of Non-associated Shareholders will not be diluted.

DPG would not be exposed to the risks associated with historical loss making businesses, including eCommerce which is a new operation that is not expected to generate profits in the short-term.

10.4. Overall Conclusion

In our opinion, for the reasons stated above, the advantages of the Proposed Transaction to the Non-associated Shareholders as a whole outweigh the disadvantages.

11. Assessment of the Convertible Debt Facility

11.1. Approach

We have assessed whether the proposal to transfer the Convertible Debt Facility from APD to DPG is "fair" and "reasonable" to the Non-associated Shareholders of DPG through an analysis of:

- the key terms and conditions of the Convertible Debt Facility and whether or not those key terms and conditions are on an arm's length basis; and
- the practical aspects pertaining to the Proposed Transaction.

In regard to the first point above, we have compared the key terms and conditions of the Convertible Debt Facility with terms which, in our opinion, would be arm's length terms of a convertible loan to the Merged Group in the market conditions prevailing as at the Valuation Date. In forming our view, we have particularly considered the interest rate proposed to be charged relative to the other terms and conditions of the Convertible Debt Facility and the status of the convertible note holders upon any conversion of the Convertible Debt Facility into ordinary shares of the borrower.

In regard to the second point above, we have considered the practical aspects arising if the proposed transfer is not approved.

Our analysis is set out below.

11.2. Overview of the Convertible Debt Facility

A summary of the terms and conditions of the Convertible Debt Facility is set out in **Section 6.6** of this Report.

Set out below are the key terms and conditions of the Convertible Debt Facility:

- the limit of the facility is $5,500,000. We note that as at the date of this Report, APDL had drawn down $3,000,000;
- interest is payable at 15% per annum on funds drawn, accrued daily;
- interest is payable at 2% per annum on funds committed, but undrawn, accrued daily;
- interest is payable within ten (10) days of each six month period ending on 31 March and 30 September of each calendar year. In the case that the Proposed Transaction is approved and APDL becomes part of the Merged Group, interest payments may be settled in part or in full at the option of the lenders, by the Merged Group/DPG issuing Shares as determined by dividing the outstanding interest amount by the 90 day VWAP of DPG's Shares up to the date the interest payment is due;
- term of three (3) years from the date of the first drawdown by APD;
- in the case that the Proposed Transaction is approved and APDL becomes part of the Merged Group, repayment of outstanding principal amounts may be settled in part or in full at the option of the lenders, by the Merged Group/DPG issuing Shares as determined by dividing the outstanding amounts by the 90 day VWAP of DPG's Shares up to the date the principal repayment is due;
- immediately prior to the Proposed Transaction, security comprises of a first ranking charge over 19.9% of DPG and 100% of the shares in Next Digital and Jericho. Following implementation of the Proposed transaction, security will comprise a first ranking charge over the shares in Next Digital and Jericho; and
- there is no fixed principal repayment schedule, except repayment in full at the termination of the facility. Additionally, DPG may at its election make early repayment.

11.3. Review of Key Terms

11.3.1. Interest Rate

In assessing whether the rate of interest applicable to the Convertible Debt Facility is on arm's-length terms, we have compared it to a sample of coupon rates paid by Australian corporate convertible note issues. This analysis is set out below:

Table 53: Australian Corporate Convertible Debt Facility Issues

Issuer	Market capitalisation $m	Coupon (per annum)	Compounding	Conversion/ Maturity Date
A1 Investment & Resources	0.5	12.00%	Quarterly	30-Sep-12
Ainsworth Game Technology	1,365.50	8.00%	Semi-annual	31-Dec-11
Antares Energy	133.9	10.00%	Quarterly	31-Oct-13
Healthscope	(Note 1)	11.25%	Quarterly	17-Jun-16
IAG Finance (NZ)	(Note 1)	5.98%	Quarterly	15-Dec-19
Bentham IMF Limited	287.7	10.25%	Quarterly	30-Dec-14
Metal Storm	USD 1.4	12.00%	Quarterly	1-Mar-12
Nufarm Finance (NZ)	(Note 1)	8.62%	Quarterly	Undated
Peet	576.4	9.50%	Semi-annual	16-Jun-16
Resolute Mining	352.5	12.00%	Quarterly	31-Dec-12
G8 Education Limited	939.9	7.65%	Semi-annual	Aug-19
Cash Converters International Limited	332.5	7.65%	Semi-annual	19-Sep-18
Silver Chef Limited	156.6	8.50%	Semi-annual	Sep-18
Mackay Sugar Limited	(Note 1)	5.50% (12 month note)	Semi-annual	Misc
		5.75% (24 month note)		
		7.00% (Five year note)		
Mean (excluding NZ issues)		8.85%		
Median (excluding NZ issues)		9.08%		

Source: Australian Financial Review; ASX; Capital IQ; LCF analysis.

Note 1: Not available; special purpose financing vehicle.

This information is indicative only, as none of the issuers are directly comparable to DPG and/or APDL, nor are the debt instruments issued by the companies directly comparable to the Convertible Debt Facility. Variations may include differences in the issue dates, maturity terms, terms of conversion, compounding periods, and level of security offered.

In addition to the above, we note that as at 31 October 2013, DPG had the following facilities:

Table 54: DPG Debt Facilities as at 31 October 2013

	Note	Interest Rate % p.a.	$'000
Current			
Loan from Co-Investor (Secured by way of a fixed and floating charge over DPG)	(a)	15.0%	857
Vendor Finance (Unsecured loan)	(b)	10.0%	729
NAB Financing Facility (Secured by way of a fixed and floating charge over both dgm and Empowered)	(c)	7.62%	1,993
Total Current			**3,579**
Non-Current			
Loan from Co-Investor (Secured by way of a fixed and floating charge over DPG)	(a)	15.0%	241
Total Non-Current			**241**
Total			**3,820**

Source: Management accounts of DGM as at 31 October 2013; LCF analysis.

Notes:

(a) Loan from Co-Investor

This relates to a senior secured loan facility provided by Co-Investor. The principal is repayable over the period 31 December 2013 to 31 December 2014, and is secured by a fixed and floating charge over DPG.

(b) Vendor Finance

This unsecured loan facility was entered into on 31 August 2012 with IMPG Digital Pty Ltd to finance the acquisition of Viva Pty Ltd, with the initial face value of the loan of $1,154,000.

The term of the loan is for 24 months to 30 November 2014 and the interest payable is 10% per annum, accrued daily and payment monthly in arrears.

(c) NAB Financing Facility

dgm and Empowered have trade receivable finance facilities with the National Australia Bank ("**NAB**"). The finance facility was implemented in August 2012, and these facilities are secured by fixed and floating charges over the both dgm and Empowered. The interest rate applicable to the NAB Financing Facility as at 31 October 2013 was 7.62% per annum, accrued daily.

The weighted average interest rate on the above facilities as at 31 October 2013 was 10.2% p.a.

In October 2011, DPG received a funding offer from a major bank comprising a loan of $2 million with a five (5) year term and a bank overdraft facility of $1 million, both at an approximate rate of 11% p.a. After considering the offer, the Board of DPG ultimately decided not to accept the offer as the terms and conditions of the financing offer did not offer sufficient flexibility to accommodate the needs of DPG at the time.

