



## **NSX LIMITED**

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Newcastle NSW, 2300  
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Level 3, 45 Exhibition Street,  
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Ground Floor, 40 Brisbane Avenue,  
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P: +61 2 6112 8123  
F: +61 3 8282 4528

**[www.nsx.com.au](http://www.nsx.com.au)**

**[www.bsx.com.au](http://www.bsx.com.au)**

**[www.bsxtaximarket.com.au](http://www.bsxtaximarket.com.au)**

**[www.waterexchange.com.au](http://www.waterexchange.com.au)**

Incorporating

NSX Limited

ABN: 33 089 447 058

National Stock Exchange of Australia  
Limited

ABN: 11 000 902 063

SIM Venture Securities Exchange Ltd

ABN: 41 087 708 898

BSX Services Pty Ltd (t/a) BSX Taxi  
Markets

ABN 57 084 885 683

The Waterexchange Pty Ltd

ABN 19 084 332 132

# **NSX Limited**

**ACN 089 447 058**

## **Notice of General Meeting**

**Thursday 3<sup>rd</sup> June 2010, 11.00am**

### **Quay West Suites**

98 Gloucester Street, The Rocks, Sydney NSW 2000

## **NOTICE OF GENERAL MEETING AND EXPLANATORY NOTES**

### **THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION**

You should read the whole of this document before you decide whether and how to vote on the Resolution in the Notice of General Meeting.

### **IMPORTANT NOTICES**

The Explanatory Notes in this document are intended to provide Shareholders with information to assess the merits of the proposed Resolution contained in the accompanying Notice of General Meeting and are to be read in conjunction with the Notice of General Meeting.

### **Defined terms**

Terms used in the Notice of General Meeting and the Explanatory Notes are defined in the Glossary at the end of the Explanatory Notes.

### **Read this document**

The Notice of General Meeting, the Explanatory Notes and the Independent Expert's Report are important. You should read each document in its entirety before deciding how to vote on the Resolution. If you have any doubt regarding what you should do, you should consult your investment, financial or other professional advisers.

## CHAIRMAN'S LETTER

Dear Shareholder,

I would like to invite you to attend the General Meeting to consider and vote on the proposed transaction.

If shareholders approve the proposed transaction, SIM VSE Group Holdings Ltd, previously known as BSX Group Holdings will cease being a wholly owned subsidiary of NSX Ltd and will become a 50-50 Joint Venture company jointly held with Financial and Energy Exchange Ltd ("FEX")

Whilst this does mean that NSX reduces its interest in the SIM VSE market license, importantly the NSX gains access to the additional management and business development resources of FEX, as well as the additional working capital SIM VSE requires to develop as a truly competitive equity market.

Shareholders will be cognisant of the turbulent few years the NSX has experienced and whilst the core capabilities and human resources have been retained, business development and market positioning has been more challenging.

It is essential for the NSX to get its business development right, especially considering the changes to the competitive and regulatory regimes we operate in. The well supported capital raising completed at the end of 2009 has ensured that the Company has the funds required to develop the National Stock Exchange of Australia, our key brand and asset. The Company does not however have sufficient financial and human resources to develop both the NSXA and SIM VSE.

The existing arrangement, the unincorporated Joint Venture entered into by previous management, the details of which were released to the market on 1 September 2009 already determined the future development of SIM VSE, the arrangements only left the financing of that market development subject to future negotiations, with NSX being responsible for its share of the expenditure program required.

The present proposal changes this, as the cash contribution from FEX will fund the needs identified in the SIM VSE business plan and will leave both SIM VSE as well as NSX in a stronger position to develop their respective markets.

I have been part of this Company for considerable time, experiencing both the highs and lows of recent years. It is pleasing to see that there is a clear focus developing for NSXA and that with the Joint Venture for SIM VSE, that business will now also be developed. Whilst NSX will have a smaller slice, there is now the real possibility it will become a much bigger cake.

I look forward to your attendance and answering any questions you may have.

Yours sincerely

Michael Cox

Mob: 0410 466 882

Email: Michael.cox@nsxa.com.au

## NOTICE OF GENERAL MEETING

NSX Limited ACN 089 447 058 ("**NSX**" or "the **Company**") will hold a General Meeting at **11.00am on Thursday 3<sup>rd</sup> June 2010**, at **Quay West Suites, 98 Gloucester Street, The Rocks Sydney, NSW 2000**.

The following Resolution will be considered at the General Meeting.

### **Resolution 1 – Approval of Issue of Shares to Financial & Energy Exchange Limited**

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

"That the issue of up to 18,355,250 Shares in SIM VSE Group Holdings Ltd (ACN 081 973 293) to Financial & Energy Exchange Limited (ACN 122 086 284) ("**FEX**"), on the terms summarised in the Explanatory Notes and for which an independent experts report prepared by KPMG Corporate Finance (Aust) Pty Ltd ("**KPMG**") and dated 19 April 2010 is attached, be approved for the purpose of ASX Listing Rule 10.1 and for all other purposes."

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Brian Price, and any Associates of any of those persons, unless the vote is cast by:

- (a) a person as proxy for a person who is entitled to vote in accordance with the directions of the proxy form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## **NOTES TO NOTICE OF GENERAL MEETING**

### **EXPLANATORY NOTES**

The accompanying Explanatory Notes form part of this Notice of General Meeting and should be read in conjunction with it. Unless the context otherwise requires, terms which are defined in the Explanatory Notes have the same meaning when used in this Notice of General Meeting.

### **RECORD DATE**

<p>The Board has determined that, for the purposes of the meeting, Shares will be taken to be held by the persons who are registered as a Shareholder as at 7.00pm on Tuesday 1<sup>st</sup> June 2010. Accordingly, Share transfers registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.</p>
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### **POLL**

On a poll, Shareholders have one vote for every fully paid ordinary share held. On a show of hands, every person present and qualified to vote has one vote and if one proxy has been appointed, that proxy will have one vote on a show of hands. If a Shareholder appoints more than one proxy, neither proxy may vote on a show of hands, but both proxies will be entitled to vote on a poll.

### **REPRESENTATIVES**

A body corporate may appoint an individual as its representative to exercise any of the powers the body corporate may exercise at meetings of Shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

### **PROXIES**

A proxy form accompanies this Notice of General Meeting as Annexure 1 to the Explanatory Notes.

If you are entitled to attend and cast a vote at the meeting, you may appoint a person as your proxy to attend and vote for you at the meeting and that appointment may specify the proportion or number of votes that the proxy may exercise. If you are entitled to cast 2 or more votes at the meeting, you may appoint up to 2 proxies. If you appoint 2 proxies but do not specify the proportion or number of your votes that each proxy may exercise, each proxy may exercise half of your votes. A proxy does not need to be a Shareholder.

If the proxy form is signed under a power of attorney, you must also lodge the power of attorney with the Company not less than 48 hours before the meeting, unless you have previously sent the power of attorney to the Company.

To appoint a proxy (or proxies) you must complete the attached proxy form and lodge it so that it is received by the Company not less than **48 hours** before the meeting (i.e. by **11.00am, Tuesday 1<sup>st</sup> June 2010**) at the following address or fax number:

Address: Registries Limited

GPO BOX 3993

Sydney NSW 2001

Fax no: 1300 653 459 or +61 9290 9655

### **ATTENDING THE MEETING**

If attending the meeting, please bring along your personalised proxy form with you. The bar code at the top of the form will help you to register. If you do not bring your form with you, you will still be able to attend the meeting but representatives from Registries Limited will need to verify your identity. You will be able to register from 10.30am on the day of the meeting.

By Order of the Board

3<sup>rd</sup> May 2010

**Scott Evans**  
Company Secretary

## EXPLANATORY NOTES

These Explanatory Notes have been prepared for the Shareholders to provide information about the Resolution to be considered at the General Meeting of the Company to be held 11.00am on 3<sup>rd</sup> June 2010.

Resolution 1 is an ordinary resolution. To be valid, Resolution 1 must be approved by a majority of the votes cast on Resolution 1 by those Shareholders entitled to vote on Resolution 1 and who validly do so, whether in person, by proxy or corporate representative.

The information contained in these Explanatory Notes is important and should be read carefully by all Shareholders.

### 1. ISSUE OF SHARES TO FINANCIAL & ENERGY EXCHANGE LIMITED

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#### 1.1 Resolution 1 – Approval of Issue of shares to Financial & Energy Exchange

If Resolution 1 is passed, the Company intends to issue 50% of the issued share capital in SIM VSE Group Holdings Ltd (ACN 081 973 293) ("**SIM**") (formerly BSX Group Holdings Ltd) to Financial & Energy Exchange Limited (ACN 122 086 284) ("**FEX**").

The purpose of the proposed issue is the Joint Venture between the Company and FEX which will enable SIM to operate an exchange in the Clean Technologies sector.

Resolution 1 seeks Shareholder approval for the issue of Shares to FEX on the terms set out in these Explanatory Notes.

#### **Details of Issue**

NSX will issue to, and FEX will subscribe for, 18,355,250 partly paid shares in SIM for consideration of A\$3 million payable over three years in six-monthly instalments of \$500,000.

The proceeds of the issue of Shares FEX (\$3 million) will be used for the purpose of developing SIM's current Australian Market Licence into a Clean Technologies equity market (to be called the SIM Venture Securities Exchange Ltd – formerly Bendigo Stock Exchange Ltd).

The total amount of Shares will vest immediately upon receipt of the first instalment.

The issue of Shares will only take place after:

- (a) Resolution 1 is passed; and
- (b) SIM obtains connectivity to ASX's Clearing House Electronic Subregister System (CHESS); and
- (c) If required, ASIC to approve the transaction.

#### **Joint Venture**

The Company and FEX intend to enter into a Joint Venture which will assist SIM to establish a market to trade securities in entities operating in the Clean Technology sector (technologies which generate superior commercial benefits to customers whilst simultaneously addressing significant environmental concerns such as global warming, water scarcity, water quality and waste and include renewable energy,

energy storage, biofuels, cleaner fossil fuel processes, water purification, waste water treatment, recycling, energy efficiency, pollution reduction and advanced materials) to be called SIM Venture Securities Exchange.

### **Financial Effect of the Joint Venture on the Company**

The financial information provided consists of:

- The historical balance sheet of the Company based on the audit reviewed half year accounts as at 31 December 2009.
- The proforma historical balance sheet of the Company based on the audit reviewed half year accounts as at 31 December 2009 adjusted for the proforma effects of the Joint Venture.

The financial information is provided to shareholders for illustrative purposes to show the effect of the Joint Venture on the Company's consolidated financial position.

#### *Introduction and basis of preparation and presentation of financial information*

The accounting policies used to prepare the financial information are consistent with those set out in the Annual Report. The Annual Report can be viewed on the Company's website ([www.nsga.com.au](http://www.nsga.com.au) under the shareholders link).

The financial information is presented in abbreviated form and is prepared in accordance with the recognition and principles of the Australian equivalents to International Financial Reporting Standards (AIFRS). It does not contain all the disclosures that are usually provided in the Annual Report prepared in accordance with the Corporations Act.

The financial information presented here should be read in conjunction with the Annual report 2009 and the Half Year report to 31 December 2009 and the matters disclosure and described within those reports.

#### *Historical and pro-forma balance sheet*

The proforma balance sheet has been prepared for illustrative purposes to show the effect of the Joint Venture on the Company's 31 December 2009 audit reviewed Half Year accounts. Details of the Joint Venture are provided above. The proforma adjustments assumes that all necessary approvals from Shareholders and regulatory authorities and is fully implemented in accordance with the Incorporated Joint Venture Agreement. As summarised in these explanatory notes. This information is not represented as being indicative of the Company's views on its future financial position.



