Firstfolio Limited
(ABN 43 002 612 991)

Notice of General Meeting and Explanatory Statement

General Meeting of Firstfolio Limited
to be held at 9.30am on Wednesday 27 November 2013

at

Level 4, 60 Carrington Street

Sydney NSW 2000

Your Independent Directors unanimously recommend that Shareholders

VOTE IN FAVOUR

of the Proposed Resolutions, in the absence of a superior proposal.

The Independent Expert has concluded the Proposed Placements are

"Not fair but reasonable"

to Shareholders not associated with the Recapitalisation Parties or their Associates.

This is an important document and requires your prompt attention. *The matters raised in this document will directly affect your holding of Firstfolio Shares. You are advised to read this document in its entirety before deciding how to vote on the Proposed Resolutions to implement the Recapitalisation Proposal.*

If Shareholders are in any doubt as to how they should vote on the Proposed Resolutions they should seek advice from their professional advisers. Shareholders may also contact the Shareholder Information Line between 9am and 5pm Sydney time on business days by calling 1300 560 339 from within Australia or +612 8011 0354 from outside Australia.

Corporate Directory

Directors
Mr Eric Dodd (Chairman)
Mr Greg Pynt (Executive Director)
Mr Michael Hogg (Non Executive Director)
Mr Tony Wales (Non Executive Director)

Company Secretary
Mr Dustine Pang

Registered Office
Level 9
50 Bridge Street
Sydney NSW 2000
Telephone :+61 2 9240 8903
Facsimile: +61 2 9240 8998

Web Address
www.firstfolio.com.au

ABN
ABN 43 002 612 991

ASX Code
FFF

Share Registry
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Telephone: 1300 85 05 05
Telephone: +61 (0)3 9415 4000 (Overseas)

Solicitors
Allion Legal
Angel Place
123 Pitt Street
Sydney NSW 2000

Auditors
Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

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Explanatory Statement

Letter from the Chairman

18 October 2013

Dear Shareholder

It is with great pleasure that Firstfolio Limited (**Firstfolio** or the **Company**) provides you with this Notice of Meeting and Explanatory Statement in relation to the proposed capital raising transactions with the IZN Investments Australian Capital Enterprise Trust (**Trust**) and a subsequent Share consolidation (**Consolidation**).

IZN Investments ACE Management Pty Ltd is the trustee of the Trust (**Trustee**). IZN Investments, Inc (**IZN**), Mr SongJune Kim and Australian Capital Enterprise Pty Limited (**ACE**) are the equal shareholders of the Trustee. Australian Capital Enterprise (HK) Limited (**ACEHK**) is the sole unitholder of the Trust. The Trustee and ACEHK are collectively referred to as the "**Recapitalisation Parties**".

Over the past year, your Directors have considered a number of alternatives to recapitalise Firstfolio's balance sheet, meet its finance facility obligations and provide capital to fund its ongoing growth. In October 2012, Grant Samuel was engaged to provide advice on two alternative capital raising options that were, at the time, under consideration by the Board. The Directors have considered all available options to raise further capital, including attempting to seek additional bank finance, undertaking a standalone rights issue, asset sales or a combination of these things.

Ultimately, the Directors' deliberations led to our announcement on 2 July 2013, that Firstfolio had entered into binding agreements with ACE under which ACE agreed to subscribe for $39.5 million in placement Shares (**Proposed Placements**) and fully underwrite a proposed 1 for 1 renounceable rights issue to raise approximately $10.7 million (**Entitlement Offer** and together with the Proposed Placements the **Recapitalisation Proposal**), subject to certain conditions. The agreements were subsequently novated to the Trustee, who will now assume all of ACE's obligations under the agreements.

The Recapitalisation Proposal will result in the Recapitalisation Parties having a voting power of between 50.83% and 75.41% in Firstfolio.

The proceeds of the Recapitalisation Proposal (approximately $50.2 million before associated fees and expenses, including a fee of 4% of the total Recapitalisation Proposal proceeds payable to the Trustee (approximately $2 million)) will create a more sustainable capital structure for the business going forward, enable Firstfolio to repay a significant proportion of debt owed under its various lending facilities, provide additional capital to support growth in Firstfolio's loan activities and provide funding for marketing and other initiatives to support Firstfolio's strategy. Specific details as to how Firstfolio intends to use the funds raised under the Recapitalisation Proposal are included in Section 2.3 of the accompanying Explanatory Statement. Following implementation of the Recapitalisation Proposal, the Company also proposes to undertake a consolidation of its share capital of 1 Share for every 10 Shares on issue (**Consolidation**).

A Shareholders' General Meeting to approve the Proposed Placements, the Trustee's participation in and underwriting of the Entitlement Offer and the Consolidation has been scheduled for 9.30am on Wednesday 27 November 2013 at Level 4, 60 Carrington Street, Sydney. **Your Independent Directors unanimously recommend that Shareholders VOTE IN FAVOUR of the Proposed Resolutions**, in the absence of a superior proposal. **The Independent Expert, BDO Corporate Finance, has concluded that the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer are "Not fair but reasonable"** to Shareholders not associated with the Recapitalisation Parties or their Associates.

Details of the Recapitalisation Proposal, Share Consolidation and General Meeting

The Trustee has agreed to subscribe for 1,300,000,000 Shares to raise $39.5 million (before associated fees and expenses) through the Proposed Placements. The Proposed Placements will occur in two stages. Under the Initial Placement, Firstfolio will issue 300,000,000 Shares to the Trustee at 1.5 cents per Share to raise $4.5 million. Under the Final Placement, Firstfolio will issue 1,000,000,000 Shares to the Trustee at 3.5 cents per Share to raise $35 million. Details of the Trustee (including the Trust) and its intentions for Firstfolio are set out in section 5 of the Explanatory Statement.

The Entitlement Offer will be a 1 for 1 renounceable rights issue at an issue price of 1 cent per Share to raise approximately $10.7 million (before associated fees and expenses). All Shareholders (other than certain foreign Shareholders) on the Record Date of 10 December 2013, will have the opportunity to participate in the Entitlement Offer, which will be fully underwritten by the Trustee. The Entitlement Offer will not include a shortfall facility. Accordingly, Shareholders will not be entitled to apply for additional new Shares in excess of their entitlement under the Entitlement Offer unless they buy additional rights to subscribe for new Shares under the Entitlement Offer. The Trustee has entered into sub-underwriting agreements for the entire Entitlement Offer (other than its entitlement to subscribe for 300,000,000 new Shares). Assuming that the underwriting and sub-underwriting agreements are not terminated in accordance with their terms, the sub-underwriters (or their nominees) will be issued the entire shortfall from the Entitlement Offer (see section 5.9). Before appointing the Trustee to underwrite the Entitlement Offer, Firstfolio approached several brokers to act as lead manager and underwriter for a capital raising. The terms upon which the Trustee has agreed to underwrite the Entitlement Offer are more favourable than the terms upon which any other broker was willing to act as underwriter.

The conditions precedent to the Recapitalisation Proposal proceeding are set out in section 2.4 of the Explanatory Statement.

Given that after the Recapitalisation Proposal is implemented there will be a large number of Shares on issue, Firstfolio is proposing to consolidate its expanded share capital whereby every 10 Shares will be converted into 1 Share through the Consolidation.

As the Proposed Placements, the Trustee's participation in and underwriting of the Entitlement Offer and Consolidation are conditional on Shareholder approval, your Independent Directors have called the General Meeting of Shareholders to consider and, if thought fit, pass the necessary resolutions. The Recapitalisation Proposal will only proceed if the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer are approved by Shareholders.

Shareholders can vote for the Proposed Resolutions either in person, by attending the General Meeting, or by proxy, by completing and lodging the Proxy Form attached to this Explanatory Memorandum. Proxy votes and any authority appointing an attorney or corporate representative must be received by the Share Registry or Firstfolio by no later than 9.30am (Sydney time) on 25 November 2013.

What are the key implications if the Recapitalisation Proposal proceeds?

Shareholders should note that there are important implications for Firstfolio and its Shareholders if the Recapitalisation Proposal is implemented, as well as important implications if it is not implemented.

After completion of the Recapitalisation Proposal, the Recapitalisation Parties and their Associates will have voting power of at least 50.83% in Firstfolio. Given that the Trustee is also underwriting the Entitlement Offer this could rise to 75.41%, assuming that no Shareholders subscribe under the Entitlement Offer and the sub-underwriting commitments become unenforceable or are defaulted on. The Recapitalisation Parties' voting power following completion of the Recapitalisation Proposal may act as a disincentive in the future for a third party to make an offer for your Shares without the support of the Recapitalisation Parties and their Associates.

The Trustee will also have the right to appoint 3 out of 5 Directors to the Firstfolio Board. Please see section 4 of the Explanatory Statement below for a detailed discussion of the advantages and disadvantages of the Recapitalisation Proposal.

Section 5.9 of the Explanatory Statement sets out information regarding the Trustee's rights to appoint sub-underwriters, the sub-underwriters that have been appointed as at the date of this Notice of Meeting, the obligations of the sub-underwriters to subscribe for all of the Entitlement Offer shortfall (other than the Trustee's entitlement) and the impact that the sub-underwriting arrangements could potentially have on control of the Company.

What are the key implications if the Recapitalisation Proposal does not proceed?

If Shareholders do not approve both Resolution 1 and Resolution 2, the Recapitalisation Proposal will not proceed. **The Independent Directors consider that if the Recapitalisation Proposal does not proceed there will be material uncertainty as to whether Firstfolio will be able to continue as a going concern.** Importantly:

(a) Firstfolio has no other current arrangements in place to obtain funding from an alternative source in order to repay approximately $40 million that will become due over the coming 12 months under its existing debt facilities; and

(b) Firstfolio may become in breach of financial covenants under its debt facility with the Commonwealth Bank of Australia which would entitle the Commonwealth Bank of Australia and other debt financiers to immediately require repayment of amounts owed by Firstfolio.

Please see section 1.2 of the Explanatory Statement for further details of these important matters.

What should you do next?

This Notice of Meeting and Explanatory Statement contains further detail on the background and rationale to the Recapitalisation Proposal, Consolidation and the Proposed Resolutions. You should read the Notice of Meeting and Explanatory Statement in its entirety and consider its contents carefully.

If you have any questions in relation to this document, you may contact the Shareholder Information Line between 9am and 5pm Sydney time on business days by calling 1300 560 339 from within Australia or +612 8011 0354 from outside Australia.

Independent Expert's opinion

Your Independent Directors retained BDO Corporate Finance (East Coast) Pty Ltd (**BDO**) to prepare an Independent Expert's Report in relation to the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer. The Independent Expert's opinion is that that the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer are "not fair but reasonable" to Shareholders not associated with the Recapitalisation Parties or their Associates (**Non-associated Shareholders**). A full copy of the Independent Expert's Report is contained at Annexure C to this document.

Recommendation

In the absence of a superior proposal, your Independent Directors unanimously recommend that Shareholders **VOTE IN FAVOUR** of the Proposed Resolutions to approve the Proposed Placements, the Trustee's participation in and underwriting of the Entitlement Offer and the Consolidation. **In particular, the Independent Directors consider that, in the absence of the Recapitalisation Proposal proceeding, there will be significant uncertainty as to the ability of Firstfolio to continue as a going concern**.

On behalf of the Independent Directors, I thank you for your continued support of Firstfolio.

Yours sincerely

Mr Eric Dodd
Chairman

FIRSTFOLIO LIMITED

(ABN 43 002 612 991)

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Firstfolio is to be held as set out below.

DETAILS OF MEETING

Date: Wednesday, 27 November 2013
Time: 9.30am

Address: Level 4, 60 Carrington Street, Sydney NSW 2000

BUSINESS

Resolution 1: Approval for the issue of Shares to the Trustee under the Proposed Placements

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

> *"Conditional on Resolution 2 being passed, that, for the purpose of section 611 item 7 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the issue by Firstfolio Limited (**Firstfolio**), and acquisition by IZN Investments ACE Management Pty Ltd (in its capacity as trustee of the IZN Investments Australian Capital Enterprise Trust) (**Trustee**), of 1,300,000,000 ordinary shares in the capital of Firstfolio (300,000,000 of which will be issued at 1.5 cents per Share and 1,000,000,000 of which will be issued at 3.5 cents per Share) on the terms and conditions and also on the basis further described in the Notice of Meeting and Explanatory Statement".*

Resolution 2: Approval for the issue of Shares to the Trustee under the Entitlement Offer

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

> *"Conditional on Resolution 1 being passed, that, for the purpose of section 611 item 7 of the Corporations Act 2001 (Cth) and for all other purposes, approval is given for the issue by Firstfolio, and acquisition by the Trustee, of up to 1,073,886,809 ordinary shares in the capital of Firstfolio, which will be issued at 1 cent per Share on the terms and conditions and also on the basis further described in the Notice of Meeting and Explanatory Statement".*

Short Explanation for Resolutions 1 and 2:

The Trustee has agreed to:

(a) subscribe for 1,300,000,000 ordinary shares in the capital of Firstfolio on the terms and conditions of the Subscription Agreement; and

(b) participate in and fully underwrite Firstfolio's 1 for 1 renounceable Entitlement Offer on the terms and conditions of the Underwriting Agreement. This may result in the Trustee being required to subscribe for up to an additional 1,073,886,809 Shares.

As a result of Trust investment structure (detailed in section 5 of the Explanatory Statement) and relevant provisions of the Corporations Act (detailed in section 3.1(c) of the Explanatory Statement) a number of individuals and entities (in addition to the Trustee) will have a relevant interest in the Shares acquired by the Trustee. These entities/individuals and the maximum and minimum relevant interest they will have in Firstfolio following completion of the Recapitalisation Proposal are set out in the table below:

Entity/Individual	Current Shareholding	Minimum relevant interest and voting power in Firstfolio following Recapitalisation Proposal	Maximum relevant interest and voting power in Firstfolio following Recapitalisation Proposal
Mr Mark Flack Shareholder of ACEHK (25%)	35,722,258 Shares 4.62% voting power	1,635,722,258 Shares 51.96% voting power	2,445,331,325 Shares 77.68% voting power
ACEHK Sole unitholder of the Trust	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
ACE Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
IZN Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Brent Christie Shareholder of ACEHK (25%) Shareholder of Echelon (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Bobby Yun Shareholders of ACEHK (25%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr SongJune Kim Shareholder of ACEHK (25%) Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Kim Byung Ki Shareholder of IZN (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Echelon Shareholder of ACE (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power

If Resolution 1 and Resolution 2 (which are inter-conditional) are approved, the Recapitalisation Proposal (made up of the Proposed Placements and Entitlement Offer) will proceed, which will result in the Recapitalisation Parties having a voting power of between 50.83% and 75.41% in Firstfolio. The Trustee has entered into sub-underwriting commitments for the entire shortfall under the Entitlement Offer (other than its entitlement to subscribe for 300,000,000 new Shares) which, if performed, will result in the Recapitalisation Parties only having a voting power of 50.83% in Firstfolio following completion of the

Recapitalisation Proposal. Sections 5.8 and 5.9 of the Explanatory Statement set out in detail the effect the Recapitalisation Proposal will have on control of Firstfolio.

Voting Exclusion for Resolutions 1 and 2: Firstfolio will disregard any votes cast in favour of Resolution 1 and Resolution 2 by the Recapitalisation Parties and their Associates. However, Firstfolio need not disregard a vote 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 a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Mr Mark Flack will not vote any Shares in which he holds a relevant interest on Resolution 1 or Resolution 2, as, subject to Resolution 1 and Resolution 2 being approved, Mr Flack will be appointed to the Board of Firstfolio following the Proposed Placements.

Resolution 3: Consolidation of capital

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

> *"Conditional on Resolution 1 and Resolution 2 being passed, that for the purposes of section 254H of the Corporations Act and for all other purposes and subject to all Shares being issued under the Proposed Placements and Entitlement Offer, the issued capital of Firstfolio be consolidated on the basis that every 10 Shares on issue be consolidated into 1 Share with the consolidation taking effect on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company), and, where the consolidation results in a fraction of a Share being held, the Directors be authorised to round that fraction up to the nearest whole Share (as the case may be)."*

ACCOMPANYING DOCUMENTS

The following documents accompany this Notice of Meeting:

(a) an Explanatory Statement in relation to the Proposed Resolutions to be considered at the General Meeting;

(b) a Glossary (at Annexure A);

(c) a summary of the material terms of the Subscription Agreement and Underwriting Agreement (at Annexure B);

(d) a copy of the Independent Expert's Report (Annexure C); and

(e) a Proxy Form.

The Explanatory Statement forms part of this Notice of Meeting. The background and reasons behind the Proposed Resolutions to be considered are more fully set out in the Explanatory Statement. Shareholders should read the Explanatory Statement in full and carefully consider its contents.

By Order of the Independent Directors

Dustine Pang
Company Secretary

Date: 18 October 2013

GENERAL MATTERS

1. Proxy Appointments

The Chairman of the General Meeting intends to vote undirected proxies for the Proposed Resolutions.

A Shareholder entitled to attend and vote at the General Meeting may appoint one proxy or, if the Shareholder is entitled to cast two or more votes at the General Meeting, two proxies to attend and vote instead of the Shareholder. Where two proxies are appointed to attend and vote at the General Meeting, each proxy may be appointed to represent a specified proportion or number of the Shareholder's voting rights at the General Meeting. If the vote split is not specified, it is deemed to be equally divided between the two proxies. A proxy need not be a Shareholder.

Shareholders and their proxies should note that sections 250BB and 250BC of the Corporations Act apply to voting by proxy. In particular:

(a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote as directed;

(b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands;

(c) if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll and must vote as directed; and

(d) if the proxy is not the chair, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote as directed.

If a proxy is also a Shareholder, these requirements do not affect the way that the person can cast any votes they hold as a Shareholder.

If an appointment of a proxy specifies the way the proxy is to vote on a particular resolution and:

(a) the appointed proxy is not the chair of the General Meeting; and

(b) at the meeting, a poll is duly demanded on the resolution and either of the following applies:

    (i) the proxy is not recorded as attending the General Meeting; or

    (ii) the proxy does not vote on the resolution,

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

2. Voting Entitlement

A determination has been made by the Independent Directors in accordance with Regulation 7.11.37 of the Corporations Act (and Settlement Rule 5.6.1) that those persons who are registered as the holders of Shares at 7pm (Sydney time) on 25 November 2013 will be taken to be the holders of Shares for the purposes of determining voting entitlements at the General Meeting.

3. Voting at the General Meeting

If you are registered as a Shareholder in the Share Register at 7pm (Sydney time) on 25 November 2013 you will be entitled to vote at the General Meeting, subject to the Voting Exclusion Statements set out in the Notice of Meeting.

Voting in person: Shareholders (with the exception of those subject to a Voting Exclusion Statement) wishing to vote in person (other than under a power of attorney) should attend the General Meeting in person and can cast their votes at that meeting. Please note that you should bring a suitable form of personal identification (such as a driver's licence) and arrive at the venue (if possible) 20 minutes prior to the commencement of the General Meeting (so that your Shareholding may be checked against the Share Register and attendance noted).

Voting by attorney: If a Shareholder proposes that an attorney is to attend and vote at the General Meeting on their behalf, the instrument conferring the power of attorney, or a certified copy of it, must be produced to Firstfolio by no later than 9.30am (Sydney time) on 25 November 2013 in the same way as a proxy form.

Voting by proxy: Shareholders (with the exception of those subject to a Voting Exclusion Statement) wishing to vote by proxy at the General Meeting must complete and sign or validly authenticate the personalised Proxy Form which is enclosed with this document. Completed Proxy Forms must be delivered, together with the power of attorney or other authority (if any) under which the Proxy Form is signed or a certified copy of that power or authority, by no later than 9.30am (Sydney time) on 25 November 2013 and in any of the following ways:

By facsimile to:	From within Australia: 1800 783 447
	From outside Australia +613 9473 2555
By post to:	Computershare Investor Services Pty Limited, GPO Box 242 Melbourne, Victoria 3001 Australia
By hand delivery to:	Firstfolio's offices at Level 9, 50 Bridge Street, Sydney, New South Wales 2000

You may also submit your proxy form online at www.investorvote.com.au. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is printed in the attached Proxy Form.

4. What should you do next?

You should read and consider the remainder of this document in full before making any decision on whether to vote in favour of implementing the Proposed Placements (and, thereby, enabling the Entitlement Offer to proceed) and the Consolidation.

In particular, Shareholders should refer to section 4 of this document for further guidance on the expected advantages and possible disadvantages of the Recapitalisation Proposal and the Consolidation. However, Shareholders should note that this document is not investment advice and has been prepared without taking into account any particular Shareholder's objectives, financial circumstances or needs. If, after reading this document, you have any questions about the Recapitalisation Proposal or Consolidation, please consult your legal, financial, taxation or other professional adviser before deciding how to vote on the Proposed Resolutions. Shareholders may also contact the Shareholder Information Line between 9am and 5pm Sydney time on business days by calling 1300 560 339 from within Australia or +612 8011 0354 from outside Australia.

Question	Answer	More information
What is happening and why have I received this document?	Firstfolio proposes to recapitalise its balance sheet by conducting the Proposed Placements and Entitlement Offer. These will inject additional capital of approximately $50.24 million into Firstfolio (before associated fees and expenses). After this, Firstfolio proposes to undertake a Share Consolidation under which every 10 Shares will be consolidated into 1 Share. Resolution 1 (which deals with the Proposed Placements), Resolution 2 (which deals with the Trustee's participation in and underwriting of the Entitlement Offer) and Resolution 3 (which deals with the Consolidation) require Shareholder approval at a General Meeting. Therefore, as a Shareholder, this document is being sent to you so that you are able to consider and vote on the Proposed Resolutions. The Recapitalisation Proposal is conditional on both Resolution 1 and Resolution 2 being approved by Shareholders.	-
What does Firstfolio intend to use the proceeds of the Recapitalisation Proposal for?	Firstfolio intends to use the funds raised by the Recapitalisation Proposal as follows: (a) to repay part of the amounts owing under various debt facilities (being the Senior Debt Facility, the NAB Facility and the Welas Facilities (approximately $31.4 million)); (b) to provide additional capital to fund growth in Firstfolio's asset finance and residential home loan activities (approximately $10.0* million); (c) to fund marketing and other initiatives to support Firstfolio's strategy (approximately $4.0* million); (d) to otherwise be used for the purpose of providing additional working capital (approximately $2.4* million); and (e) fund expenses of the Offer (including fees payable to Trustee) (approximately $2.4 million). **The allocation of funds across these three work streams reflects the Company's anticipated allocation*	Section 2.3

Question	Answer	More information
	of funds, as at the date of this Notice of Meeting. The final allocation of $16.4 million across these three respective work streams will occur post completion of the Recapitalisation Proposal, depending on finalisation of the reconstituted Board's strategy (refer sections 4.2(f) and 5.10).	
What is the Recapitalisation Proposal?	It is the Proposed Placements (the subject of Resolution 1) and Entitlement Offer (the Trustee's participation in and underwriting of which is the subject of Resolution 2) together.	Section 2.2
What effect will the Recapitalisation Proposal have on the control of the Company?	The Recapitalisation Proposal will result in the Recapitalisation Parties having a voting power of between 50.83% and 75.41% in Firstfolio. Following completion of the Proposed Placements, the Recapitalisation Parties will have a voting power of 62.68% in Firstfolio. Following Completion of the Entitlement Offer (which will be launched immediately following the Initial Placement and conclude following the Final Placement), the Recapitalisation Parties will have a voting power of between 50.83% and 75.41% in Firstfolio. The Trustee has entered into sub-underwriting commitments for the entire shortfall under the Entitlement Offer (other than its entitlement to subscribe for 300,000,000 new Shares) which, if performed, will result in the Recapitalisation Parties only having a voting power of 50.83% in Firstfolio following completion of the Recapitalisation Proposal. The sub-underwriting commitments are further explained later in this section of the Explanatory Statement. Sections 5.8 and 5.9 of the Explanatory Statement set out in detail the effect the Recapitalisation Proposal will have on control of Firstfolio.	Section 5.8 and 5.9

Question	Answer	More information
What are the Proposed Placements?	The Proposed Placements are the subject of Resolution 1 and involve the Trustee subscribing for 1,300,000,000 new Shares. This will occur in two tranches: (a) under the Initial Placement, the Trustee will subscribe for 300,000,000 Shares at 1.5 cents per Share raising $4.5 million (before associated fees and costs); and (b) under the Final Placement, the Trustee will subscribe for 1,000,000,000 Shares at 3.5 cents per Share raising $35.0 million (before associated fees and costs). ACEHK, the sole unitholder of the Trust, will have a relevant interest in any Shares acquired by the Trustee in its capacity as the trustee of the Trust. In accordance with section 608(3) of the Corporations Act: (a) Mr Brent Christie, Mr Bobby Yun, Mr SongJune Kim and Mr Mark Flack* (in their capacity as the shareholders of ACEHK); (b) ACE, Mr SongJune Kim and IZN (in their capacity as the shareholders of the Trustee); (c) Mr Kim Byung Ki (in his capacity as the sole shareholder of IZN); and (d) Echelon (in its capacity as the sole shareholder of ACE), together with its sole shareholder Mr Brent Christie, will have a relevant interest in the Shares which will be held by the Trustee as a result of the Recapitalisation Proposal. Refer to section 5 for further information regarding these relevant interests. *As Mr Flack already has a relevant interest in 4.62% of the Company, following the Recapitalisation Proposal he will have a minimum relevant interest of 51.96% and maximum relevant interest of 77.68% of the Company. The Proposed Placements will only proceed if Resolution 1 and Resolution 2 are approved by the Required Majority.	Section 2.2 and 5.8

Question	Answer	More information
What is the Entitlement Offer?	This is a renounceable rights issue of 1 new Share for every existing Share. All Shareholders on the Record Date (other than certain foreign Shareholders, see below) will have an opportunity to participate in the Entitlement Offer. Shares issued to the Trustee under the Initial Placement (but not the Final Placement) will be eligible to participate in the Entitlement Offer. The issue price will be 1 cent per Share, which is intended to raise approximately $10.7 million for Firstfolio (before associated fees and costs). Resolution 2 seeks shareholder approval so that the Trustee can participate in and fully underwrite the Entitlement Offer. Before appointing the Trustee to underwrite the Entitlement Offer, Firstfolio approached several brokers to act as lead manager and underwriter for a capital raising. The terms upon which the Trustee has agreed to underwrite the Entitlement Offer are more favourable than the terms upon which any other broker was willing to act as underwriter. The Entitlement Offer will only proceed if Resolution 1 and Resolution 2 are approved by the Required Majority. It is expected that only Shareholders with a registered address in Australia or New Zealand will be entitled to participate in the Entitlement Offer.	Section 2.2
Is there a fee Payable to the Trustee?	The Trustee will receive a fee that is 4% of the total amount raised under the Recapitalisation Proposal. The fee is structured such that the Trustee will receive 4% of the total amount raised under the: (a) Initial Placement and the Final Placement, payable within 10 business days of the Final Placement; and (b) Entitlement Offer, payable within 1 business day after the completion of the Entitlement Offer. Therefore, if the Recapitalisation Proposal proceeds, this means the Trustee will receive a fee of 4% of the $50,238,868 to be raised under the Recapitalisation Proposal. This means the fee	Section 6.2

Question	Answer	More information
	payable to the Trustee will be $2,009,554.	
Is the Entitlement Offer sub-underwritten?	The Trustee has entered into sub-underwriting agreements for 773,886,809 Shares (or $7,738,868.09 of the Entitlement Offer). This represents all of the Shares to be issued under the Entitlement Offer, other than the entitlement to subscribe for 300,000,000 Shares that the Trustee will have as a result of the Initial Placement. Pursuant to the terms of the sub-underwriting agreements: (a) L1 Capital has agreed to sub-underwrite 620,000,000 shortfall Shares; and (b) Kentgrove Capital has agreed to sub-underwrite 153,886,809 shortfall Shares. Assuming that no shareholder other than the Trustee subscribes for its entitlement under the Entitlement Offer, and the sub-underwriters perform their obligations to sub-underwrite 773,886,809 Shares, following completion of the Recapitalisation Proposal: (a) the Recapitalisation Parties will have a voting power of 50.83% in the Company; (b) L1 Capital will have a voting power of 19.7% in the Company; and (c) Kentgrove Capital will have a voting power of 4.9% in the Company. L1 Capital and Kentgrove Capital are independent, specialist fund managers that have previously participated as sub-underwriters for other transactions as a routine part of their respective businesses. Neither L1 Capital nor Kentgrove Capital has a non arm's length relationship with Firstfolio, the Trustee or ACEHK. L1 Capital and Kentgrove Capital will act independently with respect to any Shares which they each acquire in Firstfolio as a result of the sub-underwriting arrangements. L1 Capital and Kentgrove Capital are not Associates.	Section 5.9
Will the Entitlement Offer include a shortfall facility?	No, the Entitlement Offer will not include a shortfall facility. Accordingly, Shareholders will not be entitled to apply for additional new Shares in excess of their entitlement under the Entitlement Offer unless they buy additional rights to subscribe	Section 2.2 and 5.9

Question	Answer	More information
	for new Shares under the Entitlement Offer. L1 Capital and Kentgrove Capital have sub-underwritten the Entitlement Offer (other than in relation to the Trustee's 300,000,000 Share entitlement) and, subject to the terms and conditions of their sub-underwriting agreements, are required to subscribe for any shortfall Shares not subscribed for by Shareholders. As the Entitlement Offer is renounceable Shareholders may be able to buy additional rights to subscribe for new Shares under the Entitlement Offer on ASX. The ability of Shareholders to buy additional rights on ASX will be subject to Shareholders who elect not to take up some or all of their entitlements, offering those entitlements for sale on ASX.	
What is the Consolidation?	This is a proposed consolidation of Firstfolio's Share capital under which every 10 Shares will be converted into 1 Share on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company). The purpose of the Consolidation is to reduce the number of Shares on issue, which will increase following the Recapitalisation Proposal. As the Consolidation applies equally to all Shareholders (subject only to the rounding up of fractions), it will have no material effect on the percentage interest in Firstfolio of each individual Shareholder. The Consolidation is the subject of Resolution 3.	Section 2.2
What can I do if I do not want to subscribe for Shares under the Entitlement Offer?	There is no obligation to subscribe for Shares under the Entitlement Offer. The Company will apply for quotation of Shareholders' renounceable rights on ASX. If you choose not to subscribe for Shares under the Entitlement Offer, you may be able to sell, on the ASX, the renounceable rights issued to you. However, whilst your rights may be quoted there is no guarantee you will be able to sell them (for instance if an active and liquid market for trading does not emerge). Further details as to how you will be able to do this will be provided to you at or around the time of announcement of the Entitlement Offer. If the Shares represented by the renounceable rights issued to you are not subscribed for, these	-

Question	Answer	More information
	will be acquired by L1 Capital and Kentgrove Capital as sub-underwriters of the Entitlement Offer. If L1 Capital or Kentgrove Capital's sub-underwriting agreements are terminated or they fail to perform their obligations under those sub-underwriting agreements, the Shares represented by your renounceable rights will be acquired by the Trustee in its capacity as underwriter to the Entitlement Offer.	
Can Foreign Shareholders subscribe for Shares under the Entitlement Offer?	It is expected that only Shareholders with a registered address in Australia or New Zealand will be entitled to participate in the Entitlement Offer. For Shareholders in all other jurisdictions the renounceable rights that they would have otherwise been issued will be issued to a nominee who will then (if possible) sell those renounceable rights and remit the net proceeds to those Shareholders. Any such sale will be at a price and be conducted in a manner that the nominee will determine in good faith. Further details of this process will be provided to the relevant shareholders in the Entitlement Offer booklet, to be despatched after the General Meeting. The nominee has not and will not be appointed as a nominee approved by ASIC for the purpose of section 615 of the Corporations Act.	Section 2.2
What will be the documentation for the Entitlement Offer and when will it be despatched?	It is not expected that the Entitlement Offer will occur under a disclosure document (i.e. a prospectus). Rather, the Entitlement Offer will occur under an Entitlement Offer booklet (which is a reduced form of disclosure for a rights issue). Provided that the Proposed Resolutions are approved by Shareholders, the Entitlement Offer booklet is expected to be despatched to Shareholders around 16 December 2013.	Section 2.2
Why is Shareholder approval being sought for the Proposed Placements?	As the Recapitalisation Parties will have greater than 20% voting power in Firstfolio if the Proposed Placements proceed, Shareholder approval is being sought under section 611 (item 7) of the Corporations Act for the Trustee to be issued the Shares under the Proposed Placements. Resolution 1 needs to be passed by a simple majority of votes cast on the resolution (i.e. more than 50% of votes cast by eligible Shareholders).	Section 3.1

Question	Answer	More information
Why is Shareholder approval being sought for the Trustee's participation in and underwriting of the Entitlement Offer?	As the Recapitalisation Parties may increase their voting power from a starting point that is above 20% and below 90% in Firstfolio as a result of the Trustee's participation in and/or underwriting of the Entitlement Offer, Shareholder approval is being sought under section 611 (item 7) of the Corporations Act for the Trustee's participation in and underwriting of the Entitlement Offer. Resolution 2 needs to be passed by a simple majority of votes cast on the resolution (i.e. more than 50% of votes cast by eligible Shareholders).	3.1
Why is Shareholder approval being sought for the Consolidation?	Under section 254H of the Corporations Act Shareholder approval is required for Firstfolio to consolidate its Shares. Resolution 3 needs to be passed by a simple majority of votes cast on the resolution (i.e. more than 50% of votes cast by eligible Shareholders).	Section 3.2
Are the Proposed Resolutions inter-conditional?	Resolution 1 and Resolution 2 are inter–conditional. Therefore both Resolution 1 and Resolution 2 need to be approved by the Required Majority or neither the Proposed Placements nor the Entitlement Offer (together the Recapitalisation Proposal) will proceed. Resolution 1 and Resolution 2 are not conditional on Resolution 3. Therefore, if Shareholders approve Resolution 1 and Resolution 2 but not Resolution 3, the Recapitalisation Proposal can proceed without the Consolidation proceeding. On the other hand, Resolution 3 is conditional on Resolution 1 and Resolution 2. Therefore if Shareholders approve Resolution 3 but not Resolution 1 and Resolution 2, neither the Consolidation nor the Recapitalisation Proposal will proceed.	Section 1.1
What are the material conditions precedent to the implementation of the Recapitalisation Proposal and Consolidation?	The implementation of the Recapitalisation Proposal and Consolidation is subject to certain conditions precedent being satisfied or waived. Please see section 2.4 for further details of these conditions.	Section 2.4
Who will be a member of the Board following the Proposed Placements?	Following completion of the Proposed Placements, the Trustee will have the right to appoint up to 3 Directors to the Board (including the Chairman) from a total of 5 Board members (provided it holds	Section 4.2(f)

Question	Answer	More information
	more than 50% of Firstfolio's Shares). Upon the appointment of the Trustee's nominees all other Firstfolio Directors, other than Mr Greg Pynt (currently an Executive Director of Firstfolio) and Mr Anthony Wales (currently a Non-Executive Director of Firstfolio) will resign. This means that following the Proposed Placements the Board will be made up of the Trustee's nominee directors Mr SongJune Kim, Mr Brent Christie, Mr Mark Flack and current Directors Mr Greg Pynt and Mr Anthony Wales.	
What are the key reasons to VOTE IN FAVOUR of Resolution 1 to approve the Proposed Placements and Resolution 2 to approve the Trustee's participation in and underwriting of the Entitlement Offer?	The key reasons to **VOTE IN FAVOUR** of Resolution 1 and Resolution 2 (which are inter-conditional) to approve the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer (and, thereby, enable the Entitlement Offer to proceed) are as follows: 1. if Shareholders do not approve both Resolution 1 and Resolution 2, then neither the Proposed Placements nor the Entitlement Offer will proceed. **Your Independent Directors consider that this would create material uncertainty as to whether Firstfolio will be able to continue as a going concern** for the following reasons: (i) in the absence of a capital injection Firstfolio may not be able to repay amounts due under its existing debt facilities as they fall due and, in respect of its facility with the Commonwealth Bank of Australia, may not be able to comply with the financial covenant obligations imposed on it; and (ii) any failure to repay amounts due under its existing debt facilities as they fall due, or a failure to comply with financial covenants, would constitute an event of default under the respective facility agreements and enable the financiers to exercise rights to recover the amounts from Firstfolio. While the Independent Directors would seek alternative funding, there can be no assurance that any funding would be available to Firstfolio, either at all or on terms the Directors consider appropriate. There is	Section 4.2

Question	Answer	More information
	no current funding alternative under consideration by Firstfolio and the Independent Directors consider it unlikely that there will be an alternative available in the short term; 2. the proceeds of the Recapitalisation Proposal of approximately $50.24 million (before associated fees and expenses) will strengthen Firstfolio's balance sheet, enable Firstfolio to repay a large proportion of debt owed under its various lending facilities, provide additional capital to support growth in Firstfolio's loan activities and provide funding for marketing and other initiatives to support Firstfolio's strategy; 3. the average subscription price of $0.026[1] per new Share paid by the Trustee under the Recapitalisation Proposal represents a premium of 63% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 117% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 160% premium to the subscription price of the Entitlement Offer and 44% premium to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting); 4. the Entitlement Offer provides Shareholders with an opportunity to make a further investment in Firstfolio at an issue price of 1 cent per Share; and 5. the Trustee's nominees to the Board are expected to bring additional expertise and experience to the Board. Please see section 4 below for a more detailed discussion of the reasons to **VOTE IN FAVOUR** of the Proposed Resolutions to implement the	

[1] The average subscription price (which is subject to rounding) has been calculated taking into account the Proposed Placements and assuming the Trustee subscribes for its full 300,000,000 Share entitlement under the Entitlement Offer (which it will have following the Initial Placement), that the Trustee is not required to subscribe for any shortfall shares under the Entitlement Offer and net of the 4% commission the Trustee will receive in respect of the Shares it subscribes for under the Recapitalisation Proposal.