The Convertible Debt Facility is advanced to the APDL group, which has recorded a series of losses over the past three (3) years, in contrast to DPG, which has recorded earnings over the same period. The degree of risk associated with a loan to the APDL group in our opinion, would be considerably higher than the risk associated with a loan to DPG. However, in our opinion, a loan advanced to the Merged Group would have a risk that sat somewhere between those two situations.

Co-Investor advised the following:

- when it sought the financing on behalf of APDL, it was conducted across both investors in Co-Investor-managed funds and non-investors. Ultimately, the lenders providing the debt funding included both existing investors and third party non investors;
- the debt facility terms were pre-marketed to potential lenders to finalise terms. At this time the intention to pursue a merger of DPG and APDL had been announced by DPG. As a result, the primary scenario presented during the debt-raising process was based on the proposed Merged Group. The facility terms ultimately finalised via the pre-marketing are therefore based on the likelihood of the debt being transferred into the Merged Group, rather than remaining within a standalone APDL, although, of course, there was no certainty that the proposed merger would be concluded.

In our opinion, the terms of the Convertible Debt Facility are likely to be appropriate for a loan to the APDL group. However, the Proposed Transaction involves the Convertible Debt Facility being transferred to the Merged Group, which must be a better credit than APDL as a result of the inclusion of DPG. In such circumstances, we consider that an interest rate of 15% p.a. on funds drawn and 2% p.a. on funds committed, but undrawn is too high and are terms less favourable to what may be able to be achieved by the Merged Group in an open and unrestricted market. In forming this view, we have also had regard to the fact that the Convertible Debt Facility has the security of a charge over all of the shares in Next Digital and Jericho. Additionally, the above interest rate is in our view at a level closer to a cost of capital of the company rather than a cost of debt.

Other Terms

In our opinion, the remaining terms of the Convertible Debt Facility, as set out in **section 6.6** of this Report, are at arm's length terms or better than arm's length terms. In this regard we note that the following elements considered to be better than terms that could be obtained on an arm's-length basis:

- apart from an act of insolvency, the absence of any ongoing performance covenants; and
- there is no fixed principal repayment schedule, except repayment in full at the termination of the facility.

In considering the above information, it is our opinion that an arm's length interest rate would fall within the range of 12% to 13% per annum, having regard to the limited nature of the security for the Convertible Debt Facility. Accordingly, in our opinion, the interest rate applicable to the Convertible Debt Facility are less favourable to that which may be achieved by the Merged Group in an open and unrestricted market.

As set out in **section 1.2**, the providers of the Convertible Debt facility are a syndicate of entities that were procured by Co-Investor:

Table 55: Convertible Debt Facility Providers

Investor Entity	Total Allocation	Funds Drawn as at Date of this Report
Wentworth Financial Pty Ltd ATF Wentworth Trust*	$1,200,000	$720,000
Pyvis Nominees Pty Ltd ATF The Pyvis Trust **	$500,000	$300,000
VBS Investments Pty Ltd ***	$1,000,000	$600,000
Unrelated, Third-Party Investors	$2,800,000	$1,680,000
TOTAL	**$5,500,000**	**$3,300,000**

* Wentworth Financial Pty Ltd is an entity associated with and under the control of Mr Roger Sharp.

** Pyvis Nominees Pty Ltd is an entity associated with and under the control of Mr Richard Pyvis, a director of Co-Investor.

*** VBS Investments Pty Ltd is an entity associated with the Victor Smorgon Group, a shareholder of Co-Investor, and Mr Peter Edwards, a director of Co-Investor.

Source: Syndicated Facility Agreement dated 15 October 2013; debt facility allocation schedule provided by management of APD; LCF analysis

Three of the providers are associated with Co-Investor. These three parties have committed to provide 49.1% of the funds and have provided that proportion of the funds drawn to date.

In calculating our assessment of the fair value adjustment in relation to the interest rate on the Convertible Debt Facility, we considered whether it is appropriate to make any adjustment for the use of the market trading VWAP price of Merged Group/DPG Shares (being a minority interest price) and not a controlling interest price, as the base for the determining the number of Shares into which the Convertible Debt Facility converts.

We concluded that no adjustment is necessary for the following reasons:

- if a provider wishing to convert into Merged Group/DPG Shares is a related party of Co-Investor, then Non-associated Shareholders of the Merged Group/DPG will have to vote to approve that conversion, and will have an opportunity to consider whether to vote to allow or disallow such conversion, at the relevant future time; or
- if a provider wishing to convert into Merged Group/DPG Shares is not a related party of Co-Investor, then we see no objection to using a market trading VWAP price of Merged Group/DPG Shares.

11.3.2. Fairness of the Convertible Debt Facility

Based on our analysis of the key terms of the Convertible Debt Facility above, in our opinion, the Convertible Debt Facility is, overall, **not fair** to the DPG Non-associated Shareholders of as a whole. In forming our view, we note that we have taken into consideration in the value of the Merged Group the difference between our assessed fair value of an interest rate for the Convertible Debt facility and the amount to be incurred as per the agreed terms of the facility - refer to paragraph 9.10.

11.4. Reasonableness of the Convertible Debt Facility

We have considered the advantages and disadvantages of the Convertible Debt Facility and these are set out below. Please note that these advantages and disadvantages only apply in the case that the Proposed Transaction is approved.

Based on the assessment below, we have formed the view that the Convertible Debt Facility is **reasonable** to DPG Non-associated Shareholders as a whole on the basis that, in our opinion, the advantages of transferring the Convertible Debt Facility to the Merged Group/DPG as proposed under the Proposed Transaction outweigh the disadvantages. In addition, we have taken into consideration the fact that we have concluded that the Proposed Transaction is fair and reasonable.

11.4.1. Advantages of the Convertible Debt Facility

Funding for Short-Term Cash Needs of APD

Based on APD management's financial budgets, APD requires a certain level of cash to fund the short-term operation of the APD. This amount would represent the difference between what has been drawn (i.e. $3.3 million as at the date of this Report) and the undrawn amount which would be $2.2 million (calculated as total facility of $5.5 million less what has been drawn of $3.3 million).

Favourable terms

The following elements considered to be better than terms that could be obtained on an arm's-length basis:

- apart from an event of insolvency, the absence of any ongoing performance covenants; and
- there is no fixed principal repayment schedule, except repayment in full at the termination of the facility.

Practical considerations

If the transfer of the Convertible Loan Facility to DPG is not approved and the Proposed Transaction is approved and was implemented, then the Convertible Debt Facility would allow the lenders to convert into shares of APDL, which would render the APDL a less than wholly owned subsidiary of the Merged Group/DPG. However, we note that the implementation of the acquisition of APD is conditional upon the transfer of the Convertible Loan Facility to DPG and if the latter is not approved, the whole of the Proposed Transaction will not be approved.

11.4.2. Disadvantages of the Convertible Debt Facility

Apart from the terms regarding the interest rate and the facility availability fee discussed above, the following potential disadvantages of the Convertible Loan Facility are identified.

Possible Dilution of Non-Associated Shareholders' Interest in DPG

If interest payments and principal repayments are undertaken by the issue of Shares in the Merged Group, then there will be a reduction in the total Shareholding interests of the Non-Associated Shareholders in DPG.

11.4.3. Implications for Non-Associated Shareholder of Rejecting the Convertible Debt Facility

In our opinion, in the event that the transfer of the Convertible Debt Facility was rejected, Non-associated Shareholders of DPG would result in the Proposed Transaction (which we have concluded is fair and reasonable) would not proceed.

