

# Scheme Booklet

7 September 2007

**Your Directors unanimously recommend  
that you**

**VOTE IN FAVOUR**

**of the Schemes in the absence of  
a Superior Proposal.**

In relation to the proposed acquisition of Southern Cross Broadcasting (Australia) Limited (ABN 86 006 186 974) by Macquarie Media Group through the acquisition vehicle Regional Media No.2 Pty Limited (ACN 124 720 289) (Share Scheme).

And in relation to the proposed cancellation of Southern Cross Broadcasting Options (Option Scheme).

Each Director intends to vote the Southern Cross Broadcasting Shares over which he or she has voting control in favour of the Share Scheme in the absence of a Superior Proposal.

The Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders.

The Independent Expert has also concluded that the Option Scheme is in the best interests of Option Holders.

Financial Adviser



Legal Adviser



# Important notices and disclaimers

## Read this document carefully

This document is important. You should carefully read this document in its entirety before making a decision as to how to vote on the resolutions to be considered at the Meetings. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

## Responsibility statement

The SCB Information has been prepared by SCB and is the responsibility of SCB. MMG, RM2, Fairfax Media and their directors, officers and advisers, and the advisers of SCB, do not assume any responsibility for the accuracy or completeness of the SCB Information.

The MMG Information has been prepared by MMG and RM2 and is the responsibility of MMG and RM2. SCB, Fairfax Media and their directors, officers and advisers, and the advisers of MMG and RM2, do not assume any responsibility for the accuracy or completeness of the MMG Information.

The Fairfax Media Information has been prepared by Fairfax Media and is the responsibility of Fairfax Media. SCB, MMG, RM2 and their directors, officers and advisers, and the advisers of Fairfax Media, do not assume any responsibility for the accuracy or completeness of the Fairfax Media Information.

Except as set out below, SCB, MMG, RM2, Fairfax Media and their respective directors, officers and advisers (other than Corrs Chambers Westgarth) do not assume any responsibility for the accuracy or completeness of the Share Scheme Tax Opinion. SCB does, however, assume responsibility for the accuracy and completeness of the Share Scheme Tax Opinion to the extent that the opinions rely upon information given to Corrs Chambers Westgarth by SCB.

## Role of ASIC

A copy of this Scheme Booklet has been given to ASIC pursuant to section 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, in respect of each of the Schemes, that ASIC has no objection to the Schemes. If ASIC provides the statements then those statements will be produced to the Court at the time of the Second Court Date. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

## Court process

The Supreme Court of Victoria Rules provide a procedure for Shareholders or Option Holders (as the case may be) to oppose the approval by the Court of the Schemes or to otherwise make representations to the Court in relation to the Schemes. If you wish to appear at the hearing before the Court that will determine whether the Schemes are to be approved, you may do so by filing with the Court and serving on SCB a notice of appearance in the prescribed form together with any affidavit upon which you wish to rely at the hearing. The notice of appearance and affidavit must be served on SCB at least one day before the hearing date which is currently expected to occur on 26 October 2007. Any change to this date will be announced to ASX and is typically published by ASX on its website, [www.asx.com.au](http://www.asx.com.au). Alternatively, the Court has a discretion to grant you leave to be heard at the hearing even if you have not complied with these requirements.

## Notice to Shareholders and Option Holders in jurisdictions outside Australia

This Scheme Booklet complies with Australian disclosure requirements and Australian accounting standards. These disclosure requirements and accounting standards may be different to those in other countries.

Shareholders and Option Holders who are subject to taxation outside Australia should consult their tax adviser as to the applicable tax consequences of the Schemes.

## Investment decisions

This Scheme Booklet does not take into account your individual investment objectives, financial situation or needs. The information in this document should not be relied upon as the sole basis for any investment decision. You should seek

independent financial, tax and other professional advice before making any investment decision.

## Forward looking statements

Certain statements in this Scheme Booklet are about the future. You should be aware that there are a number of risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of SCB to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Deviations as to future conduct, results, performance and achievements are both normal and to be expected.

None of SCB, RM2, MMG or Fairfax Media, their directors, officers and advisers, or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur. You are cautioned about relying on any such forward looking statements.

The forward looking statements in this Scheme Booklet reflect views held only as of the date of this Scheme Booklet. Subject to the Corporations Act and any other applicable laws or regulations, SCB, RM2, MMG and Fairfax Media disclaim any duty to update these statements other than with respect to information that they become aware of prior to the Scheme Meetings which is material to the making of a decision regarding whether or not to vote in favour of the Schemes.

## Defined terms and interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary of Terms. The Glossary of Terms also sets out some rules of interpretation which apply to this Scheme Booklet.

## Privacy and personal information

SCB, RM2 and MMG need to collect personal information to implement the Schemes. The personal information may include the names, contact details and details of holdings of Shareholders and Option Holders, together with contact details of individuals appointed as proxies, representatives of bodies corporate or attorneys at the Scheme Meetings. The collection of some of this information is required or authorised by the Corporations Act.

Shareholders and Option Holders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. Shareholders may contact the Share Registry if they wish to exercise those rights. Option Holders may contact SCB.

The information may be disclosed to SCB's, RM2's and MMG's advisers and service providers to the extent necessary to effect the Schemes.

If the information outlined above is not collected, SCB may be hindered in, or prevented from, conducting the Scheme Meetings or implementing the Schemes effectively, or at all.

Shareholders and Option Holders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meetings should inform that individual of the matters outlined above.

## Entitlement to inspect Share and Option Registers

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

It is also noted that, under section 168 of the Corporations Act, SCB is required to maintain the Option Register and copies of documents granting Options. Under the Corporations Act, any Option Holder has a right to inspect and to ask for a copy of the Option Register which contains details of the name and address of Option Holders and other details regarding the terms of the Options. A copy of the Option Register will be made available to an Option Holder who requests a copy.

## Date of this Scheme Booklet

This Scheme Booklet is dated 7 September 2007.

**IF YOU HAVE ANY QUESTIONS OR REQUIRE FURTHER INFORMATION, PLEASE CONTACT THE SHAREHOLDER INFORMATION LINE ON 1800 127 953 (WITHIN AUSTRALIA) AND +61 2 8280 7720 (FROM OUTSIDE AUSTRALIA) DURING BUSINESS HOURS. IF YOU ARE IN ANY DOUBT ABOUT ANYTHING IN THIS SCHEME BOOKLET, PLEASE CONTACT YOUR LEGAL, FINANCIAL, TAXATION OR OTHER PROFESSIONAL ADVISER.**

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## Important dates and timetable for the Schemes

Scheme Booklet and notices of meetings despatched to Shareholders and Option Holders	<b>17 September 2007</b>
Latest date and time for lodgement of completed proxy form	<b>Option Scheme 17 October 2007, 8.30am</b>
	<b>Share Scheme 17 October 2007, 10.00am</b>
Date and time for determining eligibility to vote at the Scheme Meetings	<b>Option Scheme 17 October 2007, 8.30am</b>
	<b>Share Scheme 17 October 2007, 10.00am</b>
Date and time of the Scheme Meetings	<b>Option Scheme 19 October 2007, 8.30am</b>
	<b>Share Scheme 19 October 2007, 10.00am</b>

### **If the Schemes are approved by Scheme Participants:**

Option Scheme Record Date and time for determining entitlements to the Option Scheme Payment	<b>25 October 2007, 7.00pm (Option Scheme Record Date)</b>
Second Court Date for approval of the Schemes	<b>26 October 2007</b>
Lodge Court orders with ASIC Shares cease trading on ASX at Close of Trading	<b>26 October 2007 (Effective Date)</b>
Option Scheme Payment made to Option Holders and Options cancelled	<b>27 October 2007 (Option Scheme Implementation Date)</b>
Share Scheme Record Date and time for determining entitlements to the Share Scheme Payment	<b>2 November 2007, 7.00pm (Share Scheme Record Date)</b>
Share Scheme Payment made to Share Scheme Participants	<b>5 November 2007 (Share Scheme Implementation Date)</b>

All dates and times are Melbourne, Victoria times and are indicative only. The actual timetable will depend on many factors outside the control of SCB, including the Court approval process and satisfaction of other Conditions Precedent. Any changes to the above timetable will be announced to ASX and on SCB's website at [www.southerncrossbroadcasting.com.au](http://www.southerncrossbroadcasting.com.au).



## Letter to Shareholders from the Southern Cross Broadcasting Chairman

7 September 2007

Dear Shareholder

On 3 July 2007, Southern Cross Broadcasting (Australia) Limited (**SCB**) and Macquarie Media Group (**MMG**) agreed terms on which MMG's acquisition vehicle, Regional Media No. 2 Pty Ltd (**RM2**) would, subject to the approval of Shareholders and the Court, acquire under a scheme of arrangement (**Share Scheme**) all of the Shares of SCB which the MMG Group does not already own.

***The Board of SCB unanimously recommends that Shareholders vote in favour of the Share Scheme, in the absence of a Superior Proposal. Each member of the Board intends to vote in favour of the Share Scheme in respect of the Shares held by them or on their behalf, in the absence of a Superior Proposal.***

The Share Scheme is to be voted on by Shareholders on 19 October 2007. This Scheme Booklet contains extensive information relating to the Share Scheme, including the rationale for the Directors recommendation and an Independent Expert's Report. It also contains information relating to a separate scheme of arrangement (**Option Scheme**) under which it is proposed that Option Holders agree to cancel all outstanding Options in return for a cash payment. The Option Scheme is necessary to address the condition of the Share Scheme that there be no unexercised options in SCB on issue as at the Share Scheme Implementation Date.

I encourage you to read this Scheme Booklet carefully in order to make a fully informed decision on how to vote.

### **Share Scheme Terms**

Under the terms of the Share Scheme, Fully Paid Shareholders will receive a cash payment of \$17.41 per Share (**Share Scheme Payment**), comprising Share Scheme Consideration of \$17.05 cash per Share and a Special Dividend of \$0.36 per Share.

Regardless of whether or not the proposed Schemes are implemented, Fully Paid Shareholders on the register as at 19 September 2007 will receive the Final Dividend for the period ended 30 June 2007 of \$0.37 per Share, which the Board declared on 23 August 2007.

### **Independent Expert's Conclusion**

Grant Samuel has been appointed by the Board to provide an Independent Expert's Report regarding the merits of the Schemes for Shareholders and Option Holders.

The Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders. In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB is between \$15.58 and \$17.66 per Fully Paid Share, which assumes 100% of the company was available to be acquired and includes a premium for control.

The full Independent Expert's Report is available in **Annexure A**.

### **Conditions Precedent**

In addition to the approval of Shareholders and the Court, implementation of the Share Scheme is conditional on the satisfaction or waiver of a number of other matters, including approvals from relevant

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Australian regulatory bodies, namely the ACCC, ACMA and FIRB (if required). These Conditions Precedent are summarised in **Sections 4.3** and **4.4**. The Share Scheme is also conditional on the Option Scheme being approved by the Requisite Majority of Option Holders and being subsequently approved by the Court (or there being no Options outstanding as at 8:00am on the Second Court Date). Details of the Option Scheme are summarised in **Section 8**. That section is not directly relevant to Shareholders unless they are also Option Holders.

### **Share Scheme Meeting**

The Share Scheme Meeting will be held on 19 October 2007 at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne at 10.00am (Melbourne Time).

Shareholders can either vote in person at the Share Scheme Meeting or complete and return the enclosed proxy form to be received by no later than 10.00am on 17 October 2007.

### **Additional Information**

If after reading this Scheme Booklet you have any outstanding questions, we have established a Shareholder Information Line which you can call if you have any queries in relation to the Share Scheme.

The telephone number for the Shareholder Information Line is 1800 127 953 (if in Australia) or +61 2 8280 7720 (if outside Australia) during business hours.

Yours faithfully



**John C Dahlsen**  
Chairman

## Letter to Option Holders from the Southern Cross Broadcasting Chairman

7 September 2007

Dear Option Holder

On 3 July 2007, Southern Cross Broadcasting (Australia) Limited (**SCB**) and Macquarie Media Group (**MMG**) agreed terms on which MMG's acquisition vehicle, Regional Media No. 2 Pty Ltd (**RM2**) would, subject to the approval of Shareholders and the Court, acquire under a scheme of arrangement (**Share Scheme**) all of the Shares of SCB which the MMG Group does not already own.

It is a condition of the Share Scheme that there are no unexercised options in SCB on the Share Scheme Implementation Date. To ensure that this condition is satisfied, SCB is also proposing that holders of Options (**Option Holders**) agree to cancel their Options in return for a cash payment under a separate scheme of arrangement (**Option Scheme**).

***The Board of SCB unanimously recommends that Option Holders vote in favour of the Option Scheme, in the absence of a more favourable proposal. Anthony Bell, the only Director who holds Options, intends to vote any Options which he holds, and which remain on issue as at the date of the Option Scheme Meeting, in favour of the Option Scheme, in the absence of a more favourable proposal.***

The Option Scheme is to be voted on by Option Holders on 19 October 2007. This Scheme Booklet contains extensive information relating to both of the Schemes, including the rationale for the Directors' recommendation and an Independent Expert's Report.

I encourage you to read this Scheme Booklet carefully in order to make a fully informed decision on how to vote.

### **Option Scheme Terms**

Under the terms of the Option Scheme, Option Holders will receive a cash payment of \$17.05 cash per Option less the exercise price (if any) of that Option (**Option Scheme Payment**). Option Holders who wish to receive either the \$0.37 Final Dividend or \$0.36 Special Dividend to which Share Scheme Participants will be entitled will need to exercise their Options no less than 2 Business Days before the relevant record date for those dividends, so that they become Shareholders as at the relevant record date.

### **Independent Expert's Conclusion**

Grant Samuel has been appointed by the Board to provide an Independent Expert's Report regarding the merits of the Schemes for Shareholders and Option Holders.

The Independent Expert has concluded that the Option Scheme is in the best interests of Option Holders.

The full Independent Expert's Report is available in **Annexure A**.

### **Conditions Precedent**

In addition to the approval of Option Holders and the Court, implementation of the Option Scheme is conditional on the Court having approved the Share Scheme.

### **Option Scheme Meeting**

The Option Scheme Meeting will be held on 19 October 2007 at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne at 8.30am (Melbourne Time).

Option Holders can either vote in person at the Option Scheme Meeting or complete and return the enclosed proxy form to be received by no later than 8.30am on 17 October 2007.

### **Additional Information**

If after reading this Scheme Booklet you have any outstanding questions, we have established a Shareholder Information Line which you can call if you have any queries in relation to the Schemes.

The telephone number for the Shareholder Information Line is 1800 127 953 (if in Australia) or +61 2 8280 7720 (if outside Australia) during business hours. If you have a query specific to the Option Scheme, please contact Mr Eddie Chia on (03) 9243 2100 during business hours.

Yours faithfully



**John C Dahlsen**  
Chairman

## Share Scheme highlights

This section describes some key highlights of the Share Scheme. The information is a summary only and should be read in conjunction with the entire Scheme Booklet. You should read the entire Scheme Booklet (including the Board's recommendations and the key reasons for the recommendations set out in **Section 2**) before deciding how to vote on the Share Scheme.

<b>Share Scheme Payment of \$17.41 cash per Fully Paid Share</b>	<p>The proposal from MMG includes the Share Scheme Payment of \$17.41 per Fully Paid Share, comprising Share Scheme Consideration of \$17.05 cash per Fully Paid Share and a Special Dividend of \$0.36 per Share.</p> <p>Partly Paid Shareholders will receive the Share Scheme Payment of \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares.</p>
<b>Directors unanimously recommend the Share Scheme</b>	<p>The Board unanimously recommends that Shareholders vote in favour of the Share Scheme, in the absence of a Superior Proposal. Each Director intends to vote the Shares over which they have voting control in favour of the Share Scheme, in the absence of a Superior Proposal.</p>
<b>Share Scheme Payment represents a significant premium over historic share prices and research analysts' valuations</b>	<p>The Share Scheme Payment represents a 29.8% premium to the volume weighted average price of Fully Paid Shares of \$13.41 (excluding the acquisition of MMG's strategic stake) in the three months to 16 November 2006, the day before MMG announced the acquisition of its strategic stake in SCB.</p> <p>In considering the valuation premium implied by the Share Scheme Payment, the Board believes comparisons to the price of Fully Paid Shares beyond 16 November 2006 to be less relevant given the significant and ongoing speculation in the market regarding a potential takeover of SCB.</p> <p>The Share Scheme Payment also represents a 20.2% premium to SCB's closing price for Fully Paid Shares of \$14.49 on 16 November 2006.</p> <p>The Share Scheme Payment represents a 28.8% premium to the average of research analysts' fundamental valuations of Fully Paid Shares on 3 July 2007 when the Transaction was announced.</p>
<b>Implied valuation multiple is attractive having regard to precedent transactions</b>	<p>The Share Scheme Payment implies a valuation multiple of approximately 12.9x consolidated normalised EBITDA for the 12 months ending 30 June 2007. After excluding Southern Star and its associates at a value of \$140 - \$155 million (per the valuation in the Independent Expert's Report), the implied valuation multiple for SCB's remaining television, radio and associated businesses is 13.6x – 13.8x, which the Board believes is attractive having regard to recent precedent control transaction multiples for television and radio businesses in Australia.</p> <p>Further detail is set-out in <b>Section 2.2(c)</b>.</p>
<b>Share Scheme Payment distributes available franking credits to Shareholders</b>	<p>The Share Scheme Payment includes a fully franked Special Dividend of \$0.36 per Share, allowing Share Scheme Participants (depending on their individual tax positions) to capture incremental value from available franking credits.</p>
<b>Independent Expert concludes that Share Scheme is in the best interests of Shareholders</b>	<p>The Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders. In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB is between \$15.58 and \$17.66 per Fully Paid Share.</p>
<b>Timely and certain value realisation</b>	<p>The Share Scheme offers Shareholders the opportunity to realise the value of their Shares in a timely and certain manner.</p>
<b>No brokerage or stamp duty payable</b>	<p>No brokerage or stamp duty will be payable on the transfer of Shares pursuant to the Share Scheme.</p>
<b>No Superior Proposal has emerged</b>	<p>Since announcement of the Transaction on 3 July 2007, no Superior Proposal has emerged.</p>
<b>Major Shareholders support the Transaction</b>	<p>452 Capital Pty Limited and Perpetual Limited, two major Shareholders of SCB, have indicated their support for the Transaction and their intention to vote Shares over which they have voting rights in favour of the Share Scheme, in the absence of a Superior Proposal and provided no material change in circumstances.</p>

## Option Scheme highlights

This section describes some key highlights of the Option Scheme. The information is a summary only and should be read in conjunction with the entire Scheme Booklet. You should read the entire Scheme Booklet (including the Board's recommendations and the key reasons for the recommendations set out in **Section 8**) before deciding how to vote on the Option Scheme.

<b>Option Scheme Payment</b>	If the Option Scheme is implemented, all SCB Options on issue as at the Option Scheme Record Date will be cancelled by SCB with effect from the Option Scheme Implementation Date in return for an agreed cash payment ( <b>Option Scheme Payment</b> ).
<b>Value of Options based on Share Scheme Consideration</b>	The Option Scheme Payment which you will receive upon cancellation of your Options is equal to the Share Scheme Consideration of \$17.05 payable to Fully Paid Shareholders under the Share Scheme, less the exercise price (if any) of your Options.
<b>Directors unanimously recommend the Option Scheme</b>	The Board unanimously recommends that you vote in favour of the Option Scheme, in the absence of a more favourable proposal. Anthony Bell, the only Director who holds Options, intends to vote any Options which he holds, and which remain on issue as at the date of the Option Scheme Meeting, in favour of the Option Scheme, in the absence of a more favourable proposal.
<b>No performance conditions</b>	If the Option Scheme becomes Effective, Option Holders will receive the Option Scheme Payment irrespective of whether or not any performance conditions attaching to their Options are likely to be satisfied.
<b>Independent Expert concludes that Option Scheme is in the best interests of Option Holders</b>	The Independent Expert has concluded that the Option Scheme is in the best interests of Option Holders.
<b>Timely and certain value realisation</b>	The Option Scheme offers Option Holders the opportunity to realise the value of their Options in a timely and certain manner.

## Questions and answers

This section answers some basic questions you may have about the Schemes. The information is a summary only and should be read in conjunction with the entire Scheme Booklet. You should read the entire Scheme Booklet (including the Board's recommendations and the key reasons for the recommendations set out in **Section 2 and 8**) before deciding how to vote on the Schemes.

### **Why are the Schemes being proposed?**

The Schemes are being proposed to allow Shareholders and Option Holders to realise the value of their securities. The Share Scheme provides Shareholders with the opportunity to receive the Share Scheme Payment of \$17.41 cash per Fully Paid Share, which the Board believes is in the best interests of Shareholders. The Option Scheme provides Option Holders with the opportunity to receive the Option Scheme Payment for their Options. The Board believes it is in the best interests of Option Holders who have not exercised their Options to approve the Option Scheme.

### **What will I receive if the Schemes are approved?**

Share Scheme Participants who hold Fully Paid Shares will receive the Share Scheme Payment of \$17.41 cash per Fully Paid Share, which will comprise Share Scheme Consideration of \$17.05 cash per Fully Paid Share and a Special Dividend of \$0.36 per Share. Share Scheme Participants who hold Partly Paid Shares will receive the Share Scheme Payment of \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares. Option Holders will receive the Option Scheme Payment calculated in accordance with **Section 8.5**.

### **Is the Special Dividend dependent on the Schemes being approved?**

Yes. If the Schemes do not become Effective, Shareholders will not be entitled to receive the Special Dividend of \$0.36 per Share.

### **Is the Final Dividend dependent on the Schemes being approved?**

No. Irrespective of the outcome of the Schemes, Fully Paid Shareholders on the Share Register as at 7.00pm on 19 September 2007 will receive a Final Dividend for the period ended 30 June 2007 of \$0.37 per Fully Paid Share to be paid on 28 September 2007.