Question	Answer	More information
	Proposed Placements (and, thereby, enable the Entitlement Offer to proceed).	
What are the key reasons to VOTE AGAINST Resolution 1 to approve the Proposed Placements and Resolution 2 to approve the Trustee's participation in and underwriting of the Entitlement Offer?	The key reasons to **VOTE AGAINST** Resolution 1 and Resolution 2 (which are inter-conditional) to approve the Proposed Placements and Trustee's participation in and underwriting of the Entitlement Offer (and, thereby, enable the Entitlement Offer to proceed) are as follows: 1. the interests of the Recapitalisation Parties might not always be aligned with the interests of minority Shareholders and, after completion of the Recapitalisation Proposal, the Recapitalisation Parties and their Associates will have voting power of at least 50.83% in Firstfolio. At this shareholding level, the Recapitalisation Parties will be able to control the composition of Firstfolio's Board and pass ordinary resolutions of Shareholders (i.e. requiring more than 50% of the votes cast) subject to certain specific and limited restrictions discussed in section 4.3. Further, as the Trustee is underwriting the Entitlement Offer, assuming that no Shareholders subscribe under the Entitlement Offer and the current sub-underwriting commitments become unenforceable or are defaulted on (refer to section 5.9 for further information regarding the sub-underwriting commitments that have been entered into with L1 Capital and Kentgrove Capital, which may result in L1 Capital and Kentgrove Capital having a voting power of 19.7% and 4.9% in the Company, respectively), the Recapitalisation Parties' voting power in Firstfolio would rise to 75.41%. At this shareholding level, the Recapitalisation Parties will be able to pass special resolutions of Shareholders (i.e. requiring at least 75% of the votes cast) subject to the same qualification as above; 2. following the Proposed Placements, the Trustee will be able to nominate 3 of the 5 members to the Board, including the Chairman (provided the Trustee holds more than 50% of Firstfolio Shares). This will allow the nominees of the Recapitalisation Parties to control decisions of the Board which require a majority vote of Directors. Despite the nominees appointed by the Trustee being	Section 4.3

Question	Answer	More information
	able to control the decisions of the Board which require a majority vote of Directors, the nominees will still need to comply with all applicable statutory, general law and fiduciary duties, including to act in good faith, in the best interest of Firstfolio.; 3. the interests of the Recapitalisation Parties may, on occasion, be contrary to the interests of other Shareholders. However, in these circumstances, the other Shareholders would have the benefit of certain legal protections; 4. the Trustee's shareholding (and Recapitalisation Parties' voting power) might act as a disincentive for a third party to make an offer for your Shares without the support of the Recapitalisation Parties and their Associates; 5. the Shares to be issued under the: (i) Initial Placement will be offered at 1.5 cents per Share, which represents a discount of 8% to the 90 day VWAP of Shares prior to the Initial Proposal Date, and a 20% discount to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting); and (ii) Entitlement Offer will be offered at 1 cent per Share, which represents a 38% discount to the 90 day VWAP of Shares prior to the Initial Proposal Date and 16.7% discount to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013. However, the Independent Directors consider that this price is appropriate so as to encourage all Shareholders to participate in the Entitlement Offer; 6. upon implementation of the Recapitalisation Proposal, the number of Shares will increase from 773,886,809 to 3,147,773,618 (on a pre-consolidated basis and ignoring any Shares issued as result of the exercise of Options). This means that Shareholders' interests will be diluted following implementation of the Recapitalisation Proposal as each Share will	

Question	Answer	More information
	represent a significantly lower proportion of the ownership of the recapitalised Firstfolio; 7. the concentration of a significant (including controlling) proportion of Firstfolio Shares with the Trustee may reduce the liquidity of Firstfolio Shares; 8. there is uncertainty as to whether Firstfolio will be able to use carried forward group tax losses and group capital losses (which as at 30 June 2013 were in the amount of $4 million and $2.6 million respectively) or transferred losses (which as at 30 June 2013 were in the amount of $17.2 million) following the Recapitalisation Proposal. Whether Firstfolio will be able to use these losses will only be known in the future and will depend on whether or not the same business test is satisfied at that time; 9. Firstfolio estimates that the total cost of the Recapitalisation Proposal, including the negotiation of transaction documents, calling and holding of the General Meeting, issue of the Proposed Placement Shares, conduct of the Entitlement Offer and payment of corporate, legal and Share Registry fees, will be approximately $1 million (including $600,000 in costs that have already been paid by the Company); and 10. the unit holders of the Trust will have the power to remove and replace the Trustee at any time in accordance with law or by passing a special resolution. Accordingly, while it is the sole unit holder of the Trust, ACEHK will have the power to remove and replace the Trustee as trustee of the Trust. If the Trustee is replaced, there is no guarantee that the replacement trustee's intentions for the Firstfolio Group will be the same as the Recapitalisation Parties' intentions (as detailed in section 5.10). Please see section 4 below for a more detailed discussion of the reasons to **VOTE AGAINST** Resolution 1 to approve the Proposed Placements and Resolution 2 to approve the Trustee's participation in and underwriting of the Entitlement Offer.	

Question	Answer	More information
What do your Independent Directors recommend?	After considering all of the advantages and disadvantages of the Recapitalisation Proposal, in the absence of a superior proposal, your Independent Directors unanimously recommend that you: (a) **VOTE IN FAVOUR** of Resolution 1 to permit the Proposed Placements to proceed; (b) **VOTE IN FAVOUR** of Resolution 2 to permit the Trustee's participation in and underwriting of the Entitlement Offer (and, thereby, enable the Entitlement Offer to proceed); and (c) **VOTE IN FAVOUR** of Resolution 3 to approve the Consolidation. Mr. Anthony Wales has declined to make a recommendation on the Proposed Resolutions as he has a conflict of interest in that some of the proceeds of the Recapitalisation Proposal will be used to partially repay amounts owed under the Welas Facility to a company that he controls (Welas Pty Limited).	Section 2.9
Have the Directors considered any other alternatives?	Since 2012, in anticipation of tougher financial covenants being imposed by Firstfolio's primary debt providers, the Directors have considered a number of measures to seek to recapitalise Firstfolio's balance sheet. In October 2012, Grant Samuel was engaged to provide advice on two alternative capital raising options that were, at the time, under consideration by the Board. The Directors have considered all available options to raise further capital, including attempting to seek additional bank finance or other third party finance, undertaking a standalone rights issue, conducting asset sales or a combination of these. Having assessed the alternative options and noting that, at present, the Directors are not aware of any alternative superior proposal the Independent Directors consider the Recapitalisation Proposal to be in the best interest of Shareholders.	

Question	Answer	More Information
What happens if a superior proposal emerges before the General Meeting and is a break fee payable?	Firstfolio and the Trustee are parties to an Exclusivity Deed pursuant to which each party agrees to use its best endeavours to complete the Recapitalisation Proposal. Firstfolio has agreed to comply with certain restrictions commonly referred to as 'no shop', 'no talk' and 'no due diligence' exclusivity restrictions, subject to certain exceptions in relation to Directors' fiduciary duties. If a superior proposal emerges before the General Meeting, your Independent Directors will comply with their continuous disclosure obligations and fiduciary duties in relation to that proposal. A break fee of $300,000 will be payable by Firstfolio if the Board fails to recommend the Recapitalisation Proposal or call the General Meeting on or before 11 November 2013. If the Recapitalisation Proposal fails to proceed due only to another competing proposal that is announced within 180 days of 1 July 2013, a break fee of $600,000 will be payable by Firstfolio to the Trustee. The maximum break fee payable under the Exclusivity Deed is $600,000.	-
How much will the implementation of the Recapitalisation Proposal cost?	Firstfolio estimates that the total cost of the Recapitalisation Proposal, including the negotiation of transaction documents, calling and holding of the General Meeting, issue of the Proposed Placement Shares, conduct of the Entitlement Offer and payment of corporate, legal advisors and Share Registry fees, will cost approximately $1 million (including $600,000 in costs that have already been paid by the Company). In addition, if the Recapitalisation Proposal proceeds, the Trustee will receive a fee of 4% of the $50,238,868 to be raised under the Recapitalisation Proposal. This means the fee payable to the Trustee will be $2,009,554.	

Question	Answer	More Information
What is the Independent Expert's opinion?	BDO, the Independent Expert, has concluded that the Proposed Placements and Trustee's participation in and underwriting of the Entitlement Offer are "not fair but reasonable" to the Non-associated Shareholders. A summary of the Independent Expert's Report is set out at section 2.10 of the Explanatory Statement and a full copy of the Independent Expert's Report is contained at Annexure C to this document.	Section 2.10 and Annexure C
When and where will the General Meeting be held?	The General Meeting will be held at 9.30am on Wednesday 27 November 2013 at: Level 4, 60 Carrington St Sydney NSW 2000 Details as to how you can exercise your voting rights are contained in the Notice of Meeting in this document.	Notice of Meeting
Do you need to complete the Proxy Form to vote at the General Meeting?	No, the Proxy Form is only included if you wish to appoint a proxy to vote your Shares at the General Meeting. Please see the Notice of Meeting for specific details as to how you can exercise your voting rights.	Notice of Meeting
Where can you find further information?	If Shareholders are in any doubt on these matters, they should consult their legal, financial, taxation or other professional adviser before deciding how to vote on the Proposed Resolutions. Shareholders may also contact the Shareholder Information Line between 9am and 5pm Sydney time on business days by calling 1300 560 339 from within Australia or +612 8011 0354 from outside Australia.	-

Important Notices

Important Information

This Notice of Meeting and Explanatory Statement has been issued by Firstfolio Limited (**Firstfolio**) in relation to the General Meeting to be held at 9.30am on 27 November 2013 at Level 4, 60 Carrington Street Sydney NSW 2000.

This Notice of Meeting and Explanatory Statement is important and requires your attention. It is important that you read this document in its entirety before deciding how to vote on the Proposed Resolutions.

This Notice of Meeting and Explanatory Statement have been issued in relation to the General Meeting to consider three ordinary resolutions as set out in this Notice of Meeting and explained in the Explanatory Statement, which are necessary to give effect to and approve the Proposed Placements (and, thereby, to enable the Entitlement Offer to proceed) as well as the Consolidation.

This Notice of Meeting and Explanatory Statement must be read in the context of, and having regard to, Firstfolio's continuous disclosure and publicly available information regarding Firstfolio and its businesses.

Definitions and Abbreviations

Unless otherwise stated, defined terms and abbreviations used in this document are outlined in the Glossary in Annexure A of this document.

ASIC and ASX

A copy of this document has been lodged with ASX and ASIC. None of ASX, ASIC or any of their officers take any responsibility for the contents of this document.

Input from other parties

The information contained in section 5 of this document has been prepared by, and is the responsibility of, the Recapitalisation Parties and the Recapitalisation Parties take responsibility for that information. The Recapitalisation Parties are not responsible for any other information contained within this document, other than where statements made in section 5 of this document are repeated outside that section.

BDO has prepared the Independent Expert's Report in Annexure C of this document and takes responsibility for that Independent Expert's Report. BDO is not responsible for any other information contained within this document.

Other than in respect of the information identified above, the information contained in the remainder of this document has been prepared by Firstfolio and is the responsibility of Firstfolio. Firstfolio does not assume responsibility for the accuracy or completeness of any part of this document other than the information identified above for which it is solely responsible.

Disclaimer

No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness or any information, opinions and conclusions contained in this Notice of Meeting and Explanatory Statement, to the maximum extent permitted by law. Neither Firstfolio nor any of its directors, officers, employees, intermediaries or advisers or any other person accepts any liability for any loss arising in connection with this document and its subject matter, including, without limitation, any liability arising from fault or negligence on their part, except as required by law and only to the extent so required.

The pro forma financial information provided in the Explanatory Statement is not a forecast of operating results of Firstfolio to be expected in future periods. Neither Firstfolio nor its Directors, officers, employees, intermediaries or advisers or any other person warrants the future performance of Firstfolio or any return on any investment in Firstfolio, except as required by law and only to the extent so required.

Except as may be required by law or the Listing Rules, neither Firstfolio or its directors, officers, employees, intermediaries or advisers or any other person accepts any responsibility to update or revise any of the information in this Notice of Meeting or the Explanatory Statement, including any forward looking information.

No Investment Advice

In preparing this Notice of Meeting and Explanatory Statement, no account has been taken of the investment objectives, financial situation and particular needs of any particular party and nothing in this Notice of Meeting and Explanatory Statement should be interpreted or construed as financial, tax or legal advice or a recommendation in relation to an investment in Firstfolio.

Governing Law

This Notice of Meeting and Explanatory Statement are governed by the laws of New South Wales, Australia.

Key Dates

Action	Date
General Meeting	27 November 2013
Issue of Shares under Initial Placement	29 November 2013
Record Date	10 December 2013
Issue of Shares under Final Placement	16 December 2013
Entitlement Offer opens	16 December 2013
Entitlement Offer closes	2 January 2014
Issue of Shares under Entitlement Offer	10 January 2014
Date of Consolidation	5 February 2014

* Subject to relevant approvals at the General Meeting.

Dates may change

These dates are indicative only and may change. Firstfolio may elect to postpone the meeting date or to withdraw the Recapitalisation Proposal and/or the Consolidation at any time before the meeting date.

Voting at General Meeting and obtaining further copies of documents

Proxy votes and any authority appointing an attorney or corporate representative will only be accepted prior to 9.30am (Sydney time) on 25 November 2013. A Proxy Form accompanies this Notice of Meeting and Explanatory Statement. You can also obtain a copy of this Notice of Meeting and Explanatory Statement on Firstfolio's website (www.firstfolio.com.au) or arrange for a copy of this Notice of Meeting and Explanatory Statement and a Proxy Form to be sent to you by calling the Shareholder Information Line between 9am and 5pm (Sydney time) on business days on 1300 560 339 from within Australia or +612 8011 0354 from outside Australia.

EXPLANATORY STATEMENT

This Explanatory Statement forms part of the Notice of Meeting convening the General Meeting of Shareholders of Firstfolio to be held at 9.30am on Wednesday, 27 November 2013 and is to assist Shareholders in understanding the background to the Proposed Resolutions, the Recapitalisation Proposal and the Consolidation.

1 INTRODUCTION

1.1 Details of the Proposed Resolutions to be put to Shareholders

Shareholders are being asked to consider and, if thought fit, approve the Proposed Resolutions at the General Meeting. These are:

(a) **Resolution 1**: Firstfolio issuing 1,300,000,000 Shares to the Trustee under the Proposed Placements. 300,000,000 Shares will be issued at 1.5 cents per Share under the Initial Placement and 1,000,000,000 Shares will be issued at 3.5 cents per Share under the Final Placement.

(b) **Resolution 2**: Firstfolio issuing up to 1,073,886,809 Shares (in addition to those issued under the Proposed Placements) to the Trustee as a participant in and underwriter of the Entitlement Offer, at an issue price of 1 cent per Share.

(c) **Resolution 3**: The Consolidation of every 10 Shares into 1 Share on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company).

If Resolution 1 and Resolution 2 (which are inter-conditional) are approved, the Recapitalisation Proposal (comprising both the Proposed Placements and the Entitlement Offer which is fully underwritten by the Trustee) will proceed.

As a result of the Trust investment structure, which is detailed in section 5 of the Explanatory Statement:

(a) ACEHK (in its capacity as the sole unitholder of the Trust);

(b) Mr Brent Christie, Mr Bobby Yun, Mr SongJune Kim and Mr Mark Flack* (in their capacity as the shareholders of ACEHK);

(c) IZN, Mr SongJune Kim, and ACE (in their capacity as the shareholders of the Trustee);

(d) Mr Kim Byung Ki (in his capacity as the sole shareholder of IZN); and

(e) Echelon (in its capacity as the sole shareholder of ACE), together with its sole shareholder Mr Brent Christie,

will have a relevant interest in any Shares acquired by the Trustee under the Recapitalisation Proposal (which will proceed subject to Shareholders approving Resolution 1 and Resolution 2).

*As Mr Flack already has a relevant interest in 4.62% of the Company, following the Recapitalisation Proposal he will have a minimum relevant interest of 51.96% and maximum relevant interest of 77.68% of the Company.

Following completion of the Proposed Placements, the Recapitalisation Parties will have a voting power of 62.68% in Firstfolio. Following Completion of the Entitlement Offer (which will be launched immediately following the Initial Placement), the Recapitalisation Parties will have a voting power of between 50.83% and 75.41% in Firstfolio. The Trustee has entered into sub-underwriting commitments (detailed in section 5.9) for the entire shortfall under the Entitlement Offer (other than its entitlement to subscribe for 300,000,000 new Shares) which, if performed, will result in the Recapitalisation Parties only having a voting power of 50.83% in Firstfolio following completion of the Recapitalisation Proposal. Sections 5.8 and 5.9 of the Explanatory Statement set out in detail the effect the Recapitalisation Proposal will have on control of Firstfolio.

The Consolidation is conditional on all Shares being issued under the Proposed Placements and Entitlement Offer. However, Resolution 1 (Proposed Placements) and Resolution 2 (Trustee's participation in and underwriting of the Entitlement Offer) are not conditional on Resolution 3 (Consolidation) being approved by the Required Majority. Therefore, if Shareholders approve Resolution 1 and Resolution 2, but not Resolution 3, the Recapitalisation Proposal can proceed without the Consolidation proceeding. On the other hand, if Shareholders approve Resolution 3, but not Resolution 1 and/or Resolution 2, neither the Consolidation nor the Recapitalisation Proposal will proceed.

1.2 Impact on Firstfolio if Resolution 1 and Resolution 2 are not approved

If Shareholders do not approve Resolution 1 and Resolution 2, the Recapitalisation Proposal will not proceed. **If the Recapitalisation Proposal does not proceed, Firstfolio will continue with its existing capital structure and financing arrangements, which your Independent Directors consider would create material uncertainty as to whether Firstfolio will be able to continue as a going concern.**

Specifically, Firstfolio may be placed into financial difficulty and it may not be able to repay the following amounts due under its debt facilities within the next twelve months:

(a) $5.4 million due by 31 January 2014 under the Welas Facility;

(b) $32.7 million due by 7 April 2014 under the Senior Debt Facility; and

(c) $1.2 million due by 31 July 2014 under the NAB Facility.

If the above amounts are not repaid by the dates stated above and the respective facilities are not refinanced, the failure to pay will constitute an event of default under the respective facility agreements and enable the financiers to exercise rights to recover the amounts from Firstfolio.

Importantly, at this time, Firstfolio has no other arrangements in place to obtain funding from an alternative source. While the Independent Directors would seek alternatives if the Recapitalisation Proposal does not proceed, there can be no assurance that any funding would be available to Firstfolio, either at all or on terms which the Independent Directors consider appropriate. The Independent Directors consider it unlikely that there will be an alternative funding source available in the short term.

Further, Firstfolio has given an undertaking to the Commonwealth Bank of Australia to recapitalise its balance sheet. If the Recapitalisation Proposal is not completed by 10 January 2014, Firstfolio will be unable to comply with financial covenants that apply under its Senior Debt Facility after that date. The default may also enable the Commonwealth Bank of Australia, and the other debt financiers of Firstfolio, to exercise rights against Firstfolio, such as the right to require immediate repayment.

Therefore, in the absence of a superior proposal, your Independent Directors unanimously recommend that Shareholders **VOTE IN FAVOUR** of the Proposed Resolutions to implement the

Recapitalisation Proposal (comprising both the Proposed Placements and Entitlement Offer) and the Consolidation.

Section 2.3 sets out specific details regarding the intended use of funds raised, if the Recapitalisation Proposal is approved. Shareholders should note that after the debt repayments specified in section 2.3 have been made, Firstfolio will still owe the following amounts under its principal debt facilities:

(i) $15.8 million under the Welas Facility; and

(ii) $16.25 million under the Senior Debt Facility,

and still owe trade creditors approximately $10 million. However, your Independent Directors consider that these debt levels will be acceptable for a business of Firstfolio's nature and size. Sections 2.7 and 4.2(b) set out further information regarding the effect the Recapitalisation Proposal will have on Firstfolio's balance sheet.

2 DETAILS OF THE RECAPITALISATION PROPOSAL AND CONSOLIDATION

2.1 Firstfolio's financial condition and alternatives considered by Firstfolio

As a result of difficult housing market and trading conditions, over the past few quarters Firstfolio has conducted a review of the strategic and operating position of its business in the context of its capital structure and the demand for the offerings of Firstfolio. While Firstfolio's business continues to operate profitably, notwithstanding these difficult conditions, and a number of operating measures have been implemented to reduce Firstfolio's cost base, the result of the review was that the Board has determined that it is necessary for Firstfolio to raise additional capital to deleverage its balance sheet, provide additional capital to fund growth and to meet its obligations under its finance facilities with the Commonwealth Bank of Australia and other financiers.

Firstfolio considered a range of alternatives to recapitalise its balance sheet. These included securing further debt facilities, undertaking further equity raisings and asset sales or a combination of these. Having considered these alternative options, the Independent Directors believe that the Recapitalisation Proposal offers the greatest certainty for Firstfolio and best meets Firstfolio's capital raising needs.

Therefore, the Independent Directors consider that the Recapitalisation Proposal is in the best interests of Firstfolio and, in the absence of a superior proposal, unanimously recommend that you **VOTE IN FAVOUR** of the Proposed Resolutions to approve the Recapitalisation Proposal (comprising both the Proposed Placements and Entitlement Offer) and the Consolidation.

2.2 Structure of the Recapitalisation Proposal and Consolidation

The Recapitalisation Proposal involves two components. These are:

(a) **Proposed Placements**: The Trustee has agreed to subscribe for 1,300,000,000 Shares to raise $39.5 million (before associated fees and expenses). The Proposed Placements will occur in two stages being:

(i) an Initial Placement under which Firstfolio will issue 300,000,000 Shares to the Trustee at 1.5 cents per Share to raise $4.5 million (before associated fees and expenses). Shares issued under the Initial Placement will be entitled to participate in the Entitlement Offer; and

(ii) a Final Placement under which Firstfolio will issue 1,000,000,000 Shares to the Trustee at 3.5 cents per Share to raise $35 million (before associated fees and expenses). Shares issued under the Final Placement will not be entitled to participate in the Entitlement Offer; and

(b) **Entitlement Offer**: Firstfolio will undertake a renounceable rights issue under which Shareholders will be entitled to subscribe for 1 new Share for every Share they hold on the Record Date. The Entitlement Offer will have the following characteristics:

(i) it will be fully underwritten by the Trustee and will raise approximately $10.70 million (before associated fees and expenses);

(ii) the Trustee is permitted to appoint sub-underwriters to cover some or all of its obligations to acquire Shares as underwriter. The Trustee has entered into sub-underwriting agreements for 773,886,809 Shares. This represents all of the Shares to be issued under the Entitlement Offer, other than the entitlement to subscribe for 300,000,000 Shares that the Trustee will have as a result of the Initial Placement (section 5.9 sets out information regarding the sub-underwriters that have been appointed and the impact that any sub-underwriting arrangements could potentially have on control of the Company);

(iii) the Record Date for the Entitlement Offer will occur after the Initial Placement and before the Final Placement, meaning the Trustee will only be entitled to subscribe for new Shares under the Entitlement Offer in respect of the 300,000,000 Shares they are issued under the Initial Placement;

(iv) the issue price will be 1 cent per Share;

(v) the Entitlement Offer will not include a shortfall facility, which means existing Shareholders will not be able to apply for additional new Shares in excess of their entitlement under the Entitlement Offer;

(vi) the Entitlement Offer is renounceable, which means:

(A) you may seek to sell the rights issued to you under the Entitlement Offer on the ASX. Further details regarding this process will be provided to Shareholders around the time of announcement of the Entitlement Offer; and

(B) Shareholders may be able to buy additional rights to subscribe for new Shares under the Entitlement Offer on ASX. The ability of Shareholders to buy additional rights on ASX will be subject to Shareholders who elect not to take up some or all of their entitlements offering those entitlements for sale on market;

(vii) it is not expected that the Entitlement Offer will occur under a disclosure document, including a prospectus, but it will occur under an Entitlement Offer booklet (which is a reduced form of disclosure for a rights issue). Provided that the Proposed Resolutions are approved by Shareholders, the Entitlement Offer booklet is expected to be despatched to Shareholders around 16 December 2013; and

(viii) it is expected that only Shareholders with a registered address in Australia or New Zealand will be entitled to participate in the Entitlement Offer. It is proposed, for Shareholders in all other jurisdictions, that the renounceable rights that they would have otherwise been issued will be issued to a nominee who will then (if possible) sell those renounceable rights and remit the net proceeds to those Shareholders. Any such sale will be at a price and be conducted in a manner that the nominee will determine in good faith. Further details of this process will be provided to the relevant shareholders after the General Meeting. The nominee has not and will not be appointed as a nominee approved by ASIC for the purpose of section 615 of the Corporations Act.

The Recapitalisation Proposal will only proceed if both Resolution 1 and Resolution 2 are approved by the Required Majority.

Under the Consolidation, Firstfolio will consolidate every 10 existing Shares into 1 Share on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company). The Consolidation will only occur if the Recapitalisation Proposal is implemented.

2.3 Use of proceeds from the Recapitalisation Proposal

If Shareholders approve the Recapitalisation Proposal (comprising the Proposed Placements and Entitlement Offer) by passing Resolution 1 and Resolution 2, Firstfolio intends to use the funds raised by the Recapitalisation Proposal as follows:

	Proceeds from Recapitalisation Proposal **$ Million**
Debt Repayment under the Senior Debt Facility	16.5
Debt Repayment under NAB Facility	1.4
Debt Repayment under Welas Facilities	13.5
Fund growth in asset finance and residential home loan activities	10.0*
Fund marketing and other initiatives to support business strategy	4.0*
Working capital	2.4*
Estimated expenses of the Offer (including fees payable to Trustee)	2.4
ESTIMATED TOTAL	**$50.2**

**The allocation of funds across these three work streams reflects the Company's anticipated allocation of funds, as at the date of this Notice of Meeting. The final allocation of $16.4 million across these three respective work streams will occur post completion of the Recapitalisation Proposal, depending on finalisation of the reconstituted Board's strategy (refer sections 4.2(f) and 5.10).*

The combined effect of the above is that it will result in a stronger balance sheet for Firstfolio, enabling it continue to operate and be better able to take advantage of opportunities offered in the sectors in which it operates, as well as assist with future improvements across all of Firstfolio's businesses.

2.4 Key conditions precedent to the Recapitalisation Proposal proceeding

In order for the Recapitalisation Proposal to proceed, various conditions precedent need to be satisfied or waived.

For the Proposed Placements, the main outstanding conditions precedent are:

(a) Resolution 1 and Resolution 2 being approved by the Required Majority at the General Meeting;

(b) Firstfolio entering into a formal agreement with the Commonwealth Bank of Australia and Welas Pty Limited as to the level of debt reduction from the proceeds of the Recapitalisation Proposal and ongoing debt amortisation on terms acceptable to the Trustee, acting reasonably;

(c) Firstfolio obtaining written consent to the change of control resulting from the Recapitalisation Proposal from various third parties; and

(d) Firstfolio and the Trustee receiving, by 11 December 2013, approval from all government agencies which Firstfolio and the Trustee consider are necessary or convenient for the conduct of the Entitlement Offer, issue of Shares pursuant to it and the issue of the Shares under the Proposed Placements. [2]

For the Entitlement Offer, the main outstanding conditions precedent are:

(a) Resolution 1 and Resolution 2 being approved by the Required Majority at the General Meeting; and

(b) all of the Shares being issued under the Initial Placement.

Even if Resolution 1 and Resolution 2 are approved, the Recapitalisation Proposal (comprising the Proposed Placements and Entitlement Offer) will only proceed if the other conditions precedent set out in this section 2.4 are satisfied or waived.

The Company is not currently aware of any information which may cause the conditions precedent to be breached or unfulfilled. However, there is a risk that these conditions precedent will be unfulfilled due to circumstances outside its control.

Please see Annexure B of this document for a summary of the material conditions precedent contained in the Subscription Agreement and the Underwriting Agreement which need to be satisfied or waived for the Recapitalisation Proposal to be implemented.

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2 The Trustee will require FIRB approval so that it may acquire an interest of up to 75.41% in the Company, as a result of the Recapitalisation Proposal. Accordingly, FIRB approval has been sought for the purpose of satisfying this condition. Please refer to section 5.6 for further detail in relation to this application. The Company will make an ASX Announcement upon FIRB approval being received.

2.5 Key conditions to the Consolidation proceeding

In order for the Consolidation to proceed, Shareholders need to approve Resolution 3 by the Required Majority. The Consolidation is also conditional on both Resolution 1 and Resolution 2 being approved and all Shares being issued under the Proposed Placements and the Entitlement Offer.

2.6 Timing of the Recapitalisation Proposal and Consolidation

Set out below is the timetable of the key dates for the Recapitalisation Proposal. Please note that the dates in that table and the dates specified below are indicative only and are subject to change without notice.

Action	Date
General Meeting	27 November 2013
Issue of Shares under Initial Placement	29 November 2013
Record Date	10 December 2013
Issue of Shares under Final Placement	16 December 2013
Entitlement Offer opens	16 December 2013
Entitlement Offer closes	2 January 2014
Issue of Shares under Entitlement Offer	10 January 2014
Date of Consolidation	5 February 2014

2.7 Impact on Firstfolio's balance sheet

Set out below is a pro forma balance sheet showing the effect on Firstfolio's balance sheet if the Recapitalisation Proposal was implemented as at 30 June 2013.

As at (A$000s)	**30-Jun-2013 (Audited)**	**Pro-forma Adjustments**	**30-Jun-2013 (Pro-forma)**
Assets			
Cash and cash equivalents	9,565	16,429	25,994
Trade and other receivables	7,395	(600)	6,795
Loans and advances to customers	214,608		214,608
Net present value of trail commission income	150,116		150,116
Intangibles	44,187		44,187
Other assets	1,140		1,140
Total Assets	**427,011**	**15,829**	**442,840**
Liabilities			
Trade and other payables	7,193		7,193
Warehouse and other funding	215,671	-	215,671
Borrowings	63,709	(31,400)	32,309
Net present value of trail commission income	87,833		87,833
Other liabilities	12,548		12,548
Total Liabilities	**386,954**	**(31,400)**	**355,554**
Net Assets	**40,057**	**47,229**	**87,286**
Equity			
Issued capital	41,328	47,229	88,557
Reserves	907		907
Accumulated losses	(2,178)		(2,187)
Total Equity	**40,057**	**47,229**	**87,286**

2.8 Reasons for the Consolidation

Following the issue of Shares under the Recapitalisation Proposal, Firstfolio will have a large number of Shares on issue (approximately 3.147 billion Shares) relative to its market capitalisation.

The Independent Directors believe that the Consolidation will establish a Share price that is more appropriate for a listed entity of Firstfolio's size. The Independent Directors further believe that this will make Firstfolio more attractive to potential investors. In addition, the Consolidation may have future potential cost saving benefits in terms of administrative costs.

As at the date of this document, Firstfolio has 773,886,809 Shares on issue. It is intended that the Consolidation will occur on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company), being after the date new Shares are issued under the Entitlement Offer and Proposed Placements, at which time Firstfolio will have 3,147,773,618 Shares on issue (ignoring Shares, if any, issued as result of the exercise of Options previously issued by Firstfolio). The Consolidation will be effected using a ratio of consolidating every 10 Shares into 1 Share and have the effect of reducing the number of Shares on issue to approximately 314,777,362 Shares (subject to rounding). Individual holdings will be reduced in accordance with the consolidation ratio.

The Listing Rules also require that the number of Options on issue be consolidated using the same ratio as for the Shares and that the exercise price be amended in inverse proportion to that ratio (see section 3.2 for further information).

As the Consolidation applies equally to all Shareholders (subject only to the rounding up of fractions), it will have no material effect on the percentage interest of each member of Firstfolio.

Theoretically, the market price of each Share following the Consolidation should increase by 10 times its market value prior to the Consolidation. Practically, the actual effect on the market price of each Share will be dependent upon a number of factors which will not be within the control of Firstfolio. Therefore, this may result in the market price of each Share following the Consolidation being higher or lower than the theoretical post-Consolidation price.

2.9 Independent Directors' Opinion

The Independent Directors' recommend that, in the absence of a superior proposal, Shareholders **VOTE IN FAVOUR** of the Proposed Resolutions to approve the Proposed Placements, Trustee's participation in and underwriting of the Entitlement Offer (and, thereby, enable the Entitlement Offer to proceed) and the Consolidation.

In forming their recommendation, the Independent Directors have carefully considered the expected advantages, potential disadvantages and risks of the Recapitalisation Proposal and the opinion of the Independent Expert. These matters are described in further detail in section 4 of this document and in the Independent Expert's Report which is contained at Annexure C to this document and further discussed in section 2.10 below. The Independent Directors believe that the expected advantages of the Recapitalisation Proposal outweigh the potential disadvantages and risks. In particular, **the Independent Directors consider that, in the absence of the Recapitalisation Proposal proceeding, there will be significant uncertainty as to the ability of Firstfolio to continue as a going concern**.

Mr. Anthony Wales has declined to make a recommendation on the Proposed Resolutions as he has a conflict of interest in that some of the proceeds of the Recapitalisation Proposal will be used to partially repay amounts owed under the Welas Facility to a company that he controls.

2.10 Independent Expert's Recommendation

The Independent Directors engaged BDO to prepare an Independent Expert's Report expressing an opinion as to whether the Proposed Placements and Trustee's participation in and underwriting of the Entitlement Offer are fair and reasonable to the Non-associated Shareholders. The Independent Expert has concluded that the Proposed Placements and Trustee's participation in and underwriting of the Entitlement Offer are "not fair but reasonable" to the Non-associated Shareholders.

Fairness Assessment

In preparing its fairness opinion the Independent Expert had regard to ASIC Regulatory Guide 111 Content of Expert Reports (**RG 111**).

In summary, the Independent Expert formed its opinion in relation to fairness by comparing the:

(a) fair market value of a Share before the Recapitalisation Proposal (including a premium for control); and

(b) fair market value of a Share after the Recapitalisation Proposal on a minority basis.

The Independent Expert has concluded that the Proposed Placements and Trustee's participation in and underwriting of the Entitlement Offer are "not fair" to Shareholders not associated with the Recapitalisation Parties as the assessed value of a Share after the Recapitalisation Proposal on a minority basis (being in the range of $0.018 and $0.023) is less than the range of assessed fair market values of a Share before the Recapitalisation Proposal (including a premium for control) (being in the range of $0.034 and $0.060).

The Proposed Transaction is Reasonable

In accordance with RG 111 an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the relevant expert believes that there are sufficient reasons for non-associated shareholders to accept the offer in the absence of a superior offer.

The Independent Expert has formed the opinion that the Recapitalisation Proposal is "reasonable" to Shareholders not associated with the Recapitalisation Parties.

A summary of the advantages that the Independent Expert considered in forming its reasonableness assessment are as follows:

(a) the consideration (that is, the amount paid per Share) falls within the range of the fair market value of a 50.8% equity interest in Firstfolio (on a control basis) after the Recapitalisation Proposal (and, although the consideration falls below the range of the fair market value of a 75.4% equity interest in Firstfolio (on a control basis) after the Recapitalisation Proposal, the likelihood to the Trustee acquiring 75.4% of Firstfolio is reduced as the Entitlement Offer is priced at a discount and is renounceable, and the sub-underwriters have entered into an agreement with the Trustee to acquire any Entitlement Offer shortfall);

(b) in the absence of a superior offer, the Recapitalisation Proposal is the best available source of funding for Firstfolio for the following reasons:

(i) there was moderate interest from shareholders in relation to a previous rights issue in December 2009, which was undersubscribed by 17%;

(ii) Firstfolio is currently unable to obtain further bank funding;

(iii) there is limited interest from brokers and underwriters (due to current industry and market conditions);

(iv) the consideration per Share is at a premium to recent Firstfolio Share price; and

(v) the consideration per Share is at a premium to a market placement;

(c) under the terms of the Subscription Agreement, following the Recapitalisation Proposal, the Trustee will have the right to appoint up to 3 Directors to the Board of Firstfolio (including the Chairman) from a total of 5 Board members (provided that the Trustee holds a majority of Shares), which the Independent Directors believe will enhance the experience and expertise of the Board; and

(d) the completion of the Recapitalisation Proposal will immediately provide necessary short term working capital requirements, recapitalise its balance sheet, reduce its current borrowings, confer greater operational flexibility and allow the Board and senior management to concentrate on the business activities.