11.5. Overall Conclusion

In our opinion, for the reasons stated above, the proposed transfer of the Convertible Debt Facility is "**not fair**" but is "**reasonable**" to the Non-associated Shareholders of DPG.

12. Qualifications, Independence and Disclaimer

12.1. Qualifications

LCF is the licensed corporate advisory arm of Lawler Partners. LCF provides advice in relation to all aspects of valuations and its personnel have extensive experience in the valuation of corporate entities.

Mr Vince Fayad B.Bus, CA, is a Director of LCF. Mr Fayad has been actively involved in the preparation of this Report.

Mr Fayad has over 30 years' experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, advising on independence expert reports, preparation of information memoranda and other corporate investigations.

Mr Nick Navarra B.Bus, CA is a Manager of LCF. Mr Navarra was actively involved in the preparation of this Report.

Mr Navarra has over 12 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, the preparation of independent expert's reports, due diligence reviews, litigation support activities, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions.

Based on their experience, Messrs Fayad and Navarra are considered to have the appropriate experience and professional qualifications to provide the advice offered.

12.2. Independence

LCF is not aware of any matter or circumstance that would preclude it from preparing this Report on the grounds of independence, either under regulatory or professional requirements. In particular, we had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

LCF does not have any shareholding in, or other relationship with, DPG or APD or APDL (including any of their related parties or associates) that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposals.

LCF considers itself to be independent in terms of ASIC Regulatory Guide 112 *Independence of Experts* ("**RG 112**"), issued by ASIC.

LCF will receive a fee based on the time spent in the preparation of this Report. LCF will not receive any fee contingent upon the outcome of the Proposed Transaction.

Appendix 1 Glossary of terms

Set out below is a glossary of terms used in this Report.

Table 56: Glossary

Term	Definition
ABS	Australian Bureau of Statistics
APD	The holding company Asia Pacific Digital Limited (APDL) and its three core businesses (Businesses)
APDL	Asia Pacific Digital Limited ACN 123 287 025
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Businesses	The three (3) core businesses of APDL to be acquired under the Proposed Transaction namely, Next Digital, Jericho and eCommerce.
Co-Investor	Co-Investor Capital Partners Pty Limited ACN 110 402 134
Co-Investor Funds	Funds under the management of Co-Investor Capital Partners Pty Limited
Company	Digital Pacific Group Limited ACN 000 386 685
Consideration Shares	Ordinary shares in DPD to be issued as consideration for the acquisition of 100% of the equity in APD. The maximum number of Consideration Shares to be issued will not exceed 1,021,186,756.
Convertible Debt Facility	Means the Convertible Debt Facility issued to a number of investors, one of which is Mr Roger Sharp and where the terms are set out in paragraph 0
Corporations Act	Corporations Act 2001
Country Wide	A business currently owned by APDL to be divested prior to the acquisition of APD by DPG.
DCF	Discounted cash flow
dgm	Dgm Australia – a business division of DPG
DPG	Digital Pacific Group Limited ACN 000 386 685
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
Empowered	Empowered Communications – a business division of DPG
FME	Future maintainable earnings
FOS	Financial Ombudsman Service
FSG	Financial services guide
IAB	Interactive Advertising Bureau
ICAA	Institute of Chartered Accountants in Australia
Merged Group	Means the merger of the existing operations of the Company and that of APD
MWSA	Macro Wines & Spirits Asia Limited, a company registered in Hong Kong.
Non-associated Shareholders	The shareholders of DPG who are entitled to vote in relation to the Proposed Transaction.
NPV	Net present value
Proposed Transaction	The proposed acquisition of 100% of the issued shares of APD by DPG.

Term	Definition
Prospective Financial Information	Budgets of DPG and APD prepared by their respective management for the year ending 30 June 2014.
Report	This report dated 29 January 2014
RG 76	ASIC Regulatory Guide 76 *Related Party Transactions*
RG 111	ASIC Regulatory Guide 111 *Content of Expert Reports*
RG 112	ASIC Regulatory Guide 112 *Independence of Experts*
SEO	Search engine optimisation
Smart Group	A business currently owned by APDL to be divested prior to the acquisition of APD by DPG.
Valuation Date	31 October 2013
Valuestream	Valuestream Investment Management Limited ACN 094 107 034

Appendix 2 Sources of Information

In preparing this Report we have had access to and relied upon the following principal sources of information:

- Annual Reports of DPG for the years ended 30 June 2012 and 2013;
- Management Accounts of DPG and its divisional businesses for the four (4) months ended 31 October 2013;
- Management's Budget for DPG for the year ending 30 June 2014;
- Various management financial reports prepared by management of DPG and divisional businesses;
- Annual Reports of APDL for the year ended 30 June 2012;
- Management Accounts of APDL for the year ended 30 June 2013;
- Pro-forma Management Accounts of APD and its divisional businesses for the four (4) months ended 31 October 2013;
- Various management financial reports prepared by management of APD and divisional businesses;
- Asia Pacific Digital "Information Pack" dated October 2013;
- Pro-forma balance sheet of the Merged Group as at 31 October 2013;
- Draft Notice of Meeting and Explanatory Memorandum;
- Non-binding term sheet between DPD, Co-Investor and Valuestream dated 18 November 2013;
- IBISWorld Industry Report *"Advertising Agencies in Australia"*, August 2013;
- IBISWorld Industry Report *"Public Relations Services in Australia"*, December 2012;
- IBISWorld Industry Report *"Online Shopping in Australia"*, October 2013;
- comScore, Inc. Report *"Southeast Asia – Digital Future in Focus, 2013"*, 26 July 2013;
- Joint submission provided by the Australian Association of National Advertisers (AANA), the Australian Direct Marketing Association (ADMA), eBay, Facebook, Google, the Interactive Advertising Bureau Australia (IAB Australia), Ninemsn, PayPal and Telstra to the Australian Securities & Investments Commission in response to *Consultation Paper 167: Advertising financial products and advice services: Good practice guidance*;
- Responsys Report *"The 2012 Digital Marketing – Big Australia Report"*;
- PricewaterhouseCoopers *"IAB Online Advertising Expenditure Report"*, June 2012;
- Detailed discussions with directors and management of DPG and APD.

Appendix 3 Valuation Methods

In conducting our assessment of the fair market value of DPG and Asia Pacific Digital, the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow ("**DCF**") method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value ("**NPV**").

DCF is appropriate where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net value of the assets used in the business.

Valuation of net assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The value of the net assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or

- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The value of a trading company's net assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is usually attributable to intangible assets such as goodwill.

The value of net assets is relevant where a company is making sustained losses or profits at a level less than the required rate of return, where it is close to liquidation, where it is an asset holding company, or where all its assets are liquid. It is also relevant to businesses that are being segmented and divested and to value assets that are surplus to the core operating business. The net assets value methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the value of its net assets.

Security Market Trading History

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

Constant Growth Dividend Discount Model

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of Investors.

Special Value

Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.