	Reviewed 31 Dec 2009	Adj 1	Adj 2	Post-Investment B'sheet	
<b>Current assets</b>					
Cash and cash equivalents	3,095,549	1,000,000	4,095,549	(167,634)	3,927,915
Trade and other receivables	1,310,038		1,310,038	(8,151)	1,301,887
Financial Assets	3,500,000		3,500,000		3,500,000
Other Current Assets	283,131		283,131		283,131
<b>Total current assets</b>	<b>8,188,718</b>	<b>1,000,000</b>	<b>9,188,718</b>	<b>(175,786)</b>	<b>9,012,932</b>
<b>Non-current assets</b>					
Financial Assets					
Property, plant and equipment	245,563		245,563	(2,587)	242,976
<b>Total non-current assets</b>	<b>245,563</b>	<b>0</b>	<b>245,563</b>	<b>(2,587)</b>	<b>242,976</b>
<b>TOTAL ASSETS</b>	<b>8,434,281</b>	<b>1,000,000</b>	<b>9,434,281</b>	<b>(178,372)</b>	<b>9,255,909</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	1,504,553.00		1,504,553.00	(33,273)	1,471,280
Financial Liabilities	2,425.00		2,425.00		2,425
Short-term provisions	58,803.00		58,803.00		58,803
<b>Total current liabilities</b>	<b>1,565,781</b>	<b>0</b>	<b>1,565,781</b>	<b>(33,273)</b>	<b>1,532,508</b>
<b>Non-current liabilities</b>					
Other long term provisions	53,673		53,673		53,673
<b>Total non-current liabilities</b>	<b>53,673</b>		<b>53,673</b>		<b>53,673</b>
<b>TOTAL LIABILITIES</b>	<b>1,619,454</b>	<b>0</b>	<b>1,619,454</b>	<b>(33,273)</b>	<b>1,586,181</b>
<b>NET ASSETS</b>	<b>6,814,827</b>	<b>1,000,000</b>	<b>7,814,827</b>	<b>(145,100)</b>	<b>7,669,727</b>
<b>EQUITY</b>					
Contributed equity	35,294,302	1,000,000	36,294,302	(843,009)	35,451,293
Retained earnings	(28,479,475)		(28,479,475)	697,909	(27,781,566)
<b>TOTAL EQUITY</b>	<b>6,814,827</b>	<b>1,000,000</b>	<b>7,814,827</b>	<b>(145,100)</b>	<b>7,669,727</b>

*Notes and explanations of the proforma adjustments to the balance sheet.*

As the transaction involves the establishment of an incorporated joint venture the adjustments have been applied with reference to the proportionate method of the Joint Venture accounting standard AASB 131.

The adjustments have only be applied to the first 12 months of the Joint venture, even though the commitment is over a three year period.

NSX Limited and SIM VSE Group Holdings Limited will forgive the debt accrued to them by SIM Venture Securities Exchange Limited to date.

In the first year SIM VSE Group Holdings Limited will receive \$1,000,000 in cash from FEX. FEX will in return receive partly paid shares equivalent to 50% of the issued capital of SIM VSE Group Holdings Limited. By the end of the first year FEX will have paid up to 16.67% of the total issued capital. By the end of the second year FEX will have paid 33.33% of the total issued capital and by the end of the third year FEX will have paid up 50% of the total issued capital.

The proportionate method applies the first year of operation of the Joint Venture to the consolidated group where 16.67% of the issued capital of BSX Group Holdings Limited has been paid up. The net effect of these changes is demonstrated in the proforma balance sheet at the NSX Limited consolidated level provided above.

*Effect on NSX Limited's capital structure*

There is no effect on NSX Limited's capital structure as no NSX Limited shares are to be issued.

**Listing Rule Requirements**

Under ASX Listing Rule 10.1, the Company may only dispose of a 'substantial asset' to a related party with the approval of its Shareholders.

*Substantial asset*

The Shares constitute a 'substantial asset' as defined in ASX Listing Rule 10.2, as the price or value of these Shares (being the \$3 million FEX is providing the Company as consideration for the Shares) exceed 5% of the Company's equity interests as shown on its most recent balance sheet (\$6,814,827). The value of the Shares to be issued to FEX on some views might exceed 5% of the Company's equity interests.

*Related party*

FEX is a related party of the Company by virtue of section 228 of the Corporations Act. This is because shareholders of the Company (deemed related parties to the Company) also control FEX (which makes FEX a related party of the Company).

Accordingly, the Company is seeking Shareholder approval to dispose of part of the Shares in SIM VSE for the purposes of ASX Listing Rule 10.1.

As required by ASX Listing Rule 10.10.2, the Company has appointed KPMG as independent expert to opine on whether the transaction is 'fair and reasonable' to Shareholders other than those named in the voting exclusion in Resolution 1. KPMG has stated that:

**(i) Conclusion**

The proposed transaction is fair and reasonable for the non-associated shareholders of NSX.

**(ii) Benefits**

The primary benefits to NSX by incorporating the joint venture are:

- (A) Clarity over the legal ownership of the joint venture.
- (B) Clarity on the funding status of the joint venture.

**(iii) Disadvantages**

The primary disadvantages to NSX in utilising the incorporated structure are:

- (A) NSX's holding in SIM VSE is reduced to 50 percent. However, it should be noted that under either structure, NSX would be entitled to only 50 percent of SIM VSE's total cash flow.
- (B) There is a risk that the current tax losses in SIM VSE may not be available for offset against future taxable income.

**(iv) Other Considerations**

- (A) NSX will be able to focus its limited resources solely on the growth and development of the National Stock Exchange of Australia Limited.
- (B) The proposed transaction improves NSX's net asset per share position as the number of NSX shares on issue remains unchanged.
- (C) We have been advised that there would be no operational differences when running the Cleantech exchange under either structure.

**(v) Consequences of not approving the proposed transaction**

If the resolution is not passed then the development of the Cleantech exchange would continue under the unincorporated joint venture structure between SIM VSE and FEX.

A copy of the Independent Expert's Report is attached as Annexure 2 to these Explanatory Notes.

**1.2 What majority of votes is required for Resolution 1 to be passed?**

An ordinary resolution is required for Resolution 1 to be passed.

**1.3 Who can vote on Resolution 1?**

Subject to the voting exclusion statement and the Constitution, all Shareholders can vote on Resolution 1.

**1.4 Directors' recommendation**

The Directors recommend the Resolution.

## 2. GLOSSARY

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**\$ and cents** means an amount in Australian currency.

**ASX** means ASX Limited ACN 008 624 691.

**Board** means the board of directors of the Company.

**BSX** means SIM VSE Group Holdings Ltd (ACN 081 973 293).

**Business Days** means:

- (a) for determining when a notice, consent or other communication is given, a day that is not a Saturday, Sunday or public holiday in the place to which the notice, consent or other communication is sent; and
- (b) for any other purpose, a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney.

**Company** means NSX Limited ABN 33 089 447 058.

**Constitution** means the constitution of the Company at the date of these Explanatory Notes.

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

**Directors** means the directors of the Company.

**Explanatory Notes** means these Explanatory Notes.

**FEX** means Financial & Energy Exchange Limited (ACN 122 086 284).

**Independent Expert** means KPMG Corporate Finance (Aust) Pty Ltd (ACN 007 363 215).

**Independent Expert Report** means the report compiled by KPMG at Annexure 2.

**Issue Price** means the price (if any) to be paid for the issue of a Share as stated in the Explanatory Notes.

**KPMG** means KPMG Corporate Finance (Aust) Pty Ltd (ACN 007 363 215).

**Notice of General Meeting** means the Notice of General Meeting accompanying these Explanatory Notes.

**ordinary resolution** means a simple majority of those Shareholders present and entitled to vote either in person or by proxy at the meeting, either on a show of hands or on a poll if one is called in accordance with applicable requirements.

**Resolution** means a resolution in the Notice of General Meeting which requires Shareholder approval.

**Share** means a fully paid ordinary share in SIM VSE Group Holdings Ltd (ACN 081 973 293).

**Shareholder** means any person holding Shares.

**Annexure 1**  
**Proxy Form**

**FOR ALL ENQUIRIES CALL:**  
(within Australia) 1300 737 760 (outside Australia) +61  
2 9290 9600

**FACSIMILE**  
+61 2 9290 9655

**ALL CORRESPONDENCE TO:**  
Registries Limited  
GPO Box 3993  
Sydney NSW 2001  
Australia

## YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 11.00AM  
TUESDAY 1<sup>st</sup> JUNE 2010

## TO VOTE ONLINE

Reference Number: <HIN/SRN>



**STEP 1 : VISIT** [www.registries.com.au/vote/nsxgm2010](http://www.registries.com.au/vote/nsxgm2010)

**STEP 2: Enter your holding/Investment type**

**STEP 3: Enter your SRN/HIN and VAC:** <VAC NUMBER>



### Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## TO VOTE BY COMPLETING THE PROXY FORM

### STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy  
If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

#### Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

#### Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together in the same envelope.

### STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### STEP 3 Sign the Form

The form **must** be signed

In the spaces provided you must sign this form as follows:

**Individual:** This form is to be signed by the securityholder.

**Joint Holding:** where the holding is in more than one name, all the securityholders must sign.

**Power of Attorney:** to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

### STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **11.00am on Tuesday, 1st June 2010**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

**Proxies may be lodged using the reply paid envelope or:**

**BY MAIL** - Share Registry – Registries Limited, GPO Box 3993, Sydney NSW 2001 Australia

**BY FAX** - + 61 2 9290 9655

**IN PERSON** - Share Registry – Registries Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

**Vote online at: [www.registries.com.au/vote/nsxgm2010](http://www.registries.com.au/vote/nsxgm2010)  
or turnover to complete the Form ➔**

# NSX Limited

<Co Name>  
<Address 1>  
<Address 2>  
<Address 3>  
<Address 4>  
<Address 5>

<BARCODE>

## STEP 1 - Appointment of Proxy

I/We being a member/s of **NSX Limited** and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

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 at the **General Meeting of NSX Limited to be held at the Quay West Suites, 98 Gloucester Street, Sydney NSW 2000 on Thursday, 3<sup>rd</sup> June 2010 at 11.00am** and at any adjournment of that meeting, to act 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.

If the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote in respect of the resolution, please mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may vote as your proxy even if he has an interest in the outcome of the resolution and votes cast by the Chairman of the Meeting for the resolutions, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called. The Chair intends to vote all undirected proxies in favour of the resolution.

## STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

Ordinary Business

Resolution 1 Approval of Issue of Shares to Financial & Energy Exchange Limited

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In addition to the intentions advised above. The Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

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

## STEP 3 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
<input type="text"/>	<input type="text"/>	<input type="text"/>

Sole Director and Sole Company Secretary

Director

Director/Company Secretary

Contact Name .....

Contact Daytime Telephone ..... Date / /2010



**Annexure 2**  
**Independent Expert Report**



**KPMG Corporate Finance (Aust) Pty Ltd**  
Australian Financial Services Licence No. 246901  
10 Shelley Street  
Sydney NSW 2000

P O Box H67  
Australia Square 1213  
Australia

ABN: 43 007 363 215  
Telephone: +61 2 9335 7000  
Facsimile: +61 2 9335 8021  
DX: 1056 Sydney  
www.kpmg.com.au

The Independent Directors  
NSX Limited  
Level 2  
117 Scott Street  
Newcastle NSW 2300

19 April 2010

Dear Madam and Sirs

## **Independent expert report & Financial services guide**

### **1 Introduction**

On 8 March 2010, NSX Limited (NSX) announced that they had entered into an Incorporated Joint Venture agreement with Financial and Energy Exchange Ltd (FEX) subject to shareholder approval. As part of the agreement, FEX will acquire a 50 percent equity interest in SIM VSE Holdings Limited (SVHL) by subscribing for \$3.0 million in new equity to be paid in half yearly instalments over three years (the Proposed Transaction). The \$3.0 million will be used by SVHL to develop a stock exchange in the Clean Technology (Cleantech) sector.