### **Who is entitled to the Share Scheme Payment?**

All Share Scheme Participants are entitled to receive the Share Scheme Payment in respect of each Share they hold at the Share Scheme Record Date (expected to be 2 November 2007). For Share Scheme Participants who hold Fully Paid Shares, the Share Scheme Payment is \$17.41, consisting of Share Scheme Consideration of \$17.05 and the Special Dividend of \$0.36. For Share Scheme Participants who hold Partly Paid Shares, the Share Scheme Payment is \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares.

### **If the Schemes are implemented, when will I receive my money?**

If both Schemes are approved by the Relevant Requisite Majority and are subsequently approved by the Court (or the Share Scheme is approved by the Requisite Majority of Shareholders and the Court and there are no outstanding Options as at 8.00am on the Second Court Date), the Share Scheme Payment will be sent to Share Scheme Participants on the Share Scheme Implementation Date, which is expected to be 5 November 2007, and (assuming there are outstanding Options as at 8:00am on the Second Court Date) the Option Scheme Payment will be sent to Option Holders on the Option Scheme Implementation Date, which is expected to be 27 October 2007.

You should be aware that if the Scheme Meetings are adjourned or the Effective Date is otherwise delayed, the timing of the payments will also be delayed (but, in that case, Share Scheme Participants will retain ownership of their Shares until the Share Scheme is implemented, and Options will not be cancelled until the Option Scheme is implemented).

If you have previously disclosed your bank account details (for an account with any Australian ADI) to SCB (or the Share Registry) for the purposes of SCB making dividend payments, the Share Scheme Payment or Option Scheme Payment (as the case may be) will be electronically transferred into that account unless, before the relevant Scheme Record Date, you direct the Share Registry otherwise. If you have not disclosed such bank account details to SCB, you will be paid by cheque to be sent to your registered address as shown in the Share Register or Option Register (as the case may be).

### **Will this be a taxable transaction for Australian tax purposes?**

The transfer of your Shares and receipt of the Special Dividend pursuant to the Share Scheme, or the cancellation of your Options pursuant to the Option Scheme (as the case may be), may be taxable transactions. Further details of the general tax consequences of the Share Scheme are set out in the Share Scheme Tax Opinion in **Annexure E**. You should seek your own professional advice regarding your particular circumstances and the Schemes.

### **Will I have to pay brokerage fees or stamp duty in relation to the Schemes?**

No. You will not have to pay any brokerage or stamp duty in connection with the Schemes.

### **What is the premium to the Share price leading up to the announcement?**

The \$17.41 cash per Fully Paid Share that Fully Paid Shareholders will receive under the Share Scheme represents a:

- 28.8% premium to average broker fundamental valuations of SCB of \$13.52 per Fully Paid Share when the Transaction was announced on 3 July 2007;
- 29.8% premium to SCB's three month volume weighted average fully paid share price to 16 November 2006 of \$13.41 (excluding the acquisition of MMG's strategic stake) (16 November being the day before MMG announced the acquisition of its strategic stake in SCB at \$16.50 per Fully Paid Share);
- 20.2% premium to SCB's closing Fully Paid Share price of \$14.49 on 16 November 2006; and
- 8.8% premium to SCB's closing Fully Paid Share price of \$16.00 on 29 June 2007 (being the closing Fully Paid Share price on the last Business Day before SCB went into trading halt in anticipation of announcing the Share Scheme).

### **What do the Directors recommend?**

Your Directors unanimously recommend that, in the absence of a Superior Proposal, Shareholders vote in favour of the Share Scheme and, in the absence of a more favourable proposal, Option Holders vote in favour of the Option Scheme.

### **Will the members of the Board be voting in favour of the Schemes at the Scheme Meeting?**

Each Director intends to vote the Shares over which they have voting control in favour of the Share Scheme. Anthony Bell, the only Director who holds Options, intends to vote any Options he holds and which remain on issue as at the date of the Option Scheme Meeting in favour of the Option Scheme, in the absence of a more favourable proposal.

### **What is the Independent Expert's conclusion?**

The Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders. In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB is between \$15.58 and \$17.66 per Fully Paid Share. The Independent Expert has also concluded that the Option Scheme is in the best interests of Option Holders. The Independent Expert's Report is set out in **Annexure A**.

### **Have any major Shareholders indicated their voting intentions in relation to the Share Scheme?**

452 Capital Pty Limited and Perpetual Limited, two major Shareholders in SCB, have indicated their support for the Transaction and their intention to vote the Shares over which they have voting rights in favour of the Share Scheme, in the absence of a Superior Proposal and provided no material change in circumstances.

### **Can I vote?**

All Shareholders who are registered as Shareholders 48 hours before the Share Scheme Meeting on 19 October 2007 are entitled to vote (but RM2 and its Associates will not vote at the Share Scheme Meeting). The Trustee will vote on behalf of Partly Paid Shareholders (see **Section 5.3**).

All Option Holders who have not exercised their Options prior to 48 hours before the Option Scheme Meeting on 19 October 2007 are entitled to vote at the Option Scheme Meeting.

### **How do I vote?**

You may vote in person by attending the relevant Scheme Meeting, by proxy by completing and lodging the proxy form that is enclosed with this Scheme Booklet, by attorney, or in the case of a corporate Shareholder, by a corporate representative. Shareholders and Option Holders who wish to appoint a proxy should use the proxy form enclosed. Further details on how to vote are set out in the **How to vote at the Share Scheme Meeting** and **How to vote at the Option Scheme Meeting Sections** of this Scheme Booklet.

### **When and where will the Scheme Meetings be held?**

The Scheme Meetings will be held on 19 October 2007 at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne. The Option Scheme Meeting will be held at 8.30am and the Share Scheme Meeting will be held at 10.00am (Melbourne Time).

### **Why should I vote in favour of the Schemes?**

Reasons to vote in favour of the Share Scheme are set out in **Section 2.2**.

Reasons to vote in favour of the Option Scheme are set out in **Section 8.12**.

### **Why might I consider not voting in favour of the Schemes?**

Reasons not to vote in favour of the Share Scheme are set out in **Section 2.3**.

Reasons not to vote in favour of the Option Scheme are set out in **Section 8.13**.

### **What happens if I do not vote, or if I vote against the Schemes?**

If you do not vote or you vote against the Schemes, the Schemes may still be implemented if both Schemes are approved by the Relevant Requisite Majority and are subsequently approved by the Court (or the Share Scheme is approved by the Requisite Majority of Shareholders and the Court and there are no outstanding Options as at 8.00am on the Second Court Date). In those circumstances, you will be bound by the Schemes even though you have voted against them, and:

- if you are a Shareholder, your Shares will be transferred to RM2 and you will receive the Share Scheme Payment for the Shares that you hold on the Share Scheme Record Date; and
- if you are an Option Holder, your Options will be cancelled and you will receive the Option Scheme Payment for those Options on the Option Scheme Implementation Date.

### **What voting majorities are required to approve the Schemes?**

Different majorities apply to each of the Share Scheme and the Option Scheme.

For the Share Scheme to proceed, it must be approved by a majority of Shareholders in number (i.e. more than 50%) who vote at the Share Scheme Meeting (in person or by proxy) and by at least 75% of the total number of the Shares voted at the Share Scheme Meeting. RM2 and its Associates will not vote at the Share Scheme Meeting.

For the Option Scheme to proceed, it must be approved by a majority in number (i.e. more than 50%) of Option Holders present and voting at the Option Scheme Meeting (in person or by proxy) and by Option Holders who will be entitled to at least 75% of the total amount payable on cancellation of Options under the Option Scheme to Option Holders who are present (in person or by proxy) and voting at the Option Scheme Meeting.

Neither Scheme will proceed unless both Schemes are approved by the Relevant Requisite Majority and the Court (or the Share Scheme is approved by the Requisite Majority of Shareholders and the Court and there are no outstanding Options as at 8.00am on the Second Court Date).

### **To what conditions precedent is the Share Scheme subject?**

In addition to the approval of Shareholders and the Court, implementation of the Share Scheme is conditional on the satisfaction or waiver of a number of other Conditions Precedent. These include approvals from relevant Australian regulatory bodies namely the ACCC, ACMA, FIRB (if required), consents to change of control under certain Material Contracts, the completion of the sale of NWS9 by SCB, no SCB Material Adverse Change occurring or becoming known to RM2, the Option Scheme having been approved by the Requisite Majority of Option Holders and by the Court (or there being no outstanding Options as at 8.00am on the Second Court Date), and no continuing SCB Prescribed Occurrences.

As at the date of this Scheme Booklet, a number of Conditions Precedent remained unsatisfied and there can be no certainty that those Conditions Precedent will be either satisfied or waived. If on the Second Court Date any of the Conditions Precedent remain unsatisfied or have not been waived by RM2, the Share Scheme will not be implemented. If the Share Scheme is not implemented, Shareholders will not receive the Share Scheme Payment and Option Holders will not receive the Option Scheme Payment. Further information regarding the Conditions Precedent to the Share Scheme and their current status is outlined in **Sections 4.3 to 4.5** of this Scheme Booklet.

#### **To what conditions precedent is the Option Scheme subject?**

The Option Scheme is conditional on the approval of Option Holders and the Court having approved the Share Scheme and the Option Scheme.

#### **What happens if the Schemes are not implemented?**

If the Schemes are not implemented, no Shares will be transferred to RM2, existing Shareholders will retain their Shares and will not receive the Share Scheme Payment. Likewise, the Options will not be cancelled, and Option Holders will not receive the Option Scheme Payment.

#### **Is a break fee payable in certain circumstances?**

SCB has agreed to pay RM2 a break fee of approximately \$10.9 million, if (among other things) at any time before the End Date:

- a Competing Proposal is made or publicly announced for SCB, and that Competing Proposal is:
  - contemplated by an agreement entered into with SCB or any Material SCB Group Members;
  - is recommended by any of the Directors; or
  - is successfully effected in accordance with the terms of that Competing Proposal; or
- any other Competing Proposal is effected that results in any person acquiring 50% or more of the voting power in SCB or any Material SCB Group Members (under section 610 of the Corporations Act) within 8 months of the announcement of the first Competing Proposal.

#### **When will the results of the Scheme Meetings be available?**

The results of the votes to be cast at the Scheme Meetings will be made publicly available shortly after the conclusion of the Scheme Meetings and will be announced to ASX.

#### **When will the Schemes become Effective?**

Subject to satisfaction or, where applicable, waiver of the conditions precedent of the Schemes (as discussed in **Sections 4.3, 4.4 and 8.3**) and each of the Schemes being approved by the Relevant Requisite Majority and receiving Court approval (or, in the case of the Option Scheme, there being no outstanding Options as at 8.00am on the Second Court Date), the Schemes will become Effective on the Effective Date which is expected to be 26 October 2007. This is the date on which the Court orders approving the Schemes are expected to be lodged with ASIC.

#### **Can I sell my Shares now?**

You can sell any of your Shares at the prevailing market price on market at any time before the close of trading on ASX on the Effective Date (**Close of Trading**). If you sell any of your Shares before the Close of Trading, you will not be entitled to the Share Scheme Payment in relation to the Shares you sold, and you may be required to pay brokerage fees.

#### **As a Partly Paid Shareholder, how are my Shares being treated and what do I need to do?**

Refer to **Section 5.3** for information on how your Partly Paid Shares are being treated.

#### **Can I exercise my Options now?**

You can exercise any vested Options, subject to their conditions of grant, at any time before 7.00pm on the Option Scheme Record Date, which is expected to be 25 October 2007.

#### **Who is MMG?**

MMG is a diversified media group listed on ASX with a market capitalisation of approximately \$932.6 million as at the close of business on 6 September 2007. MMG's primary objective is to acquire, own and

manage a portfolio of media assets globally with stable earnings and strong free cash flows, strong market positions and potential for further earnings improvement. Additional information on MMG is set out in **Section 6**.

MMG currently owns 13.8% of the ordinary issued share capital of SCB and has 16.4% voting power in SCB. Further details of MMG's interests in SCB are set out in **Section 6.6**.

#### **Who is RM2?**

RM2 is MMG's acquisition vehicle for the Share Scheme.

#### **Who is Fairfax Media?**

Fairfax Media is one of Australasia's leading media groups with a market capitalisation of approximately \$6.7 billion as at the close of business on 6 September 2007.

Additional information on Fairfax Media is set out in **Section 7**.

#### **What is Fairfax Media's role in the proposed transaction?**

SCB has entered into a Merger Implementation Agreement with MMHL and RM2. Separately, MMHL, RM2 and Fairfax Media have entered into an arrangement which contemplates, subject to RM2 acquiring 100% of the Shares, a Subsidiary of Fairfax Media acquiring from RM2 all of the shares in the following Subsidiaries of SCB:

- (a) Tricom Radio Holdings Pty Ltd ACN 006 806 088;
- (b) Southern Star Group Limited ACN 003 321 266;
- (c) Tricom Group Pty Ltd ACN 007 217 870; and
- (d) Southern Cross View Pty Ltd ACN 104 575 591,

which operate SCB's metropolitan radio broadcasting business, the Southern Star television drama and entertainment production and distribution business (including Southern Star's 49% interest in Endemol Southern Star Pty Ltd), the Satellite Music Australia subscription music business, the Southern Cross Syndication news and talk radio programming distribution business, the Southern Cross View and Mytalk digital media businesses (including Southern Cross View Pty Ltd's 50% interest in YouPlay) and the Tricom business.

In addition, under this arrangement if certain conditions are satisfied, RM2 will acquire from a Subsidiary of Fairfax Media the shares in Star Broadcasting Network Pty Ltd including the nine commercial radio broadcasting businesses operated by it.

#### **Where can I get further information?**

Detailed information relating to the Schemes is set out in this Scheme Booklet. Information relating specifically to the Option Scheme is set out in **Section 8**.

If you have any questions about the Share Scheme, please call the Shareholder Information Line on 1800 127 953 (if in Australia) or +61 2 8280 7720 (if outside Australia) during business hours.

If you are in any doubt about anything in this Scheme Booklet, please contact your financial, legal, taxation or other professional adviser.

# How to vote at the Share Scheme Meeting

## Share Scheme Meeting

The Share Scheme Meeting will be held at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne on 19 October 2007 at 10.00am.

For the Share Scheme to proceed, it must (amongst other things) be approved by a majority in number of Shareholders present and voting at the Share Scheme Meeting and by at least 75% of the total number of votes which are cast at the Share Scheme Meeting.

## Entitlement and ability to vote at the Share Scheme Meeting

If you are registered as a Shareholder as at 10.00am on 17 October 2007, you will be entitled to vote on the resolution to approve the Share Scheme at the Share Scheme Meeting.

If you are entitled to vote, you can vote at the Share Scheme Meeting:

- in person;
- by proxy;
- by corporate representative (if you are a company); or
- by attorney.

You will be counted as being present at the Share Scheme Meeting if you vote in any of the ways outlined above.

## Voting at the Share Scheme Meeting

Voting on the resolution to approve the Share Scheme will be by a poll.

If the Share Scheme is approved at the Share Scheme Meeting, the Court will be asked to approve the Share Scheme. The Court hearing for this purpose is expected to be held on 26 October 2007.

## Voting in person (or by attorney or corporate representative)

If you wish to vote in person, you (or your properly appointed attorney or corporate representative) should attend the Share Scheme Meeting.

## Voting by proxy

Your personalised proxy form for the Share Scheme Meeting is enclosed with this Scheme Booklet.

You can vote by proxy by completing and returning to SCB the proxy form by either posting it or by sending, delivering or faxing it as follows:

### Mail to:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia

### Deliver to:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia

### Fax to:

+61 2 9287 0309

Your proxy form must be received by SCB by no later than 10.00am on 17 October 2007 (48 hours prior to the commencement of the Share Scheme Meeting).

# How to vote at the Option Scheme Meeting

## Option Scheme Meeting

The Option Scheme Meeting will be held at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne on 19 October 2007 at 8.30am.

For the Option Scheme to proceed, it must (amongst other things) be approved by a majority in number of Option Holders present and voting at the Option Scheme Meeting and by Option Holders who are entitled to at least 75% of the total amount payable on cancellation of Options under the Option Scheme to Option Holders present and voting at the Option Scheme Meeting.

## Entitlement and ability to vote at the Option Scheme Meeting

If you are registered as an Option Holder as at 8.30am on 17 October 2007, you will be entitled to vote on the resolution to approve the Option Scheme at the Option Scheme Meeting.

If you are entitled to vote, you can vote at the Option Scheme Meeting:

- in person;
- by proxy; or
- by attorney.

You will be counted as being present at the Option Scheme Meeting if you vote in any of the ways outlined above.

## Voting at the Option Scheme Meeting

Voting on the resolution to approve the Option Scheme will be by a poll.

If the Option Scheme is approved at the Option Scheme Meeting, the Court will be asked to approve the Option Scheme. The Court hearing for this purpose is expected to be held on 26 October 2007.

## Voting in person (or by attorney)

If you wish to vote in person, you (or your properly appointed attorney) should attend the Option Scheme Meeting.

## Voting by proxy

Your personalised proxy form for the Option Scheme Meeting is enclosed with this Scheme Booklet.

You can vote by proxy by completing and returning to SCB the proxy form by either posting it or by sending, delivering or faxing it as follows:

### Mail to:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia

### Deliver to:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia

### Fax to:

+61 2 9287 0309

Your proxy form must be received by SCB by no later than 8:30am on 17 October 2007 (48 hours prior to the commencement of the Option Scheme Meeting).

# 1 Summary of the Share Scheme

## 1.1 Background

### (a) Overview

On 3 July 2007, SCB announced that it had entered into a Merger Implementation Agreement with RM2, MMG's acquisition vehicle, which, if certain conditions are satisfied, will result in all Shares not already held by the MMG Group being transferred to RM2. MMG currently owns 13.8% of the ordinary issued share capital of SCB. Further details of MMG's interests in SCB are set out in **Section 6.6**.

If the Share Scheme is implemented, Share Scheme Participants will receive the Share Scheme Payment of \$17.41 per Fully Paid Share, comprising Share Scheme Consideration of \$17.05 cash per Fully Paid Share and a Special Dividend of \$0.36 per Share. Share Scheme Participants who hold Partly Paid Shares will receive the Share Scheme Payment of \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares.

### (b) Share Scheme Meeting

The Share Scheme must be approved by Shareholders before it can be implemented (excluding RM2 and its Associates who will not vote). In this regard and in accordance with the order of the Court dated 7 September 2007, SCB has convened the Share Scheme Meeting, which will be held on 19 October 2007 at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne at 10.00am (Melbourne Time).

### (c) Entitlement to vote

All Shareholders (excluding RM2 and its Associates) on the register at 10.00am on 17 October 2007 are entitled to vote at the Share Scheme Meeting. RM2 and its Associates will not vote at the Share Scheme Meeting. Further details on how to vote are set out in the **How to vote at the Share Scheme Meeting Section** of this Scheme Booklet.

### (d) Share Scheme voting thresholds

For the Share Scheme to be implemented, it must be approved by a majority of Shareholders in number (that is, more than 50%) who vote at the Share Scheme Meeting (in person, by proxy, by corporate representative or by attorney) and by at least 75% of the total number of the Shares voted at the Share Scheme Meeting (noting that RM2 and its Associates will not vote).

### (e) Conditions of the Share Scheme

A number of conditions need to be satisfied or waived by SCB and/or RM2 before the Share Scheme can be implemented. In particular, the Share Scheme is subject to approval by the Requisite Majority of Shareholders and the approval of the Court.

There are a number of other Conditions Precedent, including approvals from relevant Australian regulatory bodies namely the ACCC, ACMA and FIRB (if required), consents to change of control under Material Contracts, the completion of the sale of NWS9 by SCB, no Material Adverse Change occurring or becoming known to RM2, and no SCB Prescribed Occurrence occurring or becoming known to RM2 which has not been remedied or materially rectified prior to 8:00am on the Second Court Date.

In addition, the Share Scheme is conditional on the Option Scheme being approved by the Requisite Majority of Option Holders and being subsequently approved by the Court (or there being no outstanding Options as at 8.00am on the Second Court Date).

The conditions are set out in full in clause 3.1 of the Merger Implementation Agreement and in the Share Scheme itself, and are summarised in **Sections 4.3 and 4.4**.

**(f) Tax implications**

The transfer of your Shares pursuant to the Share Scheme and receipt of the Special Dividend may be taxable transactions. Further information on the general tax consequences of the Share Scheme is contained in the Share Scheme Tax Opinion set out in **Annexure E**. Shareholders are encouraged to seek their own professional advice regarding their individual tax positions.

If the Share Scheme is approved by the Requisite Majority of Shareholders and the Court, Share Scheme Participants will receive the Share Scheme Payment and SCB will become a wholly owned Subsidiary of RM2 and will be de-listed from ASX.

A copy of the Share Scheme is set out in **Annexure C**.

**1.2 Board recommendation**

The Directors unanimously recommend that Shareholders vote in favour of the Share Scheme (in the absence of a Superior Proposal) and the Directors advise that they intend to vote all Shares over which he or she has voting control in favour of the Share Scheme (in the absence of a Superior Proposal).

The matters which the Directors have had regard to in making these recommendations are set out in **Sections 2.1** and **2.4**.

The implications for Shareholders if the Share Scheme does not proceed are set out in **Section 4.15**.

**1.3 Independent Expert's Report**

The Board has commissioned the Independent Expert, Grant Samuel, to prepare a report on the Share Scheme to ascertain whether the transaction contemplated by the Share Scheme is in the best interests of Shareholders.

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders.

In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB is between \$15.58 and \$17.66 per Fully Paid Share.

The Independent Expert's Report is set out in **Annexure A**.

**1.4 Share Scheme Payment**

Share Scheme Participants will be paid \$17.41 in cash for each Fully Paid Share held by them at the Share Scheme Record Date, which will comprise Share Scheme Consideration of \$17.05 cash per Fully Paid Share and a Special Dividend of \$0.36 per Share.

Share Scheme Participants who hold Partly Paid Shares will receive the Share Scheme Payment of \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares.