Appendix 4 Comparable Companies Analysis

Company	Country	Last reporting date	Revenue	Market Cap	Enterprise Value	EV / Revenue multiple (times)		EV / EBITDA multiple (times)		EV / EBIT multiple (times)	
			million AUD	million AUD	million AUD						
31-Oct-13		LFY				LFY	LFY+1	LFY	LFY+1	LFY	LFY+1
Shoply Limited	Australia	30-Jun-13	2.8	6	5	1.9		23.5		132.4	
Disruptive Investment Group Limited	Australia	30-Jun-13	0.0	13	12						
Adcorp Australia Limited	Australia	30-Jun-13	20.9	5	(1)			0.5		0.4	
Mobile Embrace Limited	Australia	30-Jun-13	12.2	72	72	5.9		113.9		121.3	
Adslot Ltd	Australia	30-Jun-13	4.1	83	74	18.3					
Moko Social Media Limited	Australia	30-Jun-13	6.0	111	109	18.1					
Enero Group Limited	Australia	30-Jun-13	248.0	60	44	0.2	0.3	12.5	10.9		9.1
Wellcom Group Limited	Australia	30-Jun-13	78.5	102	86	1.1	1.5	7.4	6.5	8.6	7.5
Salmat Limited	Australia	30-Jun-13	467.6	337	248	0.5	0.5	6.5	7.6	9.7	12.2
STW Communications Group Ltd.	Australia	31-Dec-12	348.6	637	815	2.3	2.1	9.0	8.6	10.0	9.5
Innity Corporation Bhd	Malaysia	31-Dec-12	12.2	15	12			12.8		13.9	
Branding China Group Limited	China	31-Dec-12	22.7	131	124	6.2		21.5		21.6	
Vocus Inc.	USA	31-Dec-12	164.5	193	238	1.3	1.2		9.4		33.4
QuinStreet, Inc.	USA	30-Jun-13	333.3	406	369	1.1	1.1	10.4	8.6	98.9	183.4
Constant Contact, Inc.	USA	31-Dec-12	242.9	840	726	2.7	2.4	34.7	15.0	165.2	29.1
LivePerson Inc.	USA	31-Dec-12	151.6	533	454	2.7	2.4	22.6	21.6	38.8	41.9
Digital River Inc.	USA	31-Dec-12	372.0	646	345	0.8	0.8	8.7	10.0	31.6	17.2
Guangdong Advertising Co., Ltd.	China	31-Dec-12	714.9	2,450	2,324	2.9	2.4	52.3	28.3	53.6	31.3
Havas	France	31-Dec-12	2,257.9	3,467	4,140	1.6	1.6	10.4	9.9	12.2	11.8
The Interpublic Group of Companies, Inc.	USA	31-Dec-12	6,699.9	7,390	8,602	1.2	1.1	9.9	9.1	12.0	11.4
Dentsu Inc.	Japan	31-Mar-13	19,799.7	10,306	13,911	0.7	0.6	17.3	12.2	22.9	21.9
Omnicom Group Inc.	USA	31-Dec-12	13,695.4	18,524	21,886	1.5	1.4	9.9	9.5	11.5	11.1
Publicis Groupe SA	France	31-Dec-12	8,394.0	18,810	19,801	2.1	1.9	10.9	10.6	12.5	12.0
WPP plc	UK	31-Dec-12	16,238.7	30,103	35,164	2.0	1.9	11.8	10.7	15.3	12.5
All											
Mean						**3.6**	**1.5**	**20.3**	**11.8**	**41.7**	**28.5**
Median						**1.9**	**1.5**	**11.3**	**10.0**	**15.3**	**12.3**
Minimum						**0.2**	**0.3**	**0.5**	**6.5**	**0.4**	**7.5**
Maximum						**18.3**	**2.4**	**113.9**	**28.3**	**165.2**	**183.4**

Company	Country	Last reporting date	Revenue	Market Cap	Enterprise Value	EV / Revenue multiple (times)		EV / EBITDA multiple (times)		EV / EBIT multiple (times)	
			million AUD	million AUD	million AUD						
31-Oct-13		LFY				LFY	LFY+1	LFY	LFY+1	LFY	LFY+1
Australia											
Mean						**6.0**	**1.1**	**24.8**	**8.4**	**47.0**	**9.6**
Median						**2.1**	**1.0**	**9.0**	**8.1**	**9.9**	**9.3**
Minimum						**0.2**	**0.3**	**0.5**	**6.5**	**0.4**	**7.5**
Maximum						**18.3**	**2.1**	**113.9**	**10.9**	**132.4**	**12.2**
Excluding outliers											
Mean						**2.0**	**1.1**	**9.9**	**8.4**	**7.2**	**9.6**
Median						**1.5**	**1.0**	**7.4**	**8.1**	**9.1**	**9.3**
Minimum						**0.2**	**0.3**	**0.5**	**6.5**	**0.4**	**7.5**
Maximum						**5.9**	**2.1**	**12.5**	**10.9**	**10.0**	**12.2**
International											
Mean						**2.5**	**1.7**	**23.3**	**15.5**	**60.5**	**56.0**
Median						**2.7**	**1.8**	**21.5**	**12.5**	**38.8**	**32.3**
Minimum						**0.8**	**0.8**	**8.7**	**8.6**	**13.9**	**17.2**
Maximum						**6.2**	**2.4**	**52.3**	**28.3**	**165.2**	**183.4**
Excluding outliers											
Mean						**2.5**	**1.7**	**15.2**	**12.9**	**17.7**	**23.1**
Median						**2.7**	**1.8**	**12.8**	**10.0**	**17.7**	**23.1**
Minimum						**0.8**	**0.8**	**8.7**	**8.6**	**13.9**	**17.2**
Maximum						**6.2**	**2.4**	**22.6**	**21.6**	**21.6**	**17.2**
Multinational											
Mean						**1.5**	**1.4**	**11.7**	**10.3**	**14.4**	**13.5**
Median						**1.5**	**1.5**	**10.6**	**10.3**	**12.4**	**11.9**
Minimum						**0.7**	**0.6**	**9.9**	**9.1**	**11.5**	**11.1**
Maximum						**2.1**	**1.9**	**17.3**	**12.2**	**22.9**	**21.9**

All figures in millions and reporting currency
Source: S&P Capital IQ; LCF analysis.
Legend:
- LFY - Last financial year
- LFY+1 - Next financial year