A summary of the disadvantages that the Independent Expert considered in forming its reasonableness assessment are as follows:

(a) following the Recapitalisation Proposal, the Trustee will hold a controlling stake in Firstfolio of between 50.8% and 75.4% of Firstfolio's Shares, which will give the Recapitalisation Parties control over the Company and direction of the business in comparison to other Shareholders. Further, the Trustee will have the ability to appoint 3 members of the 5 member Board, which will allow the Trustee to control the affairs of Firstfolio, including its financial and operating affairs;

(b) the interests of the Recapitalisation Parties might not always be aligned with the interests of Non-associated Shareholders (however, in these circumstances, Non-associated Shareholders would have the benefit of protection from applicable laws and regulations in relation to some dealings between Firstfolio and the Recapitalisation Parties (and their associates));

(c) if the Recapitalisation Proposal is approved, existing Shareholders will receive a lower percentage of any future profits due to the dilution effects;

(d) the completion of the Recapitalisation Proposal may have an adverse impact on the liquidity of Firstfolio's Shares (although this disadvantage may be mitigated as Firstfolio's Shares already display low to moderate trading liquidity, and Firstfolio is currently under financial distress);

(e) the subscription price under the Initial Placement represents a discount of 8% to the 3 month VWAP of Shares prior to the announcement of a superseded version of the Proposed Transaction on 13 November 2012 (however, the Initial Placement subscription price is at a 15% premium to the last closing price of Shares prior to the announcement of the recapitalisation proposal on 2 July 2013);

(f) in order for Firstfolio to utilise its group tax losses and the group capital losses after the Recapitalisation Proposal is implemented, the loss recoupment provisions under taxation laws require Firstfolio to satisfy either the "Continuity of Ownership Test" or the "Same Business Test"; and

(g) the completion of the Recapitalisation Proposal will result in the Recapitalisation Parties having a controlling interest in Firstfolio, therefore the Recapitalisation Parties will have the ability to strategically block future interested parties making a takeover for Firstfolio (and as such there is less possibility of Shareholders participating in premium payable in a takeover).

Based on the above advantages and disadvantages, the Independent Expert concluded that the Trustee's participation in (and underwriting of) the Entitlement Offer is not fair but reasonable to the Non-associated Shareholders as the Recapitalisation Proposal is the best available source of finance in the absence of a superior offer.

The Independent Expert's Report is included in full at Annexure C to this document and you should read it as part of your assessment of the Recapitalisation Proposal.

3 DETAILS OF THE SHAREHOLDER APPROVALS SOUGHT BY FIRSTFOLIO AT THE GENERAL MEETING

3.1 Resolution 1 (Approval for the Proposed Placements) and Resolution 2 (Trustee's participation in and underwriting of Entitlement Offer)

(a) **Purpose of Resolution 1**

The purpose of Resolution 1 is to seek the approval of Shareholders under section 611 (Item 7) of the Corporations Act for the acquisition by the Trustee of 1,300,000,000 Shares under the terms of the Subscription Agreement. Of these 300,000,000 Shares will be issued under the Initial Placement at 1.5 cents per Share and the remaining 1,000,000,000 Shares will be issued under the Final Placement at 3.5 cents per Share.

(b) **Purpose of Resolution 2**

The purpose of Resolution 2 is to seek the approval of Shareholders under section 611 (Item 7) of the Corporations Act for the acquisition by the Trustee of up to 1,073,886,809 Shares at 1 cent per Share as a result of the Trustee subscribing for its 300,000,000 Share entitlement under the Entitlement Offer and underwriting of the Entitlement Offer pursuant to the terms of the Underwriting Agreement.

(c) **The requirement to seek Shareholder approval under Resolution 1 and Resolution 2**

Under section 606(1) of the Corporations Act, a person must not acquire a relevant interest in Shares if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in Firstfolio increases:

(i) from 20% or below to more than 20%; or

(ii) from a starting point that is above 20% and below 90%.

Pursuant to section 608(3) of the Corporations Act, a person has a relevant interest in any securities that any of the following has:

(i) a company in which the persons voting power is above 20%; or

(ii) a company that the person controls.

The voting power of a person in Firstfolio is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in Firstfolio involves determining the voting Shares in Firstfolio in which the person and the person's Associates have a relevant interest. A person has a relevant interest in Shares if (among others) they:

(i) are the holder of the Shares;

(ii) have the power to exercise, or control the exercise of, a right to vote attached to the Shares; or

(iii) have power to dispose of, or control the exercise of a power to dispose of, the Shares.

Section 611 of the Corporations Act provides that certain acquisitions of relevant interests in a company's voting shares are exempt from the prohibition in section 606(1). In particular, section 611 (Item 7) provides that an acquisition approved previously by a resolution passed at a general meeting of the relevant company will be exempt from the prohibition in section 606(1) if:

(i) no votes are cast in favour of the resolution by:

  (A) the person proposing to make the acquisition and their Associates; or

  (B) the persons (if any) from whom the acquisition is to be made and their Associates; and

(ii) the members of Firstfolio were given all information known to the person proposing to make the acquisition or their Associates, or known to Firstfolio, that was material to the decision on how to vote on the resolution.

Accordingly, Shareholders are being asked to approve pursuant to:

(i) Resolution 1 - the acquisition by the Trustee of 1,300,000,000 Shares under the terms of the Subscription Agreement; and

(ii) Resolution 2 - the acquisition by the Trustee of up to 1,073,886,809 Shares as a result of the Trustee participating in and fully underwriting the Entitlement Offer pursuant to the terms of the Underwriting Agreement.

If Resolution 1 and Resolution 2 are approved, the Recapitalisation Parties and their Associates will have voting power of:

(i) at least 50.83% in Firstfolio, an increase of 50.83% from their current voting power of 0.00%; and

(ii) given that the Trustee is also participating in and underwriting the Entitlement Offer, up to potentially 75.41% (assuming that no other Shareholder subscribes under the Entitlement Offer and the sub-underwriting commitments detailed in section 5.9 become unenforceable or are defaulted on).

Further details of these potential scenarios (including a table form analysis) are included at section 5.8 and 5.9 of this document.

ACEHK, the sole unitholder of the Trust, will have a relevant interest in any Shares acquired by the Trustee under the Proposed Placements and Entitlement Offer.

Furthermore, in accordance with section 608(3) of the Corporations Act:

(i) Mr Brent Christie, Mr Bobby Yun, Mr SongJune Kim and Mr Mark Flack* (in their capacity as the shareholders of ACEHK);

(ii) ACE, Mr SongJune Kim and IZN (in their capacity as the shareholders of the Trustee);

(iii) Mr Kim Byung Ki (in his capacity as the sole shareholder of IZN); and

(iv) Echelon (in its capacity as the sole shareholder of ACE), together with its sole shareholder Mr Brent Christie,

will also have a relevant interest in the Shares held by the Trustee as a result of the Recapitalisation Proposal.

*As Mr Flack already has a relevant interest in 4.62% of the Company, following the Recapitalisation Proposal he will have a minimum relevant interest of 51.96% and maximum relevant interest of 77.68% of the Company.

(d) **Voting requirement**

To be approved, Resolution 1 and Resolution 2 must be passed by a simple majority of votes cast on each resolution. Firstfolio will not count any votes that are cast on Resolution 1 and/or Resolution 2 by the Recapitalisation Parties and their Associates.

3.2 Resolution 3 (Consolidation of capital)

(a) **Purpose of Resolution 3**

Please see section 2.8 above for a detailed discussion on the reasons for the Consolidation.

(b) **The requirement to seek Shareholder approval under Resolution 3**

Section 254H(1) of the Corporations Act provides that a company may convert all or any of its shares into a larger or smaller number of shares by a resolution passed at a general meeting of shareholders. Accordingly, Firstfolio is seeking the approval of Shareholders for the Consolidation under section 254H of the Corporations Act.

(c) **Options**

As at the date of this Notice of Meeting and Explanatory Statement, the Company has 11,350,000 unlisted Options on issue. If the Consolidation is approved, the Options will also be reorganised in accordance with the terms and conditions of Listing Rule 7.22.1 on the basis that the number of Options will be consolidated in the same ratio as the Share Consolidation and the exercise price will be amended in inverse proportion to that ratio.

For example, a holding of one hundred (100) Options with an exercise price of $0.01 each prior to the Share Consolidation would result in a holding of approximately ten (10) Options with an exercise price of $0.10 each after the Consolidation.

The Consolidation will not result in any change to the substantive rights and obligations of existing holders of Options.

(d) **Treatment of fractions of Shares**

Where a Shareholder's Shareholding (or optionholder's Optionholding) is not a multiple of 10, this will result in holding a fraction of a security following the Consolidation. It is proposed that each fraction of a Share or Option will be rounded up to the nearest whole number after the Consolidation.

(e) **Holding Statements**

Taking effect from the date of the Consolidation, being 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company), all existing holding statements will cease to have any effect, except as evidence of entitlement to a certain number of securities on a post Consolidation basis. New holding statements will be issued to security holders, who are encouraged to check their holdings after the Consolidation.

(f) **Taxation consequences**

Please see section 4.5 below for a discussion of the taxation implications for Shareholders.

(g) **Indicative Timetable**

If approved by Shareholders, the Consolidation will take effect on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company). The following is an indicative timetable (subject to change) of the key events associated with the Consolidation:

Action	Date
General Meeting	27 November 2013
Notification to ASX that Consolidation is approved	27 November 2013
Last day for trading in pre-Consolidated securities	21 January 2014
Trading in the Consolidated securities on a deferred settlement basis commences	22 January 2014
Last day to register transfers on a pre-Consolidation basis	29 January 2014
Registration of securities on a post-Consolidation basis	30 January 2014
Despatch of new holding statements Deferred settlement trading ends	5 February 2014
Normal trading starts	6 February 2014

Refer to section 2.6 for the Recapitalisation Proposal timetable.

(h) **Voting requirement**

To be approved, Resolution 3 must be passed by a simple majority of votes cast on the resolution. No Shareholder is excluded from voting on Resolution 3.

4 REASONS TO VOTE IN FAVOUR AND AGAINST RESOLUTION 1 AND RESOLUTION 2 AND TAXATION IMPLICATIONS

4.1 Purpose of this section of the Notice of Meeting and Explanatory Statement

The purpose of this section 4 is to identify significant issues for Shareholders to consider in relation to the implementation or otherwise of the Recapitalisation Proposal. The Recapitalisation Proposal will directly affect your holding of Shares. Before deciding how to vote at the General Meeting, Shareholders should carefully consider the factors discussed below, as well as the other information contained in this Explanatory Statement.

4.2 Reasons to VOTE IN FAVOUR of Resolution 1 and Resolution 2

The Independent Directors recommend that Shareholders **VOTE IN FAVOUR** of Resolution 1 and Resolution 2 (which are inter-conditional) to approve the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer (and, thereby, enable the Entitlement Offer to proceed) for the reasons set out below:

(a) ***Material risk to continuing as a going concern**:* If Shareholders do not approve Resolution 1 and Resolution 2, neither the Proposed Placements nor the Entitlement Offer will proceed, which will make it difficult for Firstfolio to repay debt and risks covenant breaches under Firstfolio's debt facilities. This creates material uncertainty as to whether Firstfolio will be able to continue as a going concern. Please see section 1.2 above which provides detailed information regarding these important matters.

(b) ***The proceeds of the Recapitalisation Proposal will materially strengthen Firstfolio's balance sheet:*** The proceeds of the Recapitalisation Proposal of approximately $50.2 million (before associated fees and expenses, including a fee that Firstfolio has agreed to pay the Trustee which is 4% of the total proceeds raised under the Recapitalisation Proposal equal to approximately $2 million) will enable Firstfolio to repay a large proportion of debt owed under its various lending facilities. As at 30 June 2013, Firstfolio had gross debt of approximately $63.7 million which, following the Recapitalisation Proposal, will be reduced to approximately $32 million on a pro-forma basis. Firstfolio's net debt (i.e. gross debt net of unrestricted cash of $1.7 million) as at 30 June 2013 will be reduced from $62 million to $14.2 million on a pro-forma basis. This will materially reduce constraints on Firstfolio's balance sheet, provide a more sustainable capital structure going-forward and enable Firstfolio to invest in the growth of its business. Please see section 2.3 above for specific details regarding the intended use of these funds. Shareholders should note that after the repayments specified in section 2.3 above have been made Firstfolio will still owe the following amounts under its principal debt facilities:

(i) $15.8 million under the Welas Facility; and

(ii) $16.25 million under the Senior Debt Facility,

and still owe trade creditors approximately $10 million. However, your Independent Directors consider that these debt levels will be acceptable for a business of Firstfolio's nature and size.

(c) ***No current alternative to the Recapitalisation Proposal**:* There is currently no alternative proposal to the Recapitalisation Proposal to address the funding requirements of Firstfolio.

(d) ***Shares issued under the Recapitalisation Proposal are on average being issued at a premium**:* The subscription price under the Initial Placement represents a discount of 8% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 25% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 20% discount to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 50% premium to the subscription price of the Entitlement Offer.

The subscription price under the Final Placement represents a premium of 115% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 191.7% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 94% premium to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 250% premium to the subscription price of the Entitlement Offer.

In total, the average subscription price of $0.026[3] per new Share paid by the Trustee under the Recapitalisation Proposal represents a premium of 63% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 117% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 44% premium to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 160% premium to the subscription price of the Entitlement Offer;

(e) ***Opportunity to make a further investment in Firstfolio****:* The Entitlement Offer provides all Shareholders (as at the Record Date) with an opportunity to make a further investment in Firstfolio at an issue price of 1 cent per Share (which represents a 38% discount to the 90 day VWAP of Shares prior to the Initial Proposal Date and 16.7% discount to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013 and 80% discount to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting)). If Shareholders want the Entitlement Offer to proceed, Resolution 1 and Resolution 2 will need to be approved by the Required Majority. Please note that while Shareholders can increase the number of Shares they hold by participating in the Entitlement Offer, their overall percentage interest in the recapitalised Firstfolio will still be reduced under the Recapitalisation Proposal due to the Shares to be issued to the Trustee under the Proposed Placements.

(f) ***Trustee's nominees are expected to bring additional expertise and experience to the Board****:* Under the terms of the Subscription Agreement, following completion of the Proposed Placements, the Trustee will have the right to appoint up to 3 Directors to the Board (including the Chairman) from a total of 5 Board members (provided it holds more than 50% of Firstfolio Shares). The Trustee's proposed nominees to the Board are Mr SongJune Kim, Mr Brent Christie and Mr Mark Flack, and their backgrounds are detailed in section 5. The Independent Directors believe that the appointment of these nominees to the Board will enhance the experience and expertise of Firstfolio's Board. Upon the appointment of the Trustee's nominees all other Firstfolio Directors, other than Mr Greg Pynt (currently an Executive Director of Firstfolio) and Mr Anthony Wales (currently a Non-Executive Director of Firstfolio) will resign. This means that following the Proposed Placements the Board will be made up of the Trustee's nominee directors Mr SongJune Kim, Mr Brent Christie, Mr Mark Flack and current Directors Mr Greg Pynt and Mr Anthony Wales.

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3 The average subscription price (which is subject to rounding) has been calculated taking into account the Proposed Placements and assuming the Trustee subscribes for its full 300,000,000 Share entitlement under the Entitlement Offer (which it will have following the Initial Placement), that the Trustee is not required to subscribe for any shortfall shares under the Entitlement Offer and net of the 4% commission the Trustee will receive in respect of the Shares it subscribes for under the Recapitalisation Proposal.

4.3 *Reasons to VOTE AGAINST Resolution* 1 and Resolution 2

The Independent Directors consider that there are some disadvantages associated with the Recapitalisation Proposal and Shareholders should take these into consideration when deciding how to vote on Resolution 1 and Resolution 2 (which are inter-conditional). These include:

(a) ***Recapitalisation Parties' voting power in Firstfolio**:* After completion of the Recapitalisation Proposal, the Recapitalisation Parties and their Associates will have voting power of at least 50.83% in Firstfolio. At this Shareholding level, the Trustee will be able to control the composition of the Board and pass ordinary resolutions (i.e. requiring more than 50% of the votes cast) of Shareholders subject to certain restrictions under the Corporations Act, Firstfolio's constitution and the Listing Rules which might prevent them voting in some, but not all, situations. Further, as the Trustee is underwriting the Entitlement Offer, assuming that no Shareholders take up their entitlement and the sub-underwriting commitments become unenforceable or are defaulted on (refer to section 5.9 for further information regarding the sub-underwriting commitments that have been entered into with L1 Capital and Kentgrove Capital, which may result in L1 Capital and Kentgrove Capital having a voting power in 19.7% and 4.9% of the Company, respectively), the Trustee in its capacity as underwriter may acquire additional Shares increasing its voting power up to 75.41%. At this Shareholding level, the Trustee will be able to pass special resolutions (i.e. requiring at least 75% of the votes cast) of Shareholders, subject to the same qualification as above. Note that as the Recapitalisation Parties will have greater than 20% voting power in Firstfolio they cannot further increase their voting power in Firstfolio unless they do so in limited circumstances. These limited circumstances include acquisitions with the approval of remaining Shareholders, launching a takeover bid for remaining Shares or acquiring up to a further 3% each six months.

(b) ***Composition of the Board**:* Following the Proposed Placements, the Trustee will be able to nominate 3 of the 5 members to the Board, including the Chairman (provided they hold more than 50% of Firstfolio Shares). This will allow the nominees of the Trustee to control decisions of the Board which require a majority vote of Directors. As Firstfolio is managed under the Board, this means that the nominees of the Trustee will have control over the affairs of Firstfolio, including its financial and operating affairs. Despite the nominees appointed by the Trustee being able to control the decisions of the Board which require a majority vote of Directors, the nominees will still need to comply with all applicable statutory, general law and fiduciary duties, including to act in good faith, in the best interest of Firstfolio.

(c) ***Conflicting interest between the Recapitalisation Parties and other Shareholders**:* The interests of the Recapitalisation Parties might not always be aligned with the interests of minority Shareholders. However, in these circumstances, minority Shareholders would have the benefit of the following protections provided by applicable laws and the Listing Rules in relation to some dealings between Firstfolio and the Recapitalisation Parties (and their Associates):

   (i) in certain circumstances, but not all, a requirement to obtain Shareholder approval for transactions between Firstfolio and the Recapitalisation Parties (and their Associates);

(ii) a requirement for all Directors on the Board to comply with any applicable laws relating to conflicts of interest for Directors; and

(iii) a requirement for all Directors on the Board to comply with the legal obligations to act in good faith, in the best interest of Firstfolio and for proper purposes and to have regard to the interests of the Shareholders and Firstfolio as a whole.

In addition, ASX has issued the 'Corporate Governance Principles and Recommendations'. These are principles as to the composition and functioning of a listed company's board of directors. However, these principles are not mandatory. A company that chooses not to implement specific principles is only required to disclose in its annual report the extent to which the principles have not been followed and why not.

(d) ***Initial Placement Shares are being issued at a discount****:* The subscription price under the Initial Placement represents a discount of 8% to the 90 day VWAP of Shares prior to the Initial Proposal Date (noting that the subscription price under the Initial Placement represents a 15% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013 and 50% premium to the subscription price of the Entitlement Offer). The Independent Directors consider this level of discount to the Share price as at the Initial Proposal Date to be appropriate. The subscription price under the Initial Placement represents a 20% discount to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting).

Further, the average subscription price of $0.026[4] per new Share paid by the Trustee under the Recapitalisation Proposal represents a premium of 63% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 117% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 44% premium to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 160% premium to the subscription price of the Entitlement Offer.

The subscription price under the Final Placement represents a premium of 115% to the 90 day VWAP of Shares prior to the Initial Proposal Date, 191.7% premium to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013, 94% premium to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 250% premium to the subscription price of the Entitlement Offer.

(e) ***Potential disincentive for future offers for your Shares****:* the Recapitalisation Parties' voting power interest in Firstfolio of at least 50.83% (and potentially up to 75.41% depending on the level of Shareholder participation in the Entitlement Offer and if the

4 The average subscription price (which is subject to rounding) has been calculated taking into account the Proposed Placements and assuming the Trustee subscribes for its full 300,000,000 Share entitlement under the Entitlement Offer (which it will have following the Initial Placement), that the Trustee is not required to subscribe for any shortfall shares under the Entitlement Offer and net of the 4% commission the Trustee will receive in respect of the Shares it subscribes for under the Recapitalisation Proposal.

sub-underwriting commitments detailed in section 5.9 become unenforceable or are defaulted on) following the Recapitalisation Proposal may deter a third party from making a takeover offer for your Shares, as it is likely that any third party seeking control of Firstfolio would require approval from the Recapitalisation Parties. In these circumstances, it may not be likely that a takeover premium could be realised except through a transaction supported by the Recapitalisation Parties and their Associates.

(f) ***The Entitlement Offer Shares will be offered at a discount:*** The Shares to be issued under the Entitlement Offer will be offered at 1 cent per Share, which represents a 38% discount to the 90 day VWAP of Shares prior to the Initial Proposal Date, 80% discount to the 5 day VWAP of Shares to 22 September 2013 (being the last practical date before finalisation of the Notice of Meeting) and 16.7% discount to the last closing price of Shares immediately prior to the announcement of the Recapitalisation Proposal on 2 July 2013. However, the Independent Directors consider that this price is appropriate so as to encourage all Shareholders to participate in the Entitlement Offer.

(g) ***Potential for significant dilution of ownership interests****:* Upon implementation of the Recapitalisation Proposal, the number of Shares will increase from 773,886,809 to 3,147,773,618 (on a pre-consolidated basis and ignoring any Shares issued as result of the exercise of Options). This means that each Share will represent a significantly lower proportion of the ownership of the recapitalised Firstfolio.

(h) ***Potentially lower liquidity of Shares****:* The Recapitalisation Proposal will result in a significant proportion of Shares being held by a controlling Shareholder, the Trustee. This concentration may reduce the liquidity of (i.e. the ability to buy or sell) Firstfolio Shares.

(i) ***Potential inability to use carried forward group tax losses, group capital losses and transferred losses***: Following the Recapitalisation Proposal it is not known whether Firstfolio will be able to use carried forward group tax losses and group capital losses (which as at 30 June 2013 were in the amount of $4 million and $2.6 million respectively) or transferred losses (which as at 30 June 2013 were in the amount of $17.2 million). Whether Firstfolio will be able to use these losses will only be known in the future and will depend on whether or not the same business test is satisfied at that time. Refer to section 4.4 for a detailed analysis of the taxation implications of the Recapitalisation Proposal for Firstfolio.

(j) ***Costs of undertaking Recapitalisation Proposal***: Firstfolio estimates that the total cost of the Recapitalisation Proposal, including the negotiation of transaction documents, calling and holding of the General Meeting, issue of the Proposed Placement Shares, conduct of the Entitlement Offer and payment of corporate, legal and the Share Registry fees, will cost approximately $1 million (including $600,000 in costs that have already been paid by the Company). In addition, if the Recapitalisation Proposal proceeds, the Trustee will receive a fee of 4% of the $50,238,868 to be raised under the Recapitalisation Proposal. This means the fee payable to the Trustee will be $2,009,554.

(k) ***Potential to replace Trustee***: The unit holders of the Trust will have the power to remove and replace the Trustee at any time in accordance with law or by passing a special resolution. Accordingly, while it is the sole unit holder of the Trust, ACEHK will have the power to remove and replace the Trustee as trustee of the Trust. If the

Trustee is replaced there is no guarantee that the replacement trustee's intentions for the Firstfolio Group will be the same as the Recapitalisation Parties' intentions (as detailed in section 5.10).

4.4 Taxation implications for Firstfolio

Firstfolio, as the head company of the Firstfolio tax group, has group tax losses and group capital losses to carry forward as at 30 June 2013 (in the amount of $4 million and $2.6 million respectively). In order for Firstfolio to utilise the group tax losses and the group capital losses after the Recapitalisation Proposal is implemented, the loss recoupment provisions under taxation laws require Firstfolio to satisfy either the "Continuity of Ownership Test" (**COT**) or the "Same Business Test" (**SBT**).

As it is expected that the implementation of the Recapitalisation Proposal will result in the Recapitalisation Parties having a voting power of between 50.83% and 75.41% in Firstfolio, and on the understanding that the Recapitalisation Parties had no shareholding in Firstfolio prior to the Recapitalisation Proposal, there will be at least a 50.83% change in ownership as a result of the implementation of the Recapitalisation Proposal. Accordingly, Firstfolio would fail the COT.

If the COT is failed, Firstfolio can still recoup prior year losses for income tax purposes where it can show that the requirements for the SBT are met. Broadly, the SBT requires Firstfolio to have carried on the same business and not to have engaged in any new kinds of transactions or businesses from the time when the COT was last satisfied to the income year in which the losses are sought to be utilised. When testing, it is necessary to look at the businesses carried on by all the members of the Firstfolio tax group. As the SBT depends on the activities actually being carried on in a future year in which Firstfolio intends to utilise the loss, the satisfaction or otherwise of the SBT can only be determined in that future year. Therefore, whether Firstfolio will be able to use carried forward group tax losses and group capital losses (which as at 30 June 2013 were in the amount of $4 million and $2.6 million respectively) will only be known in the future and will depend on whether or not the SBT is satisfied at that time.

Transferred tax losses

Firstfolio also has tax losses to carry forward as at 30 June 2013 (in the amount of $17.2 million) that were previously transferred to the Firstfolio tax group from acquired entities, which are classed as transferred SBT tax losses. To utilise these losses, Firstfolio must satisfy modified versions of the loss recoupment tests.

As discussed above, the Recapitalisation Proposal will result in Firstfolio failing the COT. The modified SBT would then need to be satisfied in order to utilise the transferred SBT tax losses. Under the modified SBT, the test would apply from the time when the COT was last satisfied to the income year in which the losses are sought to be utilised. As the modified SBT depends on the activities actually being carried on in a future year in which Firstfolio intends to utilise the loss, the satisfaction or otherwise of the modified SBT can only be determined in that future year. Therefore, whether Firstfolio will be able to use transferred losses (which as at 30 June 2013 were in the amount of $17.2 million) will only be known in the future and will depend on whether or not the SBT is satisfied at that time.

In addition, even if the transferred losses satisfy the modified SBT, the rate at which Firstfolio can utilise the transferred losses is limited by reference to the relevant loss bundle's available fraction, which is the maximum amount of transferred losses that can be utilised each year by reference to the taxable income of the consolidated group prior to utilising the transferred losses. The available fractions will need to be adjusted downwards where there is an injection of capital, which will result in the rates of utilisation of the transferred losses being reduced. The Recapitalisation Proposal will constitute such an injection of capital and, therefore, the Recapitalisation Proposal will result in a reduction in the yearly utilisation of Firstfolio's available transferred losses and consequential utilisation over a longer period.

4.5 Taxation implications for Shareholders

It is not considered that any taxation implications for Shareholders will arise out of the Consolidation.

The tax implications associated with the Entitlement Offer will vary depending on your particular circumstances.

Shareholders are advised to seek independent tax advice in relation to the effect of the Consolidation and Entitlement Offer. Neither Firstfolio nor the Directors accept any responsibility for any individual taxation implications arising out of the Consolidation or Entitlement Offer.

5 INFORMATION ABOUT IZN INVESTMENTS AUSTRALIAN CAPITAL ENTERPRISE TRUST

5.1 Preparation of this section

This section 5 provides Shareholders with information about the:

(a) Trust;

(b) ACEHK, the sole unit holder of the Trust; and

(c) the Trustee who will hold the Shares, through the Trust structure, on behalf of ACEHK as sole unit holder of the Trust.

This section 5 also provides details of the Recapitalisation Parties' strategy and intentions with respect to the Firstfolio Group following implementation of the Recapitalisation Proposal. This section 5 has been prepared by the Recapitalisation Parties, who are responsible for the information contained in this section 5.

5.2 Background

The Company has provided you with this Notice of Meeting and Explanatory Statement in relation to the proposed capital raising of approximately $50.2 million that, through the Recapitalisation Proposal, it is proposing to undertake with the Trust.

On 1 July 2013, ACE entered into the Subscription Agreement and Underwriting Agreement with Firstfolio with respect to the Recapitalisation Proposal.

ACE, with agreement from Firstfolio, has novated all of its rights and obligations under the Subscription Agreement and the Underwriting Agreement to the Trustee by entering into a deed of novation with the Trustee and Firstfolio. As a result of the deed of novation, ACE will no longer have any rights or obligations under either the Subscription Agreement or the Underwriting Agreement. The Trustee will hold the Shares issued to it under the Recapitalisation Proposal as trustee of the Trust. ACEHK is currently the sole unit holder of the Trust.

5.3 About the Trust

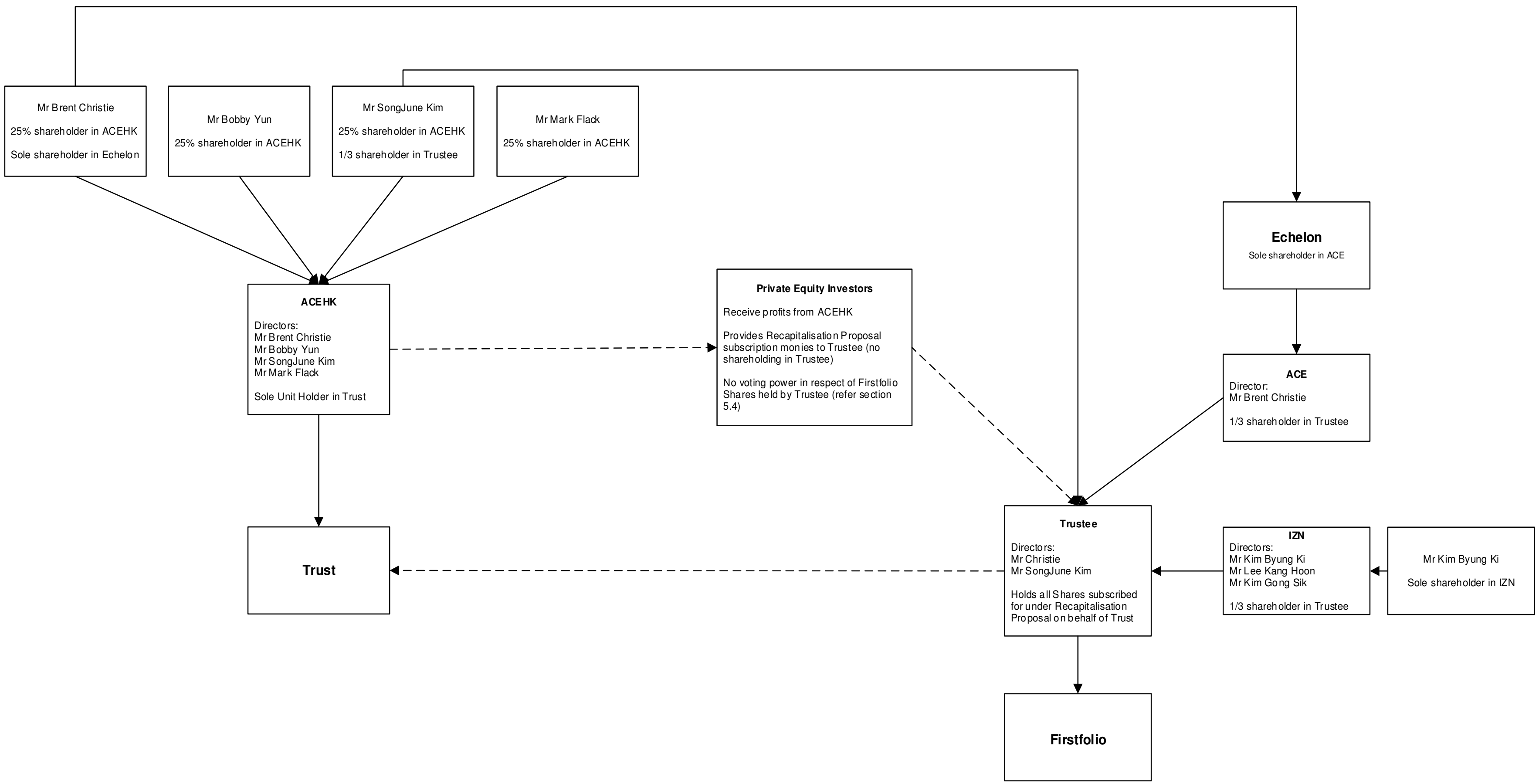
The Trust is an Australian unit trust which was established by the Trustee in August 2013 to invest in niche opportunities in the financial services sector in Australia and the broader Asia-Pacific region.

As at the date of this Notice of Meeting and Explanatory Statement, the sole unitholder of the Trust is ACEHK.

In the future, the Trust may seek to attract wholesale investors, that are interested in acquiring an exposure to financial services assets, to invest in the Trust.

A diagram of the Trust investment structure is set out in full on the next page.

Trust Investment Structure Chart



Key

indicate a non-equity or non-unit holder relationship

indicate equity or unit holder relationships

ACE - Australian Capital Enterprise Pty Limited (ACN 162 204 346)
ACEHK - Australian Capital Enterprise (HK) Limited
Echelon - Echelon Group Pty Ltd (ACN 161 086 942)
Trust - IZN Investments Australian Capital Enterprise Trust
Trustee - IZN Investments ACE Management Pty Ltd (ACN 165 199 306)
IZN - IZN Investments, Inc

5.4 About ACEHK the sole unit holder of the Trust

ACEHK is a Hong Kong company that was incorporated in August 2013. ACEHK is currently the sole unit holder of the Trust.

Who controls ACEHK?

Four individuals, Mr Brent Christie, Mr Bobby Yun, Mr SongJune Kim and Mr Mark Flack are currently the sole shareholders and directors of ACEHK. Each of these individuals holds 25% of the issued share capital of ACEHK, however as detailed below they do not provide ACEHK's current funding.

In addition, as detailed in sections 5.5 and 5.10:

(a) Mr SongJune Kim, who will be one of the Trustee's nominees to the Firstfolio Board, is also a director of and holds 1/3 of the issued shares in the Trustee;

(b) Mr Brent Christie, who will be one of the Trustee's nominees to the Firstfolio Board, is also a director of the Trustee and ACE (which holds 1/3 of the issued shares in the Trustee); and

(c) Mr Mark Flack, who will be one of the Trustee's nominees to the Firstfolio Board, and will provide advice to the Trustee. As at the date of this Notice of Meeting, Mr Flack also has a relevant interest in 4.62% of the issued share capital of Firstfolio (refer to section 5.7 for further details).

What does ACEHK do?

ACEHK's initial business focus will be to invest in niche opportunities in the Australian financial services market.

Who funds ACEHK and what rights will the funders have?

ACEHK is not funded by its controlling shareholders, who are detailed above.

ACEHK will initially be funded by private equity investors (who will also provide the subscription monies for the Proposed Placements, the Trustee's entitlement under the Entitlement Offer and underwriting of the Entitlement Offer to the Trustee) in return for which such investors will obtain a right to share in the profits generated by the Trust which flow to ACEHK.

These initial private equity investors in ACEHK will not have:

(a) any voting rights with respect to either the issued shares of ACEHK or the units held by ACEHK in the Trust; or

(b) any rights with respect to ACEHK's rights to replace the Trustee (as set out in section 5.5); or

(c) the power to exercise (or control the exercise of) a right to vote the Shares held by the Trustee in Firstfolio; or

(d) the power to dispose of (or control the exercise of a power to dispose of) the Shares held by the Trustee in Firstfolio.

ACEHK's relevant interest in Firstfolio

As at the date of this Notice of Meeting, ACEHK does not hold a relevant interest in any securities of Firstfolio.

ACEHK will hold a relevant interest in the Shares issued to the Trustee under the Recapitalisation Proposal.

ACEHK's shareholders' relevant interests in Firstfolio

Pursuant to section 608(3) of the Corporations Act, a person has a relevant interest in any securities that any of the following has:

(a) a company in which the persons voting power is above 20%; or

(b) a company that the person controls.

In accordance with section 608(3) of the Corporations Act, Mr Brent Christie, Mr Bobby Yun, Mr SongJune Kim and Mr Flack as the equal shareholders of ACEHK (which is currently the sole unit holder of the Trust) will have a relevant interest in the Shares which will be held by the Trustee as a result of the Recapitalisation Proposal.

5.5 About the Trustee of the Trust and the Trustee's shareholders

The Trustee is the sole trustee of the Trust.

The Trustee will hold any Shares issued to it under the Recapitalisation Proposal, through the Trust structure, initially on behalf of ACEHK, the sole unit holder of the Trust.

The Trustee is an Australian proprietary limited company which was established in August 2013 specifically for the purpose of the Recapitalisation Proposal. It is not currently undertaking any other activity.

Who controls the Trustee?

Mr Christie and Mr SongJune Kim are the only directors of the Trustee and Mr Christie is also the sole company secretary of the Trustee.

IZN, Mr SongJune Kim and ACE are the only shareholders of the Trustee (each holding one ordinary share in the Trustee or 1/3 of the issued shares of the Trustee).

(a) *Who is IZN (a 1/3 shareholder of the Trustee)?*

IZN is a South Korean based private company which was incorporated in March 2000.