SVHL is the current owner of the SIM Venture Securities Exchange Ltd (SIM VSE), an equity stock exchange. SIM VSE was formerly known as the Bendigo Stock Exchange (BSX). SIM VSE currently provides a listing platform for community enterprises, with over 50 franchised community banks listed.

At the time of this report, FEX is the beneficial owner of 20.4 percent of the fully paid ordinary shares on issue in NSX. As such, the Proposed Transaction is between related parties.

Under ASX Listing Rule 10.1, approval is required from an entity's non-associated shareholders where it proposes to acquire a substantial asset from or dispose a substantial asset to either a related party, subsidiary or substantial shareholder or its associate. The Independent Directors of NSX have asked KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare this IER in accordance with the requirements of the ASX Listing Rules which notes that the Notice of General Meeting convening the meeting of shareholders for the purpose of approving the Proposed Transaction should be accompanied by a report from an independent qualified person stating whether the transaction is fair and reasonable.

#### **1.1 Parties to the Proposed Transaction**

##### *NSX Limited*

NSX Limited operates two alternative stock exchanges in Australia, the National Stock Exchange (NSXA) and the SIM VSE, provides a market for Taxi licences in the Melbourne CBD and a water

exchange for the trading of water entitlements. NSX is a listed company on the Australian Stock Exchange (ASX), and as at the close of trade on 16 April 2010, NSX had a market capitalisation of \$19.7 million.

### *Financial and Energy Exchange Ltd*

FEX is an Australian based financial and capital markets group integrating an electronic over the counter market for derivatives, commodities and regulatory permits, an exchange traded futures and options market and an interest in the exchange traded equity capital market focused on Cleantech issuers.

As a business, FEX is focused on operating fair, orderly and transparent markets for energy, commodity, environmental certificates and Cleantech securities. FEX is owned by a consortium of energy companies, financial market participants, traders, and investors. Shareholders include major mainland Chinese energy groups, OMX technology AG, AMB Holdings of Western Australia, The Allied Group and the private equity group Iron Mountain.

## **2 Summary of opinion**

In our opinion, the Proposed Transaction is fair and reasonable for the non-associated shareholders of NSX.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the attached report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in section Scope of Report of the attached report.

The context in which we have formed our opinion and the key issues considered are detailed below.

### **2.1 Rationale for the Proposed Transaction**

In September 2009, SIM VSE announced that they had entered into an unincorporated joint venture with FEX to develop a new securities market exchange. The nature of the business would be to market to, list and provide a market for trading in the Cleantech sector.

As a continuation of the business strategy, the parties began the process of incorporating the joint venture in March 2010. The primary benefits to NSX by incorporating the joint venture are:

- Clarity over the legal ownership of the joint venture
- Clarity on the funding status of the joint venture
- NSX will be able to focus its limited resources solely on the growth and development of the National Stock Exchange of Australia Limited

### **2.1.1 Assessment of the fairness of the Proposed Transaction**

The assessment on the fairness of the Proposed Transaction, in accordance with the principles outlined in Regulatory Guide (RG) 111 “Content of expert reports” (RG111), issued by the Australian Securities and Investments Commission (ASIC), is based upon comparing the consideration of the Proposed Transaction to the value of the asset involved in the Proposed Transaction. Section 9.1 of the attached report details our evaluation of the current and prospective SIM VSE businesses. In this regard the business to date has been loss making, still requires significant investment and there is no certainty as to when future profits will be derived. Based upon this evaluation, KPMG considers a consideration of \$3 million for a 50 percent equity interest in SIM VSE to be fair to the non-associated shareholders of NSX.

### **2.1.2 Assessment of the reasonableness of the Proposed Transaction**

RG 111 states that an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Transaction is reasonable.

However, to form a complete view on the reasonableness of the Proposed Transaction we consider it appropriate to consider the potential advantages and disadvantages of the Proposed Transaction as well as the implications if the Proposed Transaction does not proceed. The following highlights the main advantages and disadvantages of the Proposed Transaction. A complete analysis on the advantages and disadvantages of both joint venture structures is detailed in Section 9.2 of the attached report.

The primary advantages to NSX in utilising the incorporated joint structure in developing the Cleantech exchange are:

- The incorporated entity clearly defines the ownership of the joint venture, reducing the risk of disagreement in the future and the associated costs that would likely eventuate in such circumstances
- The corporate structure allows for a clearer funding structure, as there is the guaranteed \$3 million to be paid over three years.

The primary disadvantages to NSX in utilising the incorporated structure are:

- NSX’s holding in SIM VSE is reduced to 50 percent. However it should be noted that under either structure, NSX would be entitled to only 50 percent of SIM VSE’s total cash flow
- There is a risk that the current tax losses in SIM VSE may not be available for offset against future taxable income.

### **2.1.3 Other Considerations**

As the Proposed Transaction sets the funding for SIM VSE for the next three years, NSX is able to utilise its limited resources for the development and growth of the NSXA. Under the unincorporated joint venture structure, any additional funding requirements by SIM VSE may hinder NSX’s ability to fully

develop the NSXA as NSX has limited resources and they would likely find it difficult to raise new capital as they recently completed a share placement and a non-renounceable rights issue in late 2009.

We note that the Proposed Transaction improves NSX's net asset per share position as the number of NSX shares on issue remains unchanged. Based on the pro-forma balance sheet included in the Explanatory Notes of the Notice of General Meeting, the net asset backing per share increases from \$0.069 to \$0.078 per share.

We have also considered the operational differences that may arise under the two structures. However, we have been advised that there would be no operational differences when running the Cleantech exchange under either structure as:

- the operation of the exchange would be the same under either structure
- NSX and FEX will have equal board representation under both structures
- each will provide the same service to SIM VSE under the same conditions
- NSX will be entitled to the same proportion of SIM VSE's cash flow under either structure, that is they would be entitled to only 50 percent of the total cash flow.

## **2.2 Consequences of not approving the Proposed Transaction**

If the non-associated shareholders to the Proposed Transaction were to vote against the Proposed Transaction, the development of the Cleantech exchange would continue under the unincorporated joint venture structure between SIM VSE and FEX.

## **3 Other matters**

In forming our opinion, we have considered the interests of the non-associated shareholders of NSX to the Proposed Transaction as a whole. This advice therefore does not consider the financial situation, objectives or needs of the individual non-associated shareholder. It is not practical or possible to assess the implications of the Proposed Transaction on individual non-associated shareholders as their financial circumstances are not known. The decision of non-associated shareholders as to whether or not to approve the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual non-associated shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual non-associated shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the ASX Listing Rules and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting non-associated shareholders in considering the Proposed Transaction. We do not

assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of General Meeting to be sent to the non-associated shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG as to the form and context in which it appears. KPMG consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully



Ian Jedlin  
Executive Director



Diana D'Ambra  
Executive Director

## Contents

1	Introduction	1
1.1	Parties to the Proposed Transaction	1
2	Summary of opinion	2
2.1	Rationale for the Proposed Transaction	2
2.2	Consequences of not approving the Proposed Transaction	4
3	Other matters	4
	Financial services guide	7
4	The Proposed Transaction	9
5	Scope of the report	10
5.1	Purpose	10
5.2	Basis of assessment	10
5.3	Limitations and reliance on information	11
5.4	Disclosure of information	12
6	Industry overview	13
7	NSX Limited	15
7.1	Operating businesses	16
7.2	Financials	20
7.3	Capital structure	23
8	SVHL	27
8.1	Overview	27
8.2	Financials for SVHL	27
8.3	Financials for SIM VSE	30
9	Assessment of the Proposed Transaction	34
9.1	Assessment of the fairness of the Proposed Transaction	34
9.2	Assessment of the reasonableness of the Proposed Transaction	36
9.3	NSX Limited – Post transaction	37
9.4	Consequences of not approving the Proposed Transaction	38
9.5	Conclusion on the Proposed Transaction	38
	Appendix 1 – KPMG Disclosures	39
	Appendix 2 – Sources of information	41

## Financial services guide

Dated 19 April 2010

**KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (**KPMG** or **we** or **us** or **our** as appropriate) has been engaged to provide an Independent Experts Report (**Report**) in relation to the Proposed Transaction (**Transaction**) for inclusion in the Notice of General Meeting dated 3 June 2010 (**Document**) prepared by NSX Limited (**Company**).

### Purpose of this Guide

This Guide is designed to help retail clients to decide how to use our Report. It includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our licence
- how we and our staff are paid
- any relevant associations or relationships we have
- how complaints are dealt with; and
- the compensation arrangements we have in place.

The Document contains information about significant benefits, risks, fees and other charges and other information about the Transaction.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

### Our responsibility to you

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. You have not

engaged us directly but have received a copy of the Report because of your connection to the Transaction.

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

### General Advice

Our report only contains general advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

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

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

### Fees we may receive

We charge fees for preparing reports. These fees will usually be agreed with, and paid by, the financial product issuer. Fees are agreed on either a fixed fee or a time cost basis. In this instance, NSX Limited has agreed to pay us \$50,000 for preparing the Report.

KPMG and its officers, employees, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

### Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice



(the **KPMG Partnership**). Our directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and related entities (**KPMG entities**) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have not provided to the Company or Financial and Energy Exchange Ltd any services over the prior two years

No KPMG entity, and no individual involved in the preparation of the Report, has any interest in the Company or any other interested party to the Transaction.

#### **Remuneration or other benefits received by our representatives**

KPMG officers, employees and representatives receive a salary or a partnership distribution from the KPMG Partnership. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

#### **Complaints resolution**

##### Internal complaints resolution process

If you have a complaint, please let us know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 5 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise you in writing of our response to your complaint.

##### External complaints resolution process

If we cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (**FOS**) of which we are a member.

FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

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

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

##### Compensation arrangements

KPMG has professional indemnity insurance cover as required by the Corporations Act.

#### **Contact Details**

You may contact us using the contact details set out at the top of the letterhead on page 1.

## **4 The Proposed Transaction**

Subject to shareholder approval, FEX intends to acquire a 50 percent interest in SIM VSE for a consideration of \$3 million to be paid over three years, in half yearly instalments. The proceeds of the Proposed Transaction will be used by SIM VSE to fund the costs associated with developing a Cleantech exchange in the Cleantech sector.

Prior to the Proposed Transaction proceeding, the following must occur:

- The non-associated shareholders of NSX to this agreement must approve the Proposed Transaction, in accordance with the ASX Listing Rules
- SIM VSE must obtain connectivity to the Clearing House Electronics Sub-register System (CHES), operated by the Australian Settlement and Transfer Corporation (ASTC), a wholly owned subsidiary of the ASX
- If required, ASIC must approve the implementation of the Proposed Transaction.

As part of the agreement, FEX will provide business development and marketing services to SVHL, whilst NSX will provide market services such as trading, settlement, corporate and surveillance services to SVHL. These services will be charged at commercial rates.

The Cleantech sector is defined as a company that provides technologies, processes, skills, knowledge, products or services in the fields of renewable energy, resource conservation, the avoidance or recycling of waste products, or the reduction of environmental harm and the majority of the company's income of activity currently relates, or in the foreseeable future is reasonable expected to relate to the above mentioned activities.