If the Share Scheme does not become Effective, Share Scheme Participants will not be entitled to receive the Share Scheme Payment (that is, either the Share Scheme Consideration or the Special Dividend).

**1.5 Payment date**

If the Share Scheme is approved by Shareholders and the Court, the Share Scheme Payment will be sent to Share Scheme Participants on the Share Scheme Implementation Date, which is expected to be on 5 November 2007.

Shareholders should be aware that if the Share Scheme Meeting is adjourned or the Share Scheme Implementation Date is otherwise delayed, the timing of the Share Scheme Payment will also be delayed (but Share Scheme Participants will retain ownership of their Shares until the Share Scheme is implemented).

**1.6 Entitlement to Final Dividend**

Irrespective of the outcome of the Share Scheme, Fully Paid Shareholders on the Share Register as at 7.00pm on 19 September 2007 will be entitled to receive a Final Dividend for the period ended 30 June 2007 of \$0.37 per Fully Paid Share to be paid on 28 September 2007.

**1.7 Timing**

If the Share Scheme is approved by Shareholders on 19 October 2007, SCB will seek the Court's approval of the Share Scheme on 26 October 2007, at which date and subject to Court approval being obtained, Shares will cease trading. The Share Scheme Payment will be paid to Share Scheme Participants on the Share Scheme Implementation Date.

Further information on the key dates is set out on **page 2**.

**1.8 Questions**

This Scheme Booklet contains detailed information relating to the Share Scheme. If, however, you have any questions, please call the Shareholder Information Line on 1820 127 953 (if in Australia) or +61 2 8280 7720 (if outside Australia) during business hours.

If you are in any doubt about anything in this Scheme Booklet, please contact your financial, legal, taxation or other professional adviser.

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## 2 Share Scheme recommendations and issues for consideration

### 2.1 Directors' recommendation

The Board considers that the Share Scheme is in the best interests of Shareholders and unanimously recommends that Shareholders vote in favour of the Share Scheme, in the absence of a Superior Proposal.

In reaching its recommendation, the Board conducted an extensive review of SCB's strategic alternatives including acquisitions, divestments, joint ventures and internal restructuring options. The Board also received valuation and financial advice from Goldman Sachs JBWere and consultancy services in respect of mergers and acquisitions issues from K Capital Pty Limited.

Each member of the Board intends to vote in favour of the Share Scheme in respect of the Shares over which they have voting control, in the absence of a Superior Proposal.

### 2.2 Why you may consider voting for the Share Scheme

#### (a) Significant premium over historic share prices

The Share Scheme Payment represents a significant premium to SCB's historic share price. The \$17.41 cash per Fully Paid Share that fully paid Share Scheme Participants will receive represents a:

- 29.8% premium to the volume weighted average price of Fully Paid Shares of \$13.41 (excluding the acquisition of MMG's strategic stake) in the three months to 16 November 2006, being the day before MMG announced the acquisition of its strategic stake in SCB at \$16.50 per Share;
- 20.2% premium to the closing price for Fully Paid Shares of \$14.49 on 16 November 2006; and
- 8.8% premium to SCB's closing Fully Paid Share price of \$16.00 on 29 June 2007 (being the closing Fully Paid Share price on the last Business Day before SCB went into trading halt in anticipation of announcing the Share Scheme).

In considering the valuation premium implied by the Share Scheme Payment, the Board believes comparisons to the price of Fully Paid Shares beyond 16 November 2006 to be less relevant given the significant and ongoing speculation in the market regarding a potential takeover of SCB. This takeover speculation followed MMG's acquisition of a 13.8% stake in SCB on that date and continued until the Transaction was announced on 3 July 2007. As such, the Board believes the closing price on 16 November 2006 and volume weighted average prices of Fully Paid Shares in the periods leading up to that date are more accurate representations of the unaffected price of the Fully Paid Shares.

#### (b) Significant premium to research analysts' valuations when the Transaction was announced

The Share Scheme Payment represents a 28.8% premium to the average of research analysts' most recent fundamental valuations of SCB of approximately \$13.52 per Fully Paid Share when the Transaction was announced on 3 July 2007<sup>1</sup>. As at 5 September 2007, the average of research analysts' fundamental valuations had increased to \$14.01<sup>2</sup>.

<sup>1</sup> Based on latest publicly available research valuations known to SCB as at 3 July 2007 when the Transaction was announced. In cases where an analyst disclosed a valuation range, the midpoint of that range has been used in calculating the average valuation. The research reports were dated between 23 February 2007 and 31 May 2007, with the lowest valuation being \$12.45 and the highest valuation being \$15.24. The average valuation excluding the valuations from Goldman Sachs JBWere and Macquarie Bank Limited who are acting as financial adviser to SCB and MMG respectively, was \$13.58 per Fully Paid Share.

<sup>2</sup> Based on latest publicly available research valuations known to SCB as at 5 September 2007. In cases where an analyst disclosed a valuation range, the midpoint of that range has been used in calculating the average valuation. The research reports were dated between 26 February 2007 and 24 August 2007, with the lowest valuation being \$12.50 and the highest valuation being \$16.17. The average valuation excluding the valuations from Goldman Sachs JBWere and Macquarie Bank Limited who are acting as financial adviser to SCB and MMG respectively, was \$13.96 per Fully Paid Share.

**(c) Implied valuation multiple relative to precedent transactions**

The Share Scheme Payment represents approximately 12.9x SCB's consolidated normalised EBITDA<sup>3</sup> for the 12 months ended 30 June 2007.

In considering the valuation multiple implied by the Share Scheme Payment, the Board also considered that television production businesses such as Southern Star typically attract lower valuation multiples when compared to radio and television businesses, which generally have a more stable revenue and earnings track record.

In this regard, when excluding the value of Southern Star and its associates at a valuation range of \$140 - \$155 million (being the value ascribed to it by the Independent Expert), the Share Scheme Payment implies a valuation multiple range of approximately 13.6x – 13.8x normalised EBITDA<sup>3</sup> for the 12 months ended 30 June 2007 for SCB's remaining television, radio and associated businesses. The Board believes this implied valuation multiple range is attractive having regard to recent precedent control transaction multiples for television and radio businesses in Australia.

**(d) Distribution of franking credits**

The Share Scheme Payment has been structured to include a fully franked Special Dividend of \$0.36 per Share, thereby allowing Share Scheme Participants (depending on their individual positions) to capture incremental value from available franking credits.

**(e) Independent Expert's conclusion**

**The Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders.** In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB to be between \$15.58 and \$17.66 per Fully Paid Share, which assumes 100% of SCB was available to be acquired and includes a premium for control.

The Independent Expert's Report is set out in **Annexure A**.

**(f) Timely and certain value realisation**

If the Share Scheme becomes Effective, Share Scheme Participants will receive cash of \$17.41 per Fully Paid Share, inclusive of a Special Dividend of \$0.36 per Share. Share Scheme Participants who hold Partly Paid Shares will receive the Share Scheme Payment of \$17.41 less the amount of the unpaid issue price on their Partly Paid Shares.

The current timetable contemplates that the Share Scheme Payment will be sent to Share Scheme Participants on the Share Scheme Implementation Date, which is expected to be 5 November 2007. The implementation of the Share Scheme will allow Shareholders to realise the value of their Shares in a timely and certain manner.

**(g) Consequences of Shareholders not voting in favour of the Share Scheme**

If the Requisite Majority of Shareholders does not vote in favour of the Share Scheme, the Share Scheme will not be implemented, the Share Scheme Payment will not be paid and SCB will continue to be listed on ASX. However, the Final Dividend of \$0.37 per Share to be paid to Fully Paid Shareholders on 28 September 2007 will be unaffected.

The Board believes the price of Fully Paid Shares is likely to fall if the Share Scheme is not implemented.

**(h) No alternative Superior Proposal has emerged**

The Board's recommendation that Shareholders vote in favour of the Share Scheme is made in the absence of a Superior Proposal. Since announcement of the Transaction on 3 July 2007 and as of the date of this Scheme Booklet, no Superior Proposal has emerged and the Board is not aware of any Superior Proposal that may emerge.

SCB has agreed to pay RM2 a break fee of approximately \$10.9 million, if (among other things) at any time before the End Date:

- a Competing Proposal is made or publicly announced for SCB, and that Competing Proposal is:

<sup>3</sup> EBITDA has been normalised to exclude NWS9 and licence fee rebates, and includes SCB's equity accounted share of profits from associates.

- contemplated by an agreement entered into with SCB or any Material SCB Group Members;
- is recommended by any of the Directors; or
- is successfully effected in accordance with the terms of that Competing Proposal; or
- any other Competing Proposal is effected that results in any person acquiring 50% or more of the voting power in SCB or any Material SCB Group Members (under section 610 of the Corporations Act) within 8 months of the announcement of the first Competing Proposal.

### 2.3 Why you may consider voting against the Share Scheme

Although the Board unanimously recommends that you vote in favour of the Share Scheme, in the absence of a Superior Proposal, and the Independent Expert has concluded that the Share Scheme Payment is fair and reasonable and that the Share Scheme is therefore in the best interests of Shareholders, there may be factors which may lead you to vote against the Share Scheme, including those set out below:

**(a) Disagreement with the conclusions and/or recommendation of the Board and/or the Independent Expert**

In concluding that the Share Scheme is in the best interests of Shareholders, the Board and the Independent Expert are making judgements based on future trading conditions and events which are not predictable with certainty and which may prove to be inaccurate (either positively or negatively). Shareholders may hold a different view from, and are not obliged to follow the recommendation of the Board, and may not agree with the Independent Expert's conclusions.

**(b) Expectation of a Superior Proposal**

You may consider that a third party may emerge with a Superior Proposal. Since announcement of the proposal on 3 July 2007 and as of the date of this Scheme Booklet, no Superior Proposal has emerged and the Board is not aware of any Superior Proposal that may emerge.

**(c) Maintain investment profile**

You may wish to maintain your investment in SCB in order to have an investment in a publicly listed company with the specific characteristics of SCB in terms of industry, size, operational profile, capital structure and dividend stream. Implementation of the Share Scheme may therefore represent a disadvantage for Shareholders who do not want to change their investment profile.

**(d) Tax consequences**

If the Share Scheme is approved and implemented, it will potentially result in taxation consequences (potentially including capital gains tax) for Shareholders which will arise earlier than would otherwise have been the case. The general tax consequences of the Share Scheme are explained in the Share Scheme Tax Opinion which is set out in **Annexure E**.

### 2.4 Other considerations

**(a) The Share Scheme may be implemented even if you vote against it**

You should be aware that even if you do not vote at the Share Scheme Meeting, or vote against the Share Scheme at that meeting, the Share Scheme may still be implemented if it is approved by the Requisite Majority of Shareholders (excluding RM2 and its Associates who will not vote) and the Court.

If this occurs, your Shares will be transferred to RM2 and you will receive the Share Scheme Payment even though you did not vote on, or voted against, the Share Scheme.

**(b) No brokerage or stamp duty**

You will not incur any brokerage or stamp duty on the transfer of your Shares pursuant to the Share Scheme.

**(c) Major Shareholder indications**

452 Capital Pty Limited and Perpetual Limited, two major Shareholders of SCB, have indicated their support for the Transaction and their intention to vote Shares over which they have voting rights in favour of the Share Scheme, in the absence of a Superior Proposal and provided no material change in circumstances.

**(d) Deemed warranties**

Shareholders should be aware of the warranties that Share Scheme Participants will be deemed to have given if the Share Scheme takes effect (see **Section 4.8**).

The Share Scheme provides that each Share Scheme Participant is deemed to have warranted to SCB, in its own right and for the benefit of RM2 that:

- (i) all of the Scheme Shares which are transferred to RM2 under the Share Scheme, will be transferred to RM2 free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and
- (ii) they have full power and capacity to sell and to transfer their Scheme Shares to RM2 (but acknowledging that a security interest holder may potentially have an interest in the Share Scheme Consideration in accordance with the terms of the such security interest).

## 3 Information about SCB

### 3.1 Background

SCB is a leading Australian media company with interests in regional television, metropolitan radio, television production and distribution and related businesses.

SCB was listed on ASX in 1987 (ASX: SBC). SCB has a diverse network of television and radio operations across metropolitan and regional Australia. Television interests cover most regional areas of Australia other than Western Australia while SCB's radio interests serve the Sydney, Melbourne, Brisbane and Perth markets.

### 3.2 Current operations

#### (a) Television

##### (i) Southern Cross Ten

SCB's Network Ten affiliate stations operate in the television aggregated markets of Victoria, southern and northern New South Wales, Queensland and the Spencer Gulf region of South Australia, with a potential reach of over 28% of the Australian population, or approximately 5.9 million people. All programs are distributed from the broadcasting operational centre located in Canberra. Sales offices and commercial production facilities are located in most major cities within the licence service areas.

##### (ii) Southern Cross Television

SCB operates stations under the branding Southern Cross Television in Tasmania, Darwin, Central Australia and the Spencer Gulf region of South Australia. The Tasmania and Darwin stations carry a mix of programming from each of the Ten and Seven Networks, the Central services carry Seven Network programming and the Spencer Gulf services carry Seven Network and Nine Network programming. These stations reach a combined potential total of approximately 1.16 million people.

##### (iii) Tasmanian Digital Television

SCB owns 50% of Tasmanian Digital Television in joint venture with WIN Corporation. The station provides a digital only service affiliated with the Ten Network, and currently broadcasts to the Hobart, Launceston and Devonport markets and will cover all of Tasmania by 2009.

##### (iv) Darwin Digital Television

SCB owns 50% of Darwin Digital Television (DDT) in joint venture with the Nine Network. DDT has been granted a licence to provide a digital only television service in Darwin, which is expected to commence operation in 2008.

#### (b) Radio

##### (i) Talk radio

SCB has the only national commercial talk radio network covering Australia's major capital cities with hourly news services delivered daily by Southern Cross Syndication to 119 radio stations across every State of Australia. The talk radio network comprises leading metropolitan stations in Sydney (2UE), Melbourne (3AW), Brisbane (4BC) and Perth (6PR).

##### (ii) Music radio

SCB's radio interests also include two AM music radio stations: Magic 1278 in Melbourne and 4BH in Brisbane, and one FM music radio station - 96fm in Perth.

96fm holds a strong ratings position with the 25 – 39 age group, a key demographic for advertisers.

**(c) Southern Star Group**

Southern Star is an integrated television production and distribution group which is involved in television and video production, sales and distribution, and licensing and merchandising.

**(i) Southern Star International**

Based in Australia and the United Kingdom, Southern Star International is responsible for the global sales of television, theatrical, video and ancillary rights to television programs and feature films.

**(ii) Southern Star Entertainment**

Southern Star Entertainment is a leading Australian independent creator and producer of television programming, including adult prime-time drama, children's and family television programming and documentaries. Its 49% owned joint venture Endemol Southern Star has exclusive access to the Endemol Entertainment library of formats in Australia and New Zealand. Southern Star Entertainment-UK, based in the United Kingdom, produces quality television drama, children's, wildlife and documentary programming.

**(d) Other associated businesses**

**(i) Southern Cross View**

Southern Cross View was formed in November 2006 to develop a strong online presence for SCB businesses. Southern Cross View created: Mytalk.com.au, a news and current affairs radio and television portal; and Youplay.com (a 50/50 joint venture between Southern Cross View and Lovatts Publications Pty Ltd), a casual game-play site that involves community and social networking online.

**(ii) Southern Cross Syndication**

Southern Cross Syndication sells and distributes programs and services to the radio industry primarily sourced from SCB stations, but also various other producers. In addition, it provides booking, distribution and monitoring systems for radio advertising campaigns in the five mainland capital cities, giving advertisers a digital rights management system that provides security and accountability.

**(iii) Southern Cross Telecommunications**

Southern Cross Telecommunications is a licensed telecommunications carrier, selling capacity to other carriers and large institutions, as well as providing telecommunications services to SCB's businesses.

**(iv) Satellite Music Australia**

Satellite Music Australia is a leading Australian supplier of subscription music. It provides multiple channels of music to Foxtel and Austar for their digital pay television services, as well as providing subscription music services to retailers and customised music channels including advertisements to larger retailers.

### 3.3 Major acquisitions and divestments

Since its listing in 1987, SCB has acquired and divested a number of television, radio and media assets as set out in the timeline below:



<b>1987</b>	Listed on ASX after acquiring television operations BCV8 and GLV10 in regional Victoria, now a part of Southern Cross Ten, and radio station 3TR in Gippsland Victoria
<b>1988</b>	Acquired TNT9 Launceston (Southern Cross Television Tasmania) and 3AW (Melbourne talk radio station)
<b>1994</b>	Acquired 6PR (Perth talk radio station)
<b>1995</b>	Acquired Ten Capital (Southern Cross Ten Southern NSW) Acquired Magic 693 (now Magic 1278, a Melbourne music radio station)
<b>1998</b>	Acquired 96FM, a radio station that targets the 25-39 aged demographic in Perth Acquired NWS9
<b>2001</b>	Acquired 2UE (Sydney talk radio station), 4BC (Brisbane talk radio station) and Sky Radio (Southern Cross Syndication) Acquired Telecasters Australia Limited (Southern Cross Ten Queensland and Northern NSW and Southern Cross Television Darwin and Central)
<b>2002</b>	Acquired Spencer Gulf Telecasters, a television network that services the upper Spencer Gulf region of South Australia as well as Broken Hill
<b>2003</b>	Acquired 4BH, (Brisbane easy listening radio station)
<b>2004</b>	Acquired Southern Star Group, SCB's television production business
<b>2005</b>	Acquired Satellite Music Australia, a supplier of subscription music
<b>2007</b>	Sold NWS9 to WIN Group

### 3.4 Financial information

The historical financial information in this section has been extracted from SCB's audited financial statements for the financial years ended 30 June 2007, 30 June 2006 and 30 June 2005. The information in this section is a summary of the audited financial statement that has been prepared for this Scheme Booklet. Channel 9 Adelaide has been reclassified as a discontinuing business for the financial year ended 30 June 2005 for consistency with current period disclosures.

Copies of SCB's audited financial statements (including all notes) have been published in SCB's annual reports, which can be accessed through SCB's website at [www.southerncrossbroadcasting.com.au](http://www.southerncrossbroadcasting.com.au). Shareholders without internet access can obtain copies of these reports by contacting SCB directly.

(a) **Income statement**

SCB's historical performance for the three years ending 30 June 2005, 30 June 2006 and 30 June 2007 is summarised below:

	Year ended 30 June (\$ millions)		
	2005 AIFRS	2006 AIFRS	2007 AIFRS
Continuing businesses	450.3	461.7	514.8
Channel 9 Adelaide (discontinuing)	84.7	82.2	72.8
<b>Sales revenue</b>	<b>534.9</b>	<b>543.9</b>	<b>587.7</b>
Continuing businesses	99.9	102.2	110.5
Income from associates	4.4	5.7	6.0
Channel 9 Adelaide (discontinuing)	6.9	2.6	5.6
<b>EBITDA</b>	<b>111.2</b>	<b>110.5</b>	<b>122.1</b>
Depreciation & amortisation	(16.6)	(17.8)	(17.5)
Continuing businesses	84.9	86.1	94.7
Income from associates	4.4	5.7	6.0
Channel 9 Adelaide (discontinuing)	5.3	1.0	3.9
<b>EBIT</b>	<b>94.6</b>	<b>92.8</b>	<b>104.6</b>
Net interest	(13.6)	(12.2)	(12.8)
<b>Operating profit before tax</b>	<b>81.0</b>	<b>80.6</b>	<b>91.8</b>
Tax expense (excluding non-recurring items)	(20.0)	(23.2)	(27.1)
<b>Operating net profit after tax (before significant items and interest on convertible preference shares)</b>	<b>61.0</b>	<b>57.4</b>	<b>64.7</b>
Significant items (after tax)	4.4	(2.6)	(2.2)
Significant tax item	-	-	(2.0)
Interest on Convertible Preference Shares (CPS)	(0.7)	(4.6)	-
<b>Reported net profit</b>	<b>64.6</b>	<b>50.2</b>	<b>60.5</b>
Minority interests	(0.0)	(0.1)	(0.1)
<b>Net profit attributable to members</b>	<b>64.6</b>	<b>50.1</b>	<b>60.4</b>
Dividend per share (total)	\$0.66	\$0.68	\$0.74
Basic earnings per share	\$1.00	\$0.77	\$0.84
Diluted earnings per share	\$0.95	\$0.77	\$0.83

Numbers in the above table may not add due to rounding

(b) **Financial position**

SCB's audited balance sheets as at 30 June 2006 and 30 June 2007 are set out below:

	As at 30 June (\$ millions)	
	2006 AIFRS	2007 AIFRS
Cash and cash equivalents	28.9	25.4
Trade and other receivables	135.9	137.4
Inventories	12.5	6.7
Derivatives	1.9	2.7
Current tax asset	-	5.0
Other assets	10.1	17.2
Disposal groups and non current assets classified as held for sale	-	125.3
<b>Total current assets</b>	<b>189.2</b>	<b>319.8</b>
Trade and other receivables	1.5	2.0
Inventories	12.7	3.0
Investments in associates	3.9	4.1
Available for sale investments	1.9	3.4
Property, plant and equipment	158.5	146.1
Deferred tax asset	19.8	16.2
Television and radio licenses	574.0	489.6
Goodwill	78.1	78.0
Other assets	11.6	14.0
<b>Total non current assets</b>	<b>862.0</b>	<b>756.2</b>
<b>TOTAL ASSETS</b>	<b>1051.2</b>	<b>1076.0</b>
Trade and other payables	119.3	100.1
Interest bearing loans and borrowings	3.7	5.8
Current tax liabilities	5.4	22.6
Provisions	13.1	10.4
Deferred government grants	3.2	10.5
Liabilities directly associated with disposal groups and non current assets classified as held for sale	-	36.9
<b>Total current liabilities</b>	<b>144.7</b>	<b>186.3</b>
Trade and other payables	12.2	1.6
Interest bearing loans and borrowings	210.5	200.6
Deferred tax liabilities	35.8	28.4
Provisions	7.4	4.2
Deferred government grants	20.7	10.9
Retirement benefit obligations	1.0	0.3
<b>Total non current liabilities</b>	<b>287.6</b>	<b>246.1</b>
<b>TOTAL LIABILITIES</b>	<b>432.3</b>	<b>432.4</b>
<b>NET ASSETS</b>	<b>618.9</b>	<b>643.7</b>
Issued capital	570.4	583.4
Reserves	(1.1)	0.6
Retained profits	49.2	59.0
<b>Total parent entity interests</b>	<b>618.4</b>	<b>643.1</b>
<b>Total minority interests</b>	<b>0.5</b>	<b>0.6</b>
<b>TOTAL EQUITY</b>	<b>618.9</b>	<b>643.7</b>

Numbers in the above table may not add due to rounding

### 3.5 Sale of NWS9

On 29 May 2007, SCB announced that it had reached an agreement in principle for the sale of NWS9 (the licensee company of Channel 9 Adelaide) to the WIN Group for a cash consideration of \$105 million. This transaction was completed on 23 July 2007. Proceeds from the transaction were used to reduce SCB's interest bearing loans and borrowings.