Appendix 5 Comparable Transactions Analysis

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Salmat Limited	SLM.ASX	Salmat Limited operates in two segments, Consumer Marketing Solutions and Customer Engagement Solutions. The Consumer Marketing Solutions segment distributes physical and digital catalogue content, as well as provides campaign management and marketing services. The Customer Engagement Solutions segment designs and delivers multi-channel contact centre services and technology solutions, field sales services, and learning and development solutions, as well as provides speech technology and automation solutions.	100%	Dec-22-2010	C4 Communication Pty Ltd, BeInteractive Pty Ltd, MessageNet Pty Ltd and Returnity Pty Ltd	91.00	n/a	n/a	n/a
DTDigital Pty Ltd	n/a	DTDigital Pty Ltd., a digital communications company, provides digital marketing design and technology services. The company offers digital advertising and marketing, eCommerce, SEO and traffic generation, social networking, strategy and consulting, user experience design, and Web design and development solutions; and email marketing, mobile marketing, and games and application development services.	33%	Jan-18-2012	Ogilvy & Mather Asia Pacific Limited	15.60	n/a	n/a	n/a
Belgiovane Williams Mackay Pty Ltd	n/a	Belgiovane Williams Mackay Pty., Ltd., an independent agency, provides communication services. Its services include strategic planning, advertising, direct marketing, and online communications.	51%	Aug-10-2012	The existing minority shareholders of Belgiovane Williams Mackay Pty Ltd	14.71	n/a	n/a	n/a
Dark Blue Sea Ltd	ASX: DBS	Dark Blue Sea Limited, together with its subsidiaries, operates as a supplier of online direct navigation traffic for advertisers. Direct navigation is the action of typing a domain name directly into an Internet browser address bar.	70%	Oct-01-2009	Photon Group Limited	24.65	0.92x	13.40x	14.40x
Snakk Media Limited	NZSE:SNK	Snakk Media Limited operates as a mobile media aggregator providing end to end mobile media solutions primarily in Australia. The company provides mobile phone enabled promotions and marketing services. It also provides various ancillary technology and marketing services, including mobile messaging, Wi-Fi, Bluetooth and NFC, augmented reality, image recognition, mobile gaming, M-ticketing, custom QR codes, SMS short/long code numbers, mobile IVR solutions, keyword set up, mobile survey tools, and mobile vouchers.	5%	Aug-23-2013	Unknown	15.27	5.20x	EBITDA<0	EBIT<0
Ad Network Pty Ltd	n/a	Ad Network Pty Ltd., doing business as The Real Estate Ad Network, provides digital real estate advertising services to real estate agents. It also represents real estate industry sites that enable to reach a pool of property buyers, people researching property and home loans, investors and renters, small to medium businesses, rural audiences, and people moving home.	100%	Oct-12-2012	Onthehouse Holdings Limited	1.82	n/a	5.00x	n/a
Digital Media Transactions (Other Countries)									
AKQA, Inc.	n/a	AKQA, Inc. operates as a digital agency. The company provides search engine marketing services; digital products, services, and content for the mobile platform; interactive experiences, content creation and distribution services, e-commerce and technology solutions, and usability and interface design solutions. The company was incorporated in 1990 and is based in San Francisco, California with additional offices in New York, New York; Washington, District of Columbia; London, United Kingdom; Amsterdam, the Netherlands; and Shanghai, China.	100%	Jun-20-2012	WPP plc (LSE:WPP)	529.20	2.87x	n/a	n/a

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
LBi International NV	n/a	LBi International N.V., an independent marketing and technology agency, provides a range of services to brands to help them in acquiring and engaging customers through digital channels. The company's services for customer acquisition include digital advertising, social media and online public relations, search engine optimization and paid search, and brand and campaign experience design. Its services for customer engagement comprise brand and content strategy, research and planning, e-commerce and self-service Website building, emergent platform consulting, managed services, and customer relationship management programs.	100%	Sep-20-2012	Publicis Groupe SA (ENXTPA:PUB)	513.12	1.87x	11.94x	16.77x
Rosetta Marketing Group, LLC	n/a	Rosetta Marketing Group, LLC, a consulting-centered interactive agency, provides marketing services. It offers consulting practice, creative and customer experience, technology, relationship marketing, and analytics and optimization services. The company also provides search and media services, including search engine optimization; paid search engine marketing; and social media marketing, online display advertising, and more. The company also provides commerce, connected devices, segmentation, and optimization solutions.	100%	May-17-2011	Publicis Groupe SA (ENXTPA:PUB)	539.40	2.57x	n/a	n/a
Responsys Inc	NASDAQGS:MKTG	Responsys, Inc. provides email and cross-channel marketing solutions that enable companies to engage in relationship-based marketing across various interactive channels. The company offers Responsys Interact suite, a software-as-a-service platform that provides marketers with a set of integrated applications to create, execute, optimize, and automate marketing campaigns across various channels, including email, mobile, social, the Web, and display. Its platform also leverages third-party applications and data from real-time sources allowing customers to deliver targeted content to its customers and known prospects as part of their interactive marketing campaigns. In addition, the company provides professional services, such as strategic, creative, deliverability, campaign, education, and technical services.	100%	Dec-20-2013	Oracle Corporation (NYSE:ORCL)	1,780.12	8.20x	119.10x	1,017.21x
Aegis Group plc (nka:Dentsu Aegis Network Ltd.)	n/a	Dentsu Aegis Network Ltd., through its subsidiaries, provides branding, media, and marketing services to customers worldwide. Its services include branding solutions, media planning and buying, integrated cross media solutions, marketing and creative solutions, content marketing, entertainment marketing, sports marketing, event marketing, sales promotion, online and direct marketing, out-of-home media, corporate responsibility marketing, marketing consulting, and public relations. Dentsu Aegis Network Ltd. was formerly known as Aegis Group plc. As a result of acquisition of Aegis Group plc by Dentsu Inc., Aegis Group plc's name was changed.	100%	Jul-12-2012	Dentsu Inc. (TSE:4324)	4,788.79	2.60x	14.80x	20.80x

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
ExactTarget, Inc.	n/a	ExactTarget, Inc. provides cross-channel digital marketing software-as-a-service (SaaS) solutions that enable organizations to communicate with their customers through the interactive channels, including email, mobile, social media, Websites, marketing automation, and data management. Its solutions provide marketers with a suite of integrated applications to plan, automate, deliver, and optimize data-driven digital marketing campaigns and real-time communications. In addition, it provides FUEL, a multi-tenant SaaS platform that offers an integration framework for integration of data from relevant source and leverage productized integrations with third-party customer relationship management, Web analytics, and e-commerce providers for digital communications. Further, the company, through its platform, provides open application programming interfaces and developer tools that allow third parties to embed ExactTarget, Inc.'s technology into their solutions and build applications on ExactTarget, Inc.'s platform.	100%	May-10-2013	Salesforce.com, Inc (NYSE:CRM)	2,543.42	8.00x	EBITDA<0	EBIT<0
eCommerce Transaction									
Society6, LLC	n/a	Society6, LLC operates an online marketplace and e-commerce platform. It operates Society6, an e-commerce platform that allows users to offer art prints, framed art prints, stretched canvases, stationery cards, iPhone and iPod cases, iPad cases, T-shirts, tank tops, hoodies, throw pillows, tote bags, books, and gift cards, as well as iPhone, iPod, laptop, and iPad skins.	100%	Jun-24-2013	Demand Media Inc (NYSE:DMD)	97.69	5.37x	17.41x	17.41x
GMO Solution Partner, Inc.	n/a	GMO Solution Partner, Inc. offers web consulting and e-commerce solutions. The company was founded in 2003 and is based in Tokyo, Japan. GMO Solution Partner, Inc. operates as a subsidiary of GMO Internet Inc.	100%	Dec-02-2013	GMO AD Partners Inc. (JASDAQ:4784)	19.80	0.64x	3.74x	n/a
Innotrac Corp	NasdaqCM:INOC	Innotrac Corporation provides order processing, order fulfillment, and customer support contact center services to corporations that outsource these functions. It receives clients' orders through inbound call center services, electronic data interchange, or the Internet; picks, packs, verifies, and ships items; tracks inventory levels through an automated perpetual inventory system; warehouses data; and handles customer support inquiries.	100%	Nov-14-2013	Sterling Capital Partners IV, L.P. ; Sterling Partners	116.20	0.88x	12.14x	21.52x
TIME Engineering Berhad	KLSE:TIME	TIME Engineering Berhad, an investment holding company, develops and provides information technology (IT) solutions for government agencies, multinationals, and institutions primarily in Malaysia. The company engages in the development, management, and provision of business to business e-commerce and computerized transaction facilitation services. It also provides IT project management and consultancy services, as well as cybersecurity and managed services; and supplies ICT hardware equipment, software, and peripherals, as well as offers maintenance and asset management services.	45%	Sep-12-2013	Censof Holdings Berhad (KLSE:CENSOF)	46.90	0.91x	9.16x	26.50x