The directors of IZN are Mr Kim Byung Ki (also the sole shareholder of IZN), Mr Lee Kang Hoon (who is also the Chief Executive Officer of IZN) and Mr Kim Gong Sik.

IZN provides a range of services to South Korean and international clients including:

(i) M&A advisory services;

(ii) Corporate restructuring services;

(iii) Structured financing services; and

(iv) Corporate consulting & IPO advisory services.

(b) *Who is Mr SongJune Kim (a director and 1/3 shareholder of the Trustee)?*

Mr SongJune Kim is a director, Chief Executive Officer and controlling shareholder of SanGyung Law Firm (**SanGyung**).

SanGyung is a South Korean law firm that was founded in January 2007 by Mr SongJune Kim and comprises 12 attorneys, including three former judges, four former public prosecutors and one former inspection commissioner. SanGyung has relationships with, and advises, leading South Korean conglomerates and financial services companies. Further details on Mr SongJune Kim's background and experience are set out in section 5.11.

As detailed in section 5.4, Mr SongJune Kim also holds 25% of the issued shares of ACEHK, the sole unit holder of the Trust.

(c) *Who is ACE (a 1/3 shareholder of the Trustee)?*

ACE is an Australian proprietary limited company which was established in February 2013 specifically for the purpose of the Recapitalisation Proposal. It is not currently undertaking any other activity.

The sole director and secretary of ACE is Mr Christie. The sole shareholder of ACE is Echelon (a company of which Mr Christie is the sole director, secretary and shareholder).

Mr Brent Christie is also a director of the Trustee and, as detailed in section 5.5, holds a 25% interest in the issued shares of ACEHK, the sole unit holder of the Trust.

Further information regarding the relevant interests that the Trustee's shareholders (together with their controllers) will have in Firstfolio as a result of the Recapitalisation Proposal are set out later in this section 5.5.

Who will the Trustee hold the Shares on behalf of?

The Trustee will hold the Shares issued to it under the Recapitalisation Proposal as trustee of the Trust and will have the ability to control the right to vote, and dispose of, those Shares. ACEHK is currently the sole unit holder of the Trust.

As detailed in section 5.4, private equity investors (who will receive a right to share in the profits generated by the Trust which flow to ACEHK) will provide the subscription monies for the Proposed Placements, the Trustee's entitlement under the Entitlement Offer and underwriting of the Entitlement Offer to the Trustee (to the extent to which it is required to underwrite the Entitlement Offer).

The Trustee will be entitled to be paid fees from the Trust for acting in the capacity of trustee of the Trust.

Who can replace the Trustee?

The unit holders of the Trust will have the power to remove and replace the Trustee at any time in accordance with law or by passing a special resolution.

Accordingly, while it is the sole unit holder of the Trust, ACEHK will have the power to remove and replace the Trustee as trustee of the Trust.

Who will assist the Trustee to fulfil its obligations?

In addition to nominating Mr Flack to be one of its representatives on the Board (as detailed in section 5.11), the Trustee intends to appoint Mr Flack to act as its representative in respect of various matters from time to time, including providing assistance and guidance to the Trustee in relation to its obligations under Australian law.

As detailed in section 5.11, Mr Flack is a former director of Firstfolio and is currently the interim Chief Executive Officer of Firstfolio. He has extensive knowledge of the Firstfolio business and the Australian financial services market more generally.

As detailed in section 5.5, Mr Flack holds 25% of the issued shares of ACEHK, the sole unit holder of the Trust.

As at the date of this Notice of Meeting, Mr Flack also has a relevant interest in 4.62% of the issued share capital of Firstfolio. Refer to section 5.7 for further details. Section 5.11 details Mr Flack's maximum relevant interest in the issued share capital of Firstfolio following completion of the Recapitalisation Proposal.

The Trustee's shareholders' relevant interests in Firstfolio

Pursuant to section 608(3) of the Corporations Act, a person has a relevant interest in any securities that any of the following has:

(a) a company in which the persons voting power is above 20%; or

(b) a company that the person controls.

In accordance with section 608(3) of the Corporations Act:

(a) ACE, Mr SongJune Kim and IZN, the shareholders of the Trustee;

(b) Mr Kim Byung Ki (the sole shareholder of IZN); and

(c) Echelon (the sole shareholder of ACE), together with its sole shareholder Mr Brent Christie,

will have a relevant interest in the Shares which will be held by the Trustee as a result of the Recapitalisation Proposal.

5.6 Approval of the Recapitalisation Proposal by the Federal Treasurer

As the Trustee (whose respective 1/3 shareholders are ACE (which is ultimately controlled by Mr Christie), Mr SongJune Kim and IZN) is controlled by persons not resident in Australia and due to the value of Firstfolio's gross assets, the Trustee is required to obtain the approval of the Federal Treasurer under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) for the proposed acquisition by the Trustee of the Shares under the Recapitalisation Proposal. In the event that such approval is not given by the Treasurer, the Trustee will not be required to acquire any Shares in Firstfolio under the Recapitalisation Proposal and the Recapitalisation Proposal will not proceed.

5.7 Current equity interests in Firstfolio

As at the date of this Notice of Meeting, neither the Recapitalisation Parties nor their Associates hold a relevant interest in any securities of Firstfolio. As at the date of this Notice of Meeting, the Recapitalisation Parties do not have any Associates other than each other.

As at the date of this Notice of Meeting, Mr Flack (who is not an Associate of either of the Recapitalisation Parties) currently holds a relevant interest in 35,722,258 Shares of Firstfolio (which represents 4.62% of the issued share capital of Firstfolio as at the date of this Notice of Meeting). Mr Mark Flack will not vote any Shares in which he holds a relevant interest on Resolution 1 and Resolution 2, as, subject to Resolution 1 and Resolution 2 being approved, Mr Flack will be appointed to the Board of Firstfolio following the Proposed Placements.

5.8 Recapitalisation Parties' voting power in Firstfolio after the Recapitalisation Proposal

Voting power in Firstfolio following the Initial Placement

The following table sets out the voting power that the Recapitalisation Parties and their Associates will have in Firstfolio immediately following the Initial Placement:

Form of equity	Total equity on issue	Recapitalisation Parties' voting power
Ordinary Shares	1,073,886,809	300,000,000 (27.94%)
Options	11,350,000	0 (0%)

Voting power in Firstfolio following the Initial and Final Placements

The table below sets out the voting power that the Recapitalisation Parties and their Associates will have in Firstfolio immediately following the Initial and Final Placements:

Form of equity	Total equity on issue	Recapitalisation Parties' voting power
Ordinary Shares	2,073,886,809	1,300,000,000 (62.68%)
Options	11,350,000	0 (0%)

Voting power in Firstfolio following the Recapitalisation Proposal

Scenario 1 - Assuming the Trustee is not required to take up any shares under its underwriting of the Entitlement Offer

The table below sets out the voting power that the Recapitalisation Parties and their Associates will have in Firstfolio immediately following completion of the Recapitalisation Proposal (and assuming that all Shareholders subscribe for their full entitlement under the Entitlement Offer including the Trustee in respect of Shares issued to it under the Initial Placement):

Form of equity	Total equity on issue	Recapitalisation Parties' voting power
Ordinary Shares	3,147,773,618	1,600,000,000 (50.83%)
Options	11,350,000	0 (0%)

Scenario 2 - Assuming the Trustee is required to take up the full shortfall under the Entitlement Offer

The following table sets out the voting power that the Recapitalisation Parties and their Associates will have in Firstfolio, immediately following completion of the Recapitalisation Proposal if no Shareholders take up any of their entitlement under the Entitlement Offer (other than the Trustee in respect of the Shares issued to it under the Initial Placement) and the sub-underwriting commitments detailed in section 5.9 become unenforceable or are defaulted on and, as a result, the Trustee (in its capacity as underwriter of the Entitlement Offer) acquires the Shares not taken up by other Shareholders:

Form of equity	Total equity on issue	Recapitalisation Parties' voting power
Ordinary Shares	3,147,773,618	2,373,886,809 (75.41%)
Options	11,350,000	0 (0%)

As a result of Trust investment structure (detailed in this section 5 of the Explanatory Statement) and relevant provisions of the Corporations Act (detailed in section 3.1(c) of the Explanatory Statement) a number of individuals and entities (in addition to the Recapitalisation Parties) will have a relevant interest in the Shares acquired by the Trustee. These entities/individuals and the maximum and minimum relevant interest they will have in Firstfolio following completion of the Recapitalisation Proposal are set out in the table below:

Entity/Individual	Current Shareholding	Minimum relevant interest and voting power in Firstfolio following Recapitalisation Proposal	Maximum relevant interest and voting power in Firstfolio following Recapitalisation Proposal
Mr Mark Flack Shareholder of ACEHK (25%)	35,722,258 Shares 4.62% voting power	1,635,722,258 Shares 51.96% voting power	2,445,331,325 Shares 77.68% voting power
ACE Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
IZN Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Brent Christie Shareholder of ACEHK (25%) Shareholder of Echelon (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Bobby Yun Shareholders of ACEHK (25%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr SongJune Kim Shareholder of ACEHK (25%) Shareholder of the Trustee (1/3)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Mr Kim Byung Ki Shareholder of IZN (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power
Echelon Shareholder of ACE (100%)	Nil	1,600,000,000 Shares 50.83% voting power	2,373,886,809 Shares 75.41% voting power

5.9 Sub-Underwriting Arrangements

The Trustee has the right, under the Underwriting Agreement, to engage sub-underwriters to sub-underwrite all or part of its commitment to fully underwrite the Entitlement Offer, for 1,073,886,809 Shares.

As at the date of this Notice of Meeting the Trustee has entered into sub-underwriting arrangements for 773,886,809 Shares (or $7,738,868.09) with L1 Capital and Kentgrove Capital.

Pursuant to the terms of the sub-underwriting agreements:

(a) L1 Capital has agreed to sub-underwrite 620,000,000 Shares; and

(b) Kentgrove Capital has agreed to sub-underwrite 153,886,809 Shares.

The Trustee will pay the sub-underwriters, L1 Capital and Kentgrove Capital, a sub-underwriting fee of 1% of the amount they each ultimately sub-underwrite. Pursuant to the terms of the sub-underwriting agreements, the sub-underwriters may nominate another person to take up the Shares which the relevant sub-underwriter has been allocated under the sub-underwriting agreement. Consent will be required to be obtained from the Trustee where any person nominated by a sub-underwriter is not a staff and/or family member of the sub-underwriter or a controlled entity of the sub-underwriter.

Who are L1 Capital and Kentgrove Capital?

L1 Capital and Kentgrove Capital are independent, specialist fund managers that have previously participated as a sub-underwriters for other transactions as a routine part of their respective business.

Neither L1 Capital nor Kentgrove Capital has a non arm's length relationship with Firstfolio, the Trustee or ACEHK.

As at the date of this Notice of Meeting, neither L1 Capital nor Kentgrove Capital has a relevant interest in any Firstfolio Shares.

L1 Capital and Kentgrove Capital will act independently with respect to any Shares which they each acquire in Firstfolio as a result of the sub-underwriting arrangements. L1 Capital and Kentgrove Capital are not Associates, and the interests which they acquire in Firstfolio as a result of the sub-underwriting arrangements will not be aggregated for the purposes of section 606 of the Corporations Act.

What impact will L1 Capital's and Kentgrove Capital's sub-underwriting have on the control of the Company?

Neither L1 Capital nor Kentgrove Capital will individually hold or have a relevant interest in more than 20% of Firstfolio as a result of the sub-underwriting arrangements.

Assuming that no Shareholder other than the Trustee subscribes for any of its entitlements under the Entitlement Offer, and the sub-underwriters perform their obligations to subscribe for 773,886,809 Shares the subject of the sub-underwriting agreements, the Recapitalisation Parties and their Associates will have a voting power of 50.83% in the Company following completion of the Recapitalisation Proposal (which is the same as under Scenario 1 above), and L1 Capital and Kentgrove Capital will have a voting power of approximately 19.7% and 4.9% in the Company, respectively. This is detailed in the table below:

Form of equity	Total equity on issue	Recapitalisation Parties' voting power	L1 Capital voting power	Kentgrove Capital voting power
Ordinary Shares	3,147,773,618	1,600,000,000 (50.83%)	620,000,000 (19.7%)	153,886,809 (4.9%)
Options	11,350,000	0 (0%)	0 (0%)	0 (0%)

Assuming that no Shareholder other than the Trustee subscribes for any if its entitlements under the Entitlement Offer, and the sub-underwriters fail to perform their obligations to sub-underwrite 773,886,809 Shares or the sub-underwriting arrangements become unenforceable, the Recapitalisation Parties will have a voting power of 75.41% in the Company following completion of the Recapitalisation Proposal (which is the same as under Scenario 2 above), and L1 Capital and Kentgrove Capital will each have a voting power of 0% in the Company. This is detailed in the table below:

Form of equity	Total equity on issue	Recapitalisation Parties' voting power	L1 Capital voting power	Kentgrove Capital voting power
Ordinary Shares	3,147,773,618	2,373,886,809 (75.41%)	0 (0%)	0 (0%)
Options	11,350,000	0 (0%)	0 (0%)	0 (0%)

The sub-underwriting arrangements may be terminated by the sub-underwriters in the following circumstances:

(a) Shareholders do not approve Resolution 1 and Resolution 2;

(b) Firstfolio does not receive cleared funds of $39,500,000 through the issue of Shares to the Trustee under the Subscription Agreement;

(c) the Trustee does not subscribe for its full entitlement under the Entitlement Offer;

(d) if the closing date of the Entitlement Offer and the determination of any shortfall under the Entitlement Offer will occur after 30 December 2013 (unless the sub-underwriters provide written notice extending their commitment); or

(e) if any of the following termination events occur before the Trustee is required to provide the shortfall subscription funds (as detailed in Annexure B):

    (i) ASX announces that Firstfolio will be removed from the official list of ASX or that its Shares will be delisted or suspended from quotation on ASX for any reason;

    (ii) if, as at the close of trading on ASX on three consecutive trading days or until the date on which the Entitlement Offer shortfall funds are due to be paid by the sub-underwriters (whichever period is shorter), the S&P/ASX 200 Index is at a level that is 10% or more below its level as at the close of trading on 24 September 2013;

    (iii) Firstfolio breaches any of the material terms or conditions of its loan facilities and such breach is either incapable of remedy or is not remedied within 10 business days after it occurs and the lender seeks to enforce its security;

    (iv) ASIC threatening to issue or issuing proceedings, or conducting an investigation, in relation to the Subscription Agreement (and the issue of the Shares to the Trustee thereunder), the Proposed Placements or the Entitlement Offer;

    (v) ASX does not agree to grant (or subsequently withdraws, qualifies or withholds approval for) official quotation of all Shares issued under the Entitlement Offer on an unconditional basis;

    (vi) any event specified in the indicative timetable for the Entitlement Offer specified in the sub-underwriting agreement is delayed by Firstfolio for more than 3 months (unless the sub-underwriter gives its prior approval);

    (vii) Firstfolio or any other material member of the Firstfolio Group is insolvent or an act or omission occurs that is likely to result in Firstfolio or any other material member of the Firstfolio Group becoming insolvent;

    (viii) Firstfolio withdraws the Entitlement Offer; or

    (ix) certain specified events occur which have a material adverse effect on the Entitlement Offer, or which lead to a contravention of or liability under the Corporations Act involving the sub-underwriter or Trustee.

In addition, if the Trustee terminates its obligations under the Underwriting Agreement, the sub-underwriting arrangements will also automatically terminate.

5.10 The Recapitalisation Parties' intentions for the Firstfolio Group

The Firstfolio Group's current market share of the overall finance market in Australia is relatively small. The Recapitalisation Proposal is intended to provide additional funding capacity and a more sustainable capital structure to assist the Firstfolio Group in building its presence in the Australian market and to increase its market share.

This section 5.10 sets out the Recapitalisation Parties' current intentions for the Firstfolio Group in relation to the following matters, on the basis of facts and information concerning the Firstfolio Group which are known to the Recapitalisation Parties as at the date of this Notice of Meeting:

(a) future employment of the current employees of the Firstfolio Group;

(b) continued operation of the businesses currently conducted by the Firstfolio Group;

(c) injection of further capital into the Firstfolio Group;

(d) transfer of assets between the Firstfolio Group and the Recapitalisation Parties and their Associates;

(e) redeployment of the fixed assets of the Firstfolio Group; and

(f) intentions of the Recapitalisation Parties to significantly change the financial or dividend distribution policies of the Firstfolio Group.

Future employment of present employees of the Firstfolio Group

It is the Recapitalisation Parties' current intention that existing Firstfolio Group employees will remain in continued employment with the Firstfolio Group. The Recapitalisation Parties have no current intentions to effect any material restructuring of the Firstfolio Group as the business has already undertaken a restructure of its workforce over the last 12 months.

Continuation of the business of the Firstfolio Group

Following implementation of the Recapitalisation Proposal, it is the Recapitalisation Parties' current intention that the existing operating structure of the business be maintained and that the Firstfolio Group continue to be positioned as a niche lender across a number of asset classes. These asset classes will include residential mortgages, asset finance, commercial mortgages, personal loans and project finance. It is also intended that the Firstfolio Group's services will maintain existing third party distribution relationships and origination channels, with the addition of new relationships established as part of ongoing business development initiatives.

The additional working capital raised through the Recapitalisation Proposal will be used to grow the Firstfolio Group's business in a number of ways.

Part of the additional working capital will be invested in the Firstfolio Group's eChoice business with the aim of building the Firstfolio Group's market share in residential home loan origination and expanding the product range offered by eChoice. Funds will also be allocated to further grow the existing aggregation business which was recently moved under the eChoice division in order to provide the existing sales network with access to new sales enquiries. Continued investment in the eChoice brand and sales activities will also be undertaken and expanded marketing activities will be considered and implemented where deemed appropriate. This may include an increase in non-online marketing activities with the aim of building general brand awareness. Any increase in the annual marketing budget will, however, be subject to Board approval.

In addition, the national distribution network and access to multiple funding sources that the Firstfolio Group has developed over the last five years or more, largely through acquisition, will be a key area of focus. The aim will be to exploit these acquisitions through the improved balance sheet that Firstfolio will have following the Recapitalisation Proposal which will allow for additional resources to be deployed to support the Firstfolio Group's current business activities.

From an overall strategy implementation perspective, the business units will be required to work with the Board in developing long term plans to either increase market share and/or product sales profitability. The Board will allocate funding to support the agreed business plans from available resources and monitor the progress of all new agreed activities.

The Board will be required to closely monitor the implementation of the Firstfolio Group's strategy and also review opportunities to develop new lending products and services utilising the Firstfolio Group's proprietary platforms. Where appropriate, support will be sought from major Australian banks, international banks and financial institutions to participate in these new initiatives. The Recapitalisation Parties also intend to assist with introductions to potential investors from Asia including both private and also institutional investors.

Injection of further capital into the Firstfolio Group

The Recapitalisation Parties currently have no intention to inject further capital into the Firstfolio Group during at least the next 12 months.

Transfer of assets between the Firstfolio Group and the Recapitalisation Parties and their associates

The Recapitalisation Parties have no current intention to transfer any asset of the Firstfolio Group to the Recapitalisation Parties or their Associates.

Redeployment of fixed assets of the Firstfolio Group

The Recapitalisation Parties have no current intention to redeploy any fixed assets of the Firstfolio Group.

Financial or dividend distribution policies of the Firstfolio Group

The Recapitalisation Parties expect the Board to review its dividend policy on completion of the Recapitalisation Proposal. Subject to there being no material change in operating conditions or to the terms of the lender agreements to which the Firstfolio Group is a party, the Recapitalisation Parties believe that the Board should be in a position to consider recommending the payment of a dividend in the 2013-2014 financial year. The timing and quantum of such payment (if any) will be determined by the Board after considering all relevant factors at the relevant time.

5.11 The Trustee's proposed appointees to the Board

Following completion of the Proposed Placements, the Trustee will have the right to nominate three Directors to be appointed to the Board and to also nominate the Chairman of the Board. The Trustee intends to nominate the following individuals for appointment to the Board:

Mr SongJune Kim

The Trustee intends to nominate Mr SongJune Kim to be appointed as a Non-Executive Director of Firstfolio.

A highly credentialed lawyer in South Korea, Mr SongJune Kim will bring extensive experience in public office and private practice to Firstfolio. Mr SongJune Kim represents a number of South Korean based financial institutions and is an Outside Director (ie. Non-Executive Director) of KDB Kiamco (a member of the KDB Bank group of companies).

Mr SongJune Kim founded the law firm SanGyung in January 2007 which advises many of South Korea's leading financial institutions.

Mr SongJune Kim is a key legal reference point on international finance and trade in respect of South Korea. Mr SongJune Kim brings an extraordinary wealth of international finance and trade knowledge and experience through his distinguished roles as:

- 1984 - 1991: Prosecutor, Seoul Central Prosecution Service, South Korea
- 1991-92: EEC: Visiting Officer at the Federal Ministry of Justice, Germany (Researching on EC Law)
- 1997-99: Professor at the Judicial Research and Training Institute (Trade Law and EC Law), South Korea
- 1999-2001: Chief of International Judicial Affairs division, Ministry of Justice, South Korea Judicial Affairs Deliberations Officer
- 2001-03: Chief Prosecutor of External Affairs Division, Seoul Central Prosecution Service, South Korea,

and through his close association with leading South Korean conglomerates.

Age: 55

Qualifications: Mr SongJune Kim is a lawyer in South Korea. The training of Mr SongJune Kim at Seoul National University resulted in Mr SongJune Kim attaining two degrees: Bachelor of Arts (Magna Cum Laude) and Masters in Law. Mr SongJune Kim also holds an MBA and a Ph.D. in Law from Yonsei University.

Connections with the Recapitalisation Parties, Firstfolio or any of their associates: Mr SongJune Kim is a director and shareholder of the Trustee and a director and shareholder of ACEHK and has acted on behalf of ACEHK in dealings with potential private equity investors in ACEHK.

Interest in the Recapitalisation Proposal: Other than to the extent set out in the Notice of Meeting and Explanatory Statement, nil. As noted in section 5.4 and 5.5 above, in accordance with section 608(3) of the Corporations Act, Mr SongJune Kim will have a relevant interest in any Shares acquired by the Trustee as a result of the Recapitalisation Proposal.

Mr Brent Christie

The Trustee intends to nominate Mr Christie to be appointed as a Non-Executive Director of Firstfolio.

Mr Christie has a strong professional background in accounting and finance. He was an accountant with Deloitte Touche Tohmatsu in New Zealand and subsequently became the senior manager of Corporate Financial Services to NZI Bank for commercial, development and construction finance. At the time, NZI Bank was a wholly owned subsidiary of NZI Corporation, the third largest listed company in New Zealand at the time.

Mr Christie has held senior management positions within multi-national corporations such as Bertelsmanns Group (NZ) and Universal Group Australia.

Mr. Christie was trained in the mortgage broking industry by Yes Home Loans and AIMS Home Loans.

Since 2001, Mr. Christie has acted as an Independent Finance Consultant, consulting to individuals and corporations assisting in the structuring of financial transactions and facilitating access to debt funds from institutional and private lenders. Projects included residential and commercial property developments and refinancing.

During his time acting as an Independent Finance Consultant, Mr. Christie has provided consulting services to Firstfolio working on new product initiatives. This included providing consulting services for project financing opportunities, property security bonds and other property related services. Mr. Christie has developed an extensive national network of referrers for property and infrastructure projects.

In 2007, Mr Christie was a founding partner of Aussie Bonds Australia, the coming together of several senior executives with extensive international experience in insurance bonds, banking finance and financial analysis.

Mr. Christie will look to introduce further opportunities to advance the business of the Firstfolio Group. If appropriate development opportunities arise, Mr. Christie will focus on the sourcing and syndication of medium to large-scale infrastructure, resource and property transactions in conjunction with ACEHK. Where appropriate, it is intended that Firstfolio will provide services and expertise on a commercial basis to these projects utilising its licenced platform to manage the investment into these projects. Mr Christie may also be engaged to further develop these opportunities on a project-by-project basis.

Age:54

Connections with the Recapitalisation Parties, Firstfolio or any of their associates: Mr. Christie is a director and shareholder of ACEHK and the Trustee.

Interest in the Recapitalisation Proposal: Other than to the extent set out in the Notice of Meeting and Explanatory Statement, nil. As noted in sections 5.4 and 5.5 above, Mr Brent Christie will have a relevant interest in any Shares acquired by the Trustee as a result of the Recapitalisation Proposal.

Mr Mark Flack

The Recapitalisation Parties intend to nominate Mr Flack to be appointed as Managing Director and Chief Executive Officer of Firstfolio.

Under the proposed strategy for Australia, the Board will appoint (or confirm the appointment of) executives of Firstfolio to manage the day to day operations of the two business units (being Folio Mortgage & Finance and eChoice). The appointed executives will report to Mr Flack as Chief Executive Officer of Firstfolio. Mr Flack will in turn work closely with the Board in implementing Firstfolio's agreed business strategy.

Mr Flack has an intimate knowledge of Firstfolio's business having been a consultant to Firstfolio from 1 July 2007 to 31 March 2013 and a Director from December 2000 to June 2012. Mr Flack was also appointed as interim Chief Executive Officer of Firstfolio on 1 July 2013. Prior to this interim appointment, Mr Flack was Chief Executive Officer and Managing Director of Firstfolio (as Midware Limited) from December 2000 to August 2005. In the period from August 2005 to June 2007 he consulted to various businesses including James Fielding Limited and Mirvac Limited in relation to the development of new mortgage products. Mr Flack is also a Non-Executive Director of numerous Firstfolio subsidiary companies.

Mr Flack has worked closely with Firstfolio to facilitate and complete the Recapitalisation Proposal. The terms of Mr Flack's appointment as Managing Director and Chief Executive Officer of Firstfolio will be negotiated prior to the Meeting and disclosed promptly to the market on successful completion of the Recapitalisation Proposal. It is not expected that shareholder approval will be required in relation to the terms of Mr Flack's appointment.

Age: 49

Qualifications: Bachelor of Business, Accounting

Connections with the Recapitalisation Parties, Firstfolio or any of their associates: In addition to his current role as interim Chief Executive Officer of Firstfolio, his role as a Non-Executive Director of a number of Firstfolio subsidiary companies and his proposed role as an Executive Director and Chief Executive Officer of Firstfolio, Mr. Flack is also a director and shareholder of ACEHK and will also act as a representative of the Trustee in Australia in relation to certain agreed matters.

Interest in the Recapitalisation Proposal: Other than to the extent set out in the Notice of Meeting and Explanatory Statement, nil. As noted in section 5.4 above, in accordance with section 608(3) of the Corporations Act, Mr Flack will have a relevant interest in any Shares acquired by the Trustee as a result of the Recapitalisation Proposal. Given that Mr Flack currently holds a relevant interest in 35,722,258 Shares of Firstfolio (which represents 4.62% of the issued share capital of Firstfolio as at the date of this Notice of Meeting), he will have a relevant interest in 2,445,331,325 Shares (assuming he subscribes for his full entitlement under the Entitlement Offer) which represents 77.68% issued share capital of Firstfolio following completion of the Recapitalisation Proposal.

6 FURTHER INFORMATION

This section includes additional information that your Independent Directors consider material to a decision on how to vote on the Proposed Resolutions, as well as other information that is required to be included under the Corporations Act, the Listing Rules and regulatory documents (including ASIC Regulatory Guides).

6.1 Summary of the material terms of the Subscription Agreement and Underwriting Agreement

Please see Annexure B for a summary of the material terms of the Subscription Agreement and Underwriting Agreement.

6.2 Fee payable to the Trustee

Firstfolio will pay the Trustee a fee of 4% of the total funds to be raised by the Recapitalisation Proposal.

The fee is structured such that the Trustee will receive 4% of the total amount raised under the:

(a) Initial Placement and the Final Placement, payable within 10 business days of the Final Placement; and

(b) Entitlement Offer, payable within 1 business day after the completion of the Entitlement Offer.

If the Recapitalisation Proposal proceeds, this means the Trustee will receive a fee of 4% of the $50,238,868 to be raised under the Recapitalisation Proposal. This means that the Trustee will receive a fee of $2,009,554.

The Independent Directors believe that these arrangements are on market terms and, as the parties were negotiating these arrangements on arm's length terms, the Independent Directors do not consider that Shareholder approval is required under Chapter 2E of the Corporations Act for these arrangements.

6.3 Capital structure of Firstfolio following Consolidation

Following the implementation of the Consolidation, the capital structure of Firstfolio will be as follows.

Form of equity	Prior to Consolidation	Following Consolidation
Ordinary Shares	3,147,773,618	314,777,362
Options	11,350,000	1,135,000

Note that the above table does not take into consideration rounding under the Consolidation.

6.4 Terms of issue of the Shares to be issued pursuant to the Proposed Placements and Entitlement Offer

The Shares to be issued pursuant to Proposed Placements and Entitlement Offer will rank equally with all existing Shares.

6.5 Independent Directors' resolution to approve Resolution 1 and Resolution 2 being placed before Shareholders

The Independent Directors unanimously voted in favour of proposing Resolution 1 and Resolution 2 being placed before Shareholders at the General Meeting and, in the absence of a superior proposal, your Independent Directors unanimously recommend that Shareholders **VOTE IN FAVOUR** of the Resolution 1 and Resolution 2.

6.6 Director's interests in Resolution 1 and Resolution 2

Mr. Anthony Wales has declined to make a recommendation on the Proposed Resolutions as he has a conflict of interest in that some of the proceeds of the Recapitalisation Proposal will be used to partially repay amounts owed under the Welas Facility to a company that he controls, Welas Pty Limited.

Following implementation of the Recapitalisation Proposal, Mr Greg Pynt and Mr Anthony Wales will retain their positions on the Board. The Independent Directors do not believe the retention of a position on the Board (as a standalone factor) gives rise to a conflict of interest that precludes Mr Greg Pynt remaining an Independent Director.

6.7 Other Information

The Independent Directors are not aware of any other information that would be material to the decision on how to vote on Resolution 1 and Resolution 2 that is not disclosed in this document.

ANNEXURE A – GLOSSARY

Term	Meaning
ACE	Australian Capital Enterprise Pty Limited (ACN 162 204 346)
ACEHK	Australian Capital Enterprise (HK) Limited
ASIC	The Australian Securities and Investments Commission
Associate	Has the meaning given to it in section 9 of the Corporations Act as applicable to Chapter 6 of the Corporations Act
ASX	ASX Limited (ABN 98 008 624 691) or the market conducted by it as the context requires
BDO or **Independent Expert**	BDO Corporate Finance (East Coast) Pty Limited (ABN 70 050 038 170)
Board	The Board of Directors of Firstfolio
Chairman	The Chairman of the Board
Company or **Firstfolio**	Firstfolio Limited (ABN 43 002 612 991)
Consolidation	The proposed consolidation of every 10 Shares into 1 Share to occur on 5 February 2014 (or such other subsequent date that is notified to the ASX by the Company), subject to Resolution 3 being passed by the Required Majority and all Shares being issued under the Proposed Placements and Entitlement Offer.
Corporations Act	*Corporations Act 2001* (Cth)
Director	A director of Firstfolio
Echelon	Echelon Group Pty Ltd (ACN 161 086 942)
Entitlement Offer	The proposed renounceable rights issue entitlement offer to be conducted by Firstfolio under which Shareholders will be entitled to subscribe for 1 new Share for every Share held on the Record Date at 1 cent per Share
Exclusivity Deed	The agreement titled Exclusivity Deed between Firstfolio and the Trustee under which Firstfolio has agreed to comply with certain restrictions and to pay a break fee to the Trustee if the Recapitalisation Proposal does not proceed in certain circumstances.
Explanatory Statement	The 'Explanatory Statement' part of this document
FIRB	Foreign Investment Review Board

Term	Meaning
Final Placement	The issue of 1,000,000,000 Shares to the Trustee at an issue price of 3.5 cents per Share
Firstfolio or **Company**	Firstfolio Limited (ABN 43 002 612 991)
Firstfolio Group	Firstfolio and its controlled entities
General Meeting	The general meeting of Shareholders which Firstfolio has called for Shareholders to consider and, if thought fit, approve the Proposed Resolutions. The General Meeting will be held at 9.30am on 27 November 2013 at Level 4, 60 Carrington Street, Sydney NSW 2000
Independent Directors	Each of the Directors of Firstfolio other than Mr Antony Wales
Independent Expert or **BDO**	BDO Corporate Finance (East Coast) Pty Limited (ABN 70 050 038 170)
Independent Expert's Report	The report contained at Annexure C of this document
Initial Placement	The issue of 300,000,000 Shares to the Trustee at an issue price of 1.5 cents per Share
Initial Proposal Date	13 November 2012 when a superseded version of the Recapitalisation Proposal was first publicly proposed by Firstfolio
IZN	IZN Investments, Inc
Kentgrove Capital	Kentgrove Capital Pty Limited (ACN 150 638 627)
L1 Capital	L1 Capital Pty Limited (ACN 125 378 145)
Listing Rules	The ASX Listing Rules published by ASX
NAB Facility	Firstfolio's debt facility with National Australia Bank which, as at 30 June 2013, was in the amount of approximately $1.4 million.
Non-associated Shareholders	Shareholders not associated with the Recapitalisation Parties or its Associates
Notice of Meeting	The Notice of Meeting for the General Meeting contained at page 7 of this document
Notice of Meeting and Explanatory Statement	This document which includes the Notice of Meeting and Explanatory Statement
Option	An option issued by Firstfolio which entitles the holder the right to subscribe for 1 Share

Term	Meaning
Proposed Placements	The proposed issue of 1,300,000,000 Shares to the Trustee by way of the Initial Placement and Final Placement
Proposed Resolutions	Resolution 1, Resolution 2 and Resolution 3
Proxy Form	The proxy form which accompanies this Notice of Meeting and Explanatory Statement
Recapitalisation Parties	ACEHK and the Trustee.
Recapitalisation Proposal	The Proposed Placements and the Entitlement Offer together
Record Date	10 December 2013
Required Majority	In respect of Resolution 1, Resolution 2 and Resolution 3, means a resolution approved by greater than 50% of eligible votes cast on it.
Resolution 1	The proposed resolution of Shareholders to approve Firstfolio issuing 1,300,000,000 Shares to the Trustee under the Proposed Placements. Of these 300,000,000 Shares will be issued at 1.5 cents per Share under the Initial Placement and 1,000,000,000 Shares will be issued at 3.5 cents per Share under the Final Placement
Resolution 2	The proposed resolution of Shareholders to approve Firstfolio issuing up to 1,073,886,809 Shares (in addition to those issued under the Proposed Placements) to the Trustee as a participant in and underwriter of the Entitlement Offer, at an issue price of 1 cent per Share.
Resolution 3	The proposed resolution of Shareholders to consolidate every 10 Shares into 1 Share on 29 January 2014 (or such other subsequent date that is notified to the ASX by the Company)
Senior Debt Facility	Firstfolio's senior debt facility with the Commonwealth Bank of Australia, which, as at 30 June 2013, was in the amount of approximately $32.75 million
Settlement Rules	The ASX Settlement Operating Rules
Share	An ordinary share in the capital of Firstfolio
Share Register	The register of members of Firstfolio
Shareholder	A holder of Shares from time to time

Term	Meaning
Shareholder Information Line	The information line that Shareholders may call if they have questions regarding the matters raised in this document, which is 1300 560 339 if calling from within Australia or +612 8011 0354 if calling from outside Australia and open between 9am and 5pm Sydney time on business days
Subscription Agreement	The agreement titled Subscription Agreement between Firstfolio and ACE, which was novated to the Trustee, under which the Trustee will subscribe for 1,300,000,000 Shares under the Initial Placement and Final Placement, a summary of the material terms of which is included at Annexure B in this document
Trust	IZN Investments Australian Capital Enterprise Trust
Trustee	IZN Investments ACE Management Pty Ltd (ACN 165 199 306)
Underwriting Agreement	The agreement titled Underwriting Agreement between Firstfolio and ACE, which was novated to the Trustee, under which the Trustee have agreed to fully underwrite the Entitlement Offer, a summary of the material terms of which is included at Annexure B in this document
Voting Exclusion Statements	Means the voting exclusion statements contained in the Notice of Meeting
VWAP	Volume weighted average price
Welas Facilities	The debt facilities between Firstfolio and Welas Pty Limited which, as at 30 June 2013, were in the amount of approximately $29.3 million

ANNEXURE B– SUMMARY OF THE KEY TERMS OF THE SUBSCRIPTION AGREEMENT AND UNDERWRITING AGREEMENT

1 **Subscription Agreement**

(a) **Details:** Firstfolio and ACE entered into a 'Subscription Agreement' on 1 July 2013. The Subscription Agreement was subsequently novated to the Trustee.

(b) **Subscription:** The Trustee has agreed to subscribe for, and Firstfolio has agreed to issue to the Trustee, Shares in two tranches as follows:

(i) 300,000,000 Shares for $0.015 per Share under the Initial Placement; and

(ii) 1,000,000,000 Shares for $0.035 per Share under the Final Placement.