Consistent with the relevant accounting rules, NWS9 has been characterised as a "discontinuing business" within the financial statements for the year ended 30 June 2007. For consistency of presentation, the revenue, EBITDA and EBIT of NWS9 have been separately presented in all years within the income statements presented above.

### 3.6 Summary of key drivers of financial performance

The financial performance of SCB's broadcasting business is dependent on the performance of the free to air television and radio advertising markets in the regions in which SCB operates and the ratings performance of SCB's television and radio stations. The profitability of the regional television division is also impacted by the affiliation arrangements in place with the major networks, the majority of which are linked to the division's revenue performance. The financial performance of Southern Star is dependent on the underlying strength of the production markets in Australia and the UK and the global market for the acquisition of television content.

### 3.7 Discussion and analysis of historical performance

Overall annual revenue growth of 11.5% in FY07 for continuing businesses was driven by Southern Star (33.9%), regional television (3.6%) and radio (3.6%). The growth in Southern Star revenue was largely attributed to increased production and royalty sales generated from Southern Star's UK businesses. The regional television division benefited from stronger advertising market conditions, primarily in the second half of the financial year. The radio division's revenue growth was in line with market growth across the financial year.

EBITDA growth of 8.0% for continuing businesses was again due to EBITDA growth at Southern Star (28.8%), radio (24.4%) and regional television (3.0%). Southern Star's EBITDA growth was attributable to growth in Southern Star's UK businesses. For regional television, the increase in EBITDA included a positive impact from the AIFRS accounting treatment of licence fee rebates. With the exclusion of this benefit, EBITDA growth for regional television was 0.5%. EBITDA growth for regional television was below revenue growth as a result of a small increase in the rate of affiliation fees payable to the Ten Network and increased costs associated with AFL coverage and SCB's continued digital rollout. The growth within radio reflected the underlying revenue growth and the significant cost reduction measures adopted at the end of 2006 within 2UE in Sydney. Other SCB businesses, which include SCB's new digital business, Southern Cross View, together with SMA and Southern Cross Telecommunications, incurred an EBITDA decline due to the launch costs of Southern Cross View and an increase in the amortisation charge relating to executive options.

### 3.8 Normalisation of EBITDA

In order to assist regional broadcasters to fund the conversion of their infrastructure (including significant capital expenditure for new equipment) to enable the broadcasting of digital services, the Australian Government provided financial assistance by way of an annual rebate against licence fees payable to ACMA. For SCB these rebates substantially reduce from the FY08 financial year onwards. In addition, the accounting treatment of the rebates under AIFRS has resulted in a further adjustment to the accounts. The table below shows the impact on EBITDA (including income from associates) if these rebates are excluded:

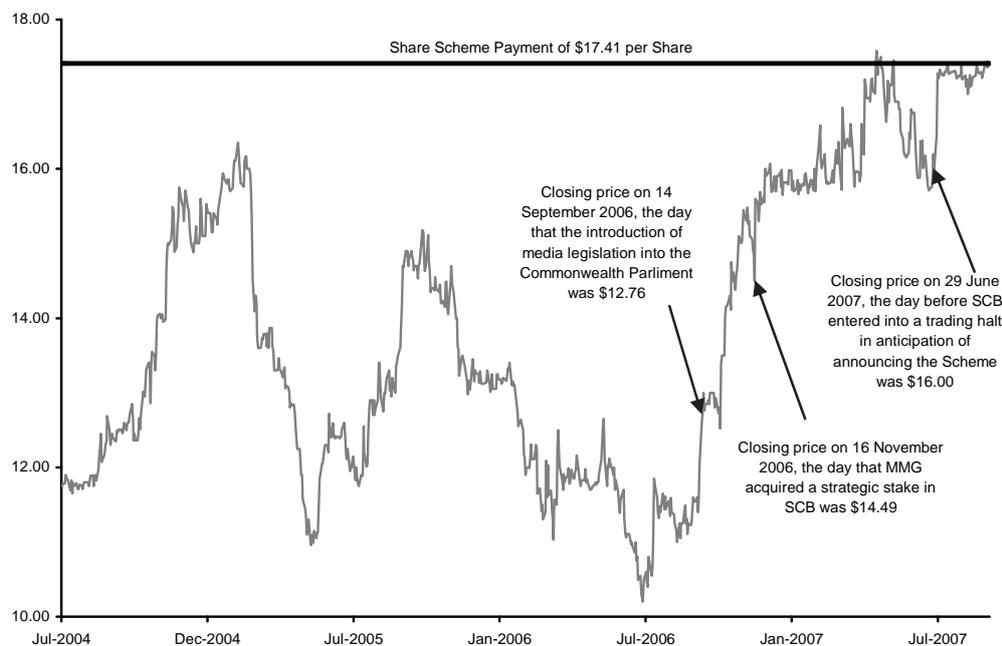
	Year ended 30 June (\$ millions)		
	2005	2006	2007
EBITDA – continuing businesses	99.9	102.2	110.5
Income from associates	4.4	5.7	6.0
<b>EBITDA – continuing businesses including associates</b>	<b>104.3</b>	<b>107.9</b>	<b>116.6</b>
Normalisations			
less Licence fee rebates	(8.2)	(8.2)	(8.2)
less Licence fee rebates AIFRS adjustment	0.4	(0.6)	(2.5)
<i>Total Normalisations</i>	<i>(7.8)</i>	<i>(8.8)</i>	<i>(10.7)</i>
<b>Normalised EBITDA - continuing businesses including associates</b>	<b>96.5</b>	<b>99.1</b>	<b>105.8</b>

### 3.9 Material change in financial position

Other than for the completion of the sale of NWS9 described in **Section 3.5**, there has been no material change in SCB's financial position since 30 June 2007 (the date of the last audited financial statements of SCB which were released to ASX on 23 August 2007) and detailed in the 2007 Annual Report which is being sent to Shareholders concurrently with this Scheme Booklet.

### 3.10 Recent Share price performance

The Fully Paid Share price from 1 July 2004 to 6 September 2007 is shown below:



The closing price of the Fully Paid Shares on 6 September 2007 was \$17.40.

### 3.11 Directors of SCB

**John C Dahlsen** Age 72, LLB, MBA (Melb). Director of the company since 1987. Appointed Chairman of the company in 2002 and is also Chairman of the Mergers and Acquisitions Committee and a member of the Remuneration Committee and the Nomination and Corporate Governance Committee. Director of The Warehouse Group Limited since 2001 and Chairman of J C Dahlsen Pty Limited since 1982. Former Director of Australia and New Zealand Banking Group Limited from 1985 to 2005.

**Geoffrey D Allen** Age 65, BA (Hons), MBA. Director of the company since 2000 and is also Chairman of the Remuneration Committee and a member of the Nomination and Corporate Governance Committee. Founder and Director of the Allen Consulting Group and Chairman of the Australasian Centre for Corporate Public Affairs. Chairman of the Australian Government's Trade Policy Council. Chairman of the Australian Statistics Advisory Council, and member of the Prime Minister's Community Business Partnership. He is Deputy Chairman of the Melbourne Business School, member of the Advisory Council of the Victorian College of the Arts, and is director of several private companies in the services sector.

Neil R Balnaves	Age 63, Director of the company since 2004 and a member of the Mergers and Acquisitions Committee and the Audit Committee. Over 40 years experience in the entertainment and media industries and previously held the position of Executive Chairman of Southern Star Group Limited from 1987 to 2005. Chairman of Endemol Southern Star since 2001. Chairman of Macquarie Leisure Management Limited since 2001 and Macquarie Leisure Operations Limited since 2001. Director of Bond University Limited since 2003, Technicolor Pty Limited since 2002 and other companies. Neil serves on the boards of numerous advisory and community organisations as well as administering the Balnaves Foundation, a philanthropic fund that supports medicine and the arts. Foundation Fellow of the Australian Institute of Company Directors.
Anthony E Bell	Age 53, Managing Director of the company since 1993. Over 30 years experience in the media industry. Director and former Chairman of Commercial Radio Australia. Chairman of Regional Broadcasters Australia and director of Free TV Australia Limited and other companies.
Charles G Clark	Age 63, B Com, Dip. Ag. Econ., FAICD. Director of the company since 1983 and is also Chairman of the Audit Committee. Chairman of Aviva Australia Holdings Limited since 2001, The Myer Family Office Limited since 2001 and appointed Chairman of Brown Brothers Holdings in June 2007. Director of Select Harvests Limited since 1998, The Myer Foundation since 2001 and a number of private companies. Trustee of The William Buckland Foundation, and Chairman of Council, Melbourne Grammar School. Former Deputy Chairman of Legal Practice Board of Victoria and former Director of CGNU Australia Holdings Limited.
Marina Darling	Age 48, LLB, BA (Hons) (Melb). Director of the company since 1999 and is also chair of the Nomination and Corporate Governance Committee and a member of the Remuneration Committee. Managing Director of Caponero Group. Director of Argo Investments Limited since 1999. Director of Deacons from 2001 to 2004. Former senior executive of Potter Warburg & Co. and Senior Associate of Corrs Chambers Westgarth.
David R Kingston	Age 50, LLB, BCom (Melb). Director of the company since 2002. Investment banker for over 20 years. Formerly, a Managing Director of N M Rothschild & Sons (Australia) Limited for 10 years. Principal of K Capital Group, Chairman of Ocean Capital Limited since 2002. Former Director of Coopers Brewery Limited from 1997 to November 2006, Austereo Limited, Village Roadshow Property Management Limited, Challenger International Property Management Limited, Spencer Gulf Telecasters Limited, Southern Star Group Limited and Rothschild Australia Capital Investors Limited.
Colin J Smith	Age 57, ISMP (Harvard) MBA (RMIT). Director of the company since 2002 and is also a member of the Mergers and Acquisitions Committee and the Audit Committee. In 2006 retired after 13 years as a Senior Partner with the international strategy consulting firm LEK Consulting. Now Deputy Chairman of LEK's Advisory Board and continues to be Principal Advisor for the firm's Asia-Pacific Sports, Media and Entertainment Practice. Director of Rowing Australia Ltd and Alcar Consulting Pty Ltd. Chairman of Global Television Pty Ltd and MCM Entertainment Pty Ltd. Member of the Australian Institute of Company Directors and Business Ambassador for South Australia. Former Chief Executive Officer of the Australia-wide radio network Wesgo Limited.

### 3.12 SCB's issued securities

#### (a) Fully Paid Shares

SCB has 72,579,344 Fully Paid Shares on issue as at 6 September 2007.

**(b) Partly Paid Shares**

SCB has 24,000 ordinary shares paid to 1 cent per share and 112,300 ordinary shares paid to 2.5 cents per share as at 6 September 2007.

The Trustee has sent a letter to each Partly Paid Shareholder which included the number of Partly Paid Shares held by that Partly Paid Shareholder and the amount unpaid. The amount payable on the 2.5 cents Partly Paid Shares ranges between \$1.775 and \$2.475. The amount payable on the 1 cent Partly Paid Shares is \$11.125.

The treatment of Partly Paid Shares under the Share Scheme is discussed in **Section 5.3**.

**(c) Options**

Details of the number of Options on issue as at 7 September 2007 are set out in **Section 8.1**.

## 4 Implementation of the Share Scheme

This Scheme Booklet, including the additional information contained in this section, has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the proposed Share Scheme, to be considered at the Share Scheme Meeting. The Share Scheme is set out in **Annexure C**.

### 4.1 Overall effect of the Share Scheme

Implementation of the Share Scheme, through the transfer of all of the Scheme Shares to RM2, will result in SCB becoming a wholly owned Subsidiary of RM2.

SCB's intentions regarding the suspension of trading in Shares on ASX and subsequent delisting of SCB from ASX are set out in **Section 4.13**.

#### (a) Effect on Shareholders

As a result of the Share Scheme, Shareholders will cease to be shareholders in SCB. All Share Scheme Participants who hold Fully Paid Shares will be paid \$17.41 in cash for each Fully Paid Share held by them at the Share Scheme Record Date, which will comprise Share Scheme Consideration of \$17.05 cash per Fully Paid Share and a Special Dividend of \$0.36 per Share.

If a Share Scheme Participant has previously disclosed its bank account details (for an account with any Australian ADI) to SCB (or the Share Registry) for the purposes of SCB making dividend payments, payment of the Share Scheme Consideration and Special Dividend will be electronically transferred into that account unless, before the Share Scheme Record Date, the Share Scheme Participant directs the Share Registry otherwise. If a Share Scheme Participant has not disclosed such bank account details to SCB, the Share Scheme Participant will be paid by cheque to be sent on the Share Scheme Implementation Date to their registered address as shown in the Share Register.

Fully Paid Shareholders as at the relevant record date will also be entitled to receive a Final Dividend for the period to 30 June 2007 of \$0.37 per Fully Paid Share. The record date for participating in the Final Dividend is 19 September 2007 and it is to be paid on 28 September 2007.

#### (b) Treatment of Partly Paid Shares

The treatment of Partly Paid Shares under the Share Scheme is discussed in **Section 5.3**.

### 4.2 Merger Implementation Agreement

SCB, RM2 and MMHL have entered into a Merger Implementation Agreement on 3 July 2007 in connection with the proposed Share Scheme. The terms of the Merger Implementation Agreement are set out in **Annexure B**.

The Merger Implementation Agreement sets out the obligations of SCB, RM2 and MMHL in relation to the Share Scheme. It also provides in clause 10.2 of the Merger Implementation Agreement for the payment by SCB to RM2 of a Break Fee of approximately \$10.9 million (being 1% of the Scheme Value), if at any time between the date of the Merger Implementation Agreement and the End Date any of the following occurs:

- (a) a Competing Proposal is made or publicly announced for SCB, and that Competing Proposal is contemplated by an agreement entered into with SCB or any Material SCB Group Members, recommended by any Directors, or successfully effected in accordance with the terms of that Competing Proposal (as amended, varied or replaced);
- (b) any other Competing Proposal is effected that results in any person acquiring 50% or more of the voting power in SCB or any Material SCB Group Members (under section 610 of the Corporations Act) within 8 months of the announcement of the first Competing Proposal;
- (c) any Director (subject to any necessary abstention under clause 8.3 of the Merger Implementation Agreement) does not recommend that Shareholders vote in favour of the Share Scheme, and all resolutions proposed at the Share Scheme Meeting, or does not

announce their intention to vote in favour of the Share Scheme, and all resolutions proposed at the Share Scheme Meeting, any Shares in respect of which they have the power to vote;

- (d) any Director makes a public statement (subject to any necessary abstention under clause 8.3 of the Merger Implementation Agreement) withdrawing their support or their recommendation that Shareholders vote in favour of the Share Scheme at the Share Scheme Meeting, withdrawing their statement regarding their intention to vote in favour of all resolutions to be proposed at the Share Scheme Meeting, or to approve the Share Scheme, or supporting or recommending a Competing Proposal;
- (e) the Conditions Precedent regarding SCB Warranties, Fairfax Media Entities and no acquisitions (described in **Sections 4.3(d), (k)(iv) and (k)(v)**, respectively), or (to the extent such Conditions Precedent are within SCB's control) the Conditions Precedent regarding SCB Material Adverse Changes or SCB Prescribed Occurrences (described in **Sections 4.3(e) and (f)**, respectively) are not satisfied or waived as at 8:00am on the Second Court Date; or
- (f) RM2 being entitled to terminate the Merger Implementation Agreement under clause 11.1(b) in circumstances where the right to terminate arises as a result of matters within SCB's control.

The Break Fee will not be payable where:

- (a) SCB is entitled to terminate the Merger Implementation Agreement under clause 11.1(c) as a result of:
  - (i) a material breach by either RM2 or MMHL of its obligations relating to Conditions Precedent or its obligations in respect of implementation of the Share Scheme (provided SCB delivers to RM2 a notice setting out the breach and the breach is not remedied or materially rectified within 5 Business Days, or any shorter period ending at 5.00pm on the day before the Second Court Date, of that notice);
  - (ii) an Insolvency Event occurs in respect of RM2 (unless SCB approval is received in respect of the proposed event); or
  - (iii) a material breach of any of the RM2 Warranties; or
- (b) The Independent Expert advises the Board that it will not conclude in its final report included in this Scheme Booklet that the Share Scheme is in the best interests of Shareholders (except because of a Superior Proposal).

#### **4.3 Conditions to the Merger Implementation Agreement**

As provided in clause 3 of the Merger Implementation Agreement, the obligations of SCB, RM2 and MMHL to implement the Share Scheme are subject to the Conditions Precedent being satisfied or, where applicable, waived in accordance with the terms of the Merger Implementation Agreement.

In summary, the Conditions Precedent are as follows:

- (a) **Regulatory approvals:** the Share Scheme being approved (or cleared) by the following regulators before 8.00am on the Second Court Date:
  - (i) **(ACCC)** Australian Competition and Consumer Commission or the Australian Competition Tribunal;
  - (ii) **(ACMA)** Australia Communications and Media Authority; and
  - (iii) **(FIRB)** Foreign Investment Review Board (if required);
- (b) **Shareholder approval:** Shareholders approving the Share Scheme at the Share Scheme Meeting by the Requisite Majority of Shareholders;
- (c) **Court approval:** the Court approving the Share Scheme under section 411(4)(b) of the Corporations Act;

- (d) **SCB Warranties:** the SCB Warranties being true and correct in all material respects on the date of the Merger Implementation Agreement and as at 8:00am on the Second Court Date;
- (e) **RM2 Warranties:** the RM2 Warranties being true and correct in all material respects on the date of the Merger Implementation Agreement and as at 8:00am on the Second Court Date;
- (f) **Option Scheme:** the Option Scheme becoming effective;
- (g) **Ownership of all Shares:** RM2 being satisfied that there are arrangements in place sufficient to ensure that at the end of the Share Scheme Implementation Date (subject to the Share Scheme becoming Effective and payment of the Share Scheme Consideration) all Shares will have been transferred to RM2 in accordance with the Share Scheme and all Options will have been exercised prior to the Second Court Date or cancelled);
- (h) **No rights to Options:** RM2 being satisfied that on the Share Scheme Implementation Date no person will have a right or option to subscribe for or otherwise acquire any securities in SCB or its wholly owned Subsidiaries (other than existing securities issued by SCB) and that SCB and its wholly owned Subsidiaries will not otherwise be under any obligation to allot any securities to any person or alter its share capital structure;
- (i) **Material Contracts:** Network Ten Pty Ltd and Seven Network (Operations) Ltd providing all necessary consents and waivers to any change in control, event of default or termination right under Material Contracts which may be triggered in connection with the implementation of the Share Scheme;
- (j) **Sale of NWS9:** SCB having completed the sale of shares in **NWS9** to WIN Corporation Pty Ltd (or its nominee) for at least \$105 million (subject to working capital adjustment) on certain terms; and
- (k) **Prescribed events not occurring:** None of the following occurring:
- (i) a temporary restraining order, preliminary or permanent injunction or other order issued by a court of competent jurisdiction or other legal restraint or prohibition being in effect at 8:00am on the Second Court Date;
  - (ii) a SCB Material Adverse Change occurring or becoming known to RM2 after the date of the Merger Implementation Agreement and before 8:00am on the Second Court Date;
  - (iii) a SCB Prescribed Occurrence occurring or becoming known to RM2 after the date of the Merger Implementation Agreement and before 8:00am on the Second Court Date which has not been remedied or materially rectified by SCB by that time;
  - (iv) SCB disposing of (pursuant to a Competing Proposal or otherwise) all or any interest in the Fairfax Media Entities to a non-SCB Group Member; or
  - (v) SCB acquiring control of another radio broadcasting licence or radio broadcasting licensee.

#### 4.4 Conditions Precedent to the Share Scheme

The Share Scheme is conditional upon the satisfaction or waiver of all of the conditions set out in clause 3.1 of the Share Scheme, a summary of which is set out below:

- (a) the satisfaction or waiver of all of the Conditions Precedent to the Merger Implementation Agreement as at 8.00am on the Second Court Date (summarised in **Section 4.3**) other than the Conditions Precedent in clauses 3.1(e) and 3.1(k) of the Merger Implementation Agreement;
- (b) as at 8.00am on the Second Court Date, neither the Merger Implementation Agreement nor the Deed Poll having been terminated;

- For personal use only
- (c) the Share Scheme being approved by Requisite Majority of Shareholders in accordance with section 411(4) of the Corporations Act, with or without modifications or conditions;
  - (d) the Court having approved the Share Scheme pursuant to section 411(4)(b) of the Corporations Act, with or without modifications or conditions;
  - (e) such other conditions made or required by the Court under section 411(6) of the Corporations Act as are acceptable to RM2 and SCB being satisfied; and
  - (f) the Court having approved the Option Scheme pursuant to Section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to SCB, or there being no outstanding Options as at 8.00am on the Second Court Date.

A copy of the Share Scheme is set out in **Annexure C**.

#### **4.5 Status of Conditions Precedent**

As at the date of this Scheme Booklet, SCB is not aware of any circumstances which would cause the conditions summarised in **Sections 4.3** and **4.4** not to be satisfied.