If shareholder approval from the non-associated shareholders of NSX to the agreement is not obtained, then the two parties will continue with the unincorporated joint venture agreement, announced on 1 September 2009. Details in relation to the unincorporated joint venture are discussed further in this report.

## **5 Scope of the report**

### **5.1 Purpose**

#### *Technical requirements*

The Proposed Transaction requires the approval of non-associated shareholders in accordance with Listing Rule 10.1 of the ASX Listing Rules. Listing Rule 10.1 prohibits an entity from selling an asset worth more than 5 percent of its net assets to a related party without the approval of non-associated shareholders. Under the Proposed Transaction, FEX will acquire 50 percent of SIM VSE at a cost exceeding 5 percent of NSX's net assets. Listing Rule 10.1 requires the Notice of General Meeting at which such approval is sought to include an independent expert's report on whether the proposed transaction is fair and reasonable to the non-associated shareholders. The independent expert's report will be included in the Explanatory Memorandum which will be sent to shareholders prior to the General Meeting.

### **5.2 Basis of assessment**

Neither the ASX nor ASIC provide specific guidance as to the analysis required in assessing whether a proposed transaction is fair and reasonable to non-associated shareholders for the purposes of Listing Rule 10.1. However, ASIC has issued RG 111 which provides guidelines in respect of independent expert reports. RG 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), it comments on the meaning of "fair and reasonable" and creates a distinction between "fair" and "reasonable". For most other transactions, the expert is to weigh up the advantages and disadvantages of the proposal for security holders.

While there is no definition of the term "fair and reasonable" in the ASX Listing Rules, RG 111 indicates the principles and matters which it expects a person preparing an IER to consider. It provides guidance for various types of IERs, with paragraphs RG 111.9 to RG 111.14 referring specifically to the definitions of "fair and reasonable":

- 'fair and reasonable' is not regarded as a compound phrase (i.e. "fair" and "reasonable" are considered separately)
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities of the 'target'
- the comparison should be made assuming 100 percent ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison.

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 security holders to accept the offer in the absence of any higher bid before the close of the offer. In this case, the independent expert would consider a number of qualitative factors in order to assess whether the advantages of the proposed transaction outweigh the disadvantages.

In forming an opinion as to whether the Proposed Transaction is fair and reasonable, KPMG has considered:

- the rationale for the Proposed Transaction
- the consideration being paid by FEX for 50 percent of SIM VSE
- the advantages and disadvantages of the Proposed Transaction
- the proposed business plan for SIM VSE
- implications for NSX shareholders if the Proposed Transaction does not proceed.

### **5.3 Limitations and reliance on information**

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of NSX for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with NSX's management in relation to the nature of SIM VSE's current business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG included prospective financial information prepared by the management of NSX. Whilst KPMG has relied upon this prospective information in preparing this report, NSX remains responsible for all aspects of the prospective information. Achievement of the prospective results is not warranted or guaranteed by KPMG. Prospective results are by their nature uncertain and are dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly

from the prospective results relied on by KPMG. Any variations from prospective results may affect our opinion.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

#### **5.4 Disclosure of information**

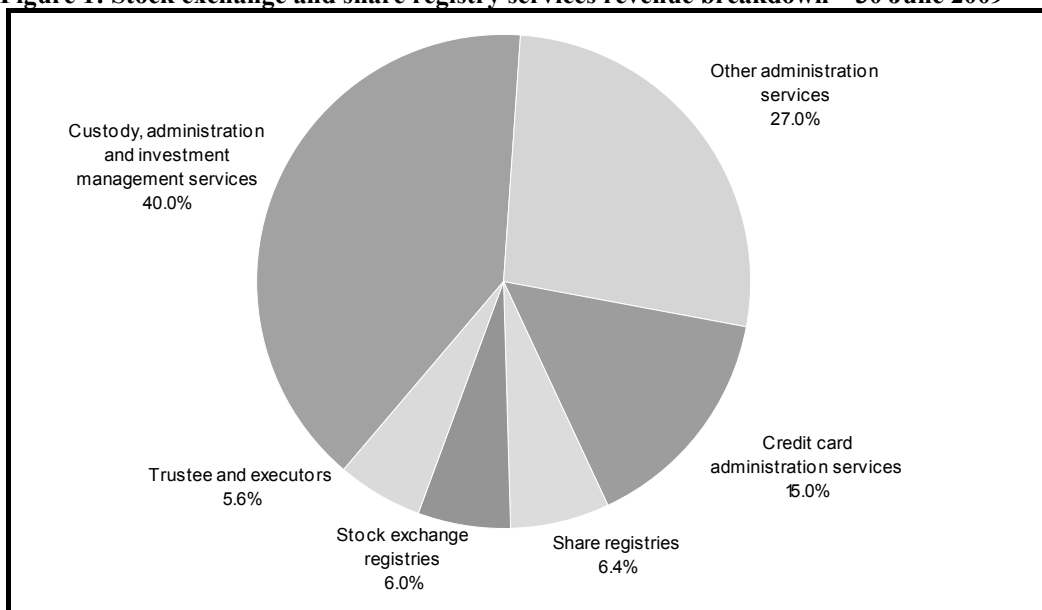
In preparing this report, KPMG has had access to all financial information considered necessary in order to provide the required opinion. NSX has requested KPMG limit the disclosure of some commercially sensitive information relating to NSX and its subsidiaries. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising NSX. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by NSX.

## 6 Industry overview

The financial services sector in Australia is a large and integral part of the Australian economy. The growth and integration into the Australian economy has largely been contributed to the deregulation of the banking system in the early eighties and the introduction of compulsory superannuation contributions in the early nineties. The largest services provided to the financial sector include stock exchange services, share registry services, custodial and trustee services, investment management services and credit card administration. These services encompass the Stock Exchange and Share Registry Services Industry in Australia. IBISWorld estimates that the expected revenue for the industry will grow to \$15.3 billion in 2014, up from \$9.2 billion in 2009, which represents a compound annual growth rate of approximately 10.8 percent for this period.

Set out in the chart below is the industry revenue for the year ended 30 June 2009 into the various service sectors that cater to this industry.

**Figure 1: Stock exchange and share registry services revenue breakdown – 30 June 2009**



Source: IBISWorld – Stock exchange and share registry services in Australia – December 2009

The stock exchanges sector contributes approximately \$551 million, or approximately 6.0 percent, of the total industry revenue.

Stock exchanges provide trading facilities, or a “market”, for participants to trade stocks and other security instruments. The level of activity on stock exchanges is dependant on current economic and investor sentiment, as well as the value of and turnover of financial assets. This in turn is directly influenced by domestic and international financial market conditions.

The largest stock exchange service provider in Australia is the ASX, which was formed by the merger between the Sydney Future Exchange and the Australian Stock Exchange in 2006. The ASX is the dominant stock exchange in Australia, with revenue of \$543.8 million for the year ended 30 June 2009.

As at 30 June 2009, the ASX had 2,198 listed entities (including all stapled entities) on the exchange, with 45 new listings for that year. The total market capitalisation of the entities listed on the ASX was approximately at \$1,098 billion at 30 June 2009, down from a market capitalisation of approximately \$1,415 billion at 30 June 2008.

The ASX offers the following services:

- the provision of a market for the raising of new capital from investors
- the provision of a market for the trading of this capital between investors
- the provision of a market for the exchange of options contracts
- the provision of detailed information about listed securities along with information about the market in general
- the provision of a market regulatory function (part of this functionality will be transferred to ASIC in the third quarter of 2010).

Competition in the equity stock exchange sector is currently light with only four equity stock exchange Australian Market Licences (AML's) issued in Australia. The NSX holds two AMLs whilst the ASX and the Asian Pacific Exchange Limited (APEL) each hold one AML. The regulatory barriers to set up and operate a national stock exchange are not considered to be overly onerous. In order to obtain an AML, the ASIC guidelines require that an entrant must be of good standing and appropriate, must be commercially suitable and apt and have adequate financial resources. In addition, to operate successfully in the market place an adequate trading platform and specific technology is required. This requirement is not overbearing for most established international exchanges as they currently utilise robust trading platforms and the threshold tests outlined above are relatively low.

There recently has been an increasing interest in both international and domestic competition from overseas exchanges and alternate trading systems. Three entities, AXE ECN (a joint venture between the New Zealand Stock Exchange, four US investment banks, CommSec and Macquarie Bank), Chi X and Liquidnet have each applied for an AML to operate in competition with the ASX. It was reported on 31 March 2010 that Chi X had obtained in-principal approval from the Minister of Finance in relation to their application for an AML.

## 7 NSX Limited

NSX is an Australian public company, which listed on the ASX on 13 January 2005. NSX operates in four distinct niche market places in financial and non-financial markets, being:

- National Stock Exchange (NXSA) (officially re-opened in 2000 as The Stock Exchange of Newcastle Ltd, renamed in 2006 to the National Stock Exchange of Australia Limited)
- SIM VSE (acquired in 2005)
- BSX Taxi Markets (BSX TM) (formed in 2006)
- WaterExchange (acquired in 2007).

In early May 2009, NSX announced that they proposed to issue 50.1 percent of new share capital to NZX Ltd. On 16 May, PricewaterhouseCoopers Securities Limited (PwC) prepared an Independent Expert Report with regards to this transaction. At the time, PwC opined that the proposed transaction was fair and reasonable to NSX's non-associated shareholders. On 17 June 2009, NZX Ltd withdrew their offer for NSX following a change of the Board of Directors on 10 June 2009.

On 1 September 2009, NSX announced that their wholly owned subsidiary SIM VSE (known as BSX at the time), had entered into an unincorporated joint venture with Sustainable Investment Market Pty Limited (SIMCO), a wholly owned subsidiary of FEX, to establish a new clean technology market in the Cleantech sector. It was estimated that the unincorporated joint venture would generate a minimum of \$1 million in additional revenue to BSX over a 5 year term. The business of the unincorporated joint venture would be to market to, list and provide a market for, trading in the Cleantech sector. As a requirement of the unincorporated joint venture agreement the following would occur:

- SIM VSE would be required to undergo certain basic upgrades such that the stock exchange would be able to commence initial operations in the Cleantech sector. Specifically SIM VSE was required to amend the Operating Rules, subject to regulatory approvals and SIM VSE's admission as an ASTC market participant, to enable CHES settlement of the Cleantech exchange
- SIMCO would procure the issue of the bank guarantee, discussed below, upon the receipt of an application lodged by any entity to list on the Cleantech exchange, grant to SIM VSE the right to use the intellectual property relating to the Cleantech sector and to pay for and to the extent required, reimburse SIMVSE within 30 days, for all direct costs and expenses incurred by SIM VSE in relation to the business plan and budget, the basic upgrades described above, and up to \$2 million in capital works, including deductible capital costs.

The bank guarantee procured by SIMCO must comply with all applicable requirement of ASIC, the Corporations Act, rules and regulations and the terms and conditions of the SIM VSE licence and support

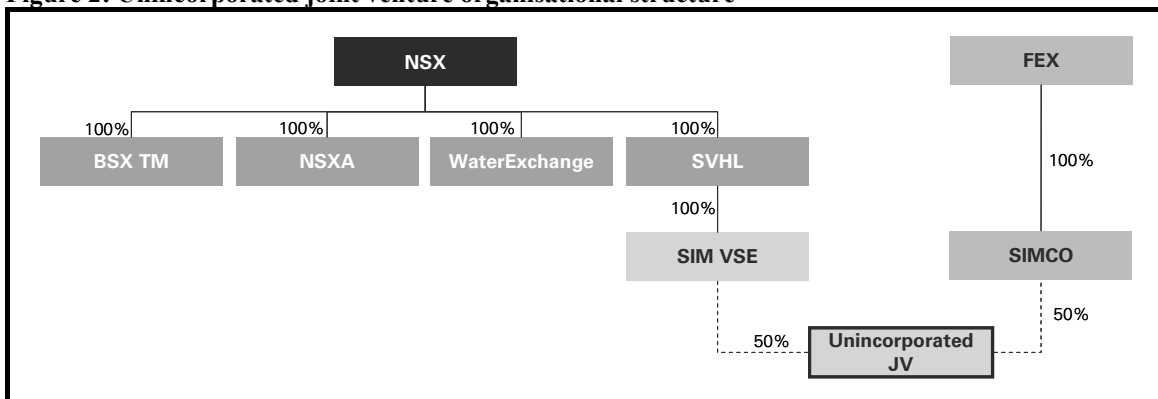


the obligations of SIM VSE under its compensations arrangement in accordance with Division 3 of Part 7.5 of the Corporations Act (details of this requirement are discussed in Section 7.1.1).