(c) **Conditions precedent:** The material conditions precedent to completion of the Initial Placement and Final Placement are:

(i) on or before 11 December 2013, Firstfolio Shareholders passing Resolution 1 and Resolution 2;

(ii) Firstfolio entering into a formal agreement with the Commonwealth Bank of Australia and Welas Pty Limited as to the level of debt reduction from the proceeds of the Placements and Entitlement Offer and ongoing debt amortisation on terms acceptable to the Trustee acting reasonably;

(iii) Firstfolio obtaining written consent to the change of control resulting from the Placements and the Entitlement Offer from various third parties;

(iv) the Independent Directors agreeing to unanimously recommend Resolution 1 and Resolution 2 for approval by Shareholders, in the absence of a superior proposal;

(v) Firstfolio and the Trustee executing the Underwriting Agreement;

(vi) completion of an independent expert's report indicating that the Placements are "fair and reasonable" or "not fair but reasonable"; and

(vii) Firstfolio and the Trustee receiving, by 11 December 2013, approval from all government agencies which Firstfolio and the Trustee consider are necessary or convenient for the conduct of the Entitlement Offer, issue of Shares pursuant to it and the issue of the Shares under the Proposed Placements.

(d) **Settlement and allotment:** For the Initial Placement:

(i) settlement occurs as soon as practicable after the last of the conditions has been satisfied or waived and in any event before 10am Sydney time on the date that is 5 business days after the last of the conditions is satisfied or waived or such other time as is agreed in writing between the parties; and

(ii) the issue and allotment of the relevant Shares must be completed within 2 business days after settlement.

For the Final Placement, provided that each of the conditions has been satisfied or waived and provided that the Underwriting Agreement has not been validly terminated and the Entitlement Offer has not been withdrawn:

(iii) settlement occurs on or before 10am Sydney time on the date that is 2 Business Days following the Record Date under the Entitlement Offer unless otherwise agreed in writing between the parties; and

(iv) the issue and allotment of the relevant Shares must be completed within 2 business days after settlement.

Each placement will not occur under a prospectus.

(e) **Board nominees:** Following completion of the Final Placement and for as long as the Trustee holds at least 50% voting power in Firstfolio, the Trustee is entitled to nominate 3 persons to the Board of Directors and 1 person as Chairman of the Board of Directors (being 1 of the 3 persons nominated to the Board). Firstfolio is to procure that the Board of Directors consists of 5 persons. This requires Firstfolio to procure that 3 of the pre Recapitalisation Proposal Directors nominated by the Trustee provide irrevocable undertakings that they will resign as Directors and that the Trustee's 3 nominees are appointed as Directors on completion of the Placements.

(f) **Management conduct:** From the date of the agreement until the completion of the Placements, Firstfolio is to undertake all actions reasonably within its powers to ensure that a search for a new Firstfolio CEO is not initiated or an appointment made and that the day-to-day management of Firstfolio's business is the responsibility of Mr Mark Flack (the interim CEO) reporting to a director approved by the Trustee, and the Trustee will have access to that director and Firstfolio's senior executive team.

(g) **Conduct of the business pending completion:** In the absence of the Trustee's consent (which cannot be unreasonably withheld, delayed or conditioned), Firstfolio must ensure that until completion of the Placements and the Entitlement Offer:

(i) its business is conducted in the ordinary and proper course and in a manner generally consistent with the manner in which it was conducted in the 12 month period prior to the date of the agreement;

(ii) other than in the ordinary course of business, no material change is made to its operations including actual or committed expenditure exceeding $20,000 for a single item;

(iii) it uses its best endeavours to maintain material relationships with customers, suppliers government agencies, licensors, licensees, landlords and others having business dealings with Firstfolio and that it retains key employees and officers;

(iv) it does not undertake any consolidation, subdivision, cancellation, redemption or conversion of any part of its share capital, nor issue or allot any Shares, options, securities or other rights convertible into Shares (other than in respect of the Placements and the Entitlement Offer or any existing options or convertible securities on issue as at the date of the agreement);

(v) it does not merge all or a substantial part of its business with another entity or make any significant change (either directly or indirectly) to the nature or scale of the business; and

(vi) it does not sell or grant any encumbrances over any assets or enter into any compromise or arrangement with its creditors or undertake an action for the purpose of insolvency, receivership or administration or do or permit to be done any act or thing whereby the Company may be wound up (whether voluntarily or compulsorily).

(h) **Capital raising fee:** Firstfolio agrees to pay the Trustee 4% of all funds raised under the Placements within 10 Business Days of the allotment date in relation to the Shares issued under the Final Placement.

(i) **Representations, warranties and undertakings:** The agreement contains representations and warranties which the Independent Directors consider are customary for a deal of this nature.

(j) **Termination:** The agreement can be terminated by either party in the following circumstances by giving written notice:

(i) an insolvency event occurs in relation to the other party or its wholly owned subsidiaries;

(ii) there is a material breach of the agreement and that breach is not remedied within 5 business days of a written notice requiring its remedy;

(iii) if a representation or warranty made under the agreement proves to be, has been, or becomes untrue or incorrect in a material respect; or

(iv) any event occurs which would have a material adverse effect on the Entitlement Offer, issue of the Shares under the Placements or the trading price of Shares.

On termination, accrued rights and remedies are not affected and the parties are released from further performing their obligations under the agreement.

2 Underwriting Agreement

(a) **Parties:** Firstfolio and ACE entered into an 'Underwriting Agreement' on 1 July 2013. The Underwriting Agreement was subsequently novated to the Trustee.

(b) **Underwriting:** The Trustee has agreed to underwrite the Entitlement Offer up to $10,738,868.09 (before costs).

(c) **Conditions precedent:** The material conditions precedent to the underwriting are:

(i) on or before 11 December 2013, Firstfolio Shareholders passing Resolution 1 and Resolution 2;

(ii) all Shares being issued under the Initial Placement; and

(iii) on or before 11 December 2013, Firstfolio and the Trustee receive approval from all government agencies that Firstfolio and the Trustee consider are necessary or convenient for the conduct of the Entitlement Offer, issue of Shares and issue of Shares under the Placements.

(b) **Application for listing and quotation:** On or before the day of the announcement of the Entitlement Offer, Firstfolio will apply for the official quotation of the Entitlement Offer Shares on the ASX and ensure that quotation is granted by ASX either unconditionally or on terms acceptable to Firstfolio.

(c) **Shortfall:** The shortfall under the Entitlement Offer will be calculated by deducting from the underwritten amount the aggregate of application moneys in respect of which valid applications are received by Firstfolio before 5pm on the closing date. Firstfolio may accept or scale back applications to the extent that applications for oversubscription are made under the Entitlement Offer.[5] Firstfolio will, within 3 business days after the closing date, notify the Trustee in writing of the shortfall and deliver a certificate certifying that:

(i) approval for the Shares to be granted official quotation on ASX has been given and such approval has not been subsequently withdrawn, qualified or withheld;

(ii) there has been no material breach of the warranties or undertakings contained in the Underwriting Agreement by Firstfolio; and

(iii) none of the events giving the Trustee a termination right has occurred.

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[5] As noted in sections 2.2 and 5.9 of the Notice of Meeting and Explanatory Statement, the Entitlement Offer will not include a shortfall facility. Accordingly, Shareholders will not be entitled to apply for additional new Shares in excess of their entitlement under the Entitlement Offer unless they buy additional rights to subscribe for new Shares under the Entitlement Offer. L1 Capital and Kentgrove Capital have sub-underwritten the Entitlement Offer (other than in relation to the Trustee's 300,000,000 Share entitlement) and, subject to the terms and conditions of their sub-underwriting agreements, are required to subscribe for any shortfall Shares not subscribed for by Shareholders.

(d) **Underwriter's application:** Subject to any right of the Trustee to terminate the Underwriting Agreement, the Trustee will lodge the underwriter's application for the shortfall Shares together with payment within 2 business days of receipt of the notification of the shortfall and the certificate. Within 1 business day, Firstfolio will allot Shares in respect of the underwriter's application.

(e) **Commissions and expenses:** Firstfolio will pay the Trustee an underwriting commission of 4% of the total funds to be raised by the Entitlement Offer.

(f) **Warranties:** Firstfolio provides the following material warranties:

(i) the Shares issued under the Entitlement Offer will be validly issued, rank equally, not be subject to pre-emptive or other similar rights and are free from encumbrance;

(ii) Firstfolio is listed on, has not been suspended from during the last 3 years and has not been removed from, the official list of ASX and so far as Firstfolio is aware, no removal or suspension from the official list has been threatened by ASX;

(iii) Firstfolio has complied with and continues to comply with its continuous disclosure obligations up to the date of allotment of the shortfall Shares;

(iv) Firstfolio is not in material breach of obligations imposed on it under the Corporations Act or the ASX Listing Rules or any other laws relevant to it;

(v) the Entitlement Offer booklet will comply with the Corporations Act, ASX Listing Rules and its constitution;

(vi) the Entitlement Offer will comply with all relevant regulatory requirements;

(vii) Firstfolio has not experienced an "Insolvency Event" nor is there any event which is likely to lead to such an event; and

(viii) Firstfolio has not engaged in misleading or deceptive conduct in relation to the Underwriting Agreement, the Entitlement Offer of offer or issue of the Entitlement Offer Shares.

(g) **Undertakings:** Firstfolio provides the following material undertakings:

(i) it will not change the price, issue ratio or other material terms of the Entitlement Offer without the Trustee's consent;

(ii) Firstfolio will not do or omit to do anything which is, or is likely to be, materially prejudicial to the prospects of the Entitlement Offer being fully subscribed except as permitted by law;

(iii) the Entitlement Offer will be conducted in accordance with the timetable specified in ASX Appendix 7A;

(iv) Firstfolio will use reasonable endeavours to procure applications and application monies under the Entitlement Offer from persons other than the Trustee; and

(v) as soon as practicable, Firstfolio will notify the Trustee of the occurrence of an event giving rise to a termination right.

(h) **Indemnity:** Firstfolio provides an indemnity to the Trustee against liabilities, expenses and costs sustained by the Trustee (in its capacity as underwriter), its directors, officers and employees as a result of:

(i) any materially untrue or inaccurate Firstfolio warranties or a material breach of the agreement;

(ii) any material breach of an undertaking given by Firstfolio under the agreement; and

(iii) any conduct by Firstfolio in relation to the Entitlement Offer and which results in investigations, enquiries or legal proceedings being undertaken against Firstfolio,

but not liabilities incurred as a result of wilful misconduct by the Trustee in relation to the Entitlement Offer or a penalty or fine that the Trustee is required to pay for contravention of the Corporations Act. Firstfolio also cannot bring a claim against the Trustee to recover liabilities suffered by Firstfolio as a result of advice provided or actions taken by an indemnified that was based on materially incomplete, incorrect, misleading or deceptive information from Firstfolio.

(i) **Relief of the Trustee's obligations:** The Trustee may terminate the Underwriting Agreement in the following circumstances:

(i) withdrawal of or a change of the material terms of the Entitlement Offer without the prior written consent of the Trustee;

(ii) disposal or agreement to dispose of the whole or a substantial part of Firstfolio's business or property without the prior written consent of the Trustee;

(iii) cessation or threatening to cease Firstfolio's business without prior written consent of the Trustee;

(iv) the Entitlement Offer booklet does not comply with applicable laws, omits material information required to be included under the Corporations Act, Listing Rules or other applicable law;

(v) the Entitlement Offer booklet contains a misleading or deceptive statement in any material respect or becomes misleading or deceptive in any material respect;

(vi) Firstfolio experiencing an Insolvency Event;

(vii) a change in law prohibiting the Entitlement Offer, capital issues or taxation treatment of the Shares;

(viii) Firstfolio defaults on any of the material terms or conditions of the Underwriting Agreement or breaches any warranty, undertaking or covenant given by it and the default or breach is incapable of remedy or not remedied within 5 Business Days after it occurs;

(ix) Firstfolio charges or agrees to charge the whole or a substantial part of its business or its property;

(x) prosecution against Firstfolio or a director or senior manager of Firstfolio;

(xi) any director or senior manager of Firstfolio is disqualified from managing a corporation under the law of any jurisdiction;

(xii) Firstfolio or a director or senior manager of Firstfolio engages in any fraudulent conduct or activtity;

(xiii) an outbreak of hostilities or major act of terrorism occurring in Australia or New Zealand;

(xiv) material adverse changes in assets, liabilities, financial position or performance, profits, losses or prospects of Firstfolio; or

(xv) other events involving suspension or limitation of trading on ASX or a material disruption in commercial banking or securities settlement or clearance services.

On the occurrence of an event contained in items (vii) to (xv) (inclusive), the Trustee may only terminate the agreement if the Trustee determines that the event has or is likely to have a material adverse effect on the Entitlement Offer, the price of the Shares or the willingness of Shareholders to pay the offer price or the event could create a material liability for the Trustee under relevant laws and regulations.

INDEPENDENT EXPERT'S REPORT
Firstfolio Limited in relation to the Proposed Transaction

10 October 2013

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Level 11, 1 Margaret St
SYDNEY NSW 2000
Australia

This Financial Services Guide is issued in relation to an independent expert's report ("**IER**") prepared by BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) ("**BDOCF**") at the request of the independent directors ("**Independent Directors**") of Firstfolio Limited ("**FFF**").

Engagement

The IER is intended to accompany the notice of meeting and explanatory statement ("**Documents**") that is to be provided by the Independent Directors to the shareholders of FFF to assist them in deciding whether to approve the proposed placement of equity to INZ Investments ACE Management Ltd ("**Trustee**") as the trustee of the IZN Investments Australian Capital Enterprise Trust and the participation in and underwriting of the entitlement offer by the Trustee ("**Proposed Transaction**").

Financial Services Guide

BDOCF holds an Australian Financial Services Licence (License No: 247420) ("**Licence**"). As a result of our IER being provided to you BDOCF is required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

Financial services BDOCF is licensed to provide

The Licence authorises BDOCF to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

BDOCF provides financial product advice by virtue of an engagement to issue the IER in connection with the issue of securities of another person.

Our IER includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our IER (as a retail client) because of your connection with the matters on which our IER has been issued.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the IER.

General financial product advice

Our IER provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to voting on the Proposed Transaction described in the Documents may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDOCF may receive

BDOCF will receive a fee based on the time spent in the preparation of the IER in the amount of approximately $65,000 (plus GST and disbursements). BDOCF will not receive any fee contingent upon the outcome of the Proposed Transaction, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDOCF or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our IER was provided.

Referrals

BDOCF does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that BDOCF is licensed to provide.

Associations and relationships

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. The directors of BDOCF may also be partners in BDO East Coast Partnership, Chartered Accountants and Business Advisers.

BDO East Coast Partnership, Chartered Accountants and Business Advisers is comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

BDOCF's contact details are as set out on our letterhead.

BDOCF is unaware of any matter or circumstance that would preclude it from preparing the IER on the grounds of independence under regulatory or professional requirements. In particular, BDOCF has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and Australian Securities and Investments Commission ("**ASIC**").

Complaints resolution

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Ltd, Level 11, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ("**FOS**"). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDOCF is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Email: info@fos.org.au

Tel: +61 2 9251 4100
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www.bdo.com.au

Level 11, 1 Margaret St
SYDNEY NSW 2000
Australia

The Independent Directors
Firstfolio Limited
Level 9, 50 Bridge Street
SYDNEY NSW 2000

10 October 2013

Dear Independent Directors

INDEPENDENT EXPERT'S REPORT IN RELATION TO THE PROPOSED PLACEMENTS AND UNDERWRITING OF THE ENTITLEMENT OFFER

Introduction

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) ("**BDOCF**", "**we**" or "**us**") has been engaged by the independent directors of Firstfolio Limited ("**Independent Directors**") ("**FFF**" or "**the Company**") to prepare an independent expert's report ("**IER**" or "**Report**"), setting out our opinion as to whether the proposed placement of equity to IZN Investments ACE Management Pty Ltd ("**Trustee**") as the trustee of IZN Investments Australian Capital Enterprise Trust ("**IZN**") and the participation in and underwriting of the entitlement offer by the Trustee, is fair and reasonable to FFF shareholders not associated with the Trustee and Australian Capital Enterprise (HK) Limited ("**ACEHK**") ("**Non-associated Shareholders**") ("**Proposed Transaction**").

IZN is an Australian unit trust established in August 2013, to invest in the financial services sector in Australia and the broader Asia-Pacific region. ACEHK is the sole unitholder of IZN. ACEHK and the Trustee are collectively the "**Recapitalisation Parties**".

Proposed Transaction

FFF entered into a binding heads of agreement dated 11 February 2013 with one of the shareholders of the Trustee, being Australian Capital Enterprises Pty Limited ("**ACE**"). The terms were revised and formalised in the subscription agreement dated 1 July 2013 ("**Subscription Agreement**") and underwriting agreement dated 1 July 2013 ("**Underwriting Agreement**")**.** The Subscription Agreement and Underwriting Agreement were subsequently novated to the Trustee, who will now assume all of ACE's obligations under the agreements. The key revised terms are set out as follows:

- **Initial Placement** – Issue of 300,000,000 fully paid ordinary shares in FFF ("**Shares**") at $0.015 each to the Trustee for a total consideration of $4,500,000 ("**Initial Placement**"). The Initial Placement is expected to complete within 5 business days from the approval of the Proposed Transaction by the shareholders of the Company ("**Shareholders**").

- **Final Placement** – The Trustee shall acquire 1,000,000,000 Shares at $0.035 per Share for a total consideration of $35,000,000 ("**Final Placement**").

- **Entitlement Offer** – A 1 for 1 renounceable rights issue will be undertaken at the issue price of $0.01 per Share and is expected to raise $10,738,868 before costs ("**Entitlement Offer**"). The Trustee will underwrite the Entitlement Offer and may appoint sub-underwriters for some of its underwriting obligations.

  The Entitlement Offer will be undertaken on completion of the Initial Placement and shall include the Shares issued to the Trustee under the Initial Placement but not the Final Placement.

  The Initial Placement, Entitlement Offer and Final Placement are collectively referred to in this Report as the Proposed Transaction.

- **Capital raising fee** – The Trustee is entitled to receive a capital raising fee of 4% of $50,238,868 (being the total capital to be raised under the Initial Placement, Entitlement Offer and Final Placement).

Full details of the Proposed Transaction is set out in the notice of meeting and explanatory statement ("**Documents**") to be sent to the Shareholders in respect of a general meeting to be convened ("**Meeting**").

Purpose of Report

If the Proposed Transaction proceeds, the Recapitalisation Parties may increase their voting power in FFF from 0% to 50.8% (if the Entitlement Offer was taken up on a pro-rata basis) or from 0% up to 75.4% (if the Non-Associated Shareholders do not take up their allocation, the Sub-Underwriters do not take up the Entitlement Offer shortfall and the Trustee subscribes for the remaining shortfall under the Entitlement Offer), thereby increasing its collective relevant interest in FFF Shares from below 20% to more than 20%.

The Independent Directors have engaged us to prepare a Report in relation to the Proposed Transaction to opine whether it is fair and reasonable to Non-associated Shareholders for the purposes of Section 611(7) of the Corporations Act 2001 (Cth) ("**Act**").

Accordingly, this Report is to accompany the Documents to be sent to Shareholders to assist them in deciding whether to approve the Proposed Transaction.

Summary of Opinion

We have considered the terms of the Proposed Transaction as outlined in the body of this Report and have concluded that the Proposed Transaction is not fair but reasonable to the Non-associated Shareholders.

A summary of our analysis in forming the above opinion is provided below.

Fairness Assessment

In undertaking our fairness opinion we have had regard to Australian Securities and Investments Commission ("**ASIC**") Regulatory Guide 111 *Content of expert reports* ("**RG 111**").

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must 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.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

From discussions with ASIC in relation to the interpretation of RG111.11, they have advised that the appropriate assessment is to compare:

- The fair market value of a FFF Share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a FFF Share post-transaction on a minority basis (being the offer price or consideration per RG111.11)

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

On completion of the Proposed Transaction, the Trustee would own 1,600,000,000 FFF Shares (and the Trustee would have a relevant interest in these shares) representing a 50.8% equity interest in FFF on the assumption that the Entitlement Offer is fully subscribed and taken up by Shareholders on a pro rata basis.

If the Non-Associated Shareholders do not take up their rights under the Entitlement Offer and the Sub-Underwriters do not take up the Entitlement Offer Shortfall, then the Trustee will be able to subscribe for the shortfall. In this scenario, the Trustee would own 2,373,886,809 FFF Shares (and the Trustee would have a relevant interest in these shares) representing a 75.4% equity interest in FFF.

We have formed our opinion in relation to fairness by comparing the:

- Fair market value of a FFF Share before the Proposed Transaction (including a premium for control); and
- Fair market value of a FFF Share after the Proposed Transaction on a minority basis.

We are opining on the Initial Placement, the Entitlement Offer and the Final Placement in aggregate. Eligibility for rights to the Entitlement Offer is proposed to occur after the Initial Placement and before the Final Placement. We note that the Entitlement Offer shall include the Shares issued to the Trustee under the Initial Placement but not the Final Placement. This notionally means that under the Initial Placement, the Shares to be issued have an option attached to each Share by way of the Entitlement Offer.

The Proposed Transaction is fair if the value of a FFF Share after the Proposed Transaction on a minority basis is equal to or greater than the fair market value of a FFF Share before the Proposed Transaction (including a premium for control). We note that the fair market value of a FFF Share after the Proposed Transaction on a minority basis is not altered by the equity ownership stake that the Trustee holds following the Proposed Transaction (between 50.8% and 75.4%). This is discussed further in **Section 8.1**.

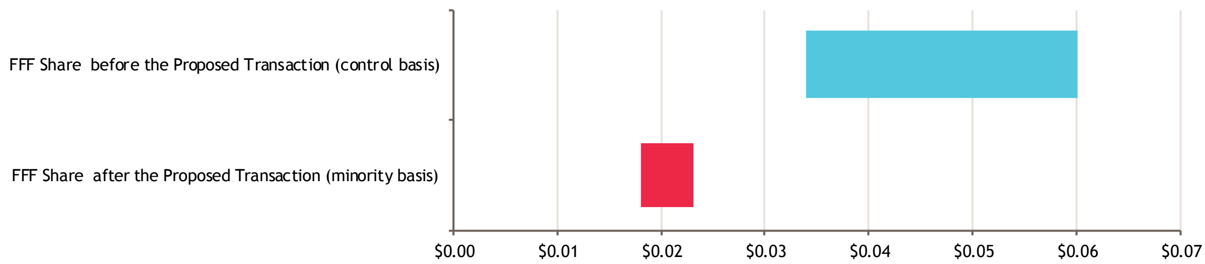
The results of our fairness analysis are summarised below.

Table 1: Fairness assessment (per Share)

$ per Share	Ref	Low	High
Fair market value of a FFF Share before the Proposed Transaction on a control basis	7.2	0.034	0.060
Fair market value of a FFF Share after the Proposed Transaction on a minority basis	8.1	0.018	0.023

Source: *BDOCF Analysis*

Figure 1: Comparison between a FFF Share before the Proposed Transaction on a control basis and a FFF Share after the Proposed Transaction on a minority basis



Source: *BDOCF analysis*

As the value of a FFF Share after the Proposed Transaction on a minority basis is less than the range of assessed fair market values of a FFF Share before the Proposed Transaction (including a premium for control), we have concluded that the Proposed Transaction is not fair to the Non-associated Shareholders.

The Proposed Transaction is Reasonable

In accordance with RG 111 an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for Non-associated Shareholders to accept the offer in the absence of a superior offer.

Whilst the Proposed Transaction is not fair, we have assessed the reasonableness of the Proposed Transaction by considering the factors arising thereto.

In our opinion the Proposed Transaction is reasonable to the Non-associated Shareholders. We have considered the factors which the Non-associated Shareholders may consider in their assessment of the Proposed Transaction. A summary of the factors considered in our reasonableness assessment are as follows:

Table 2: Summary of factors considered in the reasonableness assessment

Advantages

- We have assessed the commercial value of the Proposed Transaction to return a favourable outcome to Non-Associated Shareholders. In assessing the Proposed Transaction under RG 111.11, the Proposed Transaction is analysed as a control transaction similar to a takeover bid. On this basis, it is construed that the Non-Associated Shareholders disposed of all their Shares as a whole and that the interest being notionally disposed of reflects controlling interest prior to the Proposed Transaction, whereas the value of their FFF Shares post Proposed Transaction has been calculated on a minority basis.

  Notwithstanding the fairness approach assessed pursuant to RG 111.11 above, we note that the Non-Associated Shareholders currently own a non-controlling interest in FFF and will continue to own non-controlling interests in FFF after the Proposed Transaction. With reference to RG 111.5, we have considered the purpose and outcome of the Proposed Transaction rather than the legal mechanism to effect the Proposed Transaction.

  As such, we consider that the commercial approach would be to consider what the Non-Associated Shareholders are giving up (being a 50.8% to 75.4% equity interest in FFF on a control basis) against what they are receiving (being the consideration payable by the Trustee). We have analysed the Proposed Transaction by comparing the value of the fair market value of a 50.8% to 75.4% equity interest in FFF post the Proposed Transaction on a control basis against the fair market value of the consideration payable by the Trustee in line with the commercial value to Non-Associated Shareholders.

  The calculations behind this assessment are included at **Section 10.1.1**. The amounts are compared below:

Table 2a: Commercial analysis - Comparison of 50.8% equity interest in FFF to Consideration

$'000s unless stated otherwise	Ref	Low	High
Fair market value of 50.8% equity interest in FFF (control basis)	10.1.1	37,370	47,536
Consideration	10.1.1	40,800	40,800

Source: BDOCF analysis

- As the Consideration falls within the range of the fair market value of a 50.8% equity interest in FFF (control basis) after the Proposed Transaction, it is our opinion that, on a commercial basis the Proposed Transaction is not unfavourable to the Non-Associated Shareholders.

Table 2b: Commercial analysis - Comparison of 75.4% equity interest in FFF to Consideration

$'000s unless stated otherwise	Ref	Low	High
Fair market value of 75.4% equity interest in FFF (control basis)	10.1.1	55,445	70,528
Consideration	10.1.1	48,229	48,229

Source: BDOCF analysis

- As the Consideration falls below the range of the fair market value of a 75.4% equity interest in FFF (control basis) after the Proposed Transaction, it is our opinion that, on a commercial basis the Proposed Transaction is unfavourable to the Non-Associated Shareholders.

  We note that the likelihood of the Trustee acquiring 75.4% of FFF is reduced as:
  - The Entitlement Offer is priced at a discount
  - The Entitlement Offer is renounceable
  - Sub-underwriters have entered into an agreement with the Trustee to acquire any Entitlement Offer shortfall.

Table 2 (cont'd): Summary of factors considered in the reasonableness assessment

- As at 30 June 2013, FFF's cash balance was $1.7 million, excluding trust collection account and restricted cash which are not available for general use by the consolidated entity. It also has interest-bearing debt of $63.7 million as at 30 June 2013, of which, $32.7 million relates to secured senior debt held with Commonwealth Bank of Australia ("**CBA**").

  Below is an extract from Note 2 of the 30 June 2013 annual report released on 22 August 2013:

  "Should a capital raising not proceed by 30 November 2013, the consolidated entity is unlikely to comply with its financial covenants and as a result, is likely to be in default of the terms of the senior debt funding arrangements with the CBA. Under these circumstances, CBA and other debt providers have the right to require the consolidated entity to repay the outstanding debts on demand. Under those circumstances, the consolidated entity would enter into negotiations with the CBA and other debt providers that may result in accepting higher financing costs, being forced into asset sales, or to undertake other corporate actions."

  We have been advised that the board of directors of FFF ("**Board**") actively sought opportunities to recapitalise its balance sheet in anticipation of tighter financial covenants. Based on the 2012 annual general meeting presentation released on 26 November 2012, the Board engaged an independent examination by Grant Samuel in August 2012 to review options to maximise shareholders' value in key assets and the appropriate capital structure for the Company. The options considered by Grant Samuel included:

  - Winding up the business and 'run-off' of the loan book
  - Selling the various business units of the Company
  - Continue operating with a reduced level of borrowings.

  The Board considered the above final option to be the best outcome for the Shareholders. Despite the continuous efforts of the Board to seek alternative funding for the Company, there was limited interest from brokers and underwriters. In December 2009, FFF undertook a 1:2 renounceable rights issue at an issue price of $0.05 per Share to raise approximately $11.6 million. Although the issue price represented a 13.8% discount to the closing price on 23 November 2009, the renounceable rights issue was undersubscribed and resulted in a shortfall of 17%. Nonetheless, the rights issue was fully underwritten.

  Since then, FFF has not undertaken any capital raising initiatives. Based on our discussions with FFF management, in the absence of a superior offer, the Proposed Transaction is the best available source of funding for FFF for the following reasons:

<u>Moderate interest from previous rights issue</u> The renounceable rights issue undertaken by FFF in December 2009 was undersubscribed by 17% which demonstrates moderate interest from FFF Shareholders for an equity raising.
<u>Bank funding not available</u> FFF is currently unable to obtain further bank funding. FFF negotiated with CBA for an extension to the revised financial covenants to 30 November 2013 to correspond with the timetable for the completion of the capital raising. Should the capital raising not proceed, FFF is unlikely to comply with its financial covenants.
<u>Limited interest from brokers and underwriters</u> The current Industry and market condition dampens prospects for an alternative equity raising by FFF in the required time period.
<u>Consideration per Share is at a premium to recent FFF Share price</u> The 5-day volume weighted average price ("**VWAP**") to 22 September 2013 is $0.018 per Share (being the latest practicable date prior to the issue of this Report). Assuming the 5-day VWAP prior to the Entitlement Offer is the same as above, $0.018 per Share plus the issue price of the Entitlement Offer of $0.010 per Share equates to $0.028 per Share. Based on a 1:1 Entitlement Offer, the theoretical ex-rights price per Share would be $0.014 (that is, $0.028 per Share divided by 2 Shares). Based on the above calculation, we note the Consideration per Share of $0.026 (being $40.8 million divided by 1,600.0 million Shares to be acquired by the Trustee) is 86% higher than the theoretical ex-rights of $0.0115 per Share.

Table 2 (cont'd): Summary of factors considered in the reasonableness assessment

Consideration per Share is at a premium to a market placement

We have reviewed equity placements since 2010 for those companies identified as being comparable to FFF. Wide Bay Australia Ltd ("**WBB**") is the only comparable that undertook a placement since 2010. WBB's issue price represented a 7.5% discount to the VWAP during the pricing period.

FFF undertook the rights issue in December 2009 at a discount of 13.8% to its closing price on 29 November 2009.

Accordingly, if a range of discounts from 7.5% to 13.8% were to be applied to the 5-day VWAP to 22 September 2013 of $0.018 per Share (being the latest practicable date prior to the issue of this Report), this would lead to a range from $0.0155 to $0.0167 per Share (before dilution impact from Entitlement Offer) as the share price at which an equity raising may be completed. This assumes that the Shares continue to trade at present levels if the Proposed Transaction is not approved by the Shareholders.

Based on the above, we consider the Proposed Transaction to be the most attractive source of funding available to FFF in the absence of a superior offer. The Independent Directors confirmed that they have actively sought alternative sources of funding, in the course of carrying out their fiduciary duties, and have found no alternatives more favourable than the terms offered under the Proposed Transaction.

- Under the terms of the Subscription Agreement, following the Proposed Transaction, the Trustee will have the right to appoint up to 3 Directors to the Board of FFF (including the Chairman) from a total of 5 Board members, provided that the Trustee holds a majority of FFF Shares. The Independent Directors of FFF believe that the appointment of these nominees of the Trustee will enhance the experience and expertise of FFF's Board.

- The completion of the Proposed Transaction will immediately provide necessary short term working capital requirements, recapitalise its balance sheet, reduce its current borrowings, confer greater operational flexibility and allow the Board and senior management to concentrate on the business activities.

  If the Proposed Transaction is approved, the Trustee will underwrite the Entitlement Offer and is entitled to execute sub-underwriting agreement(s) with non-related parties.

Disadvantages

- If the Proposed Transaction is approved, the Trustee will hold a controlling stake in FFF of between 50.8% and 75.4% of FFF's Shares. We note that ordinary resolutions require 50% of votes cast and special resolutions require 75% of votes cast. This will give the Recapitalisation Parties control over the Company and direction of the business in comparison to other Shareholders. Further, the Trustee will have the ability to appoint 3 members of the 5 member Board, which will allow the Trustee to control the affairs of FFF, including its financial and operating affairs.
- The interests of the Recapitalisation Parties might not always be aligned with the interests of Non-associated Shareholders. However, in these circumstances, Non-associated Shareholders would have the benefit of protection from applicable laws and regulations in relation to some dealings between FFF and the Recapitalisation Parties (and their associates). Further details are provided in the Documents.
- If the Proposed Transaction is approved, existing Shareholders will receive a lower percentage of any future profits, due to the dilution effects noted above.
- The completion of the Proposed Transaction will result in a concentration of approximately 50.8% to 75.4% being held by the Trustee. The completion of the Proposed Transaction may have an adverse impact on the liquidity of FFF's Shares. This disadvantage may be mitigated as FFF's Shares already display low to moderate trading liquidity, and FFF is currently under financial distress as disclosed in **Section 10.1.2**.
- The subscription price under the Initial Placement represents a discount of 8% to the 3 month VWAP of Shares prior to the announcement of a superseded version of the Proposed Transaction on 13 November 2012. However, we note that the Initial Placement subscription price is at a 15% premium to the last closing price of Shares prior to the announcement of the recapitalisation proposal on 2 July 2013.
- FFF, as the head company of the FFF tax group, has group tax losses and group capital losses to carry forward as at 30 June 2013 in the amount of $4 million and $2.6 million respectively. In order for FFF to utilise the group tax losses and the group capital losses after the recapitalisation proposal is implemented, the loss recoupment provisions under taxation laws require FFF to satisfy either the "Continuity of Ownership Test" or the "Same Business Test". The Company also has tax losses to carry forward as at 30 June 2013 (in the amount of $17.2 million) that were previously transferred to the Firstfolio tax group from acquired entities.
- The completion of the Proposed Transaction will result in the Recapitalisation Parties having a controlling interest in FFF, therefore the Recapitalisation Parties will have the ability to strategically block future interested parties making a takeover for FFF. As FFF is less likely to be a target for takeover, there is less possibility of Shareholders participating in premium payable in a takeover.

Table 2 (cont'd): Summary of factors considered in the reasonableness assessment

Other
• Below is an extract from Note 2 of the 30 June 2013 annual report released on 22 August 2013: *"...if the consolidated entity breaches its financial covenants as a result of failing to raise capital and the CBA and other debt providers require the repayment of debt on demand, then in the opinion of directors, material uncertainty will exist regarding the ability of the consolidated entity to continue as a going concern.* *If the consolidated entity is unable to continue as a going concern, it may be required to realise assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in these financial statements."* There is a risk as to the ability of the Company to continue as a going concern if the Proposed Transaction is not approved by the Shareholders.
• Under the terms of the Subscription Agreement and Underwriting Agreement, the Trustee may charge a capital raising fee equal to 4% of the total funds raised (being $50,238,868). We have treated the fee as follows: – Any fee relating to capital raised from the Proposed Transaction has been netted off against the funds raised by the Proposed Transaction. Our analysis of the placements has been performed on the net proceeds. We have compared the Trustee's capital raising fee to other underwriting fees charged for rights issues undertaken by companies in comparable industries based on information available since 2008. Based on our assessment, the underwriting fees for rights issue since 2008 range from a minimum 1.35% to a maximum of 5.81% and an average of 3.40%. The Trustee's capital raising fee for the Entitlement Offer is 4.0% of the capital to be raised. Based on our analysis, we note that the Trustee's capital raising fee is within the higher end of the scale and above the average underwriting fee.
• The tax implications associated with the Entitlement Offer will vary depending on the particular circumstances of each Shareholders. Shareholders are advised to seek independent tax advice in relation to the effect of the Entitlement Offer.
• FFF will incur additional transaction costs (legal fees, independent expert and others) regardless of whether the Proposed Transaction is approved or not.

Source: BDOCF analysis

Other Matters

Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, BDOCF has not considered the effect of the Proposed Transaction on the particular circumstances of individual Shareholders. Some individual Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in this IER. Accordingly, individual Shareholders may reach different conclusions as to whether or not the Proposed Transaction is fair and reasonable in their individual circumstances.

The decision of an individual Shareholder in relation to the Proposed Transaction may be influenced by their particular circumstances and accordingly Shareholders are advised to seek their own independent advice.

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

Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. 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 outdated and in need of revision. We reserve 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 us.

Glossary

Capitalised terms used in this Report have the meanings set out in the glossary.

Sources of Information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by FFF.

Under the terms of our engagement, FFF agreed to indemnify the partners, directors and staff (as appropriate) of BDO East Coast Partnership and BDOCF and their associated entities, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by FFF which is false or misleading or omits any material particulars, or arising from failure to supply relevant information.

Limitations

This IER has been prepared at the request of the Independent Directors for the sole benefit of the Independent Directors and Shareholders to assist them in their decision to approve or reject the Proposed Transaction. This IER is to accompany the Documents to be sent to the Shareholders to consider the Proposed Transaction and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Independent Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors and Shareholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Documents. Apart from this IER, we are not responsible for the contents of the Documents or any other document associated with the Proposed Transaction. We acknowledge that this IER may be lodged with regulatory authorities.