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Acquity Group Limited	n/a	Acquity Group Limited, through its subsidiary, Acquity Group LLC, provides brand e-commerce and digital marketing services in the United States. It offers digital strategy services, including assisting clients to develop strategies to translate their brand identity to the digital channel in order to enhance their brand e-commerce Websites; and integrating the customer's online brand experience with their offline brand experience. The company also provides multi-channel digital marketing services, such as assisting clients to create a brand experience across Internet, mobile devices, and social media applications. In addition, it offers brand e-commerce technology services comprising the design and implementation of online stores and other points of sale for its clients that supplement their physical store networks or serve as an alternative to expanding those networks, as well as the operation of Websites on behalf of its clients.	100%	May-17-2013	Accenture Holdings B.V.	320.56	2.38x	16.32x	20.64x
GSI Commerce, Inc	n/a	GSI Commerce, Inc., doing business as eBay Enterprise, Inc., provides commerce technologies, omnichannel operations, and marketing solutions for retailers and brands. Its strategic resources and services include Webinar series on current industry topics; in-person client briefings that focus on the research and industry trends, and their potential applications to businesses; and diagnostic programs to evaluate, measure, and isolate gaps that inhibit business growth. The company's commerce technologies include global Web and mobile storefronts, business user controls, order management, inventory management, payment processing, fraud management, reporting and analytics, and infrastructure on-demand solutions. It also provides marketing solutions, such as demand generation, performance marketing, CRM and loyalty, attribution and media mix optimization, data driven consumer insights, and design and content creation.	100%	Mar-28-2011	eBay Inc. (NasdaqGS:EBAY)	2,080.57	1.60x	20.50x	104.30x
Total Minimum						**1.82x**	**0.64x**	**3.74x**	**10.90x**
Total Average						**567.88x**	**2.74x**	**17.15x**	**116.52x**
Total Maximum						**4,788.79**	**8.20**	**119.10**	**1,017.21**
Average of Australian Digital Media Transactions							**2.03x**	**8.30x**	**12.20x**
Average Other Countries Digital Media Transaction							**4.35x**	**48.61x**	**351.60x**
Average Other Countries Digital Media Transaction (excluding outliers)							**4.35x**	**13.37x**	**18.79x**
Average eCommerce Transactions							**1.96x**	**13.21x**	**38.07x**
Average eCommerce Transactions (exlcuding GSI Commerce Inc)							**2.04x**	**11.76x**	**21.52x**

1. Implied purchase price for 100% of Target less net debt.
2. Operating revenue for the latest available 12 Month period prior to transaction.
3. Normalised EBITDA calculated from latest available period prior to transaction.

Source: Capital IQ, publicly available information, LCF analysis

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Digital Media Transactions (Australia)									
Mnet Mobile	n/a	Mnet Mobile provides mobile marketing solutions for media, enterprise, and government sectors. It offers strategy consulting services, marketing and analytics services and creative services.	100%	Jan-31-2013	Mediabrands Australia Pty Ltd	5.50	n/a	n/a	n/a
Experian Mosaic® - Pacific Micromarketing	n/a	Experian Mosaic® - Pacific Micromarketing provides marketing solutions. It offers customer analytics and local area planning services for customer insights; Populous prospect database and online counts for customer acquisition; and customer segmentation datasets.	100%	Jan-18-2013	Experian Australia Pty Ltd; Experian New Zealand Limited	6.19	n/a	n/a	n/a
Mitchell Communication Group Limited	n/a	The company offers media communications strategy, media planning and buying, consumer insights research, specialist strategic advice, and branded content solutions to clients; and digital media strategy, planning and buying, search engine marketing, and creative services. It also develops and implements communications campaigns across a range of disciplines.	100%	Jul-29-2010	Aegis Group plc (nka:Dentsu Aegis Network Ltd.)	325.45	1.20x	9.40x	10.90x
OOHMedia Group Ltd	n/a	oOh!media Group Limited operates as a retail out-of-home advertising company in Australia. It focuses on the out-of-home media production and advertising.	91%	Nov-10-2011	CHAMP III Fund;CHAMP Private Equity	192.36	1.60x	9.00x	11.30x
Media Monitors Australia Pty Ltd. (nka:Sentia Media Pty Ltd)	n/a	Sentia Media Pty. Ltd., along with its subsidiaries, provides media information, analysis, and advice for clients. The company offers clients with specialist insights into their communications activity; business and brand online intelligence services, which enable brands to manage and extract insights from consumers' conversations; and print, broadcast, and Internet monitoring services, as well as quantitative analysis.	100%	Jul-01-2010	Quadrant Private Equity Fund No. 2, L.P.; Quadrant Private Equity Pty Limited	160.00	n/a	6.40x	n/a
Five Field Marketing & Retail Agencies and Two Related Businesses of Photon Group Limited	n/a	Photon Group Limited changed its name to Enero Group Limited in June 2012. The company provides integrated marketing, communications, and technology services. Its services include strategy, market research, advertising, public relations, communications planning, graphic design, events management, direct marketing, corporate communications, and research and data analytics services.	100%	Nov-03-2011	Navis Asia Fund V, L.P.;Navis Capital Partners	146.50	1.27x	6.97x	n/a
Salmat Document Management Solutions Pty Limited (nka:Fuji Xerox Document Management Solutions Pty Limited)	ASX:SLM	Salmat Limited operates in two segments, Consumer Marketing Solutions and Customer Engagement Solutions. The Consumer Marketing Solutions segment distributes physical and digital catalogue content, as well as provides campaign management and marketing services. The Customer Engagement Solutions segment designs and delivers multi-channel contact centre services and technology solutions, field sales services, and learning and development solutions, as well as provides speech technology and automation solutions.	100%	May-30-2012	Fuji Xerox Asia Pacific Pte Ltd	375.00	1.19x	7.58x	n/a
Salmat Limited	SLM.ASX	Salmat Limited operates in two segments, Consumer Marketing Solutions and Customer Engagement Solutions. The Consumer Marketing Solutions segment distributes physical and digital catalogue content, as well as provides campaign management and marketing services. The Customer Engagement Solutions segment designs and delivers multi-channel contact centre services and technology solutions, field sales services, and learning and development solutions, as well as provides speech technology and automation solutions.	100%	Dec-22-2010	C4 Communication Pty Ltd, BeInteractive Pty Ltd, MessageNet Pty Ltd and Returnity Pty Ltd	91.00	n/a	n/a	n/a