On 30 November 2009, NSX announced that they had raised \$1.5 million via a share placement, placing 10 percent of NSX’s issued capital to New Equity World Pty Ltd. On 5 January 2009, NSX announced that they had raised \$2.0 million as a result of the non-renounceable rights issue, which closed on 31 December 2009. On 13 January 2010, NSX announced that they had raised a further \$0.8 million from the placement from the shortfall facility in place from the non-renounceable rights issue. The Directors advised that the funds were to be used for additional working capital to secure the operation of the business and to ensure that NSX had sufficient financial resources to satisfy the obligations that NSXA and SIM VSE had as holders of an AML.

Set out in the diagram below is the organisational structure of NSX and the unincorporated joint venture currently entered into with FEX.

**Figure 2: Unincorporated joint venture organisational structure**

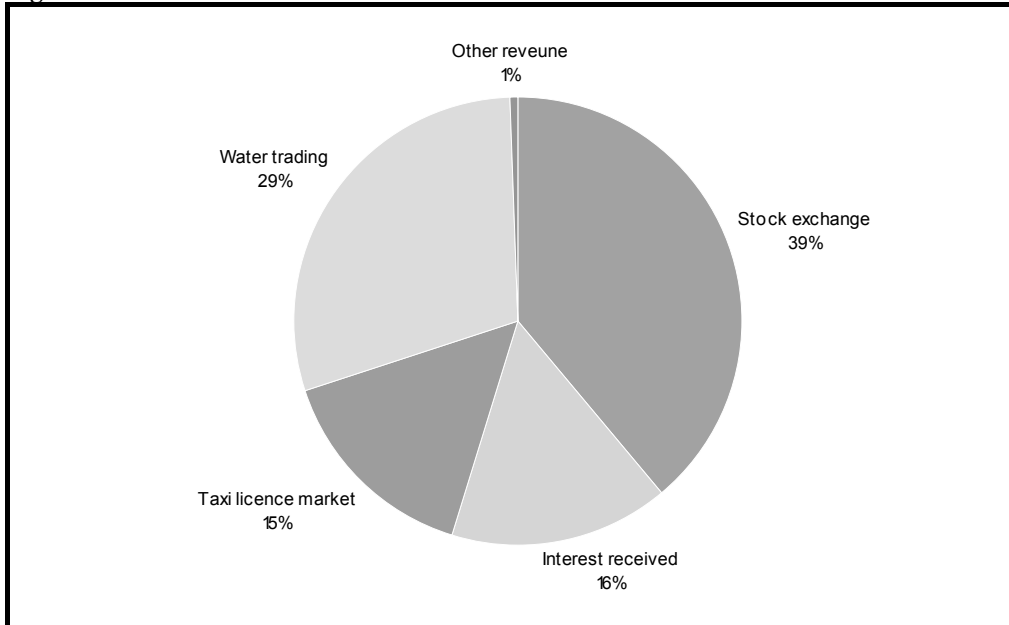


Source: NSX Limited

## 7.1 Operating businesses

The chart set out below outlines the various sources of revenue NSX generated for the year ended 30 June 2009.

**Figure 3: NSX Limited revenue breakdown – 30 June 2009**



Source: NSX Limited Annual Report 2009

The section below discusses the various businesses that NSX operates in.

### 7.1.1 Stock Exchanges

NSX operate two stock exchanges, the NSXA and the SIM VSE. Both exchanges provide a low cost alternative to the ASX for companies who wish to raise capital from a wider market and to publicly list companies. The NSXA and the SIM VSE exchanges use the X-Stream Nasdaq OMX trading system to provide a robust and efficient trading market. Each exchange caters to a different market, as discussed below.

#### *NSXA*

The NSXA has been set up and managed specifically to cater for the listing, capital raising and related stock exchange services to Small to Medium Enterprises (SME). NSXA operates an integrated platform for electronic trading and settlement. The market is not certificated (i.e. share holders do not receive share certificates) and settlement is achieved via the use of the ASTC CHES platform.

#### *SIM VSE*

The SIM VSE currently provides a listing platform for community enterprises, with over 50 franchised community banks listed on the exchange. They operate an electronic trading platform with settlement through its brokers via a certificate transfer.

The stock exchange businesses are the traditional business of NSX and contributes the greatest proportion of the company's total revenue. The main drivers of revenue for the stock exchanges are application and annual listing fees charged to companies who wish to list on the NSXA or the SIM VSE. The fee revenue generated is dependent on the market capitalisation of the listed entity at the time of listing and subsequently as at 30 June each year.

As a requirement to provide equity stock exchange services, NSXA and SIM VSE are required to hold an AML. As holders of AMLs, both NSXA and SIM VSE are required, amongst other things, to have available adequate resources (including financial, technological, and human resources) to provide the financial services covered by their licences and to carry out supervisory arrangements. In particular, NSXA and SIM VSE are required to have in place investor compensation arrangements in accordance with Part 7.5 Division 3 of the Corporations Act. NSXA is required to have in place minimum cover of \$800,000 to compensate investors, and SIM VSE is required to have in place minimum cover of \$1,000,000 to compensate investors.

Set out in the table below are key statistics relating to both exchanges as at 30 June 2007, 30 June 2008 and 30 June 2009

**Table 1: NSX stock exchanges listing history**

	As at 30 June 2007	As at 30 June 2008	As at 30 June 2009
Listed securities (No.)	111	123	136
Market Capitalisation (\$m)	1,174	1,238	1,250

Source: NSX Limited Annual Report 2009

Set out in the table below are key operational statistics relating to both exchanges for the year ended 30 June 2007, 30 June 2008 and 30 June 2009.

**Table 2: NSX stock exchanges trading history**

	For the year ended 30 June 2007	For the year ended 30 June 2008	For the year ended 30 June 2009
Volume traded ('000 shares)	85,548	53,872	22,635
Value traded (\$'000)	42,369	27,789	8,248
Number of trades (No.)	1,833	1,470	900

Source: NSX Limited Annual Report 2009

### 7.1.2 Taxi licence market

BSX TM provide a market for the sale and lease of Victorian Taxi Licences. BSX Services Pty Limited operates the BSX TM business. BSX TM is based in Melbourne, and as at 18 March 2010, BSX Services Pty Limited, and as a result BSX TM, was separated from SIM VSE and became a subsidiary of NSX Limited.

BSX TM was formed in 2006 due to the Victorian State legislative requirement that transactions involving metropolitan taxi cab licences be either processed through, or notified to a market. At the time,

BSX was appointed by the Victorian State Government to provide a centralised, orderly and transparent trading system for the sale and lease of Victorian Taxi Licences. Trading on the market is conducted through the use of accredited BSX TM brokers.

The business model has been transposed to a national trading platform, the National Licence Exchange (NLX), [www.nlx.com.au](http://www.nlx.com.au). However, whilst the platform is currently in place, the framework for trading on a national scale has yet to be launched and implemented.

### **7.1.3 Water entitlement trading**

Watergroup Management Pty Ltd, which operates the WaterExchange, was acquired by NSX in late 2007 for \$10.8 million. WaterExchange is a web based facility, [www.waterexchange.com.au](http://www.waterexchange.com.au), with the primary function to facilitate the trading of both temporary and permanent water entitlements. WaterExchange earns fees from the trading in these rights and manages the settlement process on behalf of brokers and their clients.

The level of water entitlement trading is affected by the various factors such as scarcity of water, levels of rainfall, price of other factor inputs, efficiency in use, as well as Government policy at the Local, State and Federal Governments levels. Governments can also mandate allocations of water to irrigators and influence the ability of irrigators to utilise the water in their allocations. This was seen when there was an embargo in water entitlement transfers within the NSW area between May 2009 and August 2009.

With high levels of uncertainty around the various factors outlined above, such as the level of rainfall and the price of other factor inputs, forecasting the volume of water traded in any one season is extremely difficult.

During the year ended 30 June 2009, the goodwill acquired as a result of the acquisition of the WaterExchange was written-down to zero under the value-in-use method.

## 7.2 Financials

### 7.2.1 Income statement

Set out in the table below are the audited consolidated income statements for NSX for the full year ended 30 June 2009 and the reviewed consolidated income statements for NSX for the half year ended 31 December 2009.

**Table 3: NSX Limited income statement**

For the \$	full year ended 30 June 2009	half year ended 31 December 2009
<b>Revenue</b>	<b>1,756,347</b>	<b>986,408</b>
<b>Expenses</b>		
Employee benefits expense	1,883,488	637,047
Consultancy expenses	920,907	107,515
Compliance & legal expenses	873,893	181,506
Market trading expenses	635,573	349,453
General administration expenses	1,010,559	263,589
Other expenses	477,932	247,473
<b>Total expenses</b>	<b>5,802,352</b>	<b>1,786,583</b>
<b>EBITDA</b>	<b>(4,046,005)</b>	<b>(800,175)</b>
Joint venture formation expenses	-	232,924
<b>EBITDA (including adjustments)</b>	<b>(4,046,005)</b>	<b>(1,033,099)</b>
Depreciation, amortisation & impairments	655,646	87,260
<b>EBIT</b>	<b>(4,701,651)</b>	<b>(1,120,359)</b>
Net interest	329,013	63,196
Impairment losses	10,875,278	-
<b>Net profit/(loss) before tax</b>	<b>(15,247,916)</b>	<b>(1,057,163)</b>
<b>Net profit/(loss) after tax</b>	<b>(15,247,916)</b>	<b>(1,057,163)</b>

Source: NSX Limited Annual Report, 30 June 2009 and Half Year Report, 31 December 2009

We note from the above table:

- Revenues comprise listing fees, water trading fees, taxi market income and exchange hosting service fees
- The taxi market contract with the Victorian Government expires in early 2011 at which time the Government has the option to extend the contract for an additional two years
- General administration expenses are comparatively lower for the half year ended 31 December 2009 as a result of an overall reduction in operating costs as announced by the Board
- Legal and consulting fees across both periods were incurred as a result of the failed share placement to the New Zealand Stock Exchange

- Impairment losses of \$10.9 million during the for the full year ended 30 June 2009 relate to the write-down of goodwill to zero attributable to the stock exchange (\$0.4 million), the water exchange (\$8.0 million) and environmental services (\$2.5 million)
- We have excluded joint venture formation expenses in calculating an adjusted EBITDA.

## 7.2.2 Balance sheet

Set out in the table below are the audited consolidated balance sheets for NSX as at 30 June 2009 and the reviewed consolidated balance sheets for NSX as at 31 December 2009.