Summary

This summary should be read in conjunction with the attached IER that sets out in full the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

Glossary

A glossary of terms used throughout this IER is set out in **Appendix 1**.

Financial Service Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully
BDO CORPORATE FINANCE (EAST COAST) PTY LTD

David McCourt
Director

Sebastian Stevens
Director

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1. PURPOSE AND BACKGROUND

1.1. Purpose

We have been appointed by the Independent Directors to prepare an IER setting out our opinion as to whether the Proposed Transaction is fair and reasonable to FFF's Non-associated Shareholders.

This IER is to accompany the Documents required to be provided to the Shareholders. It has been prepared to assist the Independent Directors in fulfilling their obligation to provide the Shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transaction and to decide whether to approve the Proposed Transaction.

A summary of the background to the terms of the Proposed Transaction is set out below.

1.2. Proposed Transaction

1.2.1. Initial Placement

The terms of the Initial Placement are as follows:

Table 3: Terms of Initial Placement

Number of FFF Shares	300,000,000
Issue price per Share	$0.015
Total consideration	**$4,500,000**
Trustee fee (4%)	$(180,000)
Net Proceeds	**$4,320,000**

Source: Subscription Agreement

The Initial Placement is expected to complete within 5 business days from the approval of the Proposed Transaction by the Shareholders of the Company as well as the other conditions precedent.

1.2.2. Entitlement Offer

The terms of the Entitlement Offer are as follows:

Table 4: Terms of Entitlement Offer

	Non-associated Shareholders take-up full allocation	Non-associated Shareholders/Sub-Underwriters do not take-their allocation/shortfall
Rights issued to Non-Associated Shareholders (prior to underwriting)	773,886,809	-
Rights issued to the Trustee (prior to underwriting)	300,000,000	300,000,000
Issue price per Share	$0.01	$0.01
Total consideration (prior to underwriting)	**$10,738,868**	**$3,000,000**
Rights issued for underwriting and sub-underwriting	0	773,886,809
Underwriting issue price per Share	$0.01	$0.01
Total consideration (underwriting)	**$-**	**$7,738,868**
Total consideration	**$10,738,868**	**$10,738,868**
Trustee fee (4%)	$(429,555)	$(429,555)
Net Proceeds	**$10,309,313**	**$10,309,313**

Source: Subscription Agreement

1.2.3. Final Placement

Set out below are the terms of the Final Placement:

Table 5: Terms of Final Placement

Number of FFF Shares	1,000,000,000
Issue price per Share	$0.035
Total consideration	**$35,000,000**
Trustee fee (4%)	$(1,400,000)
Net Proceeds	**$33,600,000**

Source: Subscription Agreement

The Final Placement is expected to be completed within two business days following the record date of the Entitlement Offer. Shares issued under the Final Placement are not eligible to participate in the Entitlement Offer.

1.2.4. Conditions

The Proposed Transaction is subject to the following material conditions precedent:

i) Shareholders to approve Resolution 1 and Resolution 2 of the Documents on or before 31 October 2013.

ii) FFF to enter into a formal arrangement with CBA and Welas Pty Limited (“**Welas**”) to agree on the debt reduction level using the proceeds from the Proposed Transaction and the ongoing debt amortisation based on terms reasonably acceptable to the Trustee.

iii) FFF is required to obtain the written consent from selected parties in relation to the change of control as a result of the Proposed Transaction.

iv) Independent Directors agree to unanimously recommend the resolutions required for approval by Shareholders, in the absence of a superior proposal.

v) Completion of an independent expert's report indicating that the Proposed Transaction is "fair and reasonable" or "not fair but reasonable".

vi) FFF and the Trustee receiving all government approvals which are considered necessary or convenient.

1.3. Sub-Underwriting of the Entitlement Offer

The Trustee has the right, under the underwriting agreement, to engage sub-underwriters to sub-underwrite all or part of its commitment to fully underwrite the Entitlement Offer, for 1,073,886,809 Shares. The Trustee has indicated it intends to take up its rights allocation of 300,000,000 Shares.

The Trustee has entered into sub-underwriting arrangements for the balance of the Entitlement Offer, being 773,886,809 Shares (or $7,738,868.09) with L1 Capital and Kentgrove Capital (“**Sub-Underwriters**”).

Pursuant to the terms of the sub-underwriting agreements:

i) L1 Capital has agreed to sub-underwrite 620,000,000 Shares; and

ii) Kentgrove Capital has agreed to sub-underwrite 153,886,809 Shares.

L1 Capital and Kentgrove Capital are independent, specialist fund managers that have previously participated as sub-underwriters for other transactions as a routine part of their respective businesses. Neither L1 Capital nor Kentgrove Capital has a non arm's length relationship with FFF, the Trustee or ACEHK. The Sub-Underwriters will act independently with respect to any Shares which they each acquire in FFF as a result of the sub-underwriting arrangements.

The Trustee will pay the Sub-Underwriters a sub-underwriting fee of 1% of the amount they each ultimately sub-underwrite.

The sub-underwriting arrangements may be terminated by the Sub-Underwriters in the following circumstances:

i) Shareholders do not approve the Proposed Transaction;

ii) The Trustee does not subscribe for its full entitlement under the Entitlement Offer;

iii) If the closing date of the Entitlement Offer and the determination of any shortfall under the Entitlement Offer will occur after 30 December 2013 (unless the Sub-Underwriters provide written notice extending their commitment); or

iv) If any of the termination events occur as detailed in the Documents.

In addition, if the Trustee terminates its obligations under the Underwriting Agreement, the sub-underwriting arrangements will also automatically terminate.

1.4. Pro forma Capital Structure post Proposed Transaction

There are currently 773,886,809 Shares on issue to existing Shareholders. An overview of the potential shareholdings of the Trustee and the Non-Associated Shareholders following the Proposed Transaction are shown below.

1.4.1. Capital Structure if all Shareholders take up their rights

Assuming the Entitlement Offer is taken up on a pro rata basis, the pro forma capital structure is as follows:

Table 6: Capital Structure post Proposed Transaction assuming Entitlement Offer is taken up on a pro rata basis

Security	Capital structure (Post Initial Placement)		Capital Structure (Post Final Placement)		Capital Structure (Post Entitlement Offer)	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Ordinary Shares (existing Shareholders)	773,886,809	72.1%	773,886,809	37.3%	1,547,773,618	49.2%
Ordinary Shares (the Trustee)	300,000,000	27.9%	1,300,000,000	62.7%	1,600,000,000	50.8%
Total	**1,073,886,809**	**100.0%**	**2,073,886,809**	**100.0%**	**3,147,773,618**	**100.0%**

Source: Subscription Agreement

The Proposed Transaction would result in the Trustee increasing their equity holding from 0% up to 50.8%, and the Recapitalisation Parties increasing their voting power from 0% up to 50.8%.

1.4.2. Capital structure if the Non-Associated Shareholders do not take up their rights and the Entitlement Offer shortfall is sub-underwritten

If the Entitlement Offer is undersubscribed, the shortfall is fully sub-underwritten by the Sub-Underwriters, except for the Trustee's entitlement of 300,000,000 Shares. The pro forma capital structure of this scenario is as follows:

Table 7: Capital Structure post Proposed Transaction assuming Entitlement Offer is undersubscribed and fully underwritten by the Sub-Underwriters

Security	Capital structure (Post Initial Placement)		Capital Structure (Post Final Placement)		Capital Structure (Post Entitlement Offer)	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Ordinary Shares (existing Shareholders)	773,886,809	72.1%	773,886,809	37.3%	773,886,809	24.6%
Ordinary Shares (the Trustee)	300,000,000	27.9%	1,300,000,000	62.7%	1,600,000,000	50.8%
Ordinary Shares (L1 Capital)	-	0.0%	-	0.0%	620,000,000	19.7%
Ordinary Shares (Kentgrove Capital)	-	0.0%	-	0.0%	153,886,809	4.9%
Total	**1,073,886,809**	**100.0%**	**2,073,886,809**	**100.0%**	**3,147,773,618**	**100.0%**

Source: Subscription Agreement, FFF Management

Irrespective of whether the Non-Associated Shareholders take up their rights under the Entitlement Offer or not, if the Sub-Underwriters fulfil their agreement to fully sub-underwrite the Entitlement Offer the Proposed Transaction would result in the Trustee increasing its equity holding from 0% up to 50.8%, and the Recapitalisation Parties increasing their voting power from 0% to 50.8%

1.4.3. Capital structure if the Non-Associated Shareholders do not take up their rights and the Entitlement Offer shortfall is not sub-underwritten

Whilst the Entitlement Offer is fully sub-underwritten by the Sub-Underwriters (except for the Trustee's entitlement of 300,000,000 Shares), FFF Management advise that if the Sub-Underwriters fail to perform their obligations or the sub-underwriting arrangements become unenforceable for the conditions in **Section 1.3**, the Trustee is contractually obliged to subscribe for the Entitlement Offer shortfall. The pro forma capital structure of this scenario is as follows:

Table 8: Capital Structure post Proposed Transaction assuming Entitlement Offer is undersubscribed and fully underwritten by the Trustee

Security	Capital structure (Post Initial Placement)		Capital Structure (Post Final Placement)		Capital Structure (Post Entitlement Offer)	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Ordinary Shares (existing Shareholders)	773,886,809	72.1%	773,886,809	37.3%	773,886,809	24.6%
Ordinary Shares (the Trustee)	300,000,000	27.9%	1,300,000,000	62.7%	2,373,886,809	75.4%
Ordinary Shares (the Sub-Underwriters)	-	0.0%	-	0.0%	-	0.0%
Total	**1,073,886,809**	**100.0%**	**2,073,886,809**	**100.0%**	**3,147,773,618**	**100.0%**

Source: Subscription Agreement

The Proposed Transaction would result in the Trustee increasing its equity holding from 0% up to 75.4%, and the Recapitalisation Parties increasing their voting power from 0% to 75.4%.

The above pro forma capital structures does not include the exercise of FFF's existing employee options.

1.5. Capital Raising Fee

We note the Trustee will underwrite the Entitlement Offer (noting that at present it has appointed the Sub-Underwriters in relation to the entire Entitlement Offer other than its 300,000,000 entitlement) and is entitled to receive a capital raising fee of 4% of $50,238,868 (being the total capital to be raised under the Proposed Transaction) on completion of the Proposed Transaction. We have considered the commercial terms of the capital raising fee and set out our comments in **Section 10.3.2**.

We have considered the capital raising fee as follows:

- Any fee relating to capital raised from the Proposed Transaction has been netted off against the funds raised by the Proposed Transaction. Our analysis of the Proposed Transaction has been performed on the net proceeds.
- The fee in relation to the Entitlement Offer has been treated as an underwriting fee. This fee is $429,555, being 4% of the proceeds of the Entitlement Offer ($10,738,868).

1.6. Change in key terms of the Proposed Transaction

We note that the terms of the Proposed Transaction have changed since they were initially announced to the Australian Securities Exchange (**"ASX"**) on 13 November 2012 and revised by a subsequent announcement on ASX on 11 February 2013. A summary of the key changes is set out below.

Table 9: Changes in key terms of the Proposed Transaction

Key Terms	Terms as at 11 February 2013	Final Terms
Initial Placement		
Issue Price per Share	0.015	0.015
Shares to be issued	116,083,021	300,000,000
Total consideration	$1,741,245	$4,500,000
Entitlement Offer		
Rights issue	1:1	1:1
Issue Price per Share	0.01	0.01
Expected capital to be raised	$8,899,698	$10,738,868
Sub-underwriting for a minimum of	$5,000,000	$7,738,868
Final Placement		
Issue Price per Share	0.035	0.035
Shares to be issued	1,342,857,143	1,000,000,000
Total consideration	$47,000,000	$35,000,000
Capital raising fee		
Capital raising fee on completion of the Proposed Transaction	2% of $57,640,944	4% of $50,238,868

Source: FFF management

Prior to the change in terms, we have provided a draft Report dated 28 February 2013 to the Company for verification of factual accuracy. In our earlier draft Report, we have concluded that the Proposed Transaction was fair and reasonable to the Non-associated Shareholders.

2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Proposed Transaction is fair and reasonable to the Non-associated Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

The assessment of whether the Proposed Transaction is fair and reasonable to the Non-associated Shareholders involved determining the “fair market value” of various securities, assets and liabilities.

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.

2.2. Summary of Regulatory Requirements

The Independent Directors have engaged us to prepare a Report in relation to the Proposed Transaction to satisfy the requirements of:

- Section 611 of the Act.
- ASIC Regulatory Guide 74 ‘Acquisitions approved by members’ (“**RG 74**”).

The regulatory requirements relevant to this IER are summarised below.

2.2.1. Section 611 of the Act and RG 74

If the Proposed Transaction proceed, the Recapitalisation Parties may increase their voting power in FFF from 0% to 50.8% (if the Entitlement Offer was taken up on a pro-rata basis) or from 0% up to 75.4% (if the Entitlement Offer was fully underwritten by the Trustee and no Shareholders other than the Trustee subscribe under the Entitlement Offer), thereby increasing the Recapitalisation Parties collective relevant interest in FFF Shares from below 20% to more than 20%.

Section 606 of the Act expressly prohibits transactions that result in a person or entity that, with their associates, increases their voting power from:

- 20% or below to more than 20%; or
- A point that is above 20% to below 90%,

without making a full takeover offer to all shareholders or otherwise falling within another exception (such as shareholder approval under Item 7 of Section 611 of the Act).

Item 7 of Section 611 of the Act provides an exception to the prohibition on the basis that the acquisition is approved by resolution at a general meeting. RG 74 issued by ASIC sets out the obligation to supply shareholders with all information that is material by either:

- The directors undertaking a detailed examination of the proposal themselves, if they consider that they have sufficient expertise; or
- By commissioning an independent expert's report.

In compliance with the above the Independent Directors decided to commission an independent expert's report regarding the ‘fairness and reasonableness’ of the Proposed Transaction to the Non-associated Shareholders.

2.3. Basis of Assessment

In determining whether the Proposed Transaction is fair and reasonable to Shareholders, we have had regard to the following ASIC guidelines:

- RG 111 'Content of expert reports'
- Regulatory Guide 112 'Independence of experts' ("**RG112**").

In particular, RG 111 establishes guidelines in respect of independent expert reports under the Act.

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- Is the offer 'fair'
- Is it 'reasonable'?

That is, the terms fair and reasonable are regarded as separate elements and are not regarded as a compound phrase.

Fair

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must 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.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

On completion of the Proposed Transaction, the Trustee would own 1,600,000,000 FFF Shares representing 50.8% equity interests in FFF (and the Recapitalisation Parties will hold 50.8% of the voting power) on the assumption that the Entitlement Offer is fully subscribed and taken up by Shareholders on a pro rata basis.

If the Non-Associated Shareholders do not take up their rights under the Entitlement Offer and the Sub-Underwriters do not take up the Entitlement Offer shortfall, then the Trustee will be able to subscribe for the shortfall. In this scenario, the Trustee would own 2,373,886,809 FFF Shares (and the Trustee would have a relevant interest in these shares) representing 75.4% equity interests in FFF.

From discussions with ASIC in relation to the interpretation of RG111.11, they have advised that the appropriate assessment is to compare:

- The fair market value of a FFF Share pre-transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a FFF Share post-transaction on a minority basis (being the offer price or consideration per RG111.11).

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

We are opining on the Initial Placement, the Entitlement Offer and the Final Placement in aggregate. The Entitlement Offer is proposed to occur after the Initial Placement. We note that the Entitlement Offer shall include the Shares issued to the Trustee under the Initial Placement but not the Final Placement. This notionally means that under the Initial Placement, the Shares to be issued have an option attached to each Share by way of the Entitlement Offer.

The Proposed Transaction is fair if the value of a FFF Share after the Proposed Transaction on a minority basis is equal to or greater than the fair market value of a FFF Share before the Proposed Transaction (including a premium for control).

Reasonable

In accordance with paragraph 12 of RG111, an offer is 'reasonable' if it is 'fair'. An offer could be considered 'reasonable' if there are valid reasons to approve it (in the absence of any higher bid before the close of the offer), notwithstanding that it may not be regarded as 'fair'.

RG 111.13 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- The bidder's pre-existing voting power in securities in the target.
- Other significant security holding blocks in the target.
- The liquidity of the market in the target's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target.
- Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc.
- The likely market price if the offer is unsuccessful.
- The value to an alternative bidder and likelihood of an alternative offer being made.

Further, RG 111.26 states that an issue of shares for cash may have other benefits that should be considered in deciding whether the transaction is reasonable. These benefits may include:

- The provision of new capital to exploit business opportunities
- A reduction in debt and interest payments, or
- A needed injection of working capital.

In addition to the above, we have also considered the outcome of the Transaction as guided under RG 111 Paragraph 5:

In deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction.

Best interests

Section 219(2) of the Act provides some examples of information referred to in Section 219(1)(e) of the Act from an economic and commercial point of view, what are the true potential costs and detriments of, or resulting from, giving financial benefits as permitted by the proposed resolution, including (without limitation):

- Opportunity costs.
- Taxation consequences (such as liability to fringe benefits tax).

- Benefits forgone by whoever would give the benefits.

There is no legal definition of "in the best interests". RG 111 provides guidance on the interpretation of "in the best interests".

RG 111.19 states "*When an expert report is required in a scheme of arrangement involving a change of control, the expert is expected to apply the analysis and provide an opinion as to whether the proposal is 'fair and reasonable' as set out in RG 111.10 - RG 111.17*".

RG 111.20 to RG 111.22 provides that if an expert would conclude that a proposal is 'fair and reasonable' if it was in the form of a takeover bid, they should conclude that the proposal is 'in the best interests' of shareholders if it is in the form of a scheme of arrangement. If the expert would conclude that a proposal is 'not fair and not reasonable' they should conclude that the proposal is 'not in the best interest' of shareholders. If an expert would conclude that a proposal is 'not fair, but reasonable' it is open to the expert to conclude that the scheme is either 'in the best interests' or 'not in the best interests' of shareholders.

General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated by those persons affected by the Proposed Transaction. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO East Coast Partnership or BDOCF and any of the parties to the Proposed Transaction.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- We have been appointed as independent expert for the purposes of providing an IER for the Documents.
- That we have relied on information provided by the Independent Directors and management of FFF and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Independent Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

2.4. Special Value

We have not considered special value in forming our opinion. 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 particular potential acquirer of 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.

2.5. Reliance on Information

This IER is based upon financial and other information provided by the Independent Directors and management of FFF. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, FFF has agreed to indemnify BDOCF and BDO East Coast Partnership, 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, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

This IER may be lodged by the Independent Directors with regulatory and statutory bodies and will be included in the Documents to be sent to the Shareholders. The Independent Directors acknowledge that our IER has been prepared solely for the purposes noted previously in the document and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

Our procedures in the preparation of the IER 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 has not enabled us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or review. Accordingly, we have not expressed an audit or review opinion.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of FFF. We understand that the Independent Directors has been advised by legal, accounting and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/ or completeness of any due diligence or other similar investigative activities by the Independent Directors or their advisors.

We note that the IER does not deal with the individual investment circumstances of Shareholders and no opinion has been provided in relation to same. Some individual Shareholders may place a different emphasis on various aspects of the Proposed Transaction from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transaction is fair and reasonable to them. An individual Shareholder's decision in relation to the Proposed Transaction may be influenced by their particular circumstances and, therefore, Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Documents or any other document. We have provided consent for inclusion of the IER in the Documents. Our consent and the Documents acknowledge that we have not been involved with the issue of the Documents and that we accept no responsibility for the Documents.

2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- We have not formed an opinion on the fairness of the Entitlement Offer and have assumed that if the Entitlement Offer is implemented, the rights will be taken up on a pro rata basis by all Shareholders.
- Assumptions outlined in the valuation sections.
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed.
- Information sent out in relation to the Proposed Transaction to Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects. Additionally, publicly available information relied on by us is accurate, complete and not misleading.
- If the Proposed Transaction are implemented, that they will be implemented in accordance with the stated terms and that the legal mechanisms to implement the Proposed Transaction is correct and effective.
- There are no undue changes to the terms and conditions of the Proposed Transaction or complex issues unknown to us.

3. PROFILE OF FFF

3.1. Overview

FFF is a mortgage and financial services company that engages in retailing, wholesaling, management and aggregation of mortgages in the home loan financing segment in Australia. FFF provides services to more than 100,000 Australian loans and has loans under management (**"LUM"**) of approximately $19 billion.

FFF in its current form was founded in 2006 following its business strategy shift to focus on the financial services sector. These acquisitions are outlined in **Section 3.3** below.

3.2. Business Operations

FFF operates 4 business units, as follows:

3.2.1. Aggregation

FFF provides mortgage brokers with access to loan products from a range of banks and non-banking financial institutions as well as support services such as information technology and compliance services. Its primary revenue stream comprises earning a share of upfront and trail commissions and fees. In FY2012 this business unit had approximately $9.3 billion in LUM. Brands operating under this business unit include:

- Firstfolio One
- Firstfolio Aggregation

3.2.2. Mortgage Broking

FFF provides home loan matching and selection services for borrowers (residential property owners and investors) and assistance throughout the application process. The business collects a share of upfront and trail commissions and fees. In FY2012 Mortgage Broking had approximately $5.5 billion in LUM. Brands operating under this business unit include:

- eChoice Home Loans
- Apple
- Club Financial Services
- Bloom

3.2.3. Mortgage Wholesales and Managers

FFF arranges loan products from wholesale lenders and provides end-to-end loan management services. Its primary revenue stream comprises earning a share of upfront and trail commissions and fees. In FY2012 the business unit had approximately $4.8 billion in LUM. Brands operating under this business unit include:

- National Finance Club
- Myrate
- LJ Hooker

3.2.4. Firstfolio Capital Pty Ltd (previously Calibre Financial Services Pty Ltd) ("Firstfolio Capital")

FFF provides access to wholesale capital markets through bank supported warehouse facilities and bond issuance to debt capital markets as well as trust management services. Its primary revenue stream comprises margin differential from the securitisation and wholesale facilities plus other fees. In FY2012, Firstfolio Capital had $0.3 billion in LUM.

3.3. Chronological order of events

A summary of FFF's business acquisitions in chronological order is set out below:

Table 10: Chronological order of events

Date	Chronological order of events
2007	**Acquisition of Capital First and Lawfund Australia Pty Ltd** Lawfund Australia Pty Ltd (**"Lawfund"**) was a mortgage broking/aggregation company with settlements of around $1.8 billion per annum and a loan portfolio in excess of $5 billion. The Lawfund acquisition allowed FFF to diversify its business from mortgage management into mortgage broking. The acquisition of the loan book of Capital First boosted FFF LUM by $620 million.
Nov 2008	**Acquisition of eChoice Pty Ltd and Domain Financial Services Pty Limited** eChoice Pty Ltd (**"eChoice"**) is an online lead generation broking group. eChoice provided FFF with a $2.6 billion loan portfolio, proprietary software and a national fleet of experienced home loan lending managers. Domain Financial Services Pty Limited has an extensive broker network and client base within the greater Sydney area with funding from Adelaide Bank and Origin Mortgage Management Services (owned by Australia and New Zealand Banking Corporation). The acquisition of the business and the mortgage portfolio of approximately $1 billion was part of FFF's strategy to build a large scale national mortgage distribution platform and financial services business. The funding from the two Australian Banks also diversified FFF's wholesale funding lines.
Dec 2009	**Acquisition of Loan Services Australia Pty Ltd and First Chartered Capital Corporation Pty Ltd** The acquisition of Loan Services Australia Pty Ltd (**"LSA"**) and First Chartered Capital Corporation Pty Ltd (**"FCC"**) increased FFF's total LUM to $18 billion. FCC had 35 franchised offices across Australia which enhanced FFF's ongoing geographic expansion plans. LSA was ING Bank (Australia) Limited's largest wholesale mortgage manager and has a purpose built end-to-end mortgage processing platform which services a number of mortgage originators.
April 2010	**Acquisition of Leasechoice Pty Ltd** Leasechoice Pty Ltd (**"Leasechoice"**) is a leading specialist in business equipment finance and leasing solutions. The acquisition deepened FFF's product offering and diversified earnings. FFF acquired the Leasechoice business name, website, origination systems and associated trademarks enabling FFF to deploy a new suite of financial products with strong reach in the small to medium enterprises and corporate markets.
April 2010	**Acquisition of 90% Xplore Capital Ltd** Xplore Capital Ltd (**"Xplore"**) is a financial services company engaged in direct retailing and marketing of mortgage services mainly to the Amway of Australian Independent Business Owners market. The strategy was to utilise Xplore's Amway network effectively by taking advantage of FFF's greater coverage across Australia. Remaining 10% of shares in Xplore was acquired in June 2010.
July 2010	**Acquisition of Apple Home Loans Pty Ltd** Apple Home Loans Pty Ltd (**"Apple"**) was one of Tasmania's largest independent mortgage broking businesses and expanded FFF's geographic reach, including Apple's $600 million mortgage portfolio.
Dec 2010	**Acquisitions of Club Financial Services Holdings Pty Ltd** Club Financial Services Holdings Pty Ltd (**"Club FS"**) is a specialist mortgage management business with distribution through franchised centres and independent brokers. Club FS receives competitive funding through Advantedge Financial Services Pty Ltd (owned by National Australia Bank) which complements the existing funding FFF has with ING Bank (Australia) Limited and Adelaide Bank. Club FS's $2.8 billion portfolio of aggregated and managed loans enlarged FFF's total loan portfolio to over $20 billion.
Nov 2011	**Acquisition of controlling interest in Firstfolio Capital (previously Calibre Financial Services Pty Ltd)** Firstfolio Capital (previously Calibre Financial Services Pty Ltd) operates a warehouse funding line from Westpac Banking Corporation and issued its first mortgage-backed security in October 2007 to institutional investors. The acquisition provided FFF with the scale and capability to move into the non-bank lending market.
Jan 2012	**Joint venture with Evergreen Finance** Joint venture with Evergreen Finance, a specialist provider of personal finance products and services across Australia and NZ, to develop consumer finance products to be distributed to direct borrowers and through FFF's national networks.
Nov 2012	**Proposed Transaction** Announcement of non-binding heads of agreement in relation to the superseded Proposed Transaction.
Feb 2013	**New heads of agreement signed for the recapitalisation proposal** Revision the terms in relation to a superseded version of the Proposed Transaction.
May 2013	**Update to the terms of the Proposed Transaction** Announcement of update to the terms in relation to the Proposed Transaction.
July 2013	**Announcement of the execution of transaction documents in relation to** Proposed Transaction.

Source: FFF ASX announcements

3.4. Historical Financial Information

3.4.1. Financial Performance

We note that the FFF has adopted a new accounting approach for the year ended 30 June 2013. The primary change relates to the recognition of revenue for trail commissions. In place of a cash basis for reporting, trail commission revenues and expenses are now calculated using a net present value (**"NPV"**) methodology, by discounting estimated future cash flows for trail commission income and expense.

The audited statements of comprehensive income of FFF for FY2010 to FY2011 (cash basis), restated audited statement for FY2012 (NPV) and audited statement for FY2013 (NPV) are set out below:

Table 11: Historical statements of comprehensive income of FFF

$'000s unless stated otherwise	FY2010 (Audited)	FY2011 (Audited)	FY2012 (Restated Audited)	FY2013 (Audited)
Sales revenue	65,526	88,729	80,205	82,034
Other income	731	313	1,128	364
	66,257	89,042	81,333	82,398
Commissions expense	(37,537)	(50,358)	(25,154)	(32,625)
Interest on warehouse and other funding	-	-	(10,728)	(11,697)
Discount unwind on present value trail expense	-	-	(6,093)	(6,068)
Employment benefits	(8,143)	(11,511)	(12,083)	(10,917)
Other expenses	(10,889)	(15,385)	(17,276)	(12,008)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	**9,688**	**11,788**	**9,999**	**9,083**
Interest income	90	223	202	126
Deprecation and amortisation	(2,177)	(4,014)	(2,736)	(2,398)
Interest and finance charges	(1,294)	(3,543)	(6,041)	(4,859)
Unwinding of discount on deferred cash consideration	(1,779)	(1,050)	-	-
Profit before tax ("PBT")	**4,528**	**3,404**	**1,424**	**1,952**
Revenue growth %	*n/a*	*34.4%*	*Note 1*	*1.3%*
EBITDA Growth %	*n/a*	*21.7%*	*Note 1*	*(9.2)%*
EBITDA Margin %	*14.6%*	*13.2%*	*12.3%*	*11.0%*
Interest cover(times)	*6.2*	*2.3*	*1.2*	*1.4*

Source: *FY2011 - FY2013 annual reports and FFF management*
Note1: *FY2012 financial performance has been restated in accordance with FFF's change in accounting policy. FY2012 is not directly comparable with FY2011*
n/a - not available

We note the following in relation to the above:

- **Sales revenue** - Sales revenue grew by 1.3% in FY2013, this is largely supported by Firstfolio Capital's first full year of revenue contribution of $18.8 million. This revenue growth was offset by a 16.6% decline in mortgage settlements, as well as changes in the composition of those settlements.
- **Interest on warehouse** - This relates to interest paid on Firstfolio Capital's $216 million warehouse debt facility held with Westpac Banking Corporation, which is due for renewal on 30 November 2013.
- **EBITDA** - Reported EBITDA decreased by 9.2% in FY2013, predominantly driven by a $2.5 million adverse impact of the application of net present value methodology of accounting for trail commissions and expenses.

The FY2013 and FY2012 financial results were restated following a change in the consolidated entity's accounting practices during FY2013. The principal change in accounting centres on the recognition of revenue for trail commissions. In place of a cash basis for reporting, trail commission revenue and expenses are now calculated using a net present value methodology. These changes have been retrospectively applied to FY2012. The impact on the statement of comprehensive income is reconciled below.

Table 12: Historical statements of comprehensive income of FFF

$'000s unless stated otherwise	FY2012 (Cash basis)	FY2012 (Restated)	FY2013 (Cash basis)	FY2013 (Restated)
Operating EBTIDA	15,240	12,819	15,120	10,169
EBITDA	13,421	9,999	14,035	9,083
PBT	2,877	1,424	6,904	1,952

Source: *FY2013 annual report*

As shown above, the impact of the restatement on EBITDA was a decrease of $3.4 million in FY2012 and a decrease of $5.0 million in FY2013.

3.4.2. Historical Statements of Financial Position

FFF has adopted a new accounting approach as at 30 June 2013 and restated the statement of financial position of FFF as at 30 June 2012. The statements of financial position of FFF as at 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013 are set out below:

Table 13: Historical statements of financial position of FFF

$'000s unless stated otherwise	30 Jun 2010 (Audited)	30 Jun 2011 (Audited)	30 Jun 2012 (Restated Audited)	30 Jun 2013 (Audited)
Assets				
Cash and cash equivalents	2,472	3,473	11,480	9,565
Trade and other receivables	9,064	10,434	10,484	7,395
Loans and advances to customers	-	-	286,967	214,608
Net present value of trail commission income	-	-	151,563	150,116
Intangibles	64,619	89,287	45,743	44,187
Other assets	4,030	6,298	2,565	1,140
Total assets	**80,185**	**109,492**	**508,802**	**427,011**
Liabilities				
Trade and other payables	8,217	8,597	8,871	7,193
Warehouse and other funding	-	-	290,743	215,671
Borrowings	43,157	63,618	74,409	63,709
Net present value of trail commission income	-	-	84,328	87,833
Other liabilities	1,125	1,671	11,842	12,548
Total liabilities	**52,499**	**73,886**	**470,193**	**386,954**
Net assets	**27,686**	**35,606**	**38,609**	**40,057**
Equity				
Issued capital	39,932	41,330	41,328	41,328
Reserves	2,746	2,856	2,988	907
Accumulated losses	(14,992)	(8,580)	(5,707)	(2,178)
Total equity	**27,686**	**35,606**	**38,609**	**40,057**
Return on assets	*5.6%*	*3.1%*	*0.3%*	*0.5%*
Return on equity	*16.4%*	*9.6%*	*3.6%*	*4.9%*
Debt to assets	*53.8%*	*58.1%*	*71.8%*	*65.4%*
Current ratio	*1.4*	*1.6*	*2.5*	*2.4*

***Source:** FY2013, FY2012 and FY2011 annual report and FFF management*
n/a - not available

We note the following in relation to the above:

- **Loans and advances to customers** - This balance consists of mortgage advances and interest receivable in relation to provision of financial services by Firstfolio Capital.
- **Intangibles** - Intangible assets as at 30 June 2013 consist of goodwill of $16.1 million, contract rights of $6.0 million, intellectual property of $19.2 million, software and websites of $2.4 million and other intangibles of $0.5 million.

- **Warehouse and other funding** - This balance consists of warehouse notes and bond fund notes. The warehouse notes and bond fund notes are secured by the assets of the warehouse trust and bond funds. The warehouse funding is obtained from Westpac Banking Corporation for Firstfolio Capital. The revolving facility was renewed on 17 December 2012 and expires on 30 November 2013.
- **Borrowings** - Borrowings consists of $32.8 million in secured senior debt held with CBA and $29.3 million in unsecured loans from Director related entity Welas. The remaining balance of $1.7 million relates to deferred cash and contingent consideration and lease liabilities.

  At 30 June 2013, the finance facilities with CBA were due to mature on 7 April 2014. The CBA has since expressed its intent to renew the term of these facilities for a further 2 years to 7 April 2016, and such a renewal is expected to make reference to FFF's existing undertaking to complete a capital raising. The CBA has extended the date for the completion of a capital raising to 30 November 2013 whilst the renewal is being finalised and documented.

  On 4 July 2013, loans provided by Welas were renegotiated. Under the revised terms, the loan amount of $5.5 million has a repayment date of 30 November 2013 to allow for the completion of the capital raising and the repayment of this debt. The loan amount of $23.9 million has a repayment date of 1 October 2014. The loans are fully drawn, and no further drawdown is available.

3.4.3. Pro forma Statement of Financial Position

The pro forma statement of financial position of FFF post Proposed Transaction is depicted as follows:

Table 14: Pro forma statement of financial position of FFF

$'000s unless stated otherwise	30 Jun 2013 (Audited)	Pro forma Adjustments	Pro forma Balance Sheet
Assets			
Cash and cash equivalents	9,565	16,429	25,994
Trade and other receivables	7,395	(600)	6,795
Loans and advances to customers	214,608		214,608
Net present value of trail commission income	150,116		150,116
Intangibles	44,187		44,187
Other assets	1,140		1,140
Total assets	**427,011**	**15,829**	**442,840**
Liabilities			
Trade and other payables	7,193		7,193
Warehouse and other funding	215,671		215,671
Borrowings	63,709	(31,400)	32,309
Net present value of trail commission income	87,833		87,833
Other liabilities	12,548		12,548
Total liabilities	**386,954**	**(31,400)**	**355,554**
Net assets	**40,057**	**47,229**	**87,286**
Equity			
Issued capital	41,328	47,229	88,557
Reserves	907		907
Accumulated losses	(2,178)		(2,178)
Total equity	**40,057**	**47,229**	**87,286**

Source: *FFF management and BDOCF analysis*

The above pro forma adjustments are detailed below:

- Cash and cash equivalents – Part of the total capital to be raised from the Proposed Transaction is expected to reduce as follows:

Table 15: Pro forma adjustment - cash and cash equivalents

$ unless stated otherwise	Number of Shares	Issue Price	Capital raise
Placement 1	300,000,000	0.015	4,500,000
Entitlement Offer	1,073,886,809	0.010	10,738,868
Placement 2	1,000,000,000	0.035	35,000,000
Total	**2,373,886,809**		**50,238,868**
Less:			
Professional fees in relation to capital raising (yet to be incurred)			(400,000)
Capital raising fee			(2,009,555)
Reduction of borrowings (refer below)			(31,400,000)
Cash and cash equivalents			**16,429,313**

Source: *FFF management and BDOCF analysis*

- Trade receivables – Professional fees of $0.6 million for the capital raising have already been paid by FFF out of cash. These fees have been recorded as a trade receivable in the 30 June 20013 balance sheet. This amount will be removed from the trade receivable balance and adjusted against the share capital following the Proposed Transaction.

- Borrowings – FFF management estimated that $30.0 million from the proposed capital raisings will be used to reduce the debt held with CBA and Welas and $1.4 million will be utilised for payment of the deferred cash and contingent consideration.

- Issued capital increases by the total capital to be raised from the Proposed Transaction amounting to approximately $50.2 million less the capital raising fee of approximately $2.0 million and professional fees of approximately $1.0 million.

3.5. Going concern

We note the following extract from Note 2 of the 30 June 2013 annual report released on 22 August 2013:

"Should a capital raising not proceed by 30 November 2013, the consolidated entity is unlikely to comply with its financial covenants and as a result, is likely to be in default of the terms of the senior debt funding arrangements with the CBA. Under these circumstances, CBA and other debt providers have the right to require the consolidated entity to repay the outstanding debts on demand. Under those circumstances, the consolidated entity would enter into negotiations with the CBA and other debt providers that may result in accepting higher financing costs, being forced into assets sales, or to undertake other corporate actions.

Notwithstanding the above, if the consolidated entity breaches its financial covenants as a result of failing to raise capital and the CBA and other debt providers require the repayment of debt on demand, then in the opinion of directors, material uncertainty will exist regarding the ability of the consolidated entity to continue as a going concern.