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Digital Media Transactions (Australia)									
DTDigital Pty Ltd	n/a	DTDigital Pty Ltd., a digital communications company, provides digital marketing design and technology services. The company offers digital advertising and marketing, eCommerce, SEO and traffic generation, social networking, strategy and consulting, user experience design, and Web design and development solutions; and email marketing, mobile marketing, and games and application development services.	33%	Jan-18-2012	Ogilvy & Mather Asia Pacific Limited	15.60	n/a	n/a	n/a
Belgiovane Williams Mackay Pty Ltd	n/a	Belgiovane Williams Mackay Pty., Ltd., an independent agency, provides communication services. Its services include strategic planning, advertising, direct marketing, and online communications.	51%	Aug-10-2012	The existing minority shareholders of Belgiovane Williams Mackay Pty Ltd	14.71	n/a	n/a	n/a
Dark Blue Sea Ltd	ASX: DBS	Dark Blue Sea Limited, together with its subsidiaries, operates as a supplier of online direct navigation traffic for advertisers. Direct navigation is the action of typing a domain name directly into an Internet browser address bar.	70%	Oct-01-2009	Photon Group Limited	24.65	0.92x	13.40x	14.40x
Snakk Media Limited	NZSE:SNK	Snakk Media Limited operates as a mobile media aggregator providing end to end mobile media solutions primarily in Australia. The company provides mobile phone enabled promotions and marketing services. It also provides various ancillary technology and marketing services, including mobile messaging, Wi-Fi, Bluetooth and NFC, augmented reality, image recognition, mobile gaming, M-ticketing, custom QR codes, SMS short/long code numbers, mobile IVR solutions, keyword set up, mobile survey tools, and mobile vouchers.	5%	Aug-23-2013	Unknown	15.27	5.20x	EBITDA<0	EBIT<0
Ad Network Pty Ltd	n/a	Ad Network Pty Ltd., doing business as The Real Estate Ad Network, provides digital real estate advertising services to real estate agents. It also represents real estate industry sites that enable to reach a pool of property buyers, people researching property and home loans, investors and renters, small to medium businesses, rural audiences, and people moving home.	100%	Oct-12-2012	Onthehouse Holdings Limited	1.82	n/a	5.00x	n/a

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Digital Media Transactions (Other Countries)									
AKQA, Inc.	n/a	AKQA, Inc. operates as a digital agency. The company provides search engine marketing services; digital products, services, and content for the mobile platform; interactive experiences, content creation and distribution services, e-commerce and technology solutions, and usability and interface design solutions. The company was incorporated in 1990 and is based in San Francisco, California with additional offices in New York, New York; Washington, District of Columbia; London, United Kingdom; Amsterdam, the Netherlands; and Shanghai, China.	100%	Jun-20-2012	WPP plc (LSE:WPP)	529.20	2.87x	n/a	n/a
LBi International NV	n/a	LBi International N.V., an independent marketing and technology agency, provides a range of services to brands to help them in acquiring and engaging customers through digital channels. The company's services for customer acquisition include digital advertising, social media and online public relations, search engine optimization and paid search, and brand and campaign experience design. Its services for customer engagement comprise brand and content strategy, research and planning, e-commerce and self-service Website building, emergent platform consulting, managed services, and customer relationship management programs.	100%	Sep-20-2012	Publicis Groupe SA (ENXTPA:PUB)	513.12	1.87x	11.94x	16.77x
Rosetta Marketing Group, LLC	n/a	Rosetta Marketing Group, LLC, a consulting-centered interactive agency, provides marketing services. It offers consulting practice, creative and customer experience, technology, relationship marketing, and analytics and optimization services. The company also provides search and media services, including search engine optimization; paid search engine marketing; and social media marketing, online display advertising, and more. The company also provides commerce, connected devices, segmentation, and optimization solutions.	100%	May-17-2011	Publicis Groupe SA (ENXTPA:PUB)	539.40	2.57x	n/a	n/a
Responsys Inc	NASDAQGS:MKTG	Responsys, Inc. provides email and cross-channel marketing solutions that enable companies to engage in relationship-based marketing across various interactive channels. The company offers Responsys Interact suite, a software-as-a-service platform that provides marketers with a set of integrated applications to create, execute, optimize, and automate marketing campaigns across various channels, including email, mobile, social, the Web, and display. Its platform also leverages third-party applications and data from real-time sources allowing customers to deliver targeted content to its customers and known prospects as part of their interactive marketing campaigns. In addition, the company provides professional services, such as strategic, creative, deliverability, campaign, education, and technical services.	100%	Dec-20-2013	Oracle Corporation (NYSE:ORCL)	1,780.12	8.20x	119.10x	1,017.21x

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
Digital Media Transactions (Other Countries)									
Aegis Group plc (nka:Dentsu Aegis Network Ltd.)	n/a	Dentsu Aegis Network Ltd., through its subsidiaries, provides branding, media, and marketing services to customers worldwide. Its services include branding solutions, media planning and buying, integrated cross media solutions, marketing and creative solutions, content marketing, entertainment marketing, sports marketing, event marketing, sales promotion, online and direct marketing, out-of-home media, corporate responsibility marketing, marketing consulting, and public relations. Dentsu Aegis Network Ltd. was formerly known as Aegis Group plc. As a result of acquisition of Aegis Group plc by Dentsu Inc., Aegis Group plc's name was changed.	100%	Jul-12-2012	Dentsu Inc. (TSE:4324)	4,788.79	2.60x	14.80x	20.80x
ExactTarget, Inc.	n/a	ExactTarget, Inc. provides cross-channel digital marketing software-as-a-service (SaaS) solutions that enable organizations to communicate with their customers through the interactive channels, including email, mobile, social media, Websites, marketing automation, and data management. Its solutions provide marketers with a suite of integrated applications to plan, automate, deliver, and optimize data-driven digital marketing campaigns and real-time communications. In addition, it provides FUEL, a multi-tenant SaaS platform that offers an integration framework for integration of data from relevant source and leverage productized integrations with third-party customer relationship management, Web analytics, and e-commerce providers for digital communications. Further, the company, through its platform, provides open application programming interfaces and developer tools that allow third parties to embed ExactTarget, Inc.'s technology into their solutions and build applications on ExactTarget, Inc.'s platform.	100%	May-10-2013	Salesforce.com, Inc (NYSE:CRM)	2,543.42	8.00x	EBITDA<0	EBIT<0