Prior to the date of this Scheme Booklet, SCB provided written confirmation to RM2 that Network Ten Pty Limited had given all necessary consents and waivers of any change in control, event of default or termination right under the Material Contracts in connection with the implementation of the Scheme.

SCB also provided written confirmation to RM2 that the condition precedent relating to the sale of NWS9 had been satisfied.

SCB and Seven Network (Operations) Limited (**Seven**) are in discussions regarding Seven providing consent. However, as at the date of this Scheme Booklet, consent has not been provided.

MMG has advised SCB that as at the date of this Scheme Booklet the status of the Conditions Precedent regarding ACCC, ACMA and FIRB is as follows:

##### **(a) ACCC**

It is a Condition Precedent of the Merger Implementation Agreement that MMG obtains the ACCC's clearance of the Transaction. This condition must be satisfied by 8.00am on the Second Court Date.

If the ACCC was to form the view that the Transaction was likely to lead to a substantial lessening of competition, the Condition Precedent relating to ACCC approval would not be satisfied and the Share Scheme may not proceed.

MMG has made an application to the ACCC for informal clearance of the Transaction. The ACCC commenced its review of the proposal on 23 July 2007 and as part of that review, has conducted market enquiries.

The ACCC is due to announce its findings on 19 September 2007. At this point the ACCC may grant informal clearance of the Transaction or it may identify areas in which it believes the Transaction raises preliminary competition concerns and the lines of further enquiry that the ACCC intends to undertake, which it will detail in a Statement of Issues.

If the ACCC publishes a Statement of Issues, interested parties will have the opportunity to make submissions relating to the preliminary issues identified by the ACCC. MMG and SCB would also have the opportunity to make further submissions.

MMG may provide the ACCC with undertakings in order to obtain ACCC clearance relating to the behaviour of the merged entity and/or divesting certain businesses.

If, notwithstanding any undertakings offered by MMG, the ACCC was to form the view that the Transaction was likely to lead to a substantial lessening of competition, MMG has the right not to proceed with the Transaction.

Any updates and findings released by the ACCC are expected to be available on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au).

##### **(b) ACMA**

One of the Conditions Precedent to the Merger Implementation Agreement is that RM2 has received written notice from ACMA approving the Transaction in accordance with section 61AJ(4) of the BSA and all potential breaches of sections 53, 54, 55 and 56 of the BSA that may be caused by the Transaction in accordance with section 67(4) of the

BSA either unconditionally or on conditions which are acceptable to the party required to comply with them.

On 20 July 2007 ACMA provided notice of the ACMA Approvals in writing and released a media release regarding the approvals which is available from the ACMA website at [www.acma.gov.au](http://www.acma.gov.au).

MMG has also given enforceable undertakings to ACMA which are described in **Section 6.5(c)(iii)** and are available from the ACMA website.

As at the date of this Scheme Booklet, the ACMA Approvals would be sufficient to enable the Transaction to proceed without the need to obtain any further approvals from ACMA.

**(c) FIRB**

The acquisition of Shares by RM2 under the Share Scheme is subject, if required, to review and approval by the Treasurer under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) or under the Australian Federal Government's foreign investment policy. Based on the latest information available to RM2 and MMHL, at the date of this Scheme Booklet neither RM2 nor MMHL are regulated under the FATA and approval by the Treasurer is therefore currently not required. MMG will monitor any requirement for such approval to be obtained after the date of this Scheme Booklet.

SCB will, prior to the Share Scheme Meeting, advise Shareholders of the status of the various conditions by an announcement to ASX and on SCB's website at [www.southerncrossbroadcasting.com.au](http://www.southerncrossbroadcasting.com.au).

SCB will also announce to ASX any relevant matter which affects the likelihood of a Condition Precedent being satisfied, waived or not being satisfied, in accordance with its continuous disclosure obligations.

**4.6 Share Scheme Meeting**

The Court has ordered that a meeting of Shareholders be held at Level 36, 600 Bourke Street, Melbourne on 19 October 2007 at 10.00am (Melbourne time) to consider the Share Scheme.

The order of the Court that the Share Scheme Meeting be convened is not, and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Share Scheme.

In order for the Share Scheme to be approved by Shareholders, the resolution must be passed by the Requisite Majority of Shareholders.

**4.7 Court approval of the Share Scheme**

SCB will apply to the Court for an order approving the Share Scheme if:

- (a) the Share Scheme is approved by the Requisite Majority of Shareholders at the Share Scheme Meeting; and
- (b) all other Conditions Precedent are satisfied or waived.

The Court may refuse to grant the orders referred to above even if the Share Scheme is approved by the Requisite Majority of Shareholders.

If the Share Scheme is not approved by the Requisite Majority of Shareholders, it will not proceed and SCB will not apply to the Court for any orders in connection with the Share Scheme.

The Supreme Court of Victoria Rules provide a procedure for Shareholders to oppose the approval by the Court of the Share Scheme or to otherwise make representations to the Court in relation to the Share Scheme. If you wish to appear at the hearing before the Court that will determine whether the Share Scheme is to be approved, you may do so by filing with the Court and serving on SCB a notice of appearance in the prescribed form together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on SCB at least one day before the hearing date, which is currently expected to occur on 26 October 2007. Any change to this date will be announced through ASX and typically notified on ASX's website, [www.asx.com.au](http://www.asx.com.au). Alternatively, the Court has a discretion to grant you leave to be heard at the hearing even if you have not complied with these requirements.

#### 4.8 Warranties by Share Scheme Participants

The Share Scheme provides that each Share Scheme Participant is deemed to have warranted to SCB, in its own right and for the benefit of RM2 that:

- (a) all of the Scheme Shares which are transferred to RM2 under the Share Scheme, will be transferred to RM2 free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares to RM2 (but acknowledging that a security interest holder may potentially have an interest in the Share Scheme Consideration in accordance with the terms of the such security interest).

#### 4.9 Actions by SCB, MMHL and RM2

If the Court order approving the Share Scheme is obtained, the Directors and the directors of RM2 will take or procure the taking of the steps required for the Share Scheme to be implemented. These will include the following:

- (a) SCB will lodge with ASIC, an office copy of the Court order approving the Share Scheme under section 411 of the Corporations Act and the Share Scheme will become Effective;
- (b) RM2 will before 8.00am on the Share Scheme Implementation Date deposit or procure the deposit of an amount in cleared funds sufficient to pay the Share Scheme Consideration to each Share Scheme Participant into an account in SCB's name with those funds to be held on trust by SCB for the purpose of paying the Share Scheme Consideration to Share Scheme Participants;
- (c) subject to the terms of the Share Scheme and the Share Scheme becoming Effective, SCB will on the Share Scheme Implementation Date dispatch the Share Scheme Consideration and pay the Special Dividend to each Share Scheme Participant;
- (d) subject to dispatch of the Share Scheme Consideration to Share Scheme Participants, SCB will enter the name of RM2 in the Share Register as the holder of all the Scheme Shares; and
- (e) SCB will apply to be removed from the official list of ASX.

#### 4.10 Deed Poll

RM2 has executed a Deed Poll in favour of the Share Scheme Participants agreeing, subject to the satisfaction of certain Conditions Precedent, to pay or procure the payment into a trust account controlled by SCB of an amount equal to the Share Scheme Consideration by 8.00am on the Share Scheme Implementation Date. A copy of the Deed Poll is set out in **Annexure F**.

#### 4.11 Effective Date

The Share Scheme will become Effective on the date upon which an office copy of the order of the Court under section 411 of the Corporations Act approving the Share Scheme is lodged with ASIC.

If the Share Scheme becomes Effective, SCB will promptly give notice of the event to ASX. Once the Share Scheme becomes Effective, SCB and RM2 will become bound to implement the Share Scheme in accordance with its terms.

#### 4.12 Share Scheme Record Date

For the purpose of establishing the persons who are the Share Scheme Participants under the Share Scheme, dealings in Scheme Shares will only be recognised if, in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares at the Share Scheme Record Date, and in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received at or before the Share Scheme Record Date, at the place where the Share Register for those Shares is kept.

Subject to the provisions of the SCB Constitution, SCB must register registrable transmission applications or transfers of the kind referred to above. SCB will not accept for registration or recognise for any purpose any transmission applications or transfers in respect of Scheme Shares received after the Share Scheme Record Date, other than a transfer to RM2 in

accordance with the Share Scheme and any subsequent transfer by RM2, or its successors in title.

For the purpose of determining entitlements to the Share Scheme Payment, SCB will, until the Share Scheme Payment has been paid in accordance with the Share Scheme, maintain the Share Register in accordance with the foregoing provisions of this section and the Share Register will solely determine entitlements to the Share Scheme Payment. As from the Share Scheme Record Date and subject to the provision of the Share Scheme Consideration by RM2 and registration of the transfer of the Scheme Shares to RM2, each entry current on the Share Register relating to the Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Share Scheme Payment in respect of the Shares relating to that entry.

#### **4.13 Suspension and de-listing**

SCB will apply to ASX for suspension of trading on ASX after the Close of Trading.

Following final implementation of the Share Scheme, SCB will apply to be removed from the official list of ASX.

#### **4.14 Termination of the Merger Implementation Agreement**

As provided in clause 11 of the Merger Implementation Agreement, the Merger Implementation Agreement may be terminated before the Second Court Date in certain circumstances.

Both SCB and RM2 have a right to terminate the Merger Implementation Agreement if:

- (a) there is both a failure to satisfy the Conditions Precedent and a failure to reach agreement as to an alternative way of proceeding with the Transaction or extending its time frame;
- (b) the Share Scheme has not become effective on or before 23 November 2007 (or such other date as agreed).
- (c) the Share Scheme is not approved by the Requisite Majority of Shareholders at the Share Scheme Meeting; or
- (d) any court or Regulatory Authority has issued any order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Share Scheme, or has refused to do anything necessary to permit the Share Scheme, and such order, decree, ruling or other action has become final and cannot be appealed.

RM2 may terminate the Merger Implementation Agreement if:

- (a) SCB is in material breach of specified clauses of the Merger Implementation Agreement including those regarding the Conditions Precedent, SCB obligations in connection with the implementation of the Share Scheme or the provisions regulating the way in which SCB conducts its business during the Exclusivity Period, and such breach has not been rectified within 5 Business Days, or any shorter period ending at 5.00pm on the day before the Second Court Date after notification of the breach to SCB by RM2;
- (b) SCB is in breach of specified clauses of the Merger Implementation Agreement regarding Directors' recommendations, restrictions on changes in Directors' recommendations or any of the exclusivity provisions;
- (c) any Director fails to recommend that Shareholders vote in favour of the Share Scheme (subject to any necessary abstention under clause 8.3 of the Merger Implementation Agreement) or does not announce his or her intention to vote in favour of the Share Scheme any Shares in respect of which they have the power to vote;
- (d) an SCB Prescribed Occurrence occurs which is not remedied or materially rectified within 5 Business Days after notification of the breach to SCB by RM2;
- (e) there is a breach of any of the SCB Warranties, which breach is likely to have a Material Effect; or
- (f) an SCB Material Adverse Change occurs.

SCB may terminate the Merger Implementation Agreement if:

- (a) RM2 or MMHL is in material breach of its obligations to use its best endeavours to ensure that certain Conditions Precedent are satisfied or RM2's obligations in connection with the implementation of the Share Scheme, provided such breach is not remedied or materially rectified within 5 Business Days, or any shorter period ending at 5.00pm on the day before the Second Court Date, after notification of the breach to RM2 by SCB;
- (b) an RM2 Prescribed Occurrence occurs; or
- (c) there is a material breach of any of the RM2 Warranties under the Merger Implementation Agreement.

**4.15 What happens if the Share Scheme does not proceed?**

If the Share Scheme is not approved by the Requisite Majority of Shareholders or other Conditions Precedent are not satisfied or waived (see **Section 4.4**), the Share Scheme will not be implemented.

The consequences of the Share Scheme not being implemented include:

- (a) in some circumstances, SCB will be required to pay RM2 a Break Fee of approximately \$10.9 million (see **Section 4.2** for details of when such Break Fee must be paid by SCB);
- (b) the Merger Implementation Agreement will be terminated;
- (c) the Share Scheme Payment will not be paid and SCB will remain a separate company, listed on ASX;
- (d) Shareholders will retain their Shares in SCB and will continue to share in any benefits and risks connected with SCB's ongoing business;
- (e) decisions in relation to the future of SCB will continue to be taken by the Directors; and
- (f) Partly Paid Shareholders will retain their Partly Paid Shares.

## 5 Additional information on SCB

### 5.1 Interests of Directors

Except as set out below, no Director has any material interest in relation to the Share Scheme.

#### (a) SCB marketable securities

The number, description and amount of marketable securities of SCB held by or on behalf of each Director as at 6 September 2007 are:

Director	SCB Shares	SCB 1 cent Partly Paid Shares
John C Dahlsen	882,506	Nil
Geoffrey D Allen	27,102	Nil
Neil R Balnaves	2,590,086	Nil
Anthony E Bell	104,232	Nil
Charles G Clark	17,572	6,000
Marina Darling	11,336	Nil
David Kingston	15,150	Nil
Colin J Smith	700	Nil

On 23 August 2007, Mr Dahlsen paid up in full 6,000 Partly Paid Shares (paid up to 1 cent).

Mr Bell holds the following Options to acquire an equivalent number of Fully Paid Shares under the SCB Executive Performance Plan and the 2002 Managing Director Option Grant Terms as at 6 September 2007:

Date issued	Expiry date	Options	Exercise price
1 November 2002	1 November 2009	200,000	\$9.10
10 November 2004	10 November 2009	234,000	\$12.35
10 November 2004	10 November 2009	45,000	\$Nil
10 November 2005	10 November 2010	50,000	\$Nil
16 November 2006	16 November 2011	50,000	\$Nil

#### (b) Interests of Directors in MMG, RM2 or Fairfax Media

There are no marketable securities of MMG, RM2 or Fairfax Media held by or on behalf of any Directors as at the date of this Scheme Booklet.

#### (c) Agreements or arrangements with Directors in connection with or conditional upon outcome of the Share Scheme

Under a consulting agreement between SCB and K Capital Pty Ltd (**K Capital**) (a company controlled by Mr David Kingston) (the **K Capital Consultancy Agreement**), K Capital is to be paid a success fee of \$300,000 by SCB, conditional on the successful implementation of the Share Scheme (including the Share Scheme being approved by the Requisite Majority of Shareholders and relevant Court approvals being obtained).

Under the K Capital Consultancy Agreement, K Capital was engaged to provide specialist consultancy services including providing advice on mergers and acquisitions response issues for a term of three months from 15 February 2007 (which was subsequently extended until 31 July 2007). Mr Kingston took a leave of absence from

his position as a director of SCB from 16 February 2007 until 1 August 2007 (during which period he had no entitlement to any directors' or committee fees).

The Directors (other than Mr Kingston) have resolved that they are satisfied that Mr Kingston's interest in the K Capital Consultancy Agreement should not disqualify him from being present or voting at Board meetings in respect of the Share Scheme or from making a recommendation in respect of the Share Scheme.

Except as disclosed above or in this **Section 5**, there are no agreements or arrangements made between any Director and another person in connection with or conditional upon the outcome of the Share Scheme.

**(d) Interests of Directors in contracts entered into by MMG**

Except as disclosed in this **Section 5**, no Director has any interest in a contract entered into by MMG or RM2.

**5.2 Voting Rights Deed**

At the request of MMG, an arrangement was put in place to facilitate the Share Scheme and for the purposes of MMGPL and the other Licensee Controllers acquiring control of the SCB Licences for the purposes of the BSA.

As a result of MMG acquiring control of the SCB Licences new registrable media groups were created in each of the radio licence areas where the MMG Licences and the SCB Licences operate. The new media groups have now been registered in each of the radio licence areas other than the Diversity Overlap Areas (see **Section 6.5(c)(iii)**).

The arrangement was documented by way of a deed executed by Macquarie Media Group Pty Limited (**MMGPL**) and Sevanlab Star Investments Pty Limited (**Sevanlab**) (a company of which Mr Balnaves is a director) in respect of 1,300,000 Fully Paid Shares that are owned by Sevanlab (the **Voting Rights Deed**).

Under the Voting Rights Deed, Sevanlab has granted MMGPL the right to vote 1,300,000 Fully Paid Shares in SCB owned by Sevanlab (the **Sevanlab Shares**) in MMGPL's absolute discretion (the **Voting Rights**).

The Voting Rights Deed was executed on 3 July 2007 and came into effect on 20 July 2007 (on receipt of a notice from ACMA that on 19 July 2007 it approved the Transaction contemplated by the Voting Rights Deed).

Sevanlab may withdraw its grant of Voting Rights by providing MMGPL written notification of the Voting Rights withdrawal if:

- the Board recommends a Superior Proposal to the Scheme;
- the Merger Implementation Agreement is terminated in accordance with its terms;
- the Scheme is prohibited by an order or injunction issued by any court of competent jurisdiction, or other legal restraint or prohibition;
- the Court declines to order the convening of a meeting of Shareholders in respect of the Scheme;
- the Scheme is not approved by the Requisite Majority of Shareholders; or
- the Court declines to approve the Scheme.

MMGPL may, at any time, relinquish the Voting Rights, by notice in writing to Sevanlab.

MMG will not vote at the Scheme Meeting in respect of the Sevanlab Shares (or any other Shares).

**5.3 Partly Paid Shares**

As detailed in **Section 3.12**, SCB has Partly Paid Shares on issue. The Partly Paid Shares are held by Southern Cross Incentive Pty Ltd (the **Trustee**) on trust for the beneficial owners of the Partly Paid Shares.

The directors of the Trustee are SCB Managing Director Tony Bell, SCB Company Secretary Eddie Chia and SCB General Counsel & Director of Corporate Affairs Adam Olding.

At the Share Scheme Meeting, the Trustee may exercise on behalf of the Partly Paid Shareholders the voting rights which attach to their Partly Paid Shares. These voting rights are calculated by reference to the percentage of the Partly Paid Share which has been paid up. If a Partly Paid Shareholder does not provide the Trustee with express instructions regarding the exercise of these votes at least 96 hours before the Share Scheme Meeting, the Trustee will exercise the votes at its discretion. In such circumstances, the Trustee intends to exercise the votes in favour of the Share Scheme, in the absence of a Superior Proposal.

If the Share Scheme is implemented, each Partly Paid Shareholder will receive the Share Scheme Consideration of \$17.05 per Partly Paid Share, minus the amount unpaid on each of their Partly Paid Shares. Partly Paid Shareholders will also be entitled to receive in full the Special Dividend of \$0.36 per Share (in accordance with a resolution passed by the Directors).

Partly Paid Shareholders are not entitled to participate in the Final Dividend of \$0.37 per Fully Paid Share, which will be available to the holders of Fully Paid Shares. If, however, a Partly Paid Shareholder elects to fully pay the amount owing on each Partly Paid Share prior to 19 September 2007, they will become entitled to receive the Share Scheme Payment of \$17.41 and the Final Dividend of \$0.37 per Fully Paid Share.

Partly Paid Shareholders are being provided with further information regarding the Share Scheme and its implications for them by the Trustee.

#### **5.4 Interest of Mr Balnaves in Macquarie Leisure Group**

Mr Neil Balnaves is a director and chairman of Macquarie Leisure Management Limited (**MLML**) and Macquarie Leisure Operations Limited (**MLOL**) and he owns 196,000 stapled securities in the Macquarie Leisure Trust (**MLT**).

Macquarie Bank Limited (**MBL**) is a major holder of securities in MLT and in MMG and separate agreements exist between the MBL Group and each of MLT and MMG with respect to management fee arrangements and arrangements for the supply of various services and staff from the MBL Group. However, other than normal commercial arms' length agreements which may exist between assets in which MMG and MLOL, MLML and MLT may have interests, there are no direct relationships between MMG and RM2, on the one hand, and MLOL, MLML and MLT on the other hand.

SCB has an arm's length commercial relationship with MLOL through Southern Star Group Limited in relation to the production and cross promotion of the programs "Big Brother" and "Friday Night Games".

Mr Balnaves does not have any interests in MMG.

#### **5.5 Intentions of Directors of SCB regarding their Share holdings**

Except as described below, each Director intends to vote the Shares over which they have voting control in favour of the Share Scheme, in the absence of a Superior Proposal.

Sevanlab, a company in which Mr Balnaves has an interest, will not vote at the Share Scheme Meeting in respect of 1,300,000 of its Shares due to its agreement with MMGPL under the Voting Rights Deed described in **Section 5.2**. MMG will not vote at the Scheme Meeting in respect of the 1,300,000 Shares which are the subject of the Voting Rights Deed (or any other Shares).

#### **5.6 Payments or benefits to SCB officers**

Non-executive Directors appointed before 6 October 2004 are entitled to a Directors' retirement benefit calculated as a multiple of:

- 3 times the average remuneration over the last 3 years, in the case of a Director who has served for 5 years;
- 4 times the average remuneration over the last 4 years, in the case of a Director who has served for over 10 years; and
- for service between 5 and 10 years, a multiple increasing pro-rata from 3 to 4 times the Director's average remuneration over the last 3 years.

On 6 October 2004, the Board resolved that retirement benefits would not extend to non-executive Directors appointed after that date, without affecting the entitlements of existing non-executive Directors appointed prior to that date. On 21 November 2006, the Board resolved that each person appointed as a non-executive Director of SCB prior to 6 October 2004 who has completed not less than 3 years but not more than 5 years service will be entitled to a retirement benefit calculated on the basis of a pro-rata payment of the benefit that would be

payable had the Director served for a 5 year term. That is, the payment is calculated as 3 times the average remuneration of the Director over the last 3 years, but reduced pro-rata to reflect the proportion of the Director's term in office relative to the normal 5 year qualifying term for the retirement benefit.

Each of the current non-executive Directors (other than Mr Balnaves) will have an entitlement to the Directors' retirement benefit, subject to achieving the required level of service.