If the consolidated entity is unable to continue as a going concern, it may be required to realise assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements."

From the above, there is a risk as to the ability of the Company to continue as a going concern if it is unable to raise capital.

3.6. Capital Structure and Ownership

As at the date of this Report, FFF had the following securities on issue:

Table 16: FFF securities on issue

Security	Total	Details
Fully paid ordinary shares	773,886,809	
Unlisted Options	11,350,000	The following unlisted options (**"Options"**) that may convert into one fully paid share are outstanding as at the date of the Report: • 3,400,000 options with an exercise price of 7.0 cents expire 16 August 2014 • 3,000,000 options with an exercise price of 8.0 cents expire 9 August 2015 • 500,000 options with an exercise price of 5.95 cents vest 24 May 2012 and expire 24 May 2014 • 100,000 options with an exercise price of 5.49 cents vest 12 July 2012 and expire 12 July 2014 • 3,400,000 options with an exercise price of 4.3 cents vest 30 November 2012 and expire 30 November 2014 • 950,000 options with an exercise price of 3.33 cents vest 31 March 2013 and expire 31 March 2015

Source: *FFF Management*

The VWAP of FFF Shares for the 12 months to 12 November 2012 (being the last trading day prior to the announcement of the superseded Proposed Transaction) was $0.022 (refer to **Section 7.8**) resulting in all of the options above currently being out-of-the-money.

The total Shares on issue include Shares issued to FFF Remuneration Pty Ltd (**"FFF Remuneration"**) as part of the senior executive share scheme. The Shares are issued to FFF Remuneration (trustee) which holds the Shares in trust as part of a senior executive share scheme approved by the Shareholders in 2009.

The Shares will be issued upon employees receiving an interest-free loan from the Company for the purchase price of the Shares. The loan is to be repaid at the time of selling the Shares or on termination of employment. The Shares are issued subject to performance conditions and restriction periods.

As at 13 November 2012 (being the announcement date of the superseded Proposed Transaction), FFF Remuneration held 50,250,000 Shares on behalf of current executives, former directors and executives of the Company.

The top 10 Shareholders of FFF as at 13 September 2013 are summarised in the table below:

Table 17: Top 10 shareholders before Proposed Transaction

Shareholder	Number of Ordinary Shares held	Percentage of Total Ordinary Shares held
HSBC Custody Nominees (Australia) Limited	132,570,477	17.13%
FFF Remuneration	50,250,000	6.49%
John Barlow	36,000,000	4.65%
Mark Kevin Flack (Note 1)	25,036,774	3.24%
Maxwell Thomas Quirk	18,765,311	2.42%
Cobra Investments BV	17,250,000	2.23%
NBT Pty Ltd	16,448,021	2.13%
Felicity Clinton Hartigan and Hugh Clinton Hartigan (Hartigan Super Fund A/C)	12,774,852	1.65%
ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/C)	11,983,687	1.55%
NBT Pty Ltd (Astor Super Fund A/C)	11,489,342	1.48%
Sub-total	**332,568,464**	**42.97%**
Other shareholders	441,318,345	57.03%
Total	**773,886,809**	**100.00%**

Source: *FFF management*

Note 1: *Including beneficial holdings via FFF Remuneration and Flack Family Super Fund Trust would be 35,722,258 Shares (4.62%)*

3.6.1. Previous capital raisings

In December 2009 FFF completed a 1:2 renounceable rights issue whereby $12.1 million was raised. The renounceable rights issue was priced at an issue price of $0.05 per Share. The renounceable rights issue was fully underwritten by Southern Cross Equities Limited. Acceptances totalled 199,310,310 new Shares and the balance was underwritten. The funds were used to repay debt to Welas in the sum of $5.0 million, to redeem 25,000,000 redeemable preference shares held by Welas and to repay convertible notes to the value of $2.3 million. The remaining balance of $1.6 million was used for working capital purposes.

3.7. Strengths, weaknesses, opportunities and threats

Set out below is the strengths, weaknesses, opportunities and threats ("**SWOT**") analysis for FFF:

Table 18: SWOT analysis for FFF

Strengths	Weaknesses
• Strong service culture and brand • Virtual distribution capabilities	• Reliant on a limited number of wholesale bank funders • Reliant on the home mortgage market • Debt sourced from a large shareholder (require recapitalisation to repay)
Opportunities	**Threats**
• Market adjacency opportunities, e.g. personal and SME lending products. • Capability transfer/offshore initiatives.	• Funding risk • Refinancing risk • Macroeconomic factors such as higher unemployment and slowing credit growth

Source: FFF management

4. PROFILE OF IZN

4.1. Overview

IZN is an Australian unit trust established in August 2013, to invest in the financial services sector in Australia and the broader Asia-Pacific region. The sole unitholder in IZN is Australian Capital Enterprises (HK) Limited (ACEHK), a Hong Kong incorporated entity established in August 2013. The current shareholders and directors of ACEHK are Mr Brent Christie, Mr Bobby Yun, Mr Kim and Mr Mark Flack (each holding 25% of the issued share capital of ACEHK). ACEHK's initial business focus is to invest in the Australian financial services market. ACEHK will initially be funded by private equity investors in return for a right to share in the profits generated by IZN which flow to ACEHK. However, these private equity investors will not hold any rights over the issued shares of ACEHK, or the units held by ACEHK in IZN.

ACEHK will have a relevant interest in any FFF Shares held by the Trustee and will have the right to replace the Trustee at its sole discretion.

The Trustee of IZN has 3 equal shareholders comprising the following entities:

- IZN Investments, Inc - a South Korean based private company established in 2000. IZN Investments, Inc provides a range of services to South Korean and international clients including M&A advisory, corporate restructuring, structured financing and corporate consulting & IPO advisory.
- Mr Kim - CEO and director of South Korean law firm SanGyung Law Firm, founded in 2007. SanGyung has relationships with, and advises, leading South Korean conglomerates and financial services companies.
- Australian Capital Enterprise Pty Limited (ACE) – an Australian proprietary limited company which was established in 2013 specifically for the purpose of FFF's recapitalisation proposal.

Pursuant to section 608(3) of the Act, a person has a relevant interest in securities that a company has if their voting power in the company is above 20%. In accordance with section 608(3) of the Act a number of individuals and entities will have a relevant interest in any FFF Shares held by the Trustee.

Additional information on IZN, ACEHK, the Trustee and the individuals and entities with a relevant interest in the FFF Shares held by the Trustee can be found in the Documents.

5. INDUSTRY OVERVIEW

FFF operates in the mortgage broking industry within Australia ("**Industry**").

5.1. Key drivers and recent economic highlights

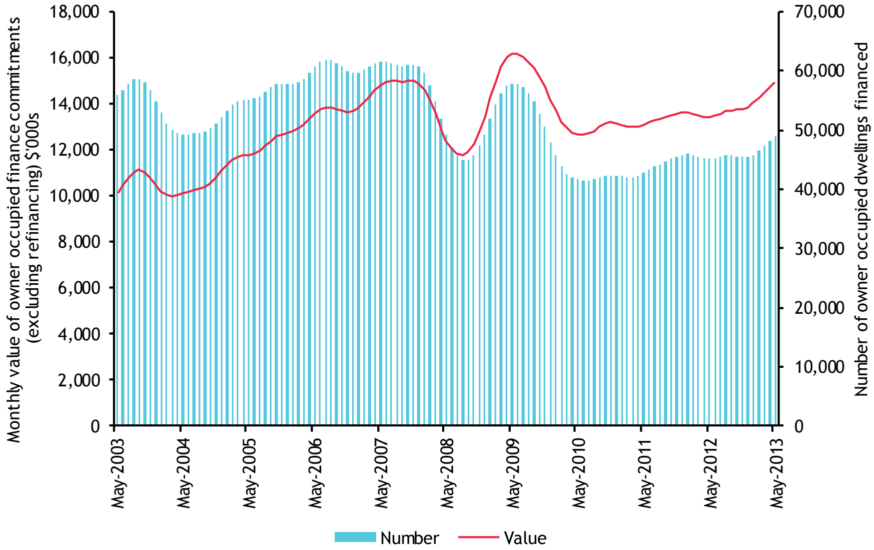
The key drivers of the Industry are set out below:

- **General economic activity** – Increased economic activity generally results in increased lending activity, the state of the economy impacts savings levels, credit demand, quality of lending portfolios and the volume of transactions. Australia's GDP increased by 0.6% in the December 2012 quarter and is expected to grow by 2.5% by end of December 2013.
- **Property prices** – Increases in property prices can result in increased lending as buyers are required to acquire a greater amount of funding in order to purchase a property. Recent trends shows improving affordability. However, housing finance has slowed due to current high level of household debt and household's reduced appetite for debt.
- **New building approvals** – Typically growth in the number of available properties would increase mortgage activity as growth in property purchases would increase. Dwellings approvals increased by 6.3% over the year to April 2013.
- **Cost of rental properties** – Increase in rental prices leads to increase in demand for property. The continued undersupply of housing and increasing population pressures add to higher housing demand leading to rent growth.
- **Population** – Population growth generally leads to higher demand for residential property. Population growth driven by net migration is expected to maintain at 1.6% per annum.
- **Unemployment rates** – Unemployment affects consumer confidence and influences decisions on mortgage obligations. The unemployment rate remained steady at 5.5% in April 2013 but is expected to rise in the next six months.
- **Household debt** – Large debt burden limits households' ability to take on more debt and service repayment obligations. The demand for credit is weak at present as some households seek lower debt levels.
- **Interest rates** – Housing is sensitive to interest rates as lower interest rates reduce the cost of borrowings of home owners and investors. Australian house prices generally respond to changes in interest rates. Despite the current low interest rate environment, increases in housing lending and new construction activity are lower than previous periods.
- **Government policies** - Government policies such as capital gains tax regulations and first home buyers grant contribute to housing activity. Since the global financial crisis, there has been a gradual decline in government funded grants which resulted in lower mortgage activity in 2012.

5.2. Housing Finance

The graph below illustrates the monthly number of owner occupied dwellings financed and the monthly value of owner occupied finance commitments (excluding refinancing of established dwellings) in the last 10 years to May 2013.

Figure 2: Number and value of owner occupied finance commitments



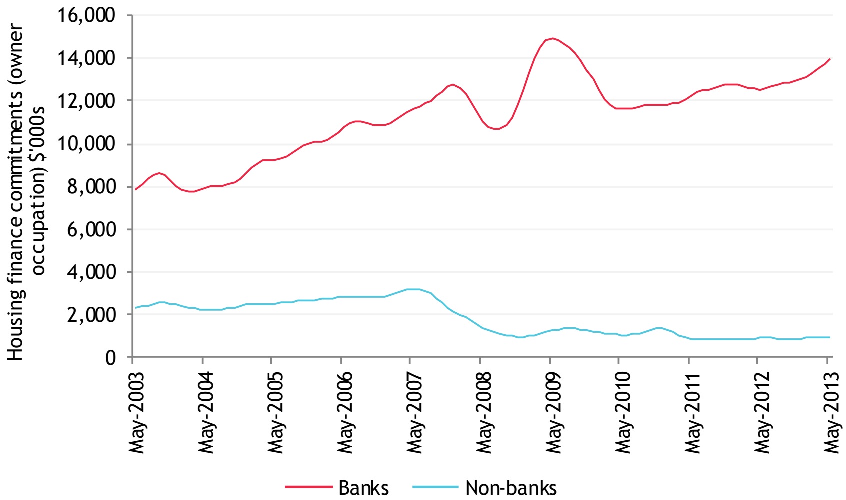
Source: Australian Bureau of Statistics Housing Finance Australia, May 2013

The total number and value of the owner occupied finance commitments increased during the global financial crisis in 2008 to 2009 and gradually declined from 2010 to 2011. This declining trend observed is largely due to the lower government incentives provided and the weaker buyer sentiment that arose from uncertainties of the European sovereign debt crisis, fear of US 'fiscal cliff' and slowdown in Asian economy.

There were signs of improvement in the beginning of year 2012 up to May 2013 as the graph further illustrates a slight increase in number and value of the owner occupied finance commitments during that period.

The graph below illustrates the monthly value of finance commitments for owner occupied dwellings financed by banks and non-bank lenders in the last 10 years to May 2013.

Figure 3: Number and value of owner occupied finance commitments



Source: Australian Bureau of Statistics Housing Finance Australia, May 2013

The graph indicates that the value of finance commitments are increasing for banks and declining for non-bank lenders. Non-banks are experiencing greater competition and greater pressure on margins.

5.3. Industry outlook

Despite the current low interest rates, the housing market has been slow in taking on borrowing for new construction and to purchase existing dwellings. The low housing activity is expected to continue in the near term and set for a modest rise in 2013 as lower rates spur lending.

6. VALUATION METHODOLOGY

6.1. Valuation Requirements

We have formed our opinion in relation to fairness by comparing the:

- Fair market value of a FFF Share before the Proposed Transaction (including a premium for control); and
- Fair market value of a FFF Share after the Proposed Transaction on a minority basis.

We are opining on the Initial Placement, the Entitlement Offer and the Final Placement in aggregate. Eligibility for rights to the Entitlement Offer is proposed to occur after the Initial Placement and before the Final Placement. We note that the Entitlement Offer shall include the Shares issued to the Trustee under the Initial Placement but not the Final Placement. This notionally means that under the Initial Placement, the Shares to be issued have an option attached to each Share by way of the Entitlement Offer.

We have considered the effect of a nil take-up of Entitlement Offer rights by the Non-Associated Shareholders on the valuation of FFF post Proposed Transaction. We note that the Trustee has fully underwritten the Entitlement Offer, such that the number of shares on issue and the proceeds from the capital raising (net of fees) will be the same as calculated in **Section 1.2.2**. The only difference relates to the Share ownership.

We note that the basis of assessment for fairness under **Section 2.3** compares the value of a FFF share prior to the Proposed Transaction to the value of a FFF Share following the Proposed Transaction on a minority basis. The value of a FFF Share following the Proposed Transaction on a minority basis does not change with the Trustee's ownership of FFF as the proceeds from the capital raising are the same regardless of the take-up of Shares by the Non-Associated Shareholders and/or the Sub-Underwriters.

The Proposed Transaction is fair if the value of a FFF Share after the Proposed Transaction on a minority basis is equal to or greater than the fair market value of a FFF Share before the Proposed Transaction (including a premium for control). Details of common methodologies for valuing businesses and assets are included at **Appendix 3**.

Set out below is a discussion of the valuation methods we consider appropriate for the purposes of undertaking our valuation assessment of FFF.

6.2. Valuation Methodologies Considered for FFF

We have assessed the equity value of FFF using the following methodologies:

- Capitalisation of earnings ("**COE**")
- Share price trading analysis.

6.3. Capitalisation of earnings

We have assessed the equity value of FFF using COE, plus (or minus) the market value of any surplus assets/(liabilities). In accordance with RG 111.15, we have considered the fair market value of FFF on the basis of “a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid”. Hence, the consequences of FFF breaching its financial covenants as a result of failing to raise capital and may be required to repay debt on demand have not been assessed as part of the valuation but have been considered in our reasonableness assessment.

We selected the COE method as the most suitable methodology to assess the equity value for the following reasons:

- FFF has a proven history of profitable operations and is expected to continue operating as a going concern.
- A relatively stable pattern of historical and forecast operating results is demonstrated.

We note that a discounted cash flow (“**DCF**”) method is applicable for this business. However, FFF management has not provided suitable long-term forecasts to undertake a DCF calculation due to the inherent uncertainties in the forecasts beyond FY2013.

6.4. Share price trading analysis

In order to provide additional evidence of the fair market value of FFF, we have considered recent ASX trading prices of FFF securities as a secondary valuation method.

6.5. Premium for Control

Investment fundamentals dictate that the value of 100% of a company is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings.

The difference between the value of 100% of a company and the total value of minority share holdings is referred to as a “premium for control” taking into account control and synergistic benefits for the acquirer. Control of a company by a shareholder gives that shareholder rights to which minority shareholders are not entitled, including control of the company’s policies and strategies, and use of cash flows of the company.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the company being acquired. We have reviewed Australian public company acquisitions over the past three years. This review indicates a premium for control range of 20% to 35% with a median premium for control of 25%.

RG 111.11 indicates that an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

Based on the above, we have considered a control premium of 25% in the COE method. Our secondary valuation methodology, being the recent quoted market prices of FFF, is on a minority interest basis, and therefore we apply a control premium of 25% to the minority interest Shares ASX valuation.

6.6. Valuation in Accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

7. VALUATION OF FFF PRIOR TO THE PROPOSED TRANSACTION ON A CONTROL BASIS

7.1. Valuation summary

Set out in the table below is a summary of our assessment of the equity value of FFF per Share, prior to the Proposed Transaction, on a control basis:

Table 19: Equity value of FFF per Share on a control basis

$ per Share	Ref.	Low	High
COE	7.2	0.034	0.060
Share market trading method	7.8	0.014	0.031
BDOCF selected valuation		**0.034**	**0.060**

Source: BDOCF analysis

The fair market value of FFF using the COE method has been determined prior to the Proposed Transaction and the Entitlement Offer.

Based on the above, the equity value of FFF using the share trading method reflects a discount to our assessed low and high equity value of FFF of approximately 41% to 52% respectively using the COE method.

We have adopted the COE method as the primary method as it best reflects the fair market value of FFF's business as the share trading analysis concludes low to moderate trading liquidity and FFF is currently under financial distress (as detailed in **Section 3.5**). We have assumed that FFF has access to funds to operate as a going concern.

7.2. Fair market value of FFF using COE method

Our assessment of the fair market value of FFF is set out below:

Table 20: Valuation Summary

$'000s unless stated otherwise	Ref.	Low	High
Normalised earnings	7.4	9,000	10,000
Earnings before Corporate Interest and Tax (**"EBCIT"**) multiple (control basis)	7.5	10.00	11.00
Enterprise Value - control basis		**90,000**	**110,000**
Add/(Less):			
Corporate debt	7.6	(63,709)	(63,709)
Equity Value - control basis (before capital raising activities)		**26,291**	**46,291**
Shares outstanding prior to Proposed Transaction ('000s)	1.4	773,887	773,887
Equity Value per Share ($) - control basis (before capital raising activities)		**0.034**	**0.060**

Source: *BDOCF analysis*

Based on the above, the fair market value of FFF per Share on a control basis ranges between $0.034 to $0.060 per Share.

7.3. Approach

In utilising the COE method to value FFF, we have considered the following:

- An estimate of the normalised earnings of FFF
- Selection of an appropriate earnings capitalisation multiple (inclusive of premium for control)
- Where necessary, deducted from the resultant equity value
  - Any future capital expenditure and working capital requirements, where applicable
  - Any potential contingent liabilities, if any
  - Considered the value of any surplus assets and liabilities.

Set out below are the key parameters and our considerations of the above.

7.4. Normalised earnings

Normalised earnings (**"NE"**) is the assessed level of earnings, that, in real terms can be expected to be derived by the existing operations of the business for a particular period excluding any one off or accounting based profits or losses.

In our opinion, the appropriate earnings to adopt in valuing FFF is EBCIT as its principal activities include financing. FFF's peers operate within the financial services sector and interest expense is a part of normal business activities.

We note that FFF has debt that is used to fund its operating activities (the warehouse facility) and corporate debt that was used to acquire businesses. The funds from warehouse facility are on lent to customers. FFF derives an interest margin by on lending these funds. This activity is a normal aspect of FFF's operations. Interest associated with these facilities has been included in the determination of EBCIT.

Corporate debt that was used to acquire businesses are part of FFF's financing structure and do not form part of FFF's normal operations. Interest relating to corporate debt is excluded from EBCIT.

In addition, FFF has accumulated unutilised tax losses and therefore, EBCIT ignores effective tax rates that reflect different tax positions and tax planning measures implemented by comparable companies.

Our estimate of the NE of FFF has been determined after consideration of:

- FFF's normalised historical earnings
- Growth prospects and the effect of changes and trends in the Industry that may impact on earnings
- The SWOT analysis of FFF and the effectiveness of FFF's competitive strategy in managing any threats.

The historical and forecast earnings are summarised below, together with the normalisation adjustments:

Table 21: Normalised earnings

$'000s unless stated otherwise	Ref.	FY2011 Actual	FY2012 (Restated Actual)	FY2013 Actual
Reported EBITDA	i	**11,788**	**9,999**	**9,083**
Normalisation adjustments				
Add/(Less):				
Acquisition costs		1,971	1,610	-
Restructuring costs		1,749	1,077	895
Share Based Payments (Non Cash)		110	132	130
Write-back and FV adjustment			1	(353)
Other non operating costs		-	-	414
Operating EBITDA per annual reports	ii	**15,618**	**12,819**	**10,169**
Add/(Less):				
Interest Income		223	202	126
Unwinding of the discount on deferred cash consideration		(1,050)	(548)	(168)
Depreciation and amortisation		(4,014)	(2,736)	(2,398)
EBCIT existing as at financial year end		**10,777**	**9,737**	**7,729**
Adjustments for businesses acquired prior to FY2012				
Add/(Less):				
Part/Full year EBCIT from Firstfolio Capital	iii	3,984	1,202	-
Part/Full year EBCIT from Club FS	iii	863	-	-
Normalised EBCIT		**15,624**	**10,939**	**7,729**

Source: BDOCF analysis

Details of the normalisation adjustments above are set out below:

i. On 22 August 2013, FFF released the audited financial statements for the 12 month period ended 30 June 2013. As disclosed on Page 5 of the annual financial statements, the FY2012 results have been restated following a change to FFF's accounting practices during FY2013. The principal change in accounting centres on the recognition of revenue for trail commissions (which are now calculated using a net present value methodology).

ii. The figures for FY2012 and FY2013 represent the updated accounting methodology, whereas the FY2011 figures are shown on the previous "cash" basis.

iii. For comparative purposes, we have considered the part and full year EBCIT from subsidiaries that were not included in the consolidation accounts in the period prior to acquisition. We also noted that there were no business units that may have been mothballed, closed or sold during FY2011 to FY2012.

From the above table, we note that the normalised EBCIT for FFF is $10.9 million in FY2012 and $7.7 million in FY2013. We have assessed the NE for FFF to be in the range from $9.0 million to $10.0 million. In selecting our range, we have considered the following factors:

- Having considered the normalised historical earnings, we placed greater reliance on FY2013 earnings to determine the range as they represent the most recent performance of the Company.
- As per **Section 3.4.1**, we note that operating EBITDA decreased in FY2012 and FY2013 as a result of the change in accounting standards. The impact of the restatement on EBITDA was a decrease of

$3.4 million in FY2012 and a decrease of $5.0 million in FY2013. These new accounting standards have been adopted by the comparable entities at **Section 7.5.1** and have been incorporated in the multiple at **Section 7.5**.

7.5. Capitalisation multiple

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
- Prices achieved in mergers and acquisitions of broadly comparable companies (usually reflecting a controlling interest status)
- Initial public listing prices of shares in broadly comparable companies (where available) (usually reflecting a non-controlling interest status).

In selecting appropriate comparable companies, we had regard to listed Australian companies that provide similar services to FFF within the Industry. Our analysis was performed based on data available as at 22 September 2013.

7.5.1. Listed comparable companies

We have selected a range of broadly comparable companies that engage in mortgage origination, manage mortgages, provide mortgage broking services and other financial services. Set out in **Appendix 4** are descriptions of the operations of the identified companies. The stock market trading valuation parameters for the companies are set out in **Appendix 5**.

We note the following in relation to the selected companies:

- Homeloans Limited (“**HOM**”) engages in mortgage origination, manages mortgages and securitises the mortgages through a special purpose vehicle to issue residential mortgage backed securities. HOM was founded in 1985 and was publicly listed in 2001. It is considered to be the most comparable to FFF. Challenger Group Holdings Ltd and National Australia Bank Ltd own 22.3% and 17.8% of HOM respectively. HOM’s market capitalisation is 6 times larger than FFF as at 22 September 2013.
- RHG Limited (“**RHG**”) manages a loan book of residential home loans and generates cash flow through the ‘run-off’ of the loan book. The group ceased originating new mortgage loans on its own behalf since 16 November 2007. As at 30 June 2013, RHG’s mortgage book including transaction costs was $2.1 billion. FFF by comparison is involved in origination, distribution and funding of residential mortgages.
- Mortgage Choice Limited (“**MOC**”) provides mortgage broking services whereas FFF provides a greater range of financial services. MOC’s loan book and market capitalisation are significantly larger than FFF. As at 30 June 2013, MOC’s loan book totalled to $45.0 billion compared to FFF’s mortgage loan portfolio of $18.9 billion.
- MyState Limited (“**MYS**”) and Wide Bay Australia Ltd (“**WBB**”) are authorised deposit-taking institutions that provide a greater suite of financial products compared to non-bank mortgage lenders such as FFF. Although MYS and WBB offer a greater range of financial products, mortgage lending represents a significant portion of their revenue composition. As at 30 June 2012, the majority of the MYS interest bearing portfolio was comprised of housing loans. In addition, WBB focuses on residential lending through its branch network and mortgage lender introduced loans.

Our assessment of the earnings multiples have been derived predominantly from the multiples observable from trades of minority parcels of shares in listed entities. Accordingly, the trading prices reflect a minority interest value. When valuing a controlling interest, an appropriate allowance should be made for a premium for control. Empirical evidence on premiums for control indicate that these premiums tend to range between 20% to 45%.

We have applied a premium for control of 25% considering the following:

- Empirical evidence as described above.
- The strategic benefit that a controlling interest in FFF would provide a hypothetical willing purchaser.
- The mature stage of FFF's business life cycle and the market in general.
- Generally accepted market practices.

Our assessment of comparable companies produced a range of earnings multiples (excluding outliers), with an average and median FY2013 EBCIT of approximately 11.8 times and 11.0 times (inclusive of premium for control) respectively.

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 FFF, we have undertaken a limited review of the characteristics of the companies that we consider most comparable. We have identified differences in the characteristics of those companies and their range of operations. Set out below is our analysis in this regard:

Table 22: Factors considered in comparing the selected companies

Factors	Explanation	Impact on FFF multiple (Discount/Premium)
Size of the business	Many of the comparable companies conduct larger operations and 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). FFF’s market capitalisation is significantly lower than the comparable companies and its net asset position as at 30 June 2013 is lowest amongst the comparables.	Discount
EBCIT Margin	FFF’s EBCIT margin is lower than the comparable companies. Movements in revenues and costs will have a more significant impact on FFF’s EBCIT as compared to the comparable entities. This increases the risk of FFF.	Discount
Growth opportunities for the business	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. FFF appears to have comparable growth opportunities compared to the selected companies as it has over the years made several acquisitions to grow its business and diversify its earnings capability.	Premium

Source: *BDOCF analysis*

7.5.2. Transaction multiples

We reviewed a number of transactions relating to acquisitions of businesses with operations similar to FFF. A summary of comparable transactions is set out in **Appendix 7**.

We do not consider the transactions to be suitable for our analysis for the following reasons:

- Details of the EBCIT for some of the target companies are not available.
- The transaction multiples for the acquisitions made by FFF are specific to the business units within FFF and not reflective of the combined entity of FFF.
- The dated profile of some of the transactions in 2007 to 2008 and weak market confidence during the global financial crisis do not provide reasonable indicative transaction multiples in the current market.

7.5.3. Initial public offering multiples

There are no recent listings of companies comparable to FFF.

7.5.4. Multiple applicable to FFF - controlling interest

Based on our analysis above, we have arrived at a capitalisation multiple range applicable to FFF of 10.0 times to 11.0 times. In our opinion, this multiple reflects:

- The multiples of companies broadly comparable to FFF, particularly HOM which has operations that are the most closely aligned to FFF's operations. Whilst the other comparable companies operate within the mortgage sector, MOC is predominantly in mortgage broking and both MYS and WBB are authorised deposit-taking institutions. RHG is focussed on the 'run-off' of its loan book.
- A controlling interest multiple.

7.6. Corporate debt

As at 30 June 2013 (unaudited) FFF had the following liabilities owing to financial institutions:

- Warehouse and Other Funding - $215.7 million
- Borrowings - $63.7 million

The funds from Warehouse Facility and Other Funding are on lent to customers. FFF derives an interest margin by on lending these funds. This activity is a normal aspect of FFF's operations. Interest associated with these facilities has been included in the determination of EBCIT.

FFF also has Borrowings of $63.7 million. For clarity we have defined these borrowings as Corporate Debt. These funds were used to acquire businesses as detailed in **Section 3.3**. These funds are part of FFF's financing structure and do not form part of FFF's normal operations. We have excluded interest in relation to Corporate Debt from EBCIT.

As a result, the value determined by multiplying the EBCIT by the multiple determined at **Section 7.5** is the value of the business before Corporate Debt. In order to determine the value of FFF's equity we have separately deducted the value of Corporate Debt being $63.7 million.

7.7. Options

As discussed in **Section 3.6**, there are 11.35 million unlisted Options on issue as at 6 June 2013 which are significantly out-of-the-money. We are of the opinion that the exercise of the options is unlikely in the short term to medium term. We note that in any event, due to the immaterial number of options compared to FFF Shares on issue, the exercise of the options would not have a material effect.

7.8. Cross-check against recent ASX trading in FFF Shares

We have also considered the ASX quoted market price for FFF Shares which reflects a minority interest price for FFF Shares.

The table below summarises trades over the year up until the last trading day before the announcement of a superseded version of the Proposed Transaction on 13 November 2012, being 12 November 2012:

Table 23: Volume Weighted Average Share Price of Daily Trades

	High ($)	Low ($)	VWAP ($)	Total Volume Traded ('000s)	Annualised Turnover (Note 1) (%)	Average Bid/Ask Spread
As at 13 Nov 2012	0.017	0.014	0.016	4,757	155.50%	6.67%
As at 12 Nov 2012	0.015	0.015	0.015	4	0.13%	6.67%
1 week to 12 Nov 2012	0.015	0.015	0.015	359	3.91%	4.00%
1 month to 12 Nov 2012	0.016	0.014	0.015	11,287	17.57%	5.47%
3 months to 12 Nov 2012	0.021	0.013	0.016	38,937	19.29%	5.73%
6 months to 12 Nov 2012	0.025	0.011	0.016	72,456	18.22%	6.26%
12 months to 12 Nov 2012	0.042	0.011	0.022	135,759	17.55%	5.00%

Sources: *Capital IQ; BDOCF analysis*

Note 1: *Annualised turnover is calculated as period turnover divided by trading days in the period, multiplied by trading days in the year.*

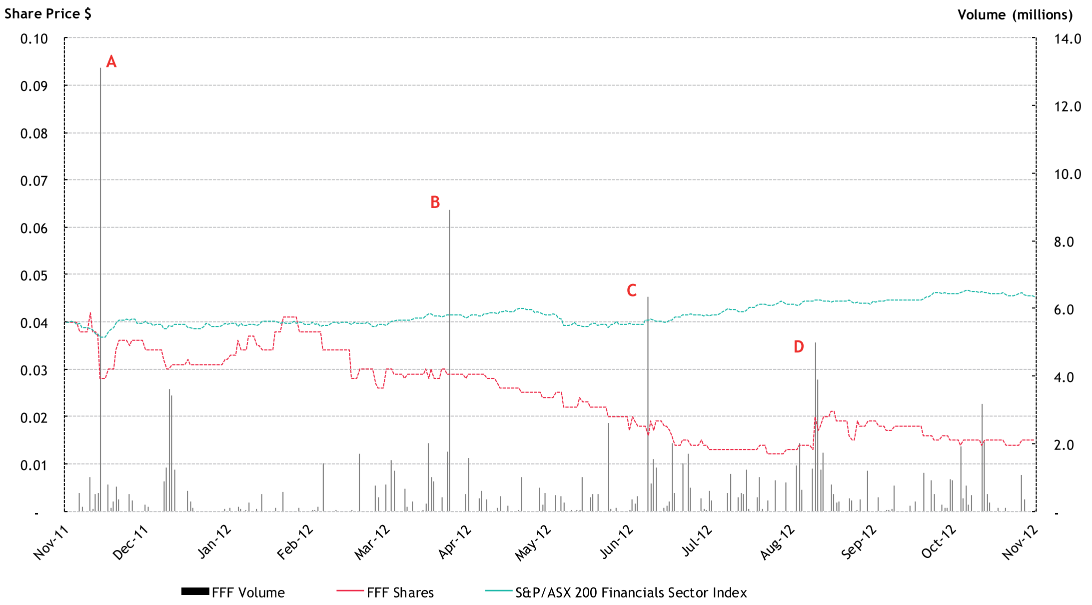
Legend: *VWAP denotes volume weighted average share price.*

We note the following with respect to FFF Shares during the 12 months up to 12 November 2012:

- FFF Shares traded between $0.011 per Share and $0.042 per Share.
- On 4 separate days over the period analysed, the daily volume traded was greater than 4 million Shares. These spikes in volume are charted in below. Whilst on some days announcements to the ASX were made (which provide possible reasons for the unusual trading activity), reasons for the unusual trading activity are not always traceable to any particular event(s).
- VWAP prices are observed to be on a downward trend.
- There is a low trading volume over the period, as the total traded volume of Shares over the 12 months to 12 November 2012 was approximately 17.6% of the total weighted average number of Shares on issue over the period.
- Over the year analysed, there were 165 days of trading activity out of a total of 254 trading days.
- The average bid-ask spread over each period ranged from 4.00% to 6.67%, which typically indicates a low level of liquidity.

Figure 4 shows FFF's daily close price and the volume of Shares traded each day over the period from 13 November 2011 to 12 November 2012 inclusive.

Figure 4 : Daily Closing Share Prices and Volumes from 12 November 2011 to 12 November 2012



Source: *Capital IQ; BDOCF analysis*

FFF generally underperformed the S&P/ASX 200 Financials Sector Index over the trading period. Factors which may have had an impact on trading in FFF Shares are detailed below:

Table 24: FFF ASX Announcements

Note	Date	Announcement Details	Prior Day Closing Share Price	Closing Share Price	% Movement	Volume (million)
A	21 Aug 2012	2012 annual results were announced.	0.013	0.020	53.8%	5.0
B	19 Jun 2012	FFF responded to ASX pricing query on 20 June 2012 that it was not aware of any reason for increase in volume of trading. We note FFF announced on 18 June 2012 that Greg Pynt was appointed as a Non-Executive Director of FFF.	0.018	0.016	-11.1%	6.3
C	5 Apr 2012	No announcements were made on 5 April 2012.	0.029	0.029	0.0%	8.9
D	25 Nov 2011	FFF responded to ASX pricing query on 28 November 2012 that it was not aware of any reason for increase in volume of trading.	0.037	0.028	-24.3%	13.1

Source: *ASX*

Although the above observation of the trading activities indicate low to moderate trading liquidity of FFF Shares, we consider that the historical Share prices provides some support for the fair market value of FFF per Share on a minority basis in the absence of forecast results of loan book performance.

When assessing the fair market value of a FFF Share from the above analysis, we consider the range of FFF's trading price for the 6 months to 12 November 2012 to best reflect the ASX pricing for FFF.

Table 25: FFF Share - ASX Pricing

	Ref	Low	High
FFF Share - ASX Pricing (minority interest) per Share ($)		0.011	0.025
Control premium (%)	6.5	25%	25%
FFF Share - ASX Pricing (control basis) per Share ($)		**0.014**	**0.031**
Current number of Shares on Issue ('000s)	1.4	773,887	773,887
100% equity interests in FFF ($'000s)		**10,641**	**24,184**

Source: *BDOCF analysis*
Note: *The above may have rounding differences*

Subsequent to the announcement of a superseded version of the Proposed Transaction on 13 November 2012, FFF Shares have traded between $0.010 and $0.028 with a VWAP of $0.021. This is similar to the range of trading in FFF Shares in the 6 months to 12 November 2012. Therefore the Proposed Transaction have not had a material impact on FFF's Share price.

We note that the 1 month VWAP of FFF to 22 September 2013 was $0.018.

8. VALUATION OF FFF POST PROPOSED TRANSACTION ON A MINORITY BASIS

8.1. Valuation summary

Section 7 sets out our assessment of the fair market value of FFF including the Proposed Transaction, Entitlement Offer and capital raising fees. The analysis assumes that all Non-Associated Shareholders take up their rights under the Entitlement Offer. As discussed in **Section 1.4**, this would result in the Trustee holding a 50.8% equity interest in FFF following the Proposed Transaction.

We have considered the effect of a nil take-up of Entitlement Offer rights by the Non-Associated Shareholders on the valuation of FFF post Proposed Transaction. We note that the Trustee has fully underwritten the Entitlement Offer, such that the number of shares on issue and the proceeds from the capital raising (net of fees) will be the same as calculated in **Section 1.2.2**. The only difference relates to the Share ownership.

We note that the basis of assessment for fairness under **Section 2.3** compares the value of a FFF share prior to the Proposed Transaction to the value of a FFF Share following the Proposed Transaction on a minority basis. The value of a FFF Share following the Proposed Transaction on a minority basis does not change with the Trustee's ownership of FFF as the proceeds from the capital raising are the same regardless of the take-up of Shares by the Non-Associated Shareholders and/or the Sub-Underwriters.