**Table 4: NSX Limited balance sheet**

As at	30 June 2009	31 December 2009
\$		
<b>Current assets</b>		
Cash and cash equivalents	1,970,697	3,095,549
Trade and other receivables	270,770	1,310,038
Financial assets	2,500,000	3,500,000
Other current assets	171,302	283,131
<b>Total current assets</b>	<b>4,912,769</b>	<b>8,188,718</b>
<b>Non-current assets</b>		
Property, plant and equipment	286,479	245,563
<b>Total non-current assets</b>	<b>286,479</b>	<b>245,563</b>
<b>Total assets</b>	<b>5,199,248</b>	<b>8,434,281</b>
<b>Current liabilities</b>		
Trade and other payables	1,417,732	1,504,553
Financial liabilities	-	2,425
Short-term provisions	144,657	58,803
<b>Total current liabilities</b>	<b>1,562,389</b>	<b>1,565,781</b>
<b>Non-current liabilities</b>		
Other long-term provisions	53,574	53,673
<b>Total non-current liabilities</b>	<b>53,574</b>	<b>53,673</b>
<b>Total liabilities</b>	<b>1,615,963</b>	<b>1,619,454</b>
<b>Net assets</b>	<b>3,583,285</b>	<b>6,814,827</b>
Issued capital	31,005,596	35,294,302
Retained earnings	(27,422,311)	(28,479,475)
<b>Total equity</b>	<b>3,583,285</b>	<b>6,814,827</b>

Source: NSX Limited Half Year Report, 31 December 2009

At 31 December 2009, we note:

- Cash and cash equivalents have increased due to the issue of \$3.4 million of new shares. Cash balance for the period is equal to \$6.6 million (i.e. cash and cash equivalents plus financial assets), of

which \$1.7 million is held as part of the NSX's market compensation arrangements. Financial assets are commercial bills

- On 30 November 2009, NSX completed the placement of \$1.4 million in new capital (10 percent of the issued capital) at a share price of \$0.20 per share to New World Equity Pty Ltd. Further, on 5 January 2010, NSX announced that as part of the 1 for 5 non-renounceable rights issue, which closed on 31 December 2009, \$2.0 million worth of securities were taken up at a price of \$0.17 per share. This was a shortfall of \$0.8 million from the proposed capital to be raised from the rights issue. The Board stated that they had reserved the right to place the shortfall at an offer price of \$0.17 per share via a shortfall facility. On 13 January 2010, NSX announced that they had fully placed the securities from the shortfall facility
- The increase in the trade and other receivables over the six month period to 31 December 2009 primarily relate to a "Rights Issue Receivable" account created to reflect the firm commitments to the top-up facility created in relation to the shortfall from the rights issue and the fact that the money had not yet been received.

### **7.2.3 Cash flow statement**

Set out in the table below are the audited consolidated cash flow statements for NSX for the full year ended 30 June 2009 and the reviewed consolidated cash flow statements for NSX for the half year ended 31 December 2009.

**Table 5: NSX Limited cash flow statement**

<b>For the</b>	<b>full year ended 30</b>	<b>half year ended 31</b>
<b>\$</b>	<b>June 2009</b>	<b>December 2009</b>
<b>Cash from operating activities</b>		
Receipts from customers	2,006,658	1,260,057
Payments to suppliers and employees	(5,403,770)	(2,530,199)
Interest received	329,013	63,196
<b>Cash flow from operating activities</b>	<b>(3,068,099)</b>	<b>(1,206,946)</b>
<b>Cash from investing activities</b>		
Acquisition of property, plant and equipment	(251,745)	(46,344)
Acquisition of intangible assets	(10,729)	-
<b>Cash flow from investing activities</b>	<b>(262,474)</b>	<b>(46,344)</b>
<b>Cash from financing activities</b>		
Proceeds from issuing shares	-	3,378,142
Repayment of borrowings	(31)	-
<b>Cash flow from financing activities</b>	<b>(31)</b>	<b>3,378,142</b>
<b>Net increase (decrease) in cash held</b>	<b>(3,330,604)</b>	<b>2,124,852</b>
Cash at beginning of year	7,801,301	4,470,697
<b>Cash at end of year</b>	<b>4,470,697</b>	<b>6,595,549</b>

Source: NSX Limited half year Report, 31 December 2009

For the half year ended 31 December 2009, we note:

- NSX raised \$3.4 million as a result of the share placement and the non-renounceable rights issue announced on 24 November 2009 and 5 January 2010 respectively
- consultancy expenses incurred during the year ended 30 June 2009 is driving the difference between the cash flow from operating activities and the EBITDA from the income statement

## 7.3 Capital structure

### 7.3.1 Share capital

As at 16 April 2010, NSX had 98.4 million fully paid ordinary shares on issue and 1.5 million partly paid shares on issue. NSX's top 10 shareholders is summarised in the tables below.



**Table 6: Top 10 fully paid ordinary shareholders as at 16 April 2010**

Holder name	Balance as at 16-Apr-10	% interest
Tiga Trading Pty Ltd	12,506,177	12.72%
Vitron Werkbund Sud Australasia Pty Ltd	11,700,000	11.90%
New Equity World Pty Ltd	11,270,520	11.46%
Irrico Australia Pty Ltd	10,500,000	10.68%
GPG Nominees Pty Ltd	8,675,924	8.82%
Financial & Energy Exchange Ltd	8,321,760	8.46%
Citicorp Nominees Pty Limited	4,699,242	4.78%
Bell Potter Nominees Ltd <BB Nominees A/C>	3,492,974	3.55%
Lin Lang International Trading Pty Ltd	2,220,000	2.26%
Ontario No 88 Pty Ltd	2,100,000	2.14%
<b>Total top 10 shareholders</b>	<b>75,486,597</b>	<b>76.75%</b>
<b>Total invested capital</b>	<b>98,352,203</b>	<b>100.00%</b>

Source: NSX Limited

We note that FEX has ultimate control over Vitron Werkbund Sud Australasia Pty Ltd. As such, FEX is the beneficial owner of a 20.4 percent interest in NSX.

**Table 7: Top partly paid shareholders as at 16 April 2010**

Holder name	Balance as at 16-Apr-10	% interest
First Newcastle Pty Limited	700,000	46.67%
Roebeach Pty Ltd <Corundum Super Fund A/C>	700,000	46.67%
WCL Nominees Pty Limited	100,000	6.67%
<b>Total top shareholders</b>	<b>1,500,000</b>	<b>100.00%</b>
<b>Total invested capital</b>	<b>1,500,000</b>	<b>100.00%</b>

Source: NSX Limited

The partly paid shares are on issue paid to 1 cent, have one outstanding call of 99 cents each and the date of the final call is at the security holder's discretion.

### 7.3.2 Options

As at 16 April 2010, there were two parcels of options on issue, these being:

- 413,971 unlisted options, with an exercise price of \$0.50 and expiring on 15 October 2016. These options are ultimately held by Richard Symon, (an ex-director)
- 323,412 unlisted options, with an exercise price of \$0.50 and expiring on 15 October 2017. These options are owned by NSX employees Scott Evans and Ian Craig in equal proportions.

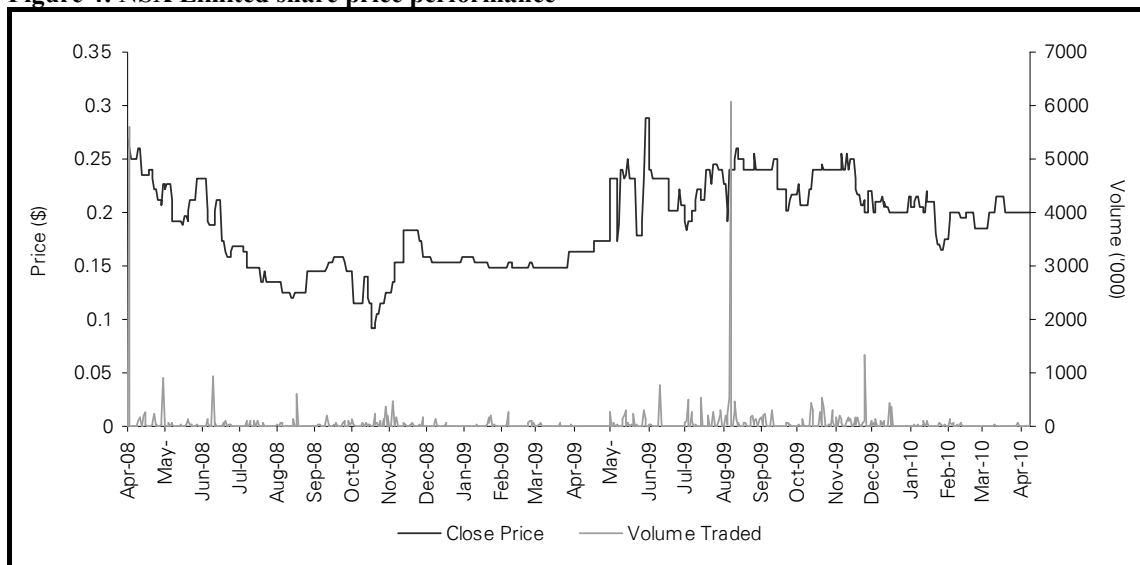
### 7.3.3 Directors and other key management interests

Directors and key management have the beneficial ownership in 359,748 shares and 323,412 options at the time of this report. Tom Price, a Director of NSX, has an indirect ownership over 7,435,078 shares as a result of his Directorship of FEX.

### 7.3.4 Share price performance

Set out in the diagram below is NSX’s daily closing share price and volume of shares traded for the period 8 April 2008 to 16 April 2010.

**Figure 4: NSX Limited share price performance**



Source: IRESS

In relation to the diagram above, we note:

- That NSX management believed that the spike in trading volume on 9 April 2008 was related to the on market sale of NSX shares by ANZ Nominees, as a result of the failure of OPES Prime Stockbroking Limited
- On 14 August 2009, Tiga Trading Pty Ltd acquired 6.3 million NSX shares on market. Tiga Trading Pty Ltd is ultimately owned by Thorney Investments
- On 30 November 2009, NSX announced that it had successfully placed 10 percent of the issued capital in new capital.

### 7.3.5 Liquidity analysis

Set out in the table below is an analysis of the volume of NSX shares traded over various periods compared to listed comparable companies. This analysis has been completed for the period ended 16 April 2010.

**Table 8: Liquidity analysis for the 12 months ending 16 April 2010**

Period	NSX Limited		ASX Limited		Computershare Limited	
	Cumulative volume ('000)	% of issued capital	Cumulative volume ('000)	% of issued capital	Cumulative volume ('000)	% of issued capital
1 week	20	0.0	3,341	1.9	6,400	1.2
1 month	143	0.1	21,044	12.1	38,638	7.0
3 months	1,007	1.0	57,391	33.1	136,708	24.6
6 months	7,771	7.9	107,481	61.9	242,460	43.6
12 months	23,342	23.7	228,296	131.5	522,243	94.0

Source: IRESS

NSX has low traded volumes compared to the listed comparables, ASX Limited and Computershare Limited over the various periods stated above. Based on this analysis, it is reasonable to conclude that NSX shares are relatively illiquid.

## 8 SVHL

### 8.1 Overview

SVHL is the holding company for SIM VSE. SIM VSE currently offers a listing platform for community enterprises with over 50 franchised community banks listed on the exchange. SIM VSE operates using an electronic trading platform with settlement made through its two brokers, ABN Amro Morgans Limited and Strategem Financial Group, via a certificate transfer via a certificate transfer.

Set out below are key statistics with regards to the SIM VSE exchange as at 30 June 2008 and 30 June 2009.

**Table 9: SIM VSE stock exchanges listing history**

	As at 30 June 2008	As at 30 June 2009
Listed securities (No.)	56	59
Market Capitalisation (\$m)	469	492

Source: NSX Limited

Set out below are operational statistics with regards to the SIM VSE exchange for the year ended 30 June 2008 and 30 June 2009.

