



Hostworks – ASX Media Release

7 December 2007

HOSTWORKS RECOMMENDS PROPOSAL FROM BROADCAST AUSTRALIA TO ACQUIRE ALL SHARES IN HOSTWORKS FOR \$0.41 CASH PER SHARE

Hostworks Group Limited (“**Hostworks**”) has today entered into an agreement with Broadcast Australia Pty Limited (“**Broadcast Australia**”) whereby Broadcast Australia would acquire all of the shares in Hostworks via a Scheme of Arrangement for \$0.41 cash per share.

The Scheme of Arrangement is subject to the approval of Hostworks shareholders at a Scheme meeting likely to be held in mid February 2008, and the approval of the Court.

The proposed acquisition has the unanimous recommendation of the independent directors of Hostworks¹, who recommend that:

- it is in the best interests of Hostworks shareholders; and
- Hostworks shareholders vote in favour of the proposal at the Scheme meeting,

in both cases in the absence of a superior proposal and subject to confirmation from the independent expert.

In recommending the \$0.41 cash per share offer, the board of Hostworks notes that Broadcast Australia’s offer represents:

- a premium of 37% to the latest closing price of Hostworks shares;
- a premium of 73% to the 3-month VWAP price of Hostworks shares ;
- an implied enterprise value multiple of 26.8x FY2007 EBIT and 20.3x the median broker forecast EBIT for FY2008²; and
- a premium of 17 % to the median broker valuation per share.³

Broadcast Australia is Australia’s leading independent broadcast transmission service provider and is a wholly owned subsidiary of ASX listed Macquarie Communications Infrastructure Group (MCG). Broadcast Australia provides fully managed transmission services for its core broadcast customers from an extensive broadcast transmission network across metropolitan, regional and rural Australia.

Broadcast Australia’s chief executive officer, Graeme Barclay, said: “We are pleased to have entered into an agreement to acquire Hostworks, which enhances Broadcast Australia’s core business of being a trusted provider connecting content owners to customers across multiple platforms.”

¹ Mr Peter Shore has abstained from considering the proposed transaction and making a recommendation due to his involvement with Macquarie Capital, a part of Macquarie Group Limited. Broadcast Australia is part of Macquarie Communications Infrastructure Group (‘MCG’) which is managed by a Macquarie Capital Group Limited subsidiary.

² Median broker forecast EBIT of \$3.4m (Linwar: \$3.8m; Micro Equities: \$3.4m; BBY: \$1.8m)

³ Median broker valuation per share: \$0.35 (Linwar: \$0.38; Micro Equities: \$0.35; BBY: \$0.28)

Marty Gauvin, Hostworks Managing Director, said “In the eight years since foundation, Hostworks has become recognized as Australia’s leading provider of managed services for on-line media and entertainment companies and management and hosting services for a broad range of critical applications. Broadcast Australia’s proposal represents an excellent outcome for our shareholders as well as providing significant benefits for customers and employees.”

The board and management of Hostworks has considered the Broadcast Australia proposal carefully and considers that it delivers immediate value to shareholders and provides them with highly attractive consideration for their shares. It also provides a significant opportunity for Hostworks to build its capacity and services capabilities.

Marty Gauvin and Stephen Chapman and associated entities, Hostworks’ major shareholders, have granted Broadcast Australia an option over 19.0% of Hostworks shares subject to certain conditions. The key terms of the option agreements are set out in Appendix 2. Furthermore, each independent director of Hostworks, intends to vote all shares they hold in favour of the proposal at the Scheme meeting.

The Broadcast Australia offer is \$0.41 cash per share. Unlisted option holders will also have an opportunity to realise this amount, adjusted for the exercise price of outstanding options.

Further details regarding the Hostworks board’s recommendation and the independent expert report from KPMG will be provided to Hostworks shareholders in a detailed Scheme booklet that Hostworks aims to distribute in January 2008. Broadcast Australia is part of MCG which is managed by a Macquarie Capital Group Limited subsidiary. Hostworks notes that its Chairman, Peter Shore, is a senior executive of Macquarie Capital, a part of Macquarie Group Limited. As such, he has been excluded from all discussion by and deliberations of the Hostworks board in relation to the proposal.

Key terms of the Scheme Implementation Agreement entered into between Hostworks and Broadcast Australia are set out in attached Appendix 1.

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Broadcast Australia:

Graeme Barclay, chief executive officer: +61 (0)2 8113 4602 or +61 (0) 413 854 353

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Appendix 1

Scheme Implementation Agreement – Key Terms

The scheme implementation agreement (“SIA”) entered into by Hostworks and Broadcast Australia imposes obligations on the parties to proceed with the proposed Scheme of Arrangement. This attachment summarises the key points of the SIA.