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
eCommerce Transaction									
Society6, LLC	n/a	Society6, LLC operates an online marketplace and e-commerce platform. It operates Society6, an e-commerce platform that allows users to offer art prints, framed art prints, stretched canvases, stationery cards, iPhone and iPod cases, iPad cases, T-shirts, tank tops, hoodies, throw pillows, tote bags, books, and gift cards, as well as iPhone, iPod, laptop, and iPad skins.	100%	Jun-24-2013	Demand Media Inc (NYSE:DMD)	97.69	5.37x	17.41x	17.41x
GMO Solution Partner, Inc.	n/a	GMO Solution Partner, Inc. offers web consulting and e-commerce solutions. The company was founded in 2003 and is based in Tokyo, Japan. GMO Solution Partner, Inc. operates as a subsidiary of GMO Internet Inc.	100%	Dec-02-2013	GMO AD Partners Inc. (JASDAQ:4784)	19.80	0.64x	3.74x	n/a
Innotrac Corp	NasdaqCM:INOC	Innotrac Corporation provides order processing, order fulfillment, and customer support contact center services to corporations that outsource these functions. It receives clients' orders through inbound call center services, electronic data interchange, or the Internet; picks, packs, verifies, and ships items; tracks inventory levels through an automated perpetual inventory system; warehouses data; and handles customer support inquiries.	100%	Nov-14-2013	Sterling Capital Partners IV, L.P. ; Sterling Partners	116.20	0.88x	12.14x	21.52x
TIME Engineering Berhad	KLSE:TIME	TIME Engineering Berhad, an investment holding company, develops and provides information technology (IT) solutions for government agencies, multinationals, and institutions primarily in Malaysia. The company engages in the development, management, and provision of business to business e-commerce and computerized transaction facilitation services. It also provides IT project management and consultancy services, as well as cybersecurity and managed services; and supplies ICT hardware equipment, software, and peripherals, as well as offers maintenance and asset management services.	45%	Sep-12-2013	Censof Holdings Berhad (KLSE:CENSOF)	46.90	0.91x	9.16x	26.50x
Acquity Group Limited	n/a	Acquity Group Limited, through its subsidiary, Acquity Group LLC, provides brand e-commerce and digital marketing services in the United States. It offers digital strategy services, including assisting clients to develop strategies to translate their brand identity to the digital channel in order to enhance their brand e-commerce Websites; and integrating the customer's online brand experience with their offline brand experience. The company also provides multi-channel digital marketing services, such as assisting clients to create a brand experience across Internet, mobile devices, and social media applications. In addition, it offers brand e-commerce technology services comprising the design and implementation of online stores and other points of sale for its clients that supplement their physical store networks or serve as an alternative to expanding those networks, as well as the operation of Websites on behalf of its clients.	100%	May-17-2013	Accenture Holdings B.V.	320.56	2.38x	16.32x	20.64x

Target	Target Quote Symbol	Target Description	Percentage Sought	Date	Acquirer	Implied Enterprise Value[1] ($m)	EV/Revenue[2] Multiple	EV/EBITDA[3] Multiple	EV/EBIT Multiple
eCommerce Transaction									
GSI Commerce, Inc	n/a	GSI Commerce, Inc., doing business as eBay Enterprise, Inc., provides commerce technologies, omnichannel operations, and marketing solutions for retailers and brands. Its strategic resources and services include Webinar series on current industry topics; in-person client briefings that focus on the research and industry trends, and their potential applications to businesses; and diagnostic programs to evaluate, measure, and isolate gaps that inhibit business growth. The company's commerce technologies include global Web and mobile storefronts, business user controls, order management, inventory management, payment processing, fraud management, reporting and analytics, and infrastructure on-demand solutions. It also provides marketing solutions, such as demand generation, performance marketing, CRM and loyalty, attribution and media mix optimization, data driven consumer insights, and design and content creation.	100%	Mar-28-2011	eBay Inc. (NasdaqGS:EBAY)	2,080.57	1.60x	20.50x	104.30x
Total Minimum						**1.82x**	**0.64x**	**3.74x**	**10.90x**
Total Average						**589.99x**	**2.74x**	**17.68x**	**116.52x**
Total Maximum						**4,788.79**	**8.20**	**119.10**	**1,017.21**
Average of Australian Digital Media Transactions							**1.90x**	**8.25x**	**12.20x**
Average Other Countries Digital Media Transaction							**4.35x**	**48.61x**	**351.60x**
Average Other Countries Digital Media Transaction (excluding outliers)							**4.35x**	**13.37x**	**18.79x**
Average eCommerce Transactions							**1.96x**	**13.21x**	**38.07x**
Average eCommerce Transactions (exlcuding GSI Commerce Inc)							**2.04x**	**11.76x**	**21.52x**

1. Implied purchase price for 100% of Target less net debt.
2. Operating revenue for the latest available 12 Month period prior to transaction.
3. Normalised EBITDA calculated from latest available period prior to transaction.

Source: Capital IQ, publicly available information, LCF analysis

Financial Services Guide

29 January 2014

What is a Financial Services Guide?

This Financial Services Guide ("**FSG**") is an important document, the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided in the form of an independent expert report by Lawler Corporate Finance Pty Limited (ABN 65 097 893 957) ("**Lawler Corporate Finance**"). The use of "we", "us" or "our" is a reference to Lawler Corporate Finance as the holder of Australian Financial Services Licence ("**AFSL**") No. 295872.

The contents of this FSG include:

- who we are and how we can be contacted;
- what services we are authorised to provide under our AFSL;
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide;
- details of any potential conflicts of interest; and
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by the independent directors of Digital Performance Group Limited ("**DPG**") to prepare an independent expert's report providing our opinion as to whether a proposal to acquire Asia Pacific Digital Pty Limited is "fair" and "reasonable" to the Non-associated Shareholders of DPG ("**Report**").

The terms of the proposal are set out in the Explanatory Statement accompanying the Notice of General Meeting to be dated on or around the date of the Report. You are not the party or parties who engaged us to prepare the Report. We are not acting for any person other than the party or parties who engaged us. We are required by law to give you an FSG because the Report is being provided to you. You may contact us using the details located below.

Lawler Corporate Finance provides services primarily in the area of corporate finance and is partly owned by partners of the Australian partnership of Lawler Partners. Lawler Partners and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the partnership of Lawler Partners.

The financial product advice in the Report is provided by Lawler Corporate Finance and not by the partnership of Lawler Partners.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the partnership of Lawler Partners (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to carry on a financial services business to:

(a) provide financial product advice for the following classes of financial products:

- (i) deposit and payment products limited to:
  - (A) basic deposit products;
  - (B) deposit products other than basic deposit products;
- (ii) debentures, stocks or bonds issued or proposed to be issued by a government;
- (iii) interests in managed investment schemes excluding investor directed portfolio services; and
- (iv) securities; and

(b) deal in a financial product by:

- (i) arranging for another person to apply for, acquire, vary or dispose of financial products in respect of the following classes of financial products:
  - (A) securities;

to retail and wholesale clients.

Information about the general financial product advice we provide

The financial product advice provided in the Report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in the Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

We charge fees for providing Reports. Fees are agreed with the party or parties who engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who engage us.

Our fees are usually determined on an hourly basis. However they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services. The fee payable for this report is $58,000 plus GST.

Neither Lawler Corporate Finance, nor its directors and officers, receive any commissions or other benefits arising directly from providing Reports to you. The remuneration paid to our directors and staff reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Responsibility

The liability of Lawler Corporate Finance is limited to the contents of this FSG and the Report referred to in this FSG.

What compensation arrangements do we have?

Lawler Corporate Finance holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

What should you do if you have a complaint?

If you have any concerns regarding the Report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

AFS Compliance Manager
Lawler Corporate Finance Pty Limited
GPO Box 5446
SYDNEY NSW 2001
Telephone: +61 2 9008 1404   Fax: +61 2 8346 6099

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service ("**FOS**"). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry.

Complaints may be submitted to FOS at:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: (03) 9613 7366   Fax: (03) 9613 6399
Internet: http://www.fos.org.au

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia ("**ICAA**"). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 9985
Sydney NSW 2001
Telephone: +61 2 9290 1344   Fax: +61 2 9262 1512
Specific contact details for lodging a complaint with the ICAA can be obtained from their website at http://www.charteredaccountants.com.au/The-Institute/Member-complaints-and-discipline/How-to-make-a-complaint.aspx

The Australian Securities and Investments Commission ("**ASIC**") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: infoline@asic.gov.au
Internet: http://www.asic.gov.au/asic/asic.nsf