**Table 10: SIM VSE stock exchanges trading history**

	For the year ended 30 June 2008	For the year ended 30 June 2009
Volume traded ('000 shares)	4,740	3,957
Value traded (\$'000)	3,662	2,234
Number of trades (No.)	404	381

Source: NSX Limited

Over the last two years NSX has been working together with FEX to develop a market for companies involved in the Cleantech sector. The co-operation was formalised in 1 September 2009, with the announcement of an unincorporated joint venture agreement, where both parties are currently contributing to the development of the business.

### 8.2 Financials for SVHL

The following set of consolidated accounts are for SVHL for the years ended 30 June 2008 and 2009. Note these accounts include the BSX TM business and the wholly owned subsidiary SIM VSE

#### 8.2.1 Income statement

Set out in the table below are the audited consolidated income statements for the years ended 30 June 2008 and 2009 for SVHL.

**Table 11: SVHL income statement**

For the year ended 30 June	2008	2009
\$		
<b>Revenue</b>		
Listing fees	317,309	300,507
Taxi licence market income	311,154	321,246
<b>Total revenues</b>	<b>628,463</b>	<b>621,753</b>
<b>Expenses</b>		
Employee benefits expense	(58)	1,105
Consultancy expenses	104,610	153,990
Legal expenses	6,684	875
Information technology expenses	19,474	19,752
Service fee expenses	730,097	795,535
Administration and marketing expenses	9,697	31,788
Other expenses	289	13,881
<b>Total expenses</b>	<b>870,793</b>	<b>1,016,926</b>
<b>EBITDA</b>	<b>(242,330)</b>	<b>(395,173)</b>
Depreciation and amortisation	15,134	17,300
<b>EBIT</b>	<b>(257,464)</b>	<b>(412,473)</b>
Net interest	9,975	8,663
Impairment losses	-	74,330
<b>Net profit/(loss) before income tax</b>	<b>(247,489)</b>	<b>(478,140)</b>
<b>Net profit/(loss) after tax</b>	<b>(247,489)</b>	<b>(478,140)</b>

Source: BSX Group Holdings financial statements for the year ended 30 June 2009

For the year ended 30 June 2009 we note:

- Listing fee revenue was 5.3 percent lower, compared to listing fee revenue for the year ended 30 June 2008
- Impairment losses relate to the write off of intangible assets
- Consultancy fees were incurred by the BSX TM business. SIM VSE did not utilise any consultants for the 2008 and 2009 years

## 8.2.2 Balance sheet

Set out in the table below are audited consolidated balance sheets for SVHL as at 30 June 2008 and 2009.

**Table 12: SVHL balance sheet**

As at 30 June	2008	2009
\$		
<b>Current assets</b>		
Cash and cash equivalents	106,208	42,298
Trade and other receivables	55,557	26,700
<b>Total current assets</b>	<b>161,765</b>	<b>68,998</b>
<b>Non-current assets</b>		
Property, plant and equipment	22,924	25,771
Intangible assets	63,601	-
<b>Total non-current assets</b>	<b>86,525</b>	<b>25,771</b>
<b>Total assets</b>	<b>248,290</b>	<b>94,769</b>
<b>Current liabilities</b>		
Trade and other payables	1,405,002	1,729,621
<b>Total current liabilities</b>	<b>1,405,002</b>	<b>1,729,621</b>
<b>Total liabilities</b>	<b>1,405,002</b>	<b>1,729,621</b>
<b>Net assets</b>	<b>(1,156,712)</b>	<b>(1,634,852)</b>
Issued capital	4,058,154	4,058,154
Retained earnings	(5,214,866)	(5,693,006)
<b>Total equity</b>	<b>(1,156,712)</b>	<b>(1,634,852)</b>

Source: BSX Group Holdings financial statements for the year ended 30 June 2009

At 30 June 2009 we note:

- SVHL had negative equity. However, the directors of SVHL at the time indicated that they were confident in obtaining continued support from NSX Limited, as required, to meet future cash flow needs. As such they held the view that the business was a going concern
- SVHL have in place a Bendigo Stock Exchange Fidelity Fund supported by a bank guarantee provided by the Bendigo and Adelaide Bank Limited to fund payments under the SIM VSE compensation rules. The value of the bank guarantee that represents a contingent liability is currently \$1 million.

### 8.2.3 Cash flow statement

Set out in the table below are the audited consolidated cash flow statements for SVHL for the years ended 30 June 2008 and 2009.

**Table 13: SVHL cash flow statement**

For the year ended 30 June	2008	2009
\$		
<b>Cash from operating activities</b>		
Receipts from customers	670,601	729,498
Payments to suppliers and employees	(541,778)	(771,195)
Interest received	9,975	8,663
<b>Cash flow from operating activities</b>	<b>138,798</b>	<b>(33,034)</b>
<b>Cash from investing activities</b>		
Acquisition of property, plant and equipment	(22,434)	(20,147)
Acquisition of intangible assets	(63,601)	(10,729)
<b>Cash flow from investing activities</b>	<b>(86,035)</b>	<b>(30,876)</b>
<b>Cash from financing activities</b>		
Repayment of borrowings	(8)	-
<b>Cash flow from financing activities</b>	<b>(8)</b>	<b>-</b>
<b>Net increase (decrease) in cash held</b>	<b>52,755</b>	<b>(63,910)</b>
Cash at beginning of year	53,453	106,208
<b>Cash at end of year</b>	<b>106,208</b>	<b>42,298</b>

Source: BSX Group Holdings financial statements for the year ended 30 June 2009

For the year ended 30 June 2009, we note that cash flows from operating activities was negative \$33,034 whilst EBITDA was negative \$395,173. This difference is primarily driven by the increase in the trade and other payables to \$1,729,621 at 30 June 2009, up from \$1,405,002 at 30 June 2008, representing a difference of \$324,619.

### 8.3 Financials for SIM VSE

The following set of financial accounts are for SIM VSE for the years ended 30 June 2008 and 2009.

#### 8.3.1 Income statement

Set out in the table below are the audited income statements for the years ended 30 June 2008 and 2009 for SIM VSE.

**Table 14: SIM VSE income statement**

For the year ended 30 June	2008	2009
\$		
<b>Revenue</b>	316,491	300,507
<b>Expenses</b>		
Service fee expenses	564,856	606,571
Administration and marketing expenses	377	936
Other expenses	118	127
<b>Total expenses</b>	565,351	607,634
<b>EBITDA</b>	<b>(248,860)</b>	<b>(307,127)</b>
Depreciation and amortisation	8,017	14,243
<b>EBIT</b>	<b>(256,877)</b>	<b>(321,370)</b>
Net interest	6,467	7,192
<b>Net profit/(loss)</b>	<b>(250,410)</b>	<b>(314,178)</b>

*Source: Bendigo Stock Exchange Limited financial statements for the year ended 30 June 2009*

For the year ended 30 June 2009, we note that whilst the total market capitalisation of stock listed on the SIM VSE stock exchange increased by 4.9 percent, SIM VSE revenue fell by 5.1 percent. Additionally, service fee expenses increased by 7.5 percent during the same period.

### 8.3.2 Balance sheet

Set out in the table below are audited consolidated balance sheets for SIM VSE as at 30 June 2008 and 2009.



**Table 15: SIM VSE balance sheet**

As at 30 June	2008	2009
\$		
<b>Current assets</b>		
Cash and cash equivalents	65,461	13,448
Trade and other receivables	18,403	18,840
<b>Total current assets</b>	<b>83,864</b>	<b>32,288</b>
<b>Non-current assets</b>		
Property, plant and equipment	14,417	20,322
<b>Total non-current assets</b>	<b>14,417</b>	<b>20,322</b>
<b>Total assets</b>	<b>98,281</b>	<b>52,610</b>
<b>Current liabilities</b>		
Trade and other payables	69,800	88,307
Amounts payable to related parties	753,714	1,003,714
<b>Total current liabilities</b>	<b>823,514</b>	<b>1,092,021</b>
<b>Total liabilities</b>	<b>823,514</b>	<b>1,092,021</b>
<b>Net assets</b>	<b>(725,233)</b>	<b>(1,039,411)</b>
Issued capital	100	100
Retained earnings	(725,233)	(1,039,511)
<b>Total equity</b>	<b>(725,133)</b>	<b>(1,039,411)</b>

Source: Bendigo Stock Exchange Limited financial statements for the year ended 30 June 2009

For the year ended 30 June 2009, we note:

- that SIM VSE was largely dependent on its parent entity NSX Limited
- that SIM VSE had a future income tax benefit of \$311,105

### 8.3.3 Cash flow statement

Set out in the table below are the audited consolidated cash flow statements for SIM VSE for the years ended 30 June 2008 and 2009.

**Table 16: SIM VSE cash flow statement**

For the year ended 30 June	2008	2009
\$		
<b>Cash from operating activities</b>		
Receipts from customers	357,023	330,840
Payments to suppliers and employees	(555,201)	(619,898)
Interest received	6,467	7,192
<b>Cash flow from operating activities</b>	<b>(191,711)</b>	<b>(281,866)</b>
<b>Cash from investing activities</b>		
Acquisition of property, plant and equipment	(22,434)	(20,147)
<b>Cash flow from investing activities</b>	<b>(22,434)</b>	<b>(20,147)</b>
<b>Cash from financing activities</b>		
Proceeds from associated companies	275,000	250,000
<b>Cash flow from financing activities</b>	<b>275,000</b>	<b>250,000</b>
<b>Net increase (decrease) in cash held</b>	<b>60,855</b>	<b>(52,013)</b>
Cash at beginning of year	4,606	65,461
<b>Cash at end of year</b>	<b>65,461</b>	<b>13,448</b>

Source: Bendigo Stock Exchange Limited financial statements for the year ended 30 June 2009

We note from the cash flow statement, that SIM VSE required capital injections for the years ended 30 June 2008 and 2009.

### 8.3.4 Year-to-date performance

For the year-to-date, starting 30 June 2009, SIM VSE:

- Generated \$190,796 in revenue and \$373,788 in expenses (excluding joint venture start up costs)
- Had one community enterprise advise that they intended to list on SIM VSE. However, SIM VSE have had five community enterprises advise that they would delist from SIM VSE at 30 June 2010

Note these results have been sourced from unaudited management accounts. Management anticipate that based on the current results to date, the performance of the current SIM VSE business will be stagnant for the year.

## **9 Assessment of the Proposed Transaction**

The Proposed Transaction values a 50 percent equity interest in SIM VSE at \$3 million. This implies that the value of a 100 percent equity interest in SIM VSE would be \$6 million.

Our opinion on whether the Proposed Transaction is fair and reasonable to NSX, and ultimately to the non-associated shareholders of NSX, has regard to our evaluation from a fairness perspective of the current community enterprise exchange business and the proposed Cleantech exchange business. Having regard to reasonableness, we have considered the advantages, disadvantages and other considerations of the Proposed Transaction, and particularly those associated with the incorporated joint venture and the unincorporated joint venture.

The assessment the Proposed Transaction is made in reference to the impact on NSX, and ultimately the non-associated shareholders of NSX.

### **9.1 Assessment of the fairness of the Proposed Transaction**

The assessment of the fairness of the Proposed Transaction is based upon comparing the consideration of the Proposed Transaction to the value of the asset involved in the Proposed Transaction. The evaluation of the current and prospective SIM VSE businesses is detailed below. Based upon the evaluation, KPMG considers the Proposed Transaction to be fair to the non-associated shareholders of NSX.