SCB has a provision accumulated each financial year in accordance with Australian Accounting Standards to meet its liability to pay the Directors' retirement benefit. The cumulative amount provided relates to:

Director	30 June 2007
John C Dahlsen	\$700,000
Geoffrey D Allen	\$272,550
Charles G Clark	\$326,667
Marina Darling	\$290,983
David R Kingston	\$201,545
Colin J Smith	\$230,143
<b>Total</b>	<b>\$2,021,888</b>

The amount provided in respect of each Director's retirement only becomes payable upon retirement of the Director.

All Directors have superannuation arrangements in connection with their engagement as directors of SCB. These arrangements will not vary by reason of the Schemes.

The executive service agreement between Mr Bell and SCB provides that, if a "fundamental change" to Mr Bell's employment has occurred or is imminent, Mr Bell is entitled to immediately terminate the agreement and be paid 18 months' notice (based on the fixed component of his remuneration and other fixed benefits) being approximately \$1,650,000. A "fundamental change" means Mr Bell ceasing to be Managing Director and most senior executive of SCB or a substantial diminution in the functions, status, responsibilities or authority of Mr Bell, including any diminution arising from SCB ceasing to be a listed public company but excluding any diminution arising from the termination of his employment by SCB pursuant to the executive services agreement or to which Mr Bell consents. A fundamental change for these purposes will occur on the implementation of the Share Scheme and Mr Bell's entitlement will become payable if he gives notice of that change and resigns after that time.

As a consequence of the Scheme, the Option Holders (including certain officers of SCB) are permitted to exercise their Options, which would not otherwise have been exercisable as the performance conditions of the Options have not yet been met.

Other than as referred to above or elsewhere in this Scheme Booklet, as at the date of this Scheme Booklet no payment or other benefit is proposed to be made or given to any Director, secretary or executive officer of SCB or its Related Entities as compensation for loss of, or as consideration for or in connection with their retirement from, office in SCB or any Related Entities as a consequence of or in connection with the Schemes.

## 6 Information about MMG and RM2

### 6.1 Information about MMG

#### (a) MMG corporate structure

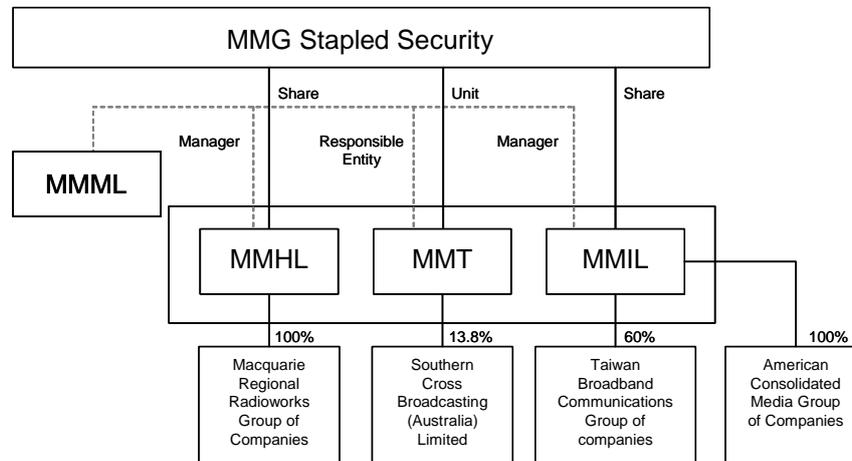
MMG is a diversified media group listed on ASX with a market capitalisation of approximately \$932.6 million as at the close of business on 6 September 2007. MMG's primary objective is to acquire, own and manage a portfolio of media assets globally with stable earnings and strong free cash flows, strong market positions and potential for further earnings improvement. MMG consists of three entities:

- Macquarie Media Trust (**MMT**), an Australian registered managed investment scheme. The responsible entity of MMT is Macquarie Media Management Limited (**MMML**), a wholly-owned Subsidiary of Macquarie Bank Limited (**MBL**);
- Macquarie Media Holdings Limited (**MMHL**), an Australian public company. MMML is the manager of MMHL; and
- Macquarie Media International Limited (**MMIL**), a Bermudan exempted mutual fund company. MMML is the manager of MMIL.

In its role as manager of MMHL and MMIL, MMML makes recommendations in respect of prospective investments, manages those investments and administers the companies' day-to-day business affairs. As the responsible entity for MMT, MMML and its officers manage the assets of MMT and are responsible for all investment decisions.

MMG stapled securities were listed on ASX in November 2005 (see ASX code "MMG"). Each MMG stapled security comprises one unit in MMT, one ordinary share in MMHL and one ordinary share in MMIL. Ordinary shares in MMHL and MMIL and units in MMT are stapled and are not able to be traded independently.

The MMG stapled structure is represented diagrammatically in the chart below which includes a representation of MMG's current investment portfolio:



#### (b) MMG's investment objectives

MMG has a mandate to invest in media assets globally. MMG seeks to combine operational expertise from quality media operators with MBL Group's financing and acquisition expertise, to access investments across the media sector globally, and provide investors with stable cash yields, the benefits of organic growth through market growth and asset performance improvement, as well as growth through acquisition.

#### (c) MMG's current portfolio

MMG currently owns a 100% interest in Macquarie Regional Radioworks, a 60% economic interest in Taiwan Broadband Communications, a 100% interest in American Consolidated Media and a 13.8% interest in SCB (further details of MMG's interests in SCB are set out in **Section 6.6**).

- **Macquarie Regional Radioworks:** is the owner and operator of the largest number of commercial radio broadcasting licences in Australia. The licences are controlled by one or more of the Licensee Controllers for the purposes of the BSA. Its portfolio comprises 87 commercial radio broadcasting licences (**MMG Licences**) across 45 regional radio licence areas reaching more than 4.6 million radio listeners.
- **Taiwan Broadband Communications:** is the leading broadcaster in five regions of Taiwan with over 670,000 subscribers, enjoying strong recurring cash flows from its basic cable television service and driving new growth through value-added services such as digital television, broadband internet and cable telephony.
- **American Consolidated Media (ACM):** is the publisher of 70 community newspapers which serve all or significant portions of 15 regional communities in Texas, Oklahoma, Kansas, Minnesota, Wisconsin and Michigan in the United States. In June and July 2007, ACM acquired Superior Publishing Corporation and substantially all of the assets of Grove Sun Newspaper Company and Kimberling City Publishing Company.

Further information about MMG, its activities and its financial performance and condition is set out in MMG's Annual Report and Interim Reports and on MMG's website: [www.macquarie.com.au/au/mmg](http://www.macquarie.com.au/au/mmg). MMG's Annual Report and Interim Reports can be downloaded from MMG's website.

**(d) MMG's Board of Directors**

The following persons are directors of MMML at 6 September 2007:

- |                    |  |
|--------------------|--|
| ■ Max Moore-Wilton | (Executive Chairman)                               |
| ■ Nicholas Moore   | (Executive Director)                               |
| ■ Leon Pasternak   | (Independent Director)                             |
| ■ Larry Anthony    | (Independent Director)                             |
| ■ Chris de Boer    | (Independent Director)                             |
| ■ John Roberts     | (Alternate to Max Moore-Wilton and Nicholas Moore) |

The following persons are directors of MMHL at 6 September 2007:

- |                    |                                 |
|--------------------|---------------------------------|
| ■ Max Moore-Wilton | (Executive Chairman)            |
| ■ Leon Pasternak   | (Independent Director)          |
| ■ Larry Anthony    | (Independent Director)          |
| ■ Chris de Boer    | (Independent Director)          |
| ■ John Roberts     | (Alternate to Max Moore-Wilton) |
| ■ Nicholas Moore   | (Alternate to Max Moore-Wilton) |

The following persons are directors of MMIL at 6 September 2007:

- |                    |                                 |
|--------------------|---------------------------------|
| ■ Michael Hamer    | (Independent Chairman)          |
| ■ Bob Richards     | (Independent Deputy Chairman)   |
| ■ Michael Leverock | (Independent Director)          |
| ■ Max Moore-Wilton | (Executive Director)            |
| ■ John Roberts     | (Alternate to Max Moore-Wilton) |
| ■ Nicholas Moore   | (Alternate to Max Moore-Wilton) |

**6.2 Information about RM2**

RM2 is MMG's acquisition vehicle for the Share Scheme. The following persons are directors of RM2 at 6 September 2007:

- Alex Harvey
- Mark Dorney
- Liam Buckley

### 6.3 Fairfax Media

RM2 and MMHL have entered into a procurement deed with Fairfax Media:

- (a) pursuant to which Fairfax Media has agreed to provide a loan to RM2 for the purpose of funding part of the Share Scheme Consideration; and
- (b) which contemplates the sale of the Fairfax Media Entities from RM2 to a Subsidiary of Fairfax Media following completion of the Share Scheme,

**(Procurement Deed).** Further information on Fairfax Media is available in **Section 7** below.

### 6.4 Share Scheme Consideration

If the Share Scheme becomes Effective, RM2 will pay each Share Scheme Participant who holds Fully Paid Shares the Share Scheme Consideration of \$17.05 for each fully paid Scheme Share. RM2 will pay each Share Scheme Participant who holds Partly Paid Shares the Share Scheme Consideration of \$17.05 less the amount of the unpaid issue price on their Partly Paid Shares.

The maximum amount of cash required to be paid by RM2 to Share Scheme Participants under the Share Scheme is \$1,100.2 million. This assumes that prior to the Share Scheme Record Date:

- all 1,811,200 Options issued under the SCB Executive Performance Plan and SCB Managing Director Option Grant Terms and outstanding as at 6 September 2007 are exercised and ordinary shares are issued; and
- all 136,300 Partly Paid Shares issued under the SCB Employee Share Plan become fully paid ordinary shares.

#### (a) Funding arrangements for Share Scheme Consideration

RM2 will fund the Share Scheme Consideration using a combination of debt facilities arranged by nabCapital, a division of National Australia Bank Limited (**nabCapital**), and a loan provided by Fairfax Media. These funds will be sufficient for RM2 to pay the Share Scheme Consideration in accordance with its obligations under the Deed Poll and the Share Scheme.

#### (b) Loan from Fairfax Media

RM2, MMHL and Fairfax Media entered into the Procurement Deed on 3 July 2007 pursuant to which Fairfax Media will lend RM2 \$519.7 million for the purpose of RM2 paying part of the Share Scheme Consideration to the Share Scheme Participants (the **Fairfax Loan**). The Fairfax Loan will be paid directly into a trust account, established by SCB, on the day prior to the Share Scheme Implementation Date for the purpose of paying the Share Scheme Consideration. The payment of the Fairfax Loan is subject to RM2 granting to Fairfax Media, prior to the Second Court Date, a charge securing the Fairfax Loan over all of the Shares that will be acquired by RM2 to the extent that granting such security does not breach the BSA. The Fairfax Loan will still be made even if the charge cannot be granted due to restrictions in the BSA. Consequently, the Fairfax Loan will be available to partially satisfy the Share Scheme Consideration.

The Fairfax Loan is an interest-free loan and is being provided by Fairfax Media pursuant to the Procurement Deed which contemplates, following the acquisition of 100% of the Shares by RM2, the acquisition of the shares in the Fairfax Media Entities from RM2 by Fairfax Media BCS Pty Limited (**FairfaxCo**), a wholly-owned Subsidiary of Fairfax Media, as set out below in **Section 6.5(c)(i)**. The Fairfax Loan represents the estimated amount required to be paid by FairfaxCo to RM2 upon completion of such a sale of the Fairfax Media Entities to FairfaxCo.

#### (c) Bank Facilities

RM2 has executed a legally binding commitment letter under which nabCapital has agreed to provide debt finance facilities to RM2 for the purposes of financing the acquisition of Shares under the Share Scheme, refinancing SCB's existing financial indebtedness, refinancing the existing bank facilities of Macquarie Regional Radioworks Pty Ltd (**MRR**) and funding any transaction costs in relation to the Share Scheme and connected transactions (the **Bank Facilities**). The Bank Facilities include:

- a \$941.0 million secured senior term loan facility;
- a \$153.0 million secured bridge debt facility; and
- a \$70.0 million revolving working capital and capital expenditure facility.

Excluding the revolving working capital and capital expenditure facility and including the Fairfax Loan, a total of \$1,613.7 million is available for the purposes of funding the Share Scheme Consideration, to enable the refinancing of existing debt facilities of SCB and MRR and paying certain costs in connection with the Share Scheme and associated transactions. As at 6 September 2007, MRR's existing indebtedness is approximately \$104 million..

(i) **Availability of the Bank Facilities**

The Bank Facilities contain a "certain funds" clause which provide that no financier may refuse to advance any loan under the Bank Facilities, cancel any commitment to make such a loan, exercise any right of rescission or similar right or remedy, accelerate repayment of such a loan, enforce any security or exercise any right of set off, except in certain limited circumstances, including non-satisfaction of the conditions precedent, the insolvency of RM2 and it being unlawful for the financiers to fund.

The availability of the Bank Facilities is subject to the satisfaction of a number of conditions precedent, which include:

- the execution and delivery of facility documentation and security satisfactory to nabCapital (the Bank Facilities will be documented consistently with the commitment letter and MRR's existing bank facilities);
- all regulatory and statutory approvals necessary to complete the Share Scheme;
- all conditions necessary to complete the Share Scheme;
- evidence that Fairfax Media has provided the Fairfax Loan; and
- the satisfaction of other conditions precedent which are customary for facilities of this kind.

It is expected that these conditions will be satisfied prior to the Second Court Date (other than for evidence that Fairfax Media has provided the Fairfax Loan which cannot be satisfied until the day prior to the Share Scheme Implementation Date, Court approval of the Share Scheme and certain conditions which are intended to be satisfied concurrently with first drawdown under the Bank Facilities including the payment of fees and expenses, repayment of all existing indebtedness and releases of all material security).

(ii) **Representations and warranties**

The representations and warranties given by RM2 in relation to the Bank Facilities are customary for facilities of this kind. As at the date of this Scheme Booklet, RM2 is not aware of any breach of a representation or warranty nor any circumstances that would lead to a breach of a representation or warranty.

**6.5 RM2's and MMG's intentions for the businesses, assets and employees of SCB**

This section sets out the intentions of RM2 and MMG in relation to:

- the continuation of the businesses of SCB;
- any major changes to the businesses of SCB and any redeployment of the fixed assets of SCB; and
- the future employment of the present employees of SCB, in circumstances where the Share Scheme is implemented.

These statements of intention are based on the information concerning SCB (including information obtained in the course of due diligence investigations) and the general business environment which is known to RM2 and MMG at the time of preparation of this Scheme Booklet. RM2 and MMG will undertake a more detailed review of the assets and business of SCB after implementation of the Share Scheme, in light of the more detailed information available then, to evaluate their long term profitability and prospects. Final decisions will only be made by RM2 and MMG at that time. Accordingly, the statements set out in this **Section 6.5** are statements of RM2 and MMG in respect of their present intentions only and these intentions

may change as new information becomes available to RM2 and MMG or as circumstances change.

As at the date of this Scheme Booklet, RM2 and MMG have conducted a due diligence investigation reviewing certain information about SCB and the Other SCB Entities provided by SCB. RM2's and MMG's knowledge of the assets and operations of the SCB Group is limited to public information and the materials disclosed to it during its due diligence investigation.

**(a) Removal of SCB from the official list of ASX**

If the Share Scheme is implemented, RM2 will apply for SCB to be removed from the official list of ASX in accordance with ASX Listing Rules.

**(b) Board of Directors**

If the Share Scheme is implemented, RM2 intends to reconstitute the SCB Board and determine which, if any, current SCB directors will remain so that it comprises persons nominated by RM2. RM2 has not determined which persons will be nominated to the SCB Board. Final decisions on the selection of RM2's nominees and any retention of current SCB directors will be made in light of the circumstances at the relevant time.

**(c) Business continuity and major changes**

**(i) Divestments – FairfaxCo**

Subject to RM2 acquiring 100% of the issued share capital of SCB on issue as at the Share Scheme Record Date, MMHL intends to exercise its right under the Procurement Deed to procure that RM2 enters into a Share Purchase Agreement with FairfaxCo, pursuant to which FairfaxCo will acquire the shares in the Fairfax Media Entities which operate the following SCB businesses and hold the following interests:

- SCB's metropolitan radio broadcasting businesses;
- the Southern Star television drama and entertainment production and distribution business, including Southern Star's 49% interest in Endemol Southern Star Pty Ltd;
- the Satellite Music Australia subscription music business;
- Southern Cross View and the Mytalk digital media business;
- the Southern Cross Syndication news and talk radio programming distribution business;
- the Tricom business; and
- Southern Cross View Pty Ltd's 50% interest in YouPlay.

**(ii) Entities to be retained by SCB**

RM2 will retain SCB and the entities within the SCB Group excluding the entities that it intends will be sold to FairfaxCo (the **Other SCB Entities**). The businesses and operations conducted by those entities include the regional television operations of SCB, the Southern Cross Sales advertising business, the Southern Cross Communications telecommunications business, the SCB Group's datacasting licences and SCB's head office functions.

If the Share Scheme is implemented, RM2 intends to undertake a detailed general review of the structure, systems and activities of the Other SCB Entities to assess the potential for integration with MMG's existing businesses. The review will, amongst other things, focus on board and management integration and corporate and other overlapping offices and operational functions in order to assess the potential to eliminate duplication where possible. It is anticipated that this review will be completed shortly after implementation of the Share Scheme and the subsequent implementation of integration efforts will occur in the first twelve to eighteen months after the Share Scheme Implementation Date although a shorter or longer period may apply.

RM2 has no current plans to change programming formats or content of the Other SCB Entities.

(iii) **Divestments – BSA**

As at the date of this Scheme Booklet, the MMG Licences and SCB's commercial television broadcasting licences and commercial radio broadcasting licences (**SCB Licences**) are under the common control of one or more of the Licensee Controllers for the purposes of the BSA. This has led to contraventions of the ownership and control restrictions contained in the BSA which are the subject of ACMA Approvals.

On 20 July 2007, ACMA provided notice of the ACMA Approvals in writing and released a media release regarding the ACMA Approvals which is available from the ACMA website at [www.acma.gov.au](http://www.acma.gov.au).

The ACMA Approvals allow MMG a period of 12 months to remedy the breaches of sections 53, 54, 55 and 56 of the BSA and a confidential time period to remedy the media diversity contraventions caused by the common control of the SCB Licences and the MMG Licences. MMG has also provided enforceable undertakings to ACMA that it will divest control of certain MMG Licences and SCB Licences to remedy the breaches and media diversity contraventions of the BSA outlined above.

The following radio and television licence areas are affected:

Affected Radio/ Television Licence Area	Reason	Relevant Section of the BSA
Young RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Burnie RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Devonport RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Queenstown RA1	Reduction in the number of points where an unacceptable media diversity situation already exists	ss. 61AG and 61AH
Scottsdale RA1	Reduction in the number of points where an unacceptable media diversity situation already exists	ss. 61AG and 61AH
Warragul RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Atherton RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Charters Towers RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Emerald RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Kingaroy RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Mt Isa RA1	Unacceptable media diversity situation	ss. 61AG and 61AH
Roma RA1	Reduction in the number of points where an unacceptable media diversity situation already exists	ss. 61AG and 61AH
Brisbane RA1/Nambour RA1 <sup>4</sup>	Breach of –limitation on control of more than 2 commercial radio broadcasting licences	ss. 54 & 56
Tasmania TV1	Breach of – limitation on control of more than 1 commercial television broadcasting licence	ss. 53 & 55
Darwin TV1	Breach of –limitation on control of more than 1 commercial television broadcasting licence	ss. 53 & 55

<sup>4</sup> Note that the Brisbane RA1 and Nambour RA1 licence areas are currently considered under the BSA to be one licence area as a result of ACMA's determination of a population overlap in excess of 30%.

MMG has given undertakings to ACMA to divest control of at least one radio licence in each licence area where a media diversity contravention is created (**Diversity Overlap Areas**). As a result MMG will not be required to divest control of any SCB Licences in the Diversity Overlap Areas.

MMG has also given undertakings to ACMA to divest control of one commercial television broadcasting licence in the Tasmania TV1 and Darwin TV1 licence areas.

The breaches of the BSA that were caused in the combined Brisbane/Nambour licence area are proposed to be remedied by the divestment of SCB's commercial radio broadcasting licences to FairfaxCo as described above.

(iv) **Finance facilities**

It is intended that SCB's existing finance facilities will be refinanced on or after the Share Scheme Implementation Date using part of the proceeds of the Bank Facilities referred to in **Section 6.4(c)**.

(d) **Future employment**

RM2 and MMG acknowledge the talent, experience and skills of SCB staff. RM2 and MMG consider management and operational expertise from SCB to be complementary with MMG's existing Australian management and operational expertise.

MMG will draw on the significant management expertise of both its existing businesses and SCB to ensure that the complementary businesses and cultures are integrated and operated effectively. The key business line responsibilities in the regional television operations of SCB are expected to be largely unchanged, however, final decisions regarding the structure of the businesses (including in respect of the future employment of the current senior management of SCB and other SCB employees) will be announced following completion of the Share Scheme.

(e) **Other intentions**

Other than as set out in or referred to in this **Section 6.5**, it is the present intention of RM2 and MMG to procure that SCB will:

- generally continue the business of SCB;
- not make any major changes to the business of SCB nor redeploy any of the fixed assets of SCB; and
- continue the employment of SCB's present employees.

## 6.6 **Current Interests in SCB**

As at 6 September 2007:

- (a) Leon Pasternak holds 2,020 Fully Paid Shares in his own name. The Shares were acquired in 2003. No other Shares are held by or on behalf of any RM2 or MMG directors;
- (b) MMG holds 10,000,000 Fully Paid Shares or 13.8% of SCB;
- (c) RM2 and MMHL have a relevant interest in 11,300,000 Fully Paid Shares or 15.6% of SCB; and
- (d) RM2 and MMHL have voting power in 11,884,664 Fully Paid Shares or 16.4% of SCB.