Our assessment of FFF following the Proposed Transaction (on a minority basis) is set out below:

Table 26: Valuation Summary

$'000s unless stated otherwise	Ref.	Low	High
Normalised earnings	7.4	9,000	10,000
EBCIT multiple (minority basis)	8.2	8.00	9.00
Enterprise Value - minority basis		**72,000**	**90,000**
Add/(Less):			
Corporate debt	7.6	(63,709)	(63,709)
Equity Value - minority basis (before capital raising activities)		**8,291**	**26,291**
Add/(Less):			

Table 26 (cont'd): Valuation Summary

$'000s unless stated otherwise	Ref.	Low	High
Proceeds from capital raising	8.3	50,239	50,239
Capital raising fee	8.4	(2,010)	(2,010)
Transaction costs	8.5	(1,000)	(1,000)
Equity Value - minority basis (after capital raising activities)		**55,520**	**73,520**
Shares outstanding ('000s) (following Proposed Transaction)	1.4	3,147,774	3,147,774
Equity Value - minority basis (after capital raising activities) per Share ($)		**0.018**	**0.023**

Source: *BDOCF analysis*
Note: *The above may have rounding differences*

Based on the above, we have determined equity interests in FFF after the Proposed Transaction on a minority basis to be between $0.018 to $0.023 per Share.

8.2. Multiple applicable to FFF - minority interest

Based on our analysis in **Section 7.5**, we assessed an appropriate earnings multiple (on a controlling interest basis). We note that the capitalisation multiple range assessed in **Section 7.5.4** was a controlling interest multiple. **Appendix 6** includes the share market prices of broadly comparable listed companies on a minority basis. Based on our analysis above, we have arrived at a capitalisation multiple range applicable to FFF on a minority basis of 8.0 times to 9.0 times.

8.3. Proceeds from capital raising

The total proceeds from the Proposed Transaction are calculated below:

Table 27: Total proceeds from capital raising

	Number of Shares	Issue Price ($)	Proceeds ($)
Initial Placement	300,000,000	0.015	4,500,000
Entitlement Offer	1,073,886,809	0.010	10,738,868
Final Placement	1,000,000,000	0.035	35,000,000
Total	**2,373,886,809**		**50,238,868**

Source: *Subscription Agreement and Underwriting Agreement*

8.4. Capital raising fee

As discussed in **Section 1.5** above, the Trustee will underwrite the Entitlement Offer and is entitled to receive a capital raising fee of 4% of $50,238,868 (being the total capital to be raised under the Proposed Transaction) which equates to $2,009,555 and has been adjusted in the valuation of the equity interests in FFF.

8.5. Transaction costs

FFF management have advised that the Company will incur costs associated with the Proposed Transaction of approximately $1.0 million (including GST). These costs relate to legal fees, consultancy fees and fees associated with the preparation of this Report.

These costs will be incurred by FFF regardless of whether the Proposed Transaction proceeds. As such, we have considered an adjustment for the amount of $1.0 million (including GST) to reflect these costs.

9. FAIRNESS ASSESSMENT

In order to determine whether the Proposed Transaction is "fair", we have compared the fair market value of a FFF Share after the Proposed Transaction on a minority basis with our assessed fair market value of a FFF Share before the Proposed Transaction (including a premium for control). We note that as per **Section 8.1** the fair market value of a FFF Share after the Proposed Transaction (on a minority basis) does not change whether the Trustee holds 50.8% or 75.4% of FFF.

The result of our fairness analysis is summarised below.

Table 28: Fairness assessment (per Share)

$ per Share	Ref	Low	High
Fair market value of a FFF Share before the Proposed Transaction on a control basis	7.2	0.034	0.060
Fair market value of a FFF Share after the Proposed Transaction on a minority basis	8.1	0.018	0.023

***Source:** BDOCF Analysis*

From the above, the range of fair market values of a FFF Share after the Proposed Transaction on a minority basis is less than the range of assessed fair market values of a FFF Share before the Proposed Transaction on a control basis. Accordingly, the Proposed Transaction is considered to be not fair to the Non-associated Shareholders.

10. REASONABLENESS ASSESSMENT

For the purposes of RG 111, an offer is considered to be reasonable, if it is fair. However, even if it is not fair it may be reasonable if there are sufficient reasons for the shareholders to accept the offer.

The factors that we have considered are set out below:

10.1. Advantages

10.1.1. Commercial value of the Proposed Transaction returns favourable outcome to Non-Associated Shareholders

In assessing the Proposed Transaction under RG 111.11, the Proposed Transaction is analysed as a control transaction similar to a takeover bid. On this basis, it is construed that the Non-Associated Shareholders disposed of all their Shares as a whole and that the interest being notionally disposed of reflects controlling interest prior to the Proposed Transaction, whereas the value of their FFF Shares post Proposed Transaction has been calculated on a minority basis.

Notwithstanding the fairness approach assessed pursuant to RG 111.11 above, we note that the Non-Associated Shareholders currently own a non-controlling interest in FFF and will continue to own non-controlling interests in FFF after the Proposed Transaction. With reference to RG 111.5, we have considered the purpose and outcome of the Proposed Transaction rather than the legal mechanism to effect the Proposed Transaction.

As such, we consider that the commercial approach would be to consider what the Non-Associated Shareholders are giving up (being a 50.8% equity interest in FFF on a control basis) against what they are receiving (being the consideration payable by the Trustee). We have analysed the Proposed Transaction by comparing the value of the fair market value of a 50.8% equity interest in FFF post the Proposed Transaction on a control basis against the fair market value of the consideration payable by the Trustee in line with the commercial value to Non-Associated Shareholders.

The result of our commercial analysis is summarised below.

Commercial fairness assuming the Trustee holds 50.8% of FFF following the Proposed Transaction

Table 29: Commercial analysis - Fair market value of 50.8% equity interest in FFF (control basis)

$ unless stated otherwise	Ref	Low	High
Equity Value - control basis (before capital raising activities)	7.2	26,291	46,291
Add/(Less):			
Proceeds from capital raising	8.1	50,239	50,239
Capital raising fee	8.1	(2,010)	(2,010)
Transaction costs	8.1	(1,000)	(1,000)
Equity Value - control basis (after capital raising activities)		**75,520**	**93,520**
50.8% equity interests in FFF - control basis		**37,370**	**47,536**

Source: BDOCF analysis

The proceeds from the capital raising has been determined to include:

- the net proceeds raised under the Proposed Transaction, plus
- the proceeds from the Trustee in relation the Entitlement Offer in proportion to the Trustee's percentage holding (**"Consideration"**) on the assumption that the Entitlement Offer is fully subscribed and taken up by Shareholders on a pro rata basis.

The Consideration of the Proposed Transaction in proportion to the Trustee's percentage holding (and the Recapitalisation Parties voting power) is calculated as follows:

Table 30: Commercial analysis - Consideration payable by the Trustee

	Ref	$'000s
Initial Placement	1.2.1	4,320
Entitlement Offer in proportion to the Trustee's percentage holding in FFF post Initial Placement	Note 1	2,880
Final Placement	1.2.3	33,600
Consideration for 50.8% of FFF		**40,800**

Source: BDOCF analysis
Note 1: Being $0.01 per Share x 300,000,000 Initial Placement Shares less the 4% capital raising fees
Note 2: The above may have rounding differences

The amounts are compared below:

Table 31: Commercial analysis - Comparison

$'000s	Ref	Low	High
Fair market value of 50.8% equity interest in FFF (control basis)	10.1.1	37,370	47,536
Consideration for 50.8% of FFF	10.1.1	40,800	40,800

Source: BDOCF analysis

As the Consideration falls within the range of the fair market value of a 50.8% equity interest in FFF (control basis) after the Proposed Transaction, it is our opinion that, on a commercial basis the Proposed Transaction is not unfavourable to the Non-Associated Shareholders.

Commercial fairness assuming the Trustee holds 75.4% of FFF following the Proposed Transaction

Table 32: Commercial analysis - Fair market value of 75.4% equity interest in FFF (control basis)

$ unless stated otherwise	Ref	Low	High
Equity Value - control basis (before capital raising activities)	7.2	26,291	46,291
Add/(Less):			
Proceeds from capital raising	8.1	50,239	50,239
Capital raising fee	8.1	(2,010)	(2,010)
Transaction costs	8.1	(1,000)	(1,000)
Equity Value - control basis (after capital raising activities)		**75,520**	**93,520**
75.4% equity interests in FFF - control basis		**55,445**	**70,528**

Source: BDOCF analysis

The proceeds from the capital raising has been determined to include:

- the net proceeds raised under the Proposed Transaction, plus
- the proceeds from the Trustee in relation the Entitlement Offer in proportion to the Trustee's percentage holding on the assumption that the Entitlement Offer is not subscribed and taken up by Shareholders on a pro rata basis and the Sub-Underwriters do not take up the Entitlement Offer shortfall, either due to default or for the reasons stated in **Section 1.3**.

The Consideration of the Proposed Transaction in proportion to the Trustee's percentage holding (and the Recapitalisation Parties voting power) is calculated as follows:

Table 33: Commercial analysis - Consideration payable by the Trustee

	Ref	$'000s
Initial Placement	1.2.1	4,320
Entitlement Offer in proportion to the Trustee's percentage holding, in addition to the Entitlement Offer shortfall in FFF post Initial Placement	Note 1	10,309
Final Placement	1.2.3	33,600
Consideration for 75.4% of FFF		**48,229**

Source: BDOCF analysis

Note 1: Being $0.01 per Share x 300,000,000 Initial Placement Shares plus the Entitlement Offer shortfall of 773,886,809 Shares, less the 4% capital raising fees

Note 2: The above may have rounding differences

The amounts are compared below:

Table 34: Commercial analysis - Comparison

$'000s	Ref	Low	High
Fair market value of 75.4% equity interest in FFF (control basis)	10.1.1	55,445	70,528
Consideration for 50.8% of FFF	10.1.1	48,229	48,229

Source: BDOCF analysis

As the Consideration falls below the range of the fair market value of a 75.4% equity interest in FFF (control basis) after the Proposed Transaction, it is our opinion that, on a commercial basis the Proposed Transaction is unfavourable to the Non-Associated Shareholders.

We note that the likelihood of the Trustee acquiring 75.4% of FFF is reduced as:

- The Entitlement Offer is priced at a discount

- The Entitlement Offer is renounceable
- Sub-underwriters have entered into an agreement with the Trustee to acquire any shortfall from the Entitlement Offer.

10.1.2. No other favourable alternative sources of funding available

As at 30 June 2013, FFF's cash balance was $1.7 million, excluding trust collection account and restricted cash which are not available for general use by the consolidated entity. It also has interest-bearing debt of $63.7 million as at 30 June 2013, of which, $32.8 million relates to secured senior debt held with CBA.

Below is an extract from Note 2 of the 30 June 2013 annual report released on 22 August 2013:

"Should a capital raising not proceed by 30 November 2013, the consolidated entity is unlikely to comply with its financial covenants and as a result, is likely to be in default of the terms of the senior debt funding arrangements with the CBA. Under these circumstances, CBA and other debt providers have the right to require the consolidated entity to repay the outstanding debts on demand. Under those circumstances, the consolidated entity would enter into negotiations with the CBA and other debt providers that may result in accepting higher financing costs, being forced into asset sales, or to undertake other corporate actions."

We have been advised that the Board actively sought opportunities to recapitalise its balance sheet in anticipation of tighter financial covenants. Based on the 2012 annual general meeting presentation released on 26 November 2012, the Board engaged an independent examination by Grant Samuel in August 2012 to review options to maximise shareholders' value in key assets and the appropriate capital structure for the Company. The options considered by Grant Samuel included:

- Winding up the business and 'run-off' of the loan book
- Selling the various business units of the Company
- Continue operating with a reduced level of borrowings.

The Board considered the final option above to be the best outcome for the Shareholders. Despite the continuous efforts of the Board to seek alternative funding for the Company, there was limited interest from brokers and underwriters.

In December 2009, FFF undertook a 1:2 renounceable rights issue at an issue price of $0.05 per Share to raise approximately $11.6 million. Although the issue price represented a 13.8% discount to the closing price on 23 November 2009, the renounceable rights issue was undersubscribed and resulted in a shortfall of 17%. Nonetheless, the rights issue was fully underwritten.

Since then, FFF has not undertaken any capital raising initiatives. Based on our discussions with FFF management, in the absence of a superior offer, the Proposed Transaction is the best available source of funding for FFF for the following reasons:

Moderate interest from previous rights issue The renounceable rights issue undertaken by FFF in December 2009 was undersubscribed by 17% which demonstrates moderate interest from FFF Shareholders for an equity raising.
Bank funding not available FFF is currently unable to obtain further bank funding. FFF negotiated with CBA for an extension to the revised financial covenants to 30 November 2013 to correspond with the timetable for the completion of the capital raising. Should the capital raising not proceed, FFF is unlikely to comply with its financial covenants.

Limited interest from brokers and underwriters The current Industry and market condition dampens prospects for an alternative equity raising by FFF in the required time period.
Consideration per Share is at a premium to recent FFF Share price The 5-day VWAP to 22 September 2013 is $0.018 per Share (being the latest practicable date prior to the issue of this Report). Assuming the 5-day VWAP prior to the Entitlement Offer is the same as above, $0.018 per Share plus the issue price of the Entitlement Offer of $0.010 per Share equates to $0.028 per Share. Based on a 1:1 Entitlement Offer, the theoretical ex-rights price per Share would be $0.014 (that is, $0.028 per Share divided by 2 Shares). Based on the above calculation, we note the Consideration per Share of $0.026 (being $40.8 million divided by 1,600.0 million Shares to be acquired by the Trustee) is 86% higher than the theoretical ex-rights price of $0.014 per Share.
Consideration per Share is at a premium to a market placement We have reviewed equity placements since 2010 for those companies identified as being comparable to FFF. WBB is the only comparable that undertook a placement since 2010. WBB's issue price represented a 7.5% discount to the VWAP during the pricing period. FFF undertook the rights issue in December 2009 at a discount of 13.8% to its closing price on 29 November 2009. Accordingly, if a range of discounts from 7.5% to 13.8% were to be applied to the 5-day VWAP to 22 September 2013 of $0.018 per Share (being the latest practicable date prior to the issue of this Report), this would lead to a range from $0.0155 to $0.0167 per Share (before dilution impact from Entitlement Offer) as the share price at which an equity raising may be completed. This assumes that the Shares continue to trade at present levels if the Proposed Transaction is not approved by the Shareholders.

Based on the above, we consider the Proposed Transaction to be the most attractive source of funding available to FFF in the absence of a superior offer. The Independent Directors confirmed that they have actively sought alternative sources of funding, in the course of carrying out their fiduciary duties, and have found no alternatives more favourable than the terms offered under the Proposed Transaction.

10.1.3. Strategic and Financial Partner

Under the terms of the Subscription Agreement, following the Proposed Transaction, the Trustee will have the right to appoint up to 3 Directors to the Board of FFF (including the Chairman) from a total of 5 Board members, provided that the Trustee hold a majority of FFF Shares. The Independent Directors of FFF believe that the appointment of these nominees of the Trustee will enhance the experience and expertise of FFF's Board through their advisory capabilities and experience in the financial services sector.

10.1.4. Stabilise the Company's financial position

The completion of the Proposed Transaction will immediately provide FFF with necessary short term working capital requirements, recapitalise its balance sheet, reduce its current borrowings, confer greater operational flexibility and allow the Board and senior management to concentrate on the business activities.

If the Proposed Transaction is approved, the Trustee will underwrite the Entitlement Offer. The Trustee has entered into sub-underwriting agreements with non-related parties in relation to the entire Entitlement Offer (other than the Trustee's entitlement to subscribe for 300,000,000 new FFF Shares).

10.2. Disadvantages

10.2.1. The Trustee (and the Recapitalisation Parties) will gain control of FFF

If the Proposed Transaction is approved, the Trustee will hold a controlling stake in FFF of between 50.8% and 75.4% of FFF's Shares. We note that ordinary resolutions require 50% of votes cast and special resolutions require 75% of votes cast. This will give the Recapitalisation Parties control over the Company and direction of the business in comparison to other Shareholders. Further, the Trustee will have the ability to appoint 3 members of the 5 member Board, which will allow the Trustee to control the affairs of FFF, including its financial and operating affairs.

10.2.2. Potential conflict of interest between the Recapitalisation Parties and the Non-associated Shareholders

The interests of the Recapitalisation Parties might not always be aligned with the interests of Non-associated Shareholders. However, in these circumstances, Non-associated Shareholders would have the benefit of protection from applicable laws and regulations in relation to some dealings between FFF and the Recapitalisation Parties (and their associates). Further details are provided in the Documents.

10.2.3. Potential loss of distribution of future profits

If the Proposed Transaction is approved, existing Shareholders will receive a lower percentage of any future profits, due to the dilution effects noted above.

10.2.4. Reduction in free float and liquidity of Shares

The completion of the Proposed Transaction will result in an approximate concentration of between 50.8% and 75.4% being held by the Trustee, with the Recapitalisation Parties having a voting power of approximately 50.8% to 75.4%. This may have an adverse impact on the liquidity of FFF's Shares. This disadvantage may be mitigated as FFF's Shares already display low to moderate trading liquidity, and FFF is currently under financial distress as disclosed in **Section 10.1.2.**

10.2.5. Initial Placement Shares are being issued at a discount

The subscription price under the Initial Placement represents a discount of 8% to the 3 month VWAP of Shares prior to the announcement of a superseded version of the Proposed Transaction on 13 November 2012. However, we note that the Initial Placement subscription price is at a 15% premium to the last closing price of Shares prior to the announcement of the recapitalisation proposal on 2 July 2013.

10.2.6. Taxation implications for FFF

FFF, as the head company of the Firstfolio tax group, has group tax losses and group capital losses to carry forward as at 30 June 2013 in the amount of $4 million and $2.6 million respectively. In order for FFF to utilise the group tax losses and the group capital losses after the recapitalisation proposal is implemented, the loss recoupment provisions under taxation laws require FFF to satisfy either the 'Continuity of Ownership Test' or the 'Same Business Test'.

The Company also has tax losses to carry forward as at 30 June 2013 (in the amount of $17.2 million) that were previously transferred to the FFF tax group from acquired entities, which are classed as transferred 'Same Business Test' tax losses. To utilise these losses, FFF must satisfy modified versions of the loss recoupment tests.

Management advise that FFF will not satisfy the 'Continuity of Ownership Test' following the Proposed Transaction. The likelihood of FFF passing the 'Same Business Test' can only be assessed in the income year in which FFF intends to utilise the loss. As such, the Proposed Transaction may impact the ability of FFF to utilise its group tax losses, group capital losses and carried forward tax losses.

10.2.7. Blocking stake

The completion of the Proposed Transaction will result in the Recapitalisation Parties having a controlling interest in FFF, therefore the Recapitalisation Parties have the ability to strategically block future interested parties making a takeover of FFF. As FFF is less likely to be a target for takeover, there is less possibility of Shareholders participating in premium payable in a takeover.

10.3. Other Factors

10.3.1. Consequences if the Shareholders reject the Proposed Transaction

Below is an extract from Note 2 of the 30 June 2013 annual report released on 22 August 2013:

"...if the consolidated entity breaches its financial covenants as a result of failing to raise capital and the CBA and other debt providers require the repayment of debt on demand, then in the opinion of directors, material uncertainty will exist regarding the ability of the consolidated entity to continue as a going concern.

If the consolidated entity is unable to continue as a going concern, it may be required to realise assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in these financial statements."

There is a risk as to the ability of the Company to continue as a going concern if the Proposed Transaction is not approved by the Shareholders.

10.3.2. Capital Raising Fee

Under the terms of the Subscription Agreement and Underwriting Agreement, the Trustee may charge a capital raising fee equal to 4% of the total funds raised (being $50,238,868). Any fee relating to capital raised from the Proposed Transaction has been netted off against the funds raised by the Proposed Transaction. Our analysis of the placements has been performed on the net proceeds.

We have compared the Trustee's capital raising fee to other underwriting fees charged for rights issues undertaken by companies in comparable industries based on information available since 2008.

The table below provides a summary of the average underwriting fees.

Table 35: Average underwriting fees of rights issues

Listing Date	Company	Industry	Underwriter	Amount Listed ($)	Underwriting Fee
17/04/2008	Canberra Investment Corporation Ltd	Real Estate Investment Trusts	Guiness Peat Group plc	15,776,591	3.25%
2/07/2008	SCV Group Ltd	Real Estate Investment Trusts	Co-Investor Capital Partners Pty Ltd	5,536,699	1.35%
11/08/2008	Living and Leisure Australia Group	Diversified Financials	Arctic Capital LES Ltd [Ireland]	100,000,000	4.00%
4/09/2009	India Equities Fund Ltd	Real Estate Investment Trusts	Patersons Securities Ltd	9,335,092	5.81%
25/09/2009	Growthpoint Properties Australia	Real Estate Investment Trusts	Growthpoint Properties Ltd	144,389,790	3.00%
30/09/2009	Tower Ltd	Real Estate Investment Trusts	Goldman Sachs JBWere (NZ) Ltd	81,319,812	2.00%
4/01/2010	FFF	Diversified Financials	Southern Cross Equities Ltd	9,965,516	3.00%
1/09/2010	Multiplex Acumen Property Fund	Real Estate Investment Trusts	Brookfield Multiplex Captital Securities Ltd	30,429,140	3.29%
2/02/2011	Wallace Absolute Return	Insurance	Various individuals	2,264,618	2.25%

Table 35: Average underwriting fees of rights issues

Listing Date	Company	Industry	Underwriter	Amount Listed ($)	Underwriting Fee
	Ltd				
5/04/2011	Real Estate Capital Partners USA Property Trust	Real Estate	Moelis Australia Securities Pty Ltd	37,000,000	5.00%
27/07/2011	Growthpoint Properties Australia	Real Estate	Growthpoint Properties Ltd	102,600,000	2.50%
15/08/2011	AACL Holdings Ltd	Diversified Financials	Glencore Grain Pty Ltd	2,053,636	4.87%
31/01/2012	Growthpoint Properties Australia	Real Estate Investment Trusts	Growthpoint Properties Ltd	166,386,557	3.00%
12/04/2012	Real Estate Capital Partners USA Property Trust	Diversified Financials	Frost Holdings Pty Ltd	19,998,991	5.00%
12/06/2012	IEF Real Estate Entertainment Group	Real Estate Investment Trusts	Torchlight (GP) 1 Ltd	14,990,387	3.00%
30/01/2013	Port Bouvard Ltd	Diversified Financials	Bell Potter Securities/Corporate Finance Pty Ltd	23,754,732	3.00%
Average underwriting fee					**3.40%**

Source: *Connect 4; Company announcements; BDOCF Analysis*

From the above, the underwriting fees for rights issue since 2008 range from a minimum 1.35% to a maximum of 5.81% and an average of 3.40%.

The Trustee's capital raising fee for the Entitlement Offer is 4.0% of the capital to be raised. Based on the above table, we note that the Trustee's capital raising fee is within the higher end of the scale and above the average underwriting fee.

10.3.3. Taxation implications for Shareholders

The tax implications associated with the Entitlement Offer will vary depending on the particular circumstances of each Shareholders. Shareholders are advised to seek independent tax advice in relation to the effect of the Entitlement Offer.

10.3.4. Transaction costs

FFF will incur additional transaction costs (legal fees, independent expert and others) regardless of whether the Proposed Transaction is approved or not.

10.4. Conclusion

Based on the above, we conclude that the Proposed Transaction (being the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer) is not fair but reasonable to the Non-associated Shareholders.

We have reached this conclusion as the Proposed Transaction (being the Proposed Placements and the Trustee's participation in and underwriting of the Entitlement Offer) is the best available source of finance in the absence of a superior offer. We note that the debt financier requires expedient repayments of the current borrowings. In the absence of an alternative offer to raise capital, FFF may default on the loan and would need to dispose of assets to meet its debt obligations.

11. QUALIFICATIONS, DECLARATIONS AND CONSENTS

11.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr David McCourt, BBus, CA, is a director of BDOCF. Mr McCourt is also a partner of BDO East Coast Partnership.

Mr McCourt is the director responsible for the preparation of this IER. Mr McCourt has over 14 years experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Mr Sebastian Stevens, BBus, CPA and ACA, is a director of BDOCF. Mr Stevens is also a partner of BDO East Coast Partnership. Mr Stevens has been responsible for the review of this IER.

Mr Stevens has over 20 years experience all aspects of corporate advisory including mergers and acquisitions, valuations and transaction advisory services. He also has significant experience in providing international and cross-border services including international coordination of assignments. Accordingly, Mr Stevens is considered to have the appropriate experience and professional qualifications to provide the advice offered.

11.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

We consider ourselves to be independent in terms of RG 112 Independence of experts, issued by ASIC. Neither BDOCF, nor its owner practice, BDO East Coast Partnership, has acted in any capacity for FFF with regard to any matter in the past.

BDOCF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for FFF in relation to the Proposed Transaction. Further, BDOCF has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with FFF or the Recapitalisation Parties that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

BDOCF will receive a fee of approximately to $65,000, plus Goods and Services Tax for the preparation of this IER. BDOCF will not receive any fee contingent upon the outcome of the Proposed Transaction, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

We released a draft report to FFF for review for factual accuracy on 8 May 2013. This report concluded that the Proposed Transaction were 'not fair but reasonable'. Subsequent to issuing this report we have had further discussions with FFF regarding the nature of FFF's liabilities with financial institutions. From these discussions we have classified the "Borrowings" of $63.7 million as at 30 June 2013 as a funding liability instead of an operating liability. We have now valued FFF based on EBCIT and accounted for the value of the Borrowings separately.

11.3. Disclaimer

This IER has been prepared at the request of the Independent Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Independent Directors and Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Independent Directors and Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors and Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Independent Directors, executives and management of all the entities.

APPENDIX 1: GLOSSARY

Term	Definition
ACE	Australian Capital Enterprise Pty Ltd
ACEHK	Australian Capital Enterprise (HK) Limited
Act	Corporations Act 2001 (Cth)
Apple	Apple Home Loans Pty Ltd
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Board	Board of directors of FFF
BDOCF, we or us	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)
CBA	Commonwealth Bank of Australia
Club FS	Club Financial Services Holdings Pty Ltd
COE	Capitalisation of earnings
Consideration	Net proceeds raised under Proposed Transaction plus the proceeds from the Trustee in relation the Entitlement Offer
Corporate Debt	Funds were used to acquire businesses and form part of FFF's financing structure and do not form part of FFF's normal operations
DCF	Discounted cash flow method
Documents	Notice of meeting and explanatory statement
EBCIT	Earnings before corporate interest and tax
EBITDA	Earnings before interest, taxation, depreciation and amortisation
eChoice	eChoice Pty Ltd
Entitlement Offer	The proposed 1 for 1 renounceable rights issue for FFF at the issue price of $0.01 per Share, expected to raise $10,738,868 before costs.
FCC	First Chartered Capital Corporation Pty Ltd
FOS	Financial Ombudsman Service Limited
FFF or the Company	Firstfolio Limited
Final Placement	Issue of 1,000,000,000 fully paid Shares in FFF at $0.035 per Share to the Trustee for a total consideration of $35.0 million
Firstfolio Capital	Firstfolio Capital Pty Ltd (previously Calibre Financial Services Pty Ltd)
FFF Remuneration	FFF Remuneration Pty Ltd
FSG	Financial Services Guide
FYxx	Financial year ended/ing 30 June 20xx
HOM	Homeloans Ltd
IER or Report	Independent expert's report
Independent Directors	Independent directors of FFF
Industry	Mortgage broking industry within Australia
Initial Placement	Issue of 300,000,000 fully paid Shares in FFF at $0.015 per Share to the Trustee for a total consideration of $4,500,000
IZN	IZN Investments Australian Capital Enterprise Trust
Kentgrove Capital	Kentgrove Capital Pty Limited
L1 Capital	L1 Capital Pty Limited
Lawfund	Lawfund Australia Pty Ltd
Leasechoice	Leasechoice Pty Ltd
Licence	Australian Financial Services Licence (No. 247420)
LUM	Loans under management
LSA	Loan Services Australia Pty Ltd
Meeting	General meeting of Shareholders
MOC	Mortgage Choice Ltd
MYS	MyState Ltd

Term	Definition
NE	Normalised earnings
Non-associated Shareholders	The shareholders of FFF not associated with the Recapitalisation Parties
NPV	Net present value
Options	Unlisted options in FFF
PBT	Profit before tax
Proposed Transaction	Initial Placement, Final Placement and the Trustee's participation in and underwriting of the Entitlement Offer
RG 74	ASIC Regulatory Guide 74: Acquisitions approved by members
RG 111	ASIC Regulatory Guide 111: Content of expert reports
RG 112	ASIC Regulatory Guide 112: Independence of experts
Recapitalisation Parties	ACEHK and the Trustee collectively
RHG	RHG Ltd
Shares	Fully paid shares in FFF
Shareholders	Shareholders of FFF
Subscription Agreement	The subscription agreement between FFF and ACE dated on or about 1 July 2013, which was subsequently novated to the Trustee.
Sub-Underwriters	The sub-underwriters of the Entitlement Offer (excluding rights issued to the Trustee), being L1 Capital and Kentgrove Capital
SWOT	Strengths, weaknesses, opportunities and threats
Trustee	IZN Investments ACE Management Pty Ltd
Underwriting Agreement	The underwriting agreement between FFF and ACE dated on or about 1 July 2013, which was subsequently novated to the Trustee.
VWAP	Volume weighted average unit price
WBB	Wide Bay Australia Ltd
Welas	Welas Pty Ltd
Xplore	Xplore Capital Ltd

Source: BDOCF

APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- Final draft notice of meeting and explanatory statement
- Public announcements in relation to the Proposed Transaction
- Annual reports, half yearly reports, and ASX market releases for FFF
- FFF corporate structure and details of Shareholders' register as at 13 September 2013
- Various discussions with the Board and management of FFF
- ASIC guidance notes and regulatory guides as applicable
- Information sourced from Capital IQ and Connect4
- Other generally available public information

APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of FFF Shares 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 5 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 Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised 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.

Net Realisable Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business Shares 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 net realisable value of the 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 net realisable value of a trading company's 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 attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets 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 realisable value of its assets.

Share 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 shareholders.

APPENDIX 4: COMPARABLE COMPANY DESCRIPTIONS

We undertook a search using Capital IQ for listed companies that are listed in Australia and operate in the "thrifts and mortgage finance" industry segment. The companies considered comparable and a brief description of their operations is provided below:

Exchange	Ticker	Company	Main Activities
ASX	HOM	Homeloans Ltd	Homeloans Limited engages in the mortgage origination and management of home loans in Australia.
ASX	MOC	Mortgage Choice Ltd	Mortgage Choice Limited provides mortgage broking services in Australia.
ASX	MYS	MyState Ltd	MyState Limited, through its subsidiaries, provides a range of banking, trustee, and wealth management products and services primarily in Tasmania and Queensland, Australia.
ASX	RHG	RHG Ltd	RHG Limited engages in the funding and servicing of residential home loans in Australia.
ASX	WBB	Wide Bay Australia Ltd	Wide Bay Australia Limited provides various banking and financial services in Queensland, New South Wales, Victoria, and South Australia in Australia.

Source: Capital IQ and relevant company websites

APPENDIX 5: COMPARABLE COMPANY MULTIPLES – CONTROL BASIS

Outlined below are trading multiples of listed comparable companies which we have considered in arriving at a suitable capitalisation multiple (control basis) for FFF:

Company Name	Latest Financial Year End	Market Cap as at 22 Sep 2013 AUDm	FY2013 Revenue AUDm	FY2013 EBCIT AUDm	FY2013 EBCIT Margin AUDm	EBCIT Multiple FY2013
Firstfolio Limited	30 Jun 2013	81[1]	65.6	7.7[2]	11.8%	11.0
Homeloans Ltd	30 Jun 2013	96	44.4	11.1	25.1%	10.8
Mortgage Choice Ltd	30 Jun 2013	341	155.0	26.9	17.4%	15.8
MyState Ltd	30 Jun 2013	405	121.2	40.3	33.3%	12.6
RHG Ltd	30 Jun 2013	143	57.5	43.3	75.3%	4.1
Wide Bay Australia Ltd	30 Jun 2013	180	60.2	25.6	42.6%	8.8
Average (excluding outliers)						**11.8**
Median (excluding outliers)						**11.0**

Source: Capital IQ and BDOCF Analysis

Notes:

1. The market capitalisation for FFF includes borrowings of $63.7 million as at 30 June 2013.

2. Per normalised EBCIT FY2013 in Section 7.4.

3. Adjusted average and median are calculated excluding the data highlighted in grey, as they are outside the 80% confidence interval.

4. Control premium of 25% has been applied to market capitalisation to calculate the multiples above.

APPENDIX 6: COMPARABLE COMPANY MULTIPLES – MINORITY BASIS

Outlined below are trading multiples of listed comparable companies which we have considered in arriving at a suitable capitalisation multiple (control basis) for FFF:

Company Name	Latest Financial Year End	Market Cap as at 22 Sep 2013 AUDm	FY2013 Revenue AUDm	FY2013 EBCIT AUDm	FY2013 EBCIT Margin AUDm	EBCIT Multiple FY2013
Firstfolio Limited	30 Jun 2013	81[1]	65.6	7.7[2]	11.8%	10.4
Homeloans Ltd	30 Jun 2013	96	44.4	11.1	25.1%	8.6
Mortgage Choice Ltd	30 Jun 2013	341	155.0	26.9	17.4%	12.7
MyState Ltd	30 Jun 2013	405	121.2	40.3	33.3%	10.0
RHG Ltd	30 Jun 2013	143	57.5	43.3	75.3%	3.3
Wide Bay Australia Ltd	30 Jun 2013	180	60.2	25.6	42.6%	7.0
Average (excluding outliers)						**9.8**
Median (excluding outliers)						**10.0**

Source: Capital IQ and BDOCF Analysis

Notes:

1. The market capitalisation for FFF includes borrowings of $63.7 million as at 30 June 2013.

2. Per normalised EBCIT FY2013 in Section 7.4.

3. Adjusted average and median are calculated excluding the data highlighted in grey, as they are outside the 80% confidence interval.

4. A control premium has not been applied to market capitalisation to calculate the multiples above.

APPENDIX 7: COMPARABLE COMPANY TRANSACTIONS

Outlined below are transaction multiples derived from our research:

Acquirer	Target	Announcement Date	% Acquired	Consideration/ EBCIT
FFF	Domain Financial Services Pty Ltd	27 Nov 2008	100.0%	6.8
Cash Converters International Limited	Hosking Financial Group CC Holdings Pty Ltd	3 Sep 2007	100.0%	4.0
FFF	Firstfolio Capital	30 Nov 2011	100.0%	4.7
FFF	Club FS	1 Oct 2010	100.0%	7.9

Source: Capital IQ and BDOCF analysis

Note:

1. *The above transactions occurred in 2007 to 2011. Given the dated profile of the transactions and weak market confidence during the global financial crisis, these transaction multiples may not be indicative of transaction multiples in the current market.*
2. *Firstfolio Capital Consideration/EBCIT based on 30 June 2011 Normalised EBCIT of $3.4 million*
3. *Club FS Consideration/EBCIT based on 30 June 2010 Normalised EBCIT figure of $2.46 million*

We note the following with respect to the above:

- On 27 November 2008 FFF acquired Domain Financial Services Pty Ltd for $6.8 million. The transaction was payable over 4 years from an agreed split of current Domain Financial Services Pty Ltd loan book trail receipts.
- On 3 September 2007 Cash Converters International Limited entered into an agreement to acquire Hosking Financial Group for $12.5 million. This price included a loan book of approximately $2.2 million, stock of approximately $1.5 million, plant and equipment of approximately $1.3 million and all other assets employed in the business.
- On 30 November 2011 FFF acquired 100.0% of the ordinary shares of Firstfolio Capital for a total consideration of $18.0 million. This acquisition is discussed in **Section 3.3**.
- On 1 October 2010 FFF acquired 100.0% of the share capital of Club FS for a total consideration of $19.5 million. The acquisition provided wholesale and aggregated loan books of $3 billion. This acquisition is discussed in **Section 3.3**.

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FIRSTFOLIO™

FirstFolio Limited
ABN 43 002 612 991

⊢ 000001 000 FFF
MR SAM SAMPLE
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SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

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www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online or view the notice of meeting, 24 hours a day, 7 days a week:
www.investorvote.com.au

- ☑ **Cast your proxy vote**
- ☑ **Access the notice of meeting**
- ☑ **Review and update your securityholding**

Your secure access information is:
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 9.30am (Sydney time) Monday 25 November 2013

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 ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Firstfolio 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, as the proxy sees fit) at the General Meeting of Firstfolio Limited to be held at the offices of Computershare Investor Services Pty Limited, Level 4, 60 Carrington Street, Sydney NSW 2000 on Wednesday, 27 November 2013 at 9.30am 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
Resolution 1	Approval for the issue of Shares to the Trustee under the Proposed Placements	☐	☐	☐
Resolution 2	Approval for the issue of Shares to the Trustee under the Entitlement Offer	☐	☐	☐
Resolution 3	Consolidation of capital	☐	☐	☐

The Chairman of the Meeting intends to vote all available 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** ___ / ___ / ___