#### Community enterprise exchange

SIM VSE currently provides a stock exchange to the community enterprise sector. An example of a community enterprise would be a community owned bank franchise. The primary motivation of community enterprises is to maximise the benefit to the community in having that particular enterprise within the community. This differs to a for-profit organisation, whose motivation is to maximise profits which are then distributed to shareholders. As such, investors are generally more reluctant to invest in community enterprises. Additionally, many of the community bank structures only allow one vote per shareholding, as apposed to one vote per share. As such, the basis for investors to invest in this market, and as a result, the outlook for the market to develop its investor base, is limited.

The traditional SIM VSE business model has been loss making for the past two years, as seen in Section 8.3.1. Revenue has contracted whilst service fee expenses grew for the year ended 30 June 2009 compared to that of 2008. This resulted in a net loss of \$314,178 for the year ended 30 June 2009, an increase over the prior years' net loss by 25.5 percent. We also note that the directors of SIM VSE announced in the financial statements for the year ended 30 June 2009 that SIM VSE was largely dependent upon NSX for financial support as described in Section 8.3.2. SIM VSE's current year to date performance continues the loss making trend, with the number of constituents listed on the exchange becoming smaller as described in Section 8.3.4.

Based upon the limited outlook for an exchange that is focused on the community enterprise sector and the assessment of the business operations outlined above, it would be difficult to attribute significant value to the traditional SIM VSE business.

#### Cleantech exchange

In our opinion, there are strong indicators for an exchange which focuses on the Cleantech sector. However, starting up and operating an equity stock exchange in the Cleantech sector in the current economy does face difficulties.

The environment, and the impact that industries currently have on the environment, have reached global significance. In recent years, discussions have culminated into opening dialogue between the developed and developing nations on how to protect and preserve the environment, with the most recent discussions held in Copenhagen in December 2009. However these discussions have not resulted in agreed outcomes and have not as yet led to a radical change in the way that industries currently conduct operations.

Whilst some industries have taken a proactive approach in adapting to concerns over the environment, by adopting changes in either their processes and/or products, such as the motoring industry bringing out hybrid vehicles, this change has overall been slow to take up. Real structural change in the processes of how companies and industries operate, and the number of companies that specialise in the Cleantech sector will take time to develop. Whilst there will be a developed and viable Cleantech sector in the future, the current need and/or demand for such an exchange is as yet unclear.

Operationally, the Cleantech equity market that SIM VSE wish to develop will provide market listings for equity issues of all market capitalisations. Management note that the anticipated average market capitalisation of issuers entering the market will be below \$50 million, due to the relative immaturity of the Cleantech market and the lack of reputation of the SIM VSE brand as a capital market. However SIM VSE, as an exchange, will not be specialising in the small to medium enterprise space, and will list larger organisations as well.

Further, for SIM VSE to commence development of an exchange in the Cleantech sector, they will require initial and ongoing capital contributions, firstly to develop the exchange business and then to operate the exchange, as the exchange is forecast to be loss making for the first three years of operation.

Based upon the points above, it is difficult to attribute significant value to the Cleantech exchange at this time. However, we note that there is significant upside opportunity in the future for an exchange in the Cleantech sector, once significant growth and traction is seen in this sector.

In conclusion, as discussed, we are of the opinion that there is not significant value to the community enterprise exchange or the Cleantech exchange at this stage, given the current loss making nature, the state of development and the inherent uncertainty as to when any future profits will be derived.

We note that PwC, in their Independent Expert Report in respect of the issue of new capital in May 2009, indicated that at the time, the value of a single AML was, in their opinion, within the range of zero to

\$500,000. The range of values reflected the lack of return generated by the stock exchange operations, and the potential strategic value of the AML.

Based upon the assessment of value SIM VSE, described above, it is in our opinion that the Proposed Transaction is fair to the non-associated shareholders of NSX.

## 9.2 Assessment of the reasonableness of the Proposed Transaction

In accordance with RG 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Transaction is reasonable.

However, to form a complete view on the reasonableness of the Proposed Transaction we consider it appropriate to consider the potential advantages and disadvantages of the Proposed Transaction as well as the implications if the Proposed Transaction does not proceed, which we have detailed below.

### 9.2.1 Advantages and disadvantages

Set out in the table below are the advantages and the disadvantages of the incorporated joint venture as compared to the unincorporated joint venture, with reference to NSX.

**Table 17: Structure comparison advantages**

Incorporated	Unincorporated
<b>Advantages</b>	
A cleaner legal structure A clearer funding structure Allows for clearer business goals Easier to obtain additional capital or further partners Clearer change in ownership provisions	100 percent ownership of asset retained Unincorporated joint venture already in place Potential to utilise SIM VSE tax losses
<b>Disadvantages</b>	
Relatively more costly to implement 50 percent sale of asset Potential tax liability arising in SIM VSE Risk of not being able to utilise SIM VSE tax losses	Complicated and ineffective regulatory structure Intellectual Property remains the ownership of FEX

*Source: KPMG analysis*

The primary advantages to NSX in utilising the incorporated joint structure in developing the Cleantech exchange are:

- The incorporated entity clearly defines the ownership of the joint venture, reducing the risk of disagreement in the future and the associated costs that would likely eventuate in such circumstances
- The corporate structure allows for a clearer funding structure, as there is the guaranteed \$3 million to be paid over three years.

The primary disadvantages to NSX in utilising the incorporated structure are:

- NSX's holding in SIM VSE is reduced to 50 percent after three years. However it should be noted that under either structure, NSX would be entitled to only 50 percent of SIM VSE's total cash flow.
- There is a risk that the current tax losses in SIM VSE may not be available for offset against future taxable income.

### **9.2.2 Other considerations**

As the Proposed Transaction sets the funding for SIM VSE for the next three years, NSX is able to utilise its limited resources for the development and growth of the NSXA. Under the unincorporated joint venture structure, any additional funding requirements by SIM VSE may hinder NSX's ability to fully develop the NSXA as NSX has limited resources and they would likely find it difficult to raise new capital as they recently completed a share placement and a non-renounceable rights issue in late 2009.

We note that the Proposed Transaction improves NSX's net asset per share position as the number of NSX shares on issue remains unchanged. Based on the pro-forma balance sheet included in the Explanatory Notes of the Notice of General Meeting, the net asset backing per share increases from \$0.069 to \$0.078 per share.

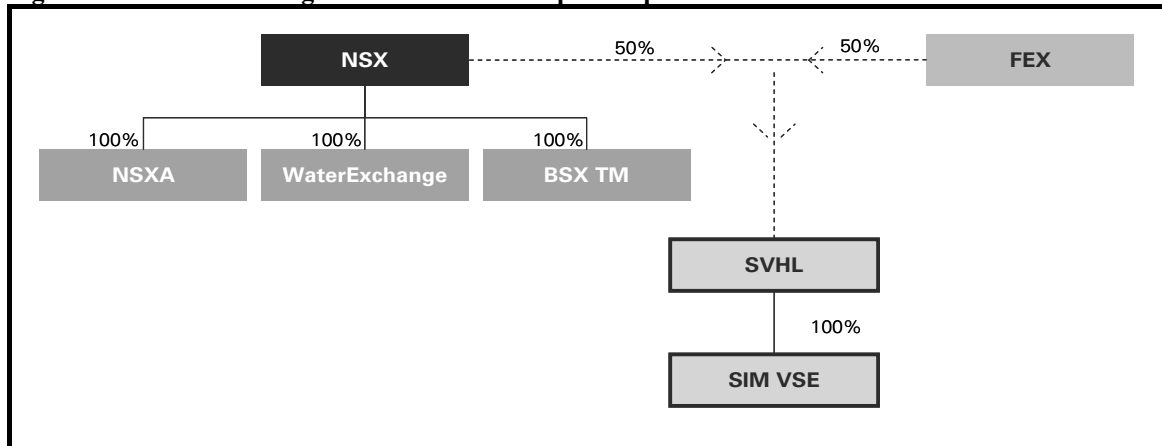
We have also considered the operational differences that may arise under the two structures. However, we have been advised that there would be no operational differences when running the Cleantech exchange under either structure as:

- The operation of the exchange would be the same under either structure
- NSX and FEX will have equal board representation under both structures
- Each will provide the same service to SIM VSE under the same conditions
- NSX will be entitled to the same proportion of SIM VSE's cash flow under either structure, that is they would be entitled to only 50 percent of the total cash flow.

### **9.3 NSX Limited – Post transaction**

The following diagram outlines the organisational structure of NSX and the ownership structure of SIM VSE if the Proposed Transaction is approved and finalised.

**Figure 5: NSX Limited organisation structure – post acquisition**



Source: NSX Limited

#### 9.4 Consequences of not approving the Proposed Transaction

If the non-associated shareholders to the Proposed Transaction were to vote against the Proposed Transaction, the development of the Cleantech exchange would continue under the unincorporated joint venture structure between SIM VSE and FEX.

#### 9.5 Conclusion on the Proposed Transaction

In Section 9.1, we were unable to attribute any value to either the community enterprise exchange or the Cleantech exchange, and thus we are unable to attribute any value to SIM VSE as a whole. Section 9.2 outlines the advantages and the disadvantages of the incorporated joint venture compared to the unincorporated joint venture.

Based upon the evaluation of the value of SIM VSE, and after reviewing the advantages and disadvantages of the incorporated and unincorporated joint venture structure, in our opinion the Proposed Transaction of \$3 million for a 50 percent equity interest in SIM VSE is both fair and reasonable to the non-associated shareholders to the Proposed Transaction.

## **Appendix 1 – KPMG Disclosures**

### *Qualifications*

The individuals responsible for preparing this report on behalf of KPMG are Ian Jedlin, an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holder of a Master of Commerce from the University of New South Wales and Diana D’Ambra, a Fellow of the Institute of Chartered Accountants in Australia and holder of a Master of Commerce degree from the University of New South Wales. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

### *Disclaimers*

It is not intended that this report should be used or relied upon for any purpose other than KPMG’s opinion as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of NSX. KPMG expressly disclaims any liability to any shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership has been involved in the preparation of the Notice of General Meeting or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Notice of General Meeting as a whole or other documents prepared in respect of the Notice of Meeting.

### *Independence*

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG provided draft copies of this report to management of NSX for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG as stated in this report.

### *Consent*

KPMG consents to the inclusion of this report in the form and context in which it is included with the Notice of General Meeting to be issued to the shareholders of NSX. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.



### *Indemnity*

NSX has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by you of your obligations.

The NSX has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by you or any of your representatives, which is false, misleading or incomplete. The NSX has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to you or any third party as a result of reliance by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by you or any of your representatives, which is false, misleading or incomplete.

### *Professional standards*

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by The Accounting Professional and Ethical Standard Board (APESB).

## **Appendix 2 – Sources of information**

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- NSX Limited financial statements for the half year ended 31 December 2009
- NSX Limited Annual Report for the year ended 30 June 2009
- NSX Limited Annual Report for the year ended 30 June 2008
- BSX Group Limited financial statements for the year ended 30 June 2009
- Bendigo Stock Exchange Limited financial statements for the year ended 30 June 2009
- Bendigo Stock Exchange Limited financial statements for the year ended 30 June 2008
- various ASX company announcements
- various broker and analyst reports and press and media articles
- various reports published by IBISWorld Pty Ltd
- financial information from Bloomberg, IRESS and Datanalysis
- draft NSX Limited Notice of General Meeting, 3<sup>rd</sup> June 2010.

Non-public information:

- Unincorporated Joint Venture Deed
- Shareholder Deed (the Incorporate Joint Venture Agreement)
- Subscription Agreement
- Services Agreement between FEX and SIM VSE
- Services Agreement between NSX and SIMVSE
- SIM VSE (Cleantech exchange) business plan under the incorporated joint venture structure

In addition, we have had discussions with the management of NSX and SIM VSE.