On 16 November 2006, MMML (in its capacity as responsible entity of MMT) acquired 10,000,000 Fully Paid Shares and these Shares comprise approximately 13.8% of the Fully Paid Shares.

MMML has appointed Trust Company Limited ACN 004 027 749 (**TCL**) to hold all of the assets of MMT as custodian. Consequently, the registered holder of these Shares is TCL. TCL holds the Shares as custodian for MMML in MMML's capacity as responsible entity for MMT.

On 17 November 2006, MMML and TCL executed a call option agreement with MMHL (the **Option Agreement**). Under the Option Agreement, MMHL was granted an option to acquire all of the Shares held on behalf of MMT by MMML/TCL from time to time. By virtue of the Option Agreement MMHL obtained a relevant interest in MMML/TCL's 13.8% stake in SCB. On 20

November 2006, MMHL lodged an initial substantial holder notice disclosing this relevant interest and the terms of the Option Agreement.

On 3 July 2007, MMGPL executed the Voting Rights Deed with Sevanlab in respect of 1,300,000 Fully Paid Shares that are owned by Sevanlab. As a result of the Voting Rights Deed, RM2 and MMHL have a relevant interest in 1,300,000 Fully Paid Shares owned by Sevanlab. Sevanlab also has a relevant interest in 584,664 Fully Paid Shares which are not subject to the Voting Rights Deed. As Sevanlab is an Associate of MMGPL pursuant to the Voting Rights Deed, RM2 and MMHL have voting power in an additional 584,664 Fully Paid Shares owned by Sevanlab. The inclusion of these Shares takes the combined voting power of RM2 and MMHL to 16.4% of SCB.

As a result of MMG's interests in SCB, the Licensee Controllers currently control the SCB Licences for the purposes of the BSA. Further information is available in ACMA's Current Controllers Report which can be found on ACMA's website at [www.acma.gov.au](http://www.acma.gov.au).

MMG proposes that the relevant members of MMG transfer their Shares to RM2 after the Share Scheme Meeting but before the Implementation Date.

## 6.7 Dealings in Shares by RM2 and its Associates

### (a) Acquisitions of SCB securities

Neither RM2 nor any of its Associates has provided, or agreed to provide, consideration for any Shares under a purchase or agreement since 1 May 2007 (except under the MIA).

### (b) Pre-Transaction Benefits

Since 1 May 2007, neither RM2 nor any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to:

- vote in favour of the Share Scheme; or
- dispose of Shares, and the benefit has not been offered to all Shareholders.

## 6.8 Procurement Deed

The Procurement Deed provides that, subject to the Share Scheme being implemented, if MMHL wishes to procure that RM2 sells the shares in the Fairfax Media Entities to FairfaxCo, or if Fairfax Media wishes to procure that FairfaxCo purchases the shares in the Fairfax Media Entities from RM2, either MMHL or Fairfax Media may give a notice (a **Trigger Notice**) to the other party specifying that it wishes entry into the Share Purchase Agreement that is attached to the Procurement Deed (or a long form agreement which is agreed by the parties to replace that document) to proceed.

A Trigger Notice may only be given during the period which commences on the day after RM2 has acquired 100% of the Shares and ends on the day that is 10 Sydney business days after that date. If a Trigger Notice is not given by either MMHL or Fairfax Media within that specified period, then all rights of MMHL and Fairfax Media to deliver such a notice will terminate.

If either MMHL or Fairfax Media gives a Trigger Notice within the specified period referred to above:

- (a) MMHL must procure that RM2 enters into the Share Purchase Agreement with FairfaxCo and MMHL must enter into the Share Purchase Agreement as guarantor of RM2; and
- (b) Fairfax Media must procure that FairfaxCo enters into the Share Purchase Agreement with RM2 and Fairfax Media must enter into the Share Purchase Agreement as guarantor of FairfaxCo.

As set out above, MMHL intends that, following its acquisition of 100% of the Shares, it will give a Trigger Notice to Fairfax Media in accordance with the Procurement Deed, so that Fairfax Media will be obliged to procure that FairfaxCo enters the Share Purchase Agreement and so that the shares in the Fairfax Media Entities and hence the businesses operated by them and interests held by them will be sold to Fairfax Media.

### (a) Proposed sale terms

A summary of the key terms of the form of the Share Purchase Agreement and therefore of the terms of any sale of the Fairfax Media Entities is set out below:

### **Fundamental principles**

The Share Purchase Agreement provides that the fundamental principles underlying any sale of the Fairfax Media Entities as to the intended economic and legal effect of any such sale would be that, following a sale:

- RM2 would have the entire economic benefit and risk of SCB's regional commercial television broadcasting business and the other businesses excluding those conducted by the Fairfax Media Entities described in **Section 6.5(c)(i) (MMG Businesses)**;
- FairfaxCo would have the entire economic benefit and risk of SCB's commercial radio broadcasting business and the other businesses conducted by the Fairfax Media Entities described in **Section 6.5(c)(i) (FSE Businesses)**,

as if SCB had never owned or operated the FSE Businesses or held the shares in the Fairfax Media Entities, and the Fairfax Media Entities and their subsidiaries immediately before implementation of the Share Scheme had never been part of the same corporate group as SCB.

To facilitate these principles, each party to the Share Purchase Agreement would give certain indemnities to the other.

### **(b) Tax provisions**

The Share Purchase Agreement contains detailed provisions intended to ensure, as nearly as possible, that the tax liabilities of the Fairfax Media Entities within the SCB Group and the tax liabilities of the Other SCB Entities within the SCB Group will be borne by FairfaxCo and RM2, respectively. Reciprocal tax indemnities would give effect to the intended allocation of the tax liabilities.

### **(c) Purchase price**

The price payable for the acquisition of the shares in each of the Fairfax Media Entities is the sum of the following:

- 14 x the aggregate EBITDA of the SCB commercial radio broadcasting entities, Satellite Marketing Australia Pty Limited and its Subsidiaries, Southern Cross Syndication Pty Ltd, Tricom Group Pty Ltd and its Subsidiaries and Southern Cross View Pty Ltd;
- 7.5 x the aggregate EBITDA of the Southern Star group (excluding Endemol Southern Star and Southern Star Golden Globe Pte Limited), SCB's proportionate amount in respect of the Endemol Southern Star joint venture and Southern Star Golden Globe Pte Limited and the amount of foreign exchange losses during the financial year ending 30 June 2007 expressed as an absolute value arising from the international operations of those entities (excluding Endemol Southern Star) and SCB's proportionate amount of Endemol Southern Star;
- 49% of the net cash in Endemol Southern Star (if applicable);
- \$10.9 million; and
- Fairfax Media's proportion of certain acquisition costs related to the Transaction, being 41.23%; less
- 49% of the net debt in Endemol Southern Star (if applicable).

As at the date of the Procurement Deed this amount was estimated to be \$519.7 million, however, the final purchase price would be determined and payable on the completion of the sale of the shares in the Fairfax Media Entities. This amount would effectively be set off against the amounts owing to Fairfax Media under the Fairfax Loan, such that RM2 would cease to owe any amounts to Fairfax Media under the Fairfax Loan.

The parties to the Procurement Deed have agreed that a reference to EBITDA for the purposes of calculating the purchase price for the shares in each of the Fairfax Media Entities is a reference to the EBITDA for the year ending 30 June 2007 (which will be calculated based on the SCB management accounts after applying adjustments and allocations as carried out to calculate the divisional EBITDA in the segment information note in the statutory accounts in the year ended 30 June 2007).

**(d) Assets, contracts and leases**

Within 12 months after completion of the sale and purchase of the shares in the Fairfax Media Entities, each party would be required to transfer to the other for no additional consideration and as soon as reasonably practicable any asset, contract or lease which it either owns or holds after completion of the sale which has been predominantly used to conduct or predominantly relates to the other's businesses during the 12 months prior to completion and which was not transferred or otherwise dealt with under a document relating to that sale. If an asset, contract or lease which was owned or held by one party's group but is used by or relates in part to the other's business were to be identified within a period of 6 months after completion the parties would make the relevant asset, contract or lease available to the other party and would negotiate and co-operate in good faith with a view to sharing the benefit, burden and liabilities of the relevant asset, contract or lease.

The parties may also negotiate to enter a shared services agreement for the provision of transitional services.

**(e) Employees**

The proposed agreement addresses matters relating to the "transfer" of certain employees to and from the SCB Group (excluding the Fairfax Media Entities), on the one hand, and the Fairfax Media Entities group, on the other, to ensure that employees of each business would be employed by appropriate entities following any sale of the Fairfax Media Entities. In respect of any employees who were not presently employed in the correct group, the party to whose group those employees should be transferred would be required to offer them comparable or superior employment, recognise their prior service and be responsible for their salaries and accrued entitlements.

**(f) Use of trade marks**

The "Southern Cross" trade mark and the SCB device would be retained by RM2 and FairfaxCo would cease using any word, name, sign or logo which is substantially similar or identical or deceptively similar to those trade marks within 6 months after completion of the sale and purchase of the shares in the Fairfax Media Entities.

The "Southern Star" trade mark and the Southern Star device would be retained by FairfaxCo and RM2 would cease using any word, name, sign or logo which is substantially similar or identical or deceptively similar to those trade marks within 6 months after completion of the sale and purchase of the shares in the Fairfax Media Entities.

**(g) Warranties**

Each party would give standard warranties in relation to its capacity to enter into any agreement for the sale of the Fairfax Media Entities. In addition, RM2 would provide a title warranty in respect of the shares in the Fairfax Media Entities.

**(h) Fairfax Media commercial radio broadcasting licences**

The Share Purchase Agreement also provides that RM2 would (subject to regulatory conditions precedent) acquire the shares in Star Broadcasting Network Pty Ltd from FairfaxCo and hence acquire the nine commercial radio broadcasting businesses operated by Star Broadcasting Network Pty Ltd and its Subsidiaries for a purchase price of approximately \$40 million.

## 7 Information about Fairfax Media

### 7.1 Background

Fairfax Media is one of Australasia's leading media groups with revenue for the financial year ended 30 June 2007 of \$2.1 billion and net assets in excess of \$4.9 billion.

In May 2007 Fairfax Media and Rural Press Limited completed their merger, creating one of Australasia's largest integrated metropolitan, rural and regional, print and online digital media companies.

Fairfax Media's businesses, in print and online, reach over 5 million people per day. Among Fairfax Media's strengths is its position as Australasia's largest newspaper publishing group. Its portfolio consists of over 350 titles including principal mastheads such as *The Sydney Morning Herald*, *The Sun-Herald*, *The Age*, *The Sunday Age*, *The Australian Financial Review*, *The Canberra Times*, *BRW* and *The Land* in Australia, and *The Dominion Post*, *The Press*, *The Sunday Star-Times*, *TV Guide*, *NZ House and Garden* and *Cuisine* in New Zealand.

Fairfax Media also publishes regional and community newspapers, financial and consumer magazines, and is a leading content provider of news, information and classified advertising through its online business Fairfax Digital in Australia (including the leading online news sites [smh.com.au](http://smh.com.au) and [theage.com.au](http://theage.com.au)) and [trademe.co.nz](http://trademe.co.nz) and [stuff.co.nz](http://stuff.co.nz) in New Zealand.

As at close of business on 6 September 2007, Fairfax Media had a market capitalisation of approximately \$6.7 billion, placing it as one of Australia's 50 largest listed entities.

### 7.2 Business Overview

#### (a) Current Portfolio

Fairfax Media is comprised of five key business units, namely Fairfax Australian Publishing, Fairfax Business Media, Fairfax Media New Zealand, Fairfax Digital and Trade Me.

- (i) **Fairfax Australian Publishing:** includes all of Fairfax Media's publishing businesses in Australia, with over 250 titles, including:
  - major metropolitan mastheads such as *The Sydney Morning Herald*, *The Sun-Herald*, *The Age*, *The Sunday Age* and *The Canberra Times*;
  - regional newspapers such as *The Herald* in Newcastle, the *Illawarra Mercury* in Wollongong, *The Border Mail* in Albury-Wodonga and *The Warrnambool Standard*;
  - over 200 regional and community titles throughout all states of Australia and the Australian Capital Territory; and
  - 32 agricultural publications in Australia, including *The Land*, 8 agricultural titles in New Zealand and 22 agricultural titles in the United States of America. In addition the company operates 9 major field days in Australia, New Zealand and the United States of America.
- (ii) **Fairfax Business Media:** publishes pre-eminent business and finance titles in Australia, including *The Australian Financial Review*, *BRW* and website [afr.com](http://afr.com).
- (iii) **Fairfax Media New Zealand:** comprises nine daily newspapers including *The Dominion Post* and *The Press*, two national Sunday newspapers, *The Sunday News* and *The Sunday Star-Times*, a stable of magazines, more than 60 regional and community newspapers throughout the country and a news and information internet operation, [stuff.co.nz](http://stuff.co.nz).
- (iv) **Fairfax Digital:** is the interactive Subsidiary of Fairfax Media and is one of Australia's leading providers of online news and classifieds. Fairfax Media comprises over 30 interactive websites including [smh.com.au](http://smh.com.au), [theage.com.au](http://theage.com.au), [brisbanetimes.com.au](http://brisbanetimes.com.au), [mycareer.com.au](http://mycareer.com.au), [domain.com.au](http://domain.com.au), [drive.com.au](http://drive.com.au), [rsvp.com.au](http://rsvp.com.au) and [stayz.com.au](http://stayz.com.au).

- (v) **Trade Me:** The Trade Me group of websites are amongst the most visited New Zealand websites with over 3 million unique browsers each month, accounting for more than 65% of New Zealand's web traffic. Trade Me offers general merchandise auctions, motor and property classifieds, along with sites for dating, jobs, community and rental accommodation.

As at the date of this Scheme Booklet, Fairfax Media also owns 9 commercial radio licences, which are proposed to be sold to RM2.

Further information about the Fairfax Media business, its financial position and operating performance can be found on Fairfax Media's website: [www.fxj.com.au](http://www.fxj.com.au). Fairfax Media's Annual Report and Interim Reports can also be downloaded from that website.

**(b) Fairfax Media's Board of Directors**

The following persons are directors of Fairfax Media at the date of this Scheme Booklet:

■ Ronald Walker	(Non-Executive Chairman)
■ Mark Burrows	(Non-Executive Deputy Chairman)
■ David Kirk	(Chief Executive Officer)
■ Roger Corbett	(Non-Executive Director)
■ David Evans	(Non-Executive Director)
■ John B. Fairfax	(Non-Executive Director)
■ Nicholas Fairfax	(Non-Executive Director)
■ Julia King	(Non-Executive Director)
■ Robert Savage	(Non-Executive Director)
■ Peter Young	(Non-Executive Director)

Detailed biographies of Fairfax Media's Directors are included in Fairfax Media's Annual Report and website.

**7.3 Share Scheme Consideration**

**(a) Procurement Deed**

As described in **Section 6.4(b)**, Fairfax Media, RM2 and MMHL entered into the Procurement Deed on 3 July 2007 pursuant to which Fairfax Media will lend RM2 \$519.7 million for the purpose of paying part of the Share Scheme Consideration to the Share Scheme Participants.

**(b) Sources of Fairfax Media finance**

Fairfax Media will fund its loan to RM2 from existing cash reserves and un-drawn committed facilities.

**7.4 Fairfax Media's intentions for the business, assets and employees of Fairfax Sale Entities**

As described in **Section 6.5(c)(i)**, Fairfax Media has entered into an agreement with RM2 and MMHL which contemplates that, following completion of the Share Scheme, Fairfax Media's Subsidiary, FairfaxCo, will acquire SCB's radio business, Southern Star, Satellite Music Australia, Southern Cross Syndication, the Southern Cross View digital media businesses and Tricom (**Fairfax Sale Entities**).

This section sets out the intentions of Fairfax Media in relation to:

- the continuation of the Fairfax Sale Entities pursuant to the Procurement Deed;
- any major changes to the abovementioned businesses and any redeployment of the fixed assets of these businesses; and
- the future employment of the present employees of these businesses, in circumstances where the Share Scheme is implemented.

These statements of intention are based on the information concerning SCB, its business and the general business environment that is known to Fairfax Media as at the date of this Scheme Booklet.

Final decisions will only be reached by Fairfax Media in light of:

- experience gained through exposure to the Fairfax Sale Entities; and
- material information and circumstances at the relevant time.

Accordingly, the statements set out in this section are statements of Fairfax Media's current intentions, which may change as new information becomes available or circumstances change.

**(a) Continuing the Fairfax Sale Entities**

A detailed functional review of all the Fairfax Sale Entities will be undertaken shortly following the implementation of the Share Scheme. No specific actions have currently been identified regarding the assets or employees of the businesses, other than as described below.

**(b) Senior Management**

At this stage, Fairfax Media intends to maintain the senior management team subject to the functional review which will be undertaken following the implementation of the Share Scheme.

**(c) Corporate Functions**

It is anticipated that the corporate functions of the Fairfax Sale Entities will be integrated into Fairfax Media.

**(d) Future employment of the present employees of the Fairfax Sale Entities**

Fairfax Media believes that the acquisition of the Fairfax Sale Entities present a significant opportunity to combine the strengths of Fairfax Media and the SCB businesses.

A functional review of all of the activities of the combined Group will be undertaken following the acquisition. No specific redundancies have been identified at this stage but it is anticipated that there will be redundancies eventuating from the Merger.

**7.5 Current Interest in SCB**

As at 6 September 2007, apart from any interests Fairfax Media may have by virtue of the matters disclosed in **Sections 6.3 to 6.8**:

- Nil Fully Paid Shares are held by or on behalf of any Fairfax Media Directors;
- Fairfax Media has a relevant interest in Nil Fully Paid Shares; and
- Fairfax Media has voting power in Nil Fully Paid Shares.

**7.6 Dealings in Shares by Fairfax Media and its Associates**

**(a) Acquisitions of SCB securities**

Neither Fairfax Media nor any Associate has provided, or agreed to provide, consideration for any Shares under a purchase or agreement since 1 May 2007.

**(b) Pre-Transaction Benefits**

Since 1 May 2007, neither Fairfax Media nor any Associate has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to:

- vote in favour of the Share Scheme; or
- dispose of Shares,

and the benefit has not been offered to all Shareholders.

## 8 Option Scheme

### 8.1 Introduction

In addition to the Share Scheme, SCB has agreed to propose a second scheme of arrangement in respect of the Options in SCB.

The purpose of the Option Scheme is to cancel, with effect from the Option Scheme Implementation Date, all of the Options in SCB which remain outstanding on the Option Scheme Record Date in return for a fixed cash payment.

If both the Share Scheme and the Option Scheme are approved by the Relevant Requisite Majority (or, in the case of the Option Scheme, there are no outstanding Options as at 8.00am on the Second Court Date), and those Schemes subsequently become Effective, RM2 will be the only party holding securities in SCB on the Share Scheme Implementation Date.

The Option Scheme applies to any option or other right to acquire SCB Shares issued by SCB, which remains in effect on the Option Scheme Record Date, including any such rights granted under:

- the 2004 Southern Cross Broadcasting (Australia) Limited Executive Performance Plan (**Plan**); and
- the 2002 Managing Director Option Grant Terms.

As at 6 September 2007, 1,811,200 unlisted and unexercised Options were held by 24 different Option Holders as follows:

Date issued	Expiry date	Options	Exercise price
1 November 2002	1 November 2009	200,000	\$9.10
10 November 2004	10 November 2009	994,000	\$12.35
10 November 2004	10 November 2009	189,400	\$Nil
10 November 2005	10 November 2010	216,100	\$Nil
16 November 2006	16 November 2011	211,700	\$Nil

The number of Options on issue will reduce if any Options are exercised after the date of this Scheme Booklet.

A copy of the Option Scheme is attached in **Annexure G**.

### 8.2 Who is eligible to participate in the Option Scheme

Persons who hold unexercised Options on the Option Scheme Record Date will participate in the Option Scheme.

SCB will, until the Option Scheme Payment has been provided, maintain the Option Register, and that Register will solely determine eligibility to vote on the Option Scheme and entitlement to the Option Scheme Payment.

### 8.3 Conditions to Option Scheme

The Option Scheme is conditional on the satisfaction of all of the conditions set out in clause 3.1 of the Option Scheme, a summary of which is set out below:

- the Court having approved the Share Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to both SCB and RM2;
- the Option Scheme having been approved at the Option Scheme Meeting by the Requisite Majority of Option Holders in accordance with section 411(4)(a) of the Corporations Act (see the **How to vote at the Option Scheme Meeting Section** of this Scheme Booklet);

- the Court having approved the Option Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to SCB; and
- such other conditions made or required by the Court under section 411(6) of the Corporations Act as are acceptable to SCB being satisfied.

Because the Option Scheme is conditional on the Share Scheme becoming Effective, the Option Scheme will not come into effect (even if it is approved by the Requisite Majority of Option Holders) if the Share Scheme fails for any reason, including where the Share Scheme is not approved by the Requisite Majority of Shareholders.

#### 8.4 Status of conditions

As at the date of this Scheme Booklet, SCB is not aware of any circumstances which would cause the conditions summarised in **Section 8.3** not to be satisfied. SCB will announce to ASX any relevant matter which affects the likelihood of any condition being satisfied, waived or not being satisfied, in accordance with its continuous disclosure obligations.

#### 8.5 Effect of the Option Scheme on Option Holders

If implemented, the effect of the Option Scheme will be that all of the SCB Options on issue as at the Option Scheme Record Date will be cancelled by SCB with effect from the Option Scheme Implementation Date.

Subject to the Share Scheme and the Option Scheme becoming Effective, eligible Option Holders will receive cash consideration from SCB (**Option Scheme Payment**) for each Option that is cancelled under the Option Scheme in accordance with the table below:

Grant Date	Maturity Date	Exercise Price	Option Scheme Payment
1 November 2002	1 November 2009	\$9.10	\$7.95
10 November 2004	10 November 2009	\$12.35	\$4.70
10 November 2004	10 November 2009	\$0.00	\$17.05
10 November 2005	10 November 2010	\$0.00	\$17.05
16 November 2006	16 November 2011	\$0.00	\$17.05

As from the Option Scheme Record Date and conditional upon the Option Scheme being Effective, each entry current on the Option Register will cease to be of any effect other than as evidence of entitlement to the Option Scheme Payment in respect of the Options relating to that entry.