1. Scheme Proposal

Hostworks will propose a Scheme of Arrangement pursuant to which Broadcast Australia will acquire all of the issued share capital in Hostworks for \$0.41 cash per share less any amount that Hostworks shareholders (who are on the Hostworks register before the Scheme is implemented) are entitled to receive by way of a dividend, distribution or capital return.

2. Conditions

Implementation of the Scheme is subject to conditions precedent (which will be set out in full in the scheme booklet) including:

- a. **(regulatory approvals)** the obtaining of any approvals required from regulatory authorities (including ASIC and ASX) and government agencies which are necessary to implement the Scheme;
- b. **(shareholder approval)** the approval of the Scheme by the shareholders of Hostworks;
- c. **(no restraints)** there being no orders made by a Court or regulatory authority that restrains implementation of the Scheme;
- d. **(no warranty/representation breach)** no breach of warranty or representation under the SIA by Hostworks or Broadcast Australia;
- e. **(no material adverse change)** there being no event which could have a “material adverse effect” on the business, assets, liabilities, financial or trading position, profitability or prospects of Hostworks, including in the following circumstances:
 - i. Hostworks' reported EBIT for the six months ending 31 December 2007 is less than \$1.6 million ignoring Hostworks' costs in relation to the Scheme and the SIA;
 - ii. Hostworks' working capital position as at 5pm on the last day of the month prior to the Second Court Date is less than \$3.4 million ignoring Hostworks' costs in relation to the Scheme and the SIA; or
 - iii. there is a diminution of net assets of Hostworks greater than \$1.6 million from 30 June 2007 ignoring Hostworks' costs in relation to the Scheme and the SIA;

- f. **(no prescribed occurrences and other events)** there being no “prescribed occurrence” (broadly, the events listed in s652C of the Corporations Act) and other certain prescribed events; and
- g. **(options)** before 8.00am on the first business day after the date of the Scheme meeting:
 - i. all Hostworks options have been cancelled, subject to the Scheme becoming effective, or
 - ii. all holders of options under the Hostworks Employee Share Option Plan (ESOP) have been notified that their options are exercisable in accordance with ESOP rules, and all other options have been cancelled, in each case subject to the Scheme becoming effective.

The scheme also requires Court approval in accordance with 411(4)(b) of the Corporations Act.

3. Exclusivity

From execution of the SIA until 31 May 2008 (**Sunset Date**) or the earlier termination of the SIA, Hostworks must:

- a. comply with no-shop obligations;
- b. comply with no-talk obligations. The no talk obligation does not restrict Hostworks or the independent directors from:
 - i. writing to any third party that approaches Hostworks (**Third Party**) to inform them of the circumstances in which Hostworks and its advisers may participate in discussions or negotiations with the Third Party in respect of a competing transaction (by reference to this announcement) (**Written Response Out**), or
 - ii. participating in discussions or negotiations with the Third Party in respect of a competing transaction provided:
 - I. the competing transaction is bona fide and is made in writing by or on behalf of a person that each of the independent directors consider is of reputable commercial standing; and
 - II. the independent directors have determined in good faith and acting reasonably after:
 - consultation with Hostworks' independent financial adviser, that the competing transaction is capable of being valued and completed and is of higher financial value to Hostworks and Hostworks shareholders than the Broadcast Australia transaction, after taking into account all aspects of the competing transaction (including its terms and conditions) and the person making it; and

- receiving written advice from its external legal adviser practising in the area of corporate law, that failing to respond to such a bona fide competing transaction would more likely than not constitute a breach of the independent directors' fiduciary duties or statutory obligations (Fiduciary Out).
- c. not provide information to a third party in connection with a competing transaction, subject to the Written Response Out and the Fiduciary Out (in which case Broadcast Australia also must get a copy of that information to the extent it has not been provided with that information); and
 - d. notify Broadcast Australia of all material details of any approaches or requests for information, or intention to provide information or take any action in reliance on the Written Response Out or the Fiduciary Out.

Before the Hostworks Board approves or recommends a competing transaction, it must ensure that the competing transaction is bona fide and would result in the acquisition of 100% of Hostworks if successfully implemented, and that Broadcast Australia is given 3 business days to put a counterproposal, and may only approve or recommend the other competing transaction if it is still a superior offer after Broadcast Australia's counterproposal rights have been exhausted. For this purpose, each successive modification of a third party's proposal in relation to a competing transaction constitutes a new competing transaction.

Hostworks has warranted to Broadcast Australia that it is not currently in discussions in relation to a competing transaction.