The Option Scheme Payment will be despatched to Option Holders on the Option Scheme Implementation Date. Option Holders should be aware that, if the Option Scheme Meeting is adjourned or the Effective Date is otherwise delayed, the timing of the Option Scheme Payment will also be delayed (but Options will not be cancelled until the Option Scheme is implemented).

If an Option Holder has previously disclosed its bank account details (for an account with any Australian ADI) to SCB, payment of the Option Scheme Payment will be electronically transferred into that account unless, before the Option Scheme Record Date, the Option Holder directs SCB otherwise. If an Option Holder has not disclosed such bank account details to SCB, the Option Holder will be paid by cheque to be sent on the Option Scheme Implementation Date to their registered address as shown in the Option Register.

#### 8.6 Tax implications of the Option Scheme

The cancellation of the Options under the Option Scheme may be a taxable transaction. Further information on the general tax consequences of the Option Scheme has been provided to Option Holders by SCB. However, Option Holders are encouraged to seek their own professional advice regarding their individual tax consequences.

#### 8.7 Option Scheme Meeting

The Court has ordered that a meeting of Option Holders be held at Level 36, 600 Bourke Street, Melbourne on 19 October 2007 at 8.30am (Melbourne time) to consider the Option Scheme.

The order of the Court that the Option Scheme Meeting be convened is not, and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Option Scheme.

In order for the Option Scheme to be approved by Option Holders, the resolution must be passed by the Requisite Majority of Option Holders.

#### **8.8 Court approval of the Option Scheme**

SCB will apply to the Court for an order approving the Option Scheme if:

- the Option Scheme is approved by the Requisite Majority of Option Holders at the Option Scheme Meeting; and
- all other conditions precedent to the Option Scheme are satisfied or waived or will be satisfied upon the orders of the Court.

The Court may refuse to grant the orders referred to above even if the Option Scheme is approved by the Requisite Majority of Option Holders.

If the Option Scheme is not approved by the Requisite Majority of Option Holders, it will not proceed and SCB will not apply to the Court for any orders in connection with the Option Scheme.

#### **8.9 Actions by SCB**

If Court orders approving the Option Scheme and the Share Scheme are obtained, the Directors will take or procure the taking of the steps required for the Option Scheme to be implemented. These will include the following:

- SCB will lodge with ASIC, an office copy of the Court order approving the Option Scheme under section 411 of the Corporations Act and the Option Scheme will become Effective; and
- subject to the terms of the Option Scheme and the Share Scheme becoming Effective, SCB will cancel the Options on the Option Scheme Implementation Date and pay the Option Scheme Payment to each Option Holder on that date.

#### **8.10 Effective Date**

The Option Scheme will become Effective on the date upon which an office copy of the order of the Court under section 411 of the Corporations Act approving the Scheme is lodged with ASIC (assuming the conditions precedent are satisfied).

If the Option Scheme becomes Effective, SCB will promptly give notice of the event to ASX. Once the Option Scheme becomes Effective, SCB will become bound to implement the Option Scheme in accordance with its terms.

#### **8.11 Board recommendation**

The Directors consider that the Option Scheme is in the best interests of Option Holders and unanimously recommend that Option Holders vote in favour of the Option Scheme (if they have not exercised their Options by the Option Scheme Meeting), in the absence of a more favourable proposal.

#### **8.12 Why you may consider voting for the Option Scheme**

##### **(a) Premium implies value for Option Holders**

If the Option Scheme becomes Effective, on the Option Scheme Implementation Date, Option Holders will be entitled to the difference between the Share Scheme Consideration (i.e. \$17.05) and the exercise price of their Options. Notably, the Option Scheme Payment is calculated by reference to the Share Scheme Consideration (i.e. the payment which an Option Holder would receive if they were to exercise their Options and participate in the Share Scheme, but excluding the Special Dividend which can only be paid to Shareholders).

The Share Scheme Consideration (i.e. not including the Special Dividend of \$0.36) itself:

- (i) represents a premium to SCB's historic share price before MMG's acquisition of its strategic stake in SCB; and

- (ii) exceeds research analysts' valuations of SCB shares prior to the Transaction being announced.

Because the Share Scheme Consideration is at a premium to historical SCB share prices prior to the announcement of the Transaction (other than in the short period of 3 April 2007 to 9 May 2007), this increases the intrinsic value of the Options. The Option Scheme Payment represents a premium over the historic value of the Options.

**(b) Timely and certain value realisation**

Depending on the conditions attaching to the relevant Options, the Option Scheme may allow Option Holders to realise the value of their Options earlier than they could otherwise do so. Further, if the Option Scheme becomes Effective, Option Holders will receive the Option Scheme Payment irrespective of whether or not any performance conditions attaching to their Options are likely to be satisfied.

**(c) No more favourable proposal available**

Since the announcement of the proposed Transaction on 3 July 2007, no alternative proposal from another party has emerged for the cancellation or acquisition of the Options.

**(d) Independent Expert's conclusion**

The Independent Expert has concluded that, in the absence of a Superior Proposal, the Option Scheme is in the best interests of Option Holders.

In arriving at this conclusion, the Independent Expert has estimated the full underlying value of SCB is between \$15.58 and \$17.66 per Fully Paid Share.

**(e) Consequences of not voting in favour of the Option Scheme**

If the Requisite Majority of Option Holders does not vote in favour of the Option Scheme, the Option Scheme will not be implemented and the Option Scheme Payment will not be made.

If the Option Scheme does not proceed, there is no guarantee that Option Holders will be able to exercise their Options after that date. Whether Option Holders can in fact do so will be determined by the terms of grant (including the performance conditions specific to their Options).

Because the Share Scheme is conditional on the Option Scheme becoming Effective if there are any outstanding Options as at 8.00am on the Second Court Date, the Share Scheme will not come into effect (even if it is approved by the Requisite Majority of Shareholders) if the Option Scheme fails for any reason, including where the Option Scheme is not approved by the Requisite Majority of Option Holders (unless RM2 waives that condition).

The Board believes the price of Fully Paid Shares and, accordingly, the intrinsic value of the Options, is likely to fall if the Schemes are not implemented.

**(f) No brokerage payable**

Option Holders will receive the full Option Scheme Payment following the Option Scheme becoming Effective. Option Holders will not be required to pay brokerage or any other costs in relation to the cancellation of Options.

**8.13 Why you may consider voting against the Option Scheme**

The Directors have had regard to the reasons set out above in recommending Option Holders to vote in favour of the Option Scheme. In addition, the Independent Expert has concluded that, in the absence of a Superior Proposal, the Option Scheme is in the best interests of Option Holders.

However, Option Holders are not obliged to accept the Directors' recommendation or the view of the Independent Expert. Some of the reasons why Option Holders may decide to vote against the Option Scheme are set out below. You should note that, if you decide to vote against the Option Scheme, it may still be implemented if it is approved by the Requisite Majority of Option Holders and by the Court.

**(a) No longer entitled to participate in SCB's economic performance**

As the recommended offer is solely cash, if the Option Scheme is implemented, Option Holders will cease to hold Options and will no longer have the ability to acquire a direct interest in the operations of SCB. Consequently, Option Holders will not be able to participate in the economic performance of SCB in circumstances where otherwise they would have become a Shareholder following the exercise of their Options.

**(b) Reinvestment Costs**

Option Holders who wish to maintain their current portfolio risk profile for their investments would need to reinvest the proceeds from the cancellation of their Options if the Option Scheme is successful. Identifying a suitable alternative investment may prove difficult and transaction costs, such as brokerage, may result.

**(c) Tax consequences**

If the Option Scheme is implemented, Option Holders may incur a tax liability. Information on the relevant tax consequences for Australian resident Option Holders has been provided by SCB to Option Holders. Option Holders should also seek their own professional advice with regard to their own individual tax consequences of the Option Scheme.

**8.14 Directors' interests**

**(a) Agreements or arrangements with Directors in connection with or conditional upon outcome of the Option Scheme**

There are no agreements or arrangements made between any Director and another person in connection with or conditional upon the outcome of the Option Scheme other than as referred to in **Section 5.1(c)**.

**(b) Directors' interests in Options**

As at the date of this Scheme Booklet, Anthony Bell (the Managing Director of SCB) holds 200,000 Options issued under the 2002 Managing Director Option Grant Terms and 379,000 Options issued under the SCB Executive Performance Plan. No other SCB Director holds Options, or has Options held on their behalf.

The Directors do not have any other interest in the Option Scheme other than the interests outline above.

**8.15 Intentions of Directors regarding their holdings**

Anthony Bell, the sole Director who is also an Option Holder, intends to vote any Options which he holds, and which remain on issue as at the date of the Option Scheme Meeting, in favour of the Option Scheme, in the absence of a more favourable proposal.

**8.16 No sales or transfers by Directors in previous six months**

No Options have been sold, transferred or exercised by any Director in the six months prior to the date of this Scheme Booklet and, in respect of Options issued under the SCB Executive Performance Plan, the sale and transfer of Options is prohibited.

**8.17 ASX Listing Rule 6.23.2**

As, under the Option Scheme, the Options are to be cancelled for cash consideration, ASX Listing Rule 6.23.2 applies. That rule states:

*A change which has the effect of cancelling an option for consideration can only be made if holders of ordinary \*securities approve the change. The notice of meeting must include a \*voting exclusion statement.*

SCB has sought and obtained from ASX a waiver from the application of Listing Rule 6.23.2 in respect of the cancellation of Options under the Option Scheme.

**8.18 List of Option Holders and right of access to records**

Under section 168 of the Corporations Act, SCB is required to maintain the Option Register and copies of documents granting Options.

Under the Corporations Act, any Option Holder has a right to inspect and to ask for a copy of the Option Register which contains details of the name and address of Option Holders and other details regarding the terms of the Options. A copy of the Option Register will be made available to an Option Holder who requests a copy on payment of the prescribed fee under the Corporations Act.

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## 9 Additional information

### 9.1 Lodgement of this Scheme Booklet

This Scheme Booklet was given to ASIC on 20 August 2007 pursuant to section 411(2)(b) of the Corporations Act.

### 9.2 No unacceptable circumstances

The Directors are not aware of any declaration or allegation of "unacceptable circumstances" in relation to the Schemes for the purposes of section 657A of the Corporations Act.

### 9.3 ASIC and ASX waivers and consents

#### (a) ASIC Waiver

Pursuant to Regulation 5.1.01(1) of the Corporations Regulations, ASIC has allowed SCB to omit from this Scheme Booklet the list of Option Holders and other matters which would otherwise be required by paragraphs 8201(a), 8201(b), 8201(c), 8201(d), 8201(e), 8203(a) and 8203(b) of Part 2 of Schedule 8 to the Corporations Regulations to be set out in this Scheme Booklet.

ASIC has also granted SCB relief from certain requirements of paragraph 8302(h) of Part 3 of Schedule 8 to the Corporations Regulations. This relief permits this Scheme Booklet to disclose whether, within the knowledge of the Directors, the financial position of SCB has materially changed since the date of the balance sheet of SCB for the period ended 30 June 2007 (rather than the period ended 30 June 2006) on the condition that SCB's Annual Report for the year ended 30 June 2007 is sent to Shareholders together with this Scheme Booklet.

#### (b) ASX Listing Rule 6.23.2

ASX has granted a waiver of ASX Listing Rule 6.23.2 to permit the cancellation of the Options for consideration without obtaining prior approval of Shareholders on the basis that the cancellation is conditional upon the Share Scheme proceeding.

ASX has also granted a waiver in respect of Appendix 6A of the Listing Rules to permit there to be less than seven Business Days between the announcement of the Special Dividend and the record date for identifying shareholders entitled to the Special Dividend.

### 9.4 Business, assets and employees of SCB

As stated in **Section 6.5(b)**, if the Share Scheme is implemented, RM2 intends to reconstitute the SCB Board so that it comprises persons nominated by RM2. RM2 has provided an outline of its intentions for SCB's operations if the Share Scheme is implemented in **Section 6.5**.

The Directors have not passed any resolution regarding:

- (a) the continuation of SCB's business or how the business will be conducted;
- (b) any major changes to the business of SCB, including any redeployment of the fixed assets of SCB; or
- (c) the future employment of SCB's present employees, in the event the Share Scheme is not implemented.

### 9.5 Consents

- (a) RM2 and MMG have consented to the inclusion of the statements set out in **Section 6** in the form and context in which the statements appear and have not withdrawn their consent before the date of this Scheme Booklet and have not authorised or caused the issue of this Scheme Booklet.

- (b) Fairfax Media has consented to the inclusion of the statements set out in **Section 7** in the form and context in which the statements appear and has not withdrawn that consent before the date of this Scheme Booklet and has not authorised or caused the issue of this Scheme Booklet.
- (c) Grant Samuel has given its consent to:
- (i) The inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in **Annexure A**;
  - (ii) The references to its Independent Expert's Report in this Scheme Booklet being made in the form and context in which each such reference is made; and
  - (iii) Be named as the independent expert,  
and has not withdrawn that consent before the date of this Scheme Booklet.
- Grant Samuel has not authorised or caused the issue of this Scheme Booklet. The interests of Grant Samuel are disclosed in the Independent Expert's Report.
- (d) Corrs Chambers Westgarth has given its consent to:
- (i) The inclusion of its Share Scheme Tax Opinion in the form and context in which it appears in **Annexure E**; and
  - (ii) The references to it and the Share Scheme Tax Opinion in this Scheme Booklet being made in the form and context in which each such reference is made,  
and has not withdrawn that consent before the date of this Scheme Booklet. Corrs Chambers Westgarth has not authorised or caused the issue of this Scheme Booklet.
- (e) Goldman Sachs JBWere has consented to be named in this Scheme Booklet in the form and context in which it is named and has not withdrawn that consent before the date of this Scheme Booklet. Goldman Sachs JBWere has not authorised or caused the issue of this Scheme Booklet.
- (f) K Capital Pty Ltd has consented to the references to it in this Scheme Booklet being made in the form and context in which each such reference is made and has not withdrawn that consent before the date of this Scheme Booklet. K Capital Pty Ltd has not authorised or caused the issue of this Scheme Booklet.
- (g) 452 Capital Pty Limited and Perpetual Limited have each consented to the references to them in this Scheme Booklet being made in the form and context in which each such reference is made and have not withdrawn that consent before the date of this Scheme Booklet. 452 Capital Pty Limited and Perpetual Limited have not authorised or caused the issue of this Scheme Booklet.

## 9.6 Effect of Schemes on creditors

The Share Scheme, if implemented, will not materially prejudice SCB's ability to pay its creditors as it involves the purchase of the Shares rather than SCB's underlying assets. No new liability (other than transaction costs) is expected to be incurred by SCB as a consequence of implementation of the Share Scheme.

If all Options outstanding as at the date of this Scheme Booklet are cancelled under the Option Scheme, the maximum amount which could be paid by SCB under the Option Scheme (assuming that no more Options are exercised before the Option Scheme Record Date) is approximately \$16.8 million. Accordingly, the Option Scheme (if implemented) would not materially prejudice SCB's ability to pay its creditors as the resulting liability which would be incurred by SCB is comparatively minor, having regard to SCB's net assets.

**9.7 Other material information**

Except as set out in this Scheme Booklet and in the 2007 Annual Report distributed to Shareholders with this Scheme Booklet, there is no other information material to the making of a decision in relation to the Schemes, being information that is within the knowledge of any Director, which has not previously been disclosed to Shareholders or Option Holders.

# Glossary of terms

## Definitions

In this Scheme Booklet (other than the Annexures), unless the context requires otherwise:

**\$** means the lawful currency of Australia.

**ACCC** means the Australian Competition and Consumer Commission.

**ACMA** means the Australian Communications and Media Authority.

**ACMA Approvals** means the written notice provided by ACMA to RM2 on 20 July 2007 stating that on 19 July 2007:

- it had approved under section 61AJ of the BSA the Voting Rights Deed that resulted in the Licensee Controllers acquiring control of SCB for the purposes of the BSA; and
- it had granted prior approval of the breaches of sections 53, 54, 55 and 56 of the BSA that were caused by the Voting Rights Deed under section 67 of the BSA.

**Advisers** means, in relation to an entity, its legal, financial, accounting, insurance, taxation and other expert advisers (but excludes the Independent Expert).

**AIFRS** means the Australian equivalents to International Financial Reporting Standards.

**Annexure** means an annexure to this Scheme Booklet.

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

**Associate** has the meaning given in the Corporations Act (but in the context of MMG does not include Sevanlab).

**ASX** means Australian Stock Exchange Limited ACN 008 624 691 or, as the context requires, the financial market conducted by it.

**ASX Listing Rules** means the official listing rules of ASX.

**Australian ADI** has the meaning given to it in the Corporations Act.

**Bank Facilities** has the meaning given to it in **Section 6.4(c)**.

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

**Break Fee** is an amount equal to 1% of the Scheme Value (inclusive of GST).

**BSA** means the Broadcasting Services Act 1992 (Cth).

**Business Day** means a day that is not a Saturday, Sunday, bank holiday or public holiday in Melbourne, Australia.

**Close of Trading** means close of trading on ASX on the Effective Date.

**Competing Proposal** means a bona fide proposed transaction or arrangement pursuant to which a person (other than RM2 or any of its Related Entities) would, if the proposed transaction or arrangement is completed substantially in accordance with its terms or expected terms:

- (a) directly or indirectly acquire, have a right to acquire or otherwise acquire an economic interest in all of the business or assets of the SCB Group or a part of the business or assets of the SCB Group that makes a Material Contribution;
- (b) acquire voting power (under section 610 of the Corporations Act) in SCB of more than 9.9%;
- (c) acquire control (within the meaning of section 50AA of the Corporations Act or within the meaning of section 6 of the BSA) of SCB or of any Material SCB Group Members; or
- (d) otherwise acquire or merge with SCB or one or more Material SCB Group Members whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure or other synthetic merger or any other transaction or arrangement.

**Conditions Precedent** means the conditions precedent to the parties' obligations to implement the Share Scheme as set out in clause 3 of the Merger Implementation Agreement and clause 3.1 of the Share Scheme and summarised in **Sections 4.3** and **4.4**.

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

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

**Court** means the Supreme Court of Victoria.

**Deed Poll** means the Deed Poll dated 5 September 2007 executed by RM2 and MMHL, and set out in **Annexure F**, pursuant to which RM2 covenants in favour of the Share Scheme Participants to perform its obligations under the Share Scheme.

**Directors** means the directors of SCB.

**Disclosures** has the meaning given in the Merger Implementation Agreement.

**EBIT** means earnings before interest and tax.

**EBITDA** means earnings before interest, tax, depreciation and amortisation.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Share Scheme, or the Option Scheme, as the case may be, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** in respect of a Scheme means the date on which that Scheme becomes Effective.

**End Date** means 23 November 2007 (or such other date as agreed in writing between SCB and RM2).

**Exclusivity Period** means the period commencing on the date of the Merger Implementation Agreement and ending on the earlier of:

- (a) the Effective Date for the Share Scheme; and
- (b) termination of the Merger Implementation Agreement.

**Fairfax Loan** has the meaning given to it in **Section 6.4(b)**.

**Fairfax Media** means Fairfax Media Limited ACN 008 663 161.

**Fairfax Media Entities** means the following SCB Group Members:

- (a) Tricom Radio Holdings Pty Ltd ACN 006 806 088;
- (b) Southern Star Group Limited ACN 003 321 266;
- (c) Tricom Group Pty Ltd ACN 007 217 870; and
- (d) Southern Cross View Pty Ltd ACN 104 575 591,

and including each of their Subsidiaries and shareholdings specified in Schedule 2 to the Merger Implementation Agreement.

**Fairfax Media Information** means the information in **Section 7**.

**FairfaxCo** means Fairfax Media BCS Pty Limited ACN 126 292 171.

**Final Dividend** means the dividend of \$0.37 per Fully Paid Share for the period to 30 June 2007 to be paid on 28 September 2007.

**FIRB** means the Foreign Investment Review Board.

**Fully Paid Share** means a fully paid ordinary share in the capital of SCB.

**Fully Paid Shareholder** means the holder of a Fully Paid Share.

**FY** means financial year.

**Goldman Sachs JBWere** means Goldman Sachs JBWere Pty Ltd ACN 006 797 897.

**Good Faith** has the meaning given in the Merger Implementation Agreement.

**Grant Samuel** means Grant Samuel & Associates Pty Limited ACN 050 036 372.

**GST** means the goods and services tax imposed under the A New Tax System (Goods and Services Tax) Act 1999 (Cth) and the related imposition acts of the Commonwealth of Australia.

**Independent Expert** means Grant Samuel.

**Independent Expert's Report** means the report of Grant Samuel set out in **Annexure A**.

**Insolvency Event** has the meaning given in the Merger Implementation Agreement.

**Licensee Controllers** means MMHL, MMIL, MMML, MBL, Macquarie Diversified Asset Advisory Pty Limited ACN 114 099 795, Macquarie Funds Management Holdings Pty Ltd ACN 093 177 407, RM1, RM2, MMGPL, MRR, Macquarie Group Limited ACN 122 169 279, Macquarie Group Holdings No. 2 Ltd ACN 124 071 398, Macquarie Group Holdings No. 3 Pty Ltd ACN 124 071 478 and Macquarie B.H. Pty Ltd ACN 124 071 432.

**Managing Director** means the managing director of SCB, Mr Anthony Bell.

**Material Contract** means the agreements specified in Schedule 1 to the Merger Implementation Agreement.

**Material Contribution** has the meaning given in the Merger Implementation Agreement.

**Material Effect** has the meaning given in the Merger Implementation Agreement.

**Material SCB Group Members** has the meaning given in the Merger Implementation Agreement.

**Merger Implementation Agreement** means the Merger Implementation Agreement dated 3 July 2007 between SCB, RM2 and MMHL, the terms of which are set out in **Annexure B**.