4. Break Fee

Hostworks has agreed to reimburse Broadcast Australia \$675,000 of its costs, if, amongst other things:

- a. any of the independent directors of Hostworks fails to make, or withdraws, a recommendation to shareholders in favour of the Scheme except in circumstances where the independent expert report commissioned by Hostworks concludes that the transaction is not in the best interests of Hostworks shareholders;
- b. any Hostworks director recommends or promotes a Competing Transaction;
- c. the Court does not approve the Scheme due to Hostworks' material non-compliance with the SIA;
- d. the Scheme does not become effective prior to the Sunset Date due to non-compliance by Hostworks with the SIA (including due to Hostworks delaying the Scheme meeting as result of a competing transaction);
- e. Hostworks shareholders do not approve the Scheme;
- f. a competing transaction is announced and is effected within 9 months of its announcement or, within 3 months of that competing transaction being announced, the Hostworks independent directors unanimously recommend it in the absence of a

superior proposal and no superior proposal is subsequently announced by Broadcast Australia;

- g. a third party (other than Broadcast Australia) obtains control of, or merges with Hostworks, or otherwise acquires the whole or a substantial part of the business or assets of Hostworks; or
- h. Broadcast Australia terminates the SIA due to Hostworks' breach.

5. Termination

The SIA may be terminated in a number of circumstances, including:

- a. by either party, if the Scheme has not been implemented by the Sunset Date; or the other party is in material breach of the SIA and has not rectified the breach within 5 business days after notice of the breach is given to it (or any shorter period ending on the second Court date); or the scheme is not approved by shareholders or the Court; or the Scheme has been permanently restrained by a court or regulatory authority, or the conditions precedent for the terminating party's benefit are not satisfied or waived;
- b. by Broadcast Australia, if an independent director fails to recommend the Scheme or makes or withdraws his recommendation that Hostworks shareholders vote in favour of the Scheme, or makes a public statement indicating that he no longer supports the Scheme; or if a Hostworks representation or warranty is breached and the breach (i) cannot be remedied before the second Court hearing and was of a kind that would have affected Broadcast Australia's willingness to enter into the SIA on its terms; or (ii) amounts to a material adverse event; or if a Court or regulatory authority prevents Broadcast Australia from enjoying the benefit of its rights under the SIA; and
- c. by Hostworks if a Broadcast Australia representation or warranty is breached and the breach cannot be remedied before the second Court hearing and was of a kind that would have affected Hostworks' willingness to enter into the SIA on its terms; or the independent directors have changed their recommendation prior to the Scheme meeting.

6. Options

Subject to receiving all necessary ASX waivers, option holders will have an opportunity to realise \$0.41 per option held by them (less any amount Hostworks shareholders (who are on the Hostworks register before the Scheme is implemented) are entitled to receive by way of a dividend, distribution or capital return), less the exercise price of the option, in consideration for the cancellation of their options. The consideration will be paid on the implementation date of the Scheme from funds made available to Hostworks by Broadcast Australia.

Appendix 2

Option Deeds – Key Terms

On 7 December 2007 Marty Gauvin and Stephen Chapman, and their associated entities, granted to Broadcast Australia an option to acquire a portion of their respective holdings in Hostworks shares. The total number of shares which are the subject of the option deeds is 31,088,855 or 19.0% of the issued share capital of Hostworks.

The key terms of the option deeds are summarised below:

- a. **(Consideration)** If the option is exercised, Broadcast Australia will pay to Marty Gauvin and Stephen Chapman, and their associated entities, the same amount per Hostworks share as it pays to all other Hostworks shareholders, being \$0.41 per share, less any amount paid to members as a dividend, distribution or capital return the record date for which occurs after 7 December 2007 but on or before the date the option is exercised.
- b. **(Option period)** The option period commences on the date of the option deed and ends on the later of:
 - i. the date 20 Business Days after the date of the Scheme meeting;
 - ii. if a Scheme meeting is not convened by Hostworks by 7 April 2008; and
 - iii. if an alternative proposal is announced prior to the earlier of the dates referred to above, the date 20 business days after the alternative proposal is announced.

At the end of the option period, the option will lapse.

- c. **(Exercise)** Broadcast Australia may only exercise the option during the last 10 business days before the option period ends and the option may only be exercised in respect of all of the shares.
- d. **(Scheme not approved/no alternative proposal)** If the Scheme is not approved by shareholders or the Court, and no alternative proposal has been announced, the option will immediately lapse.
- e. **(Voting)** – Marty Gauvin and Stephen Chapman, and their associated entities, are free to vote their Hostworks shares as they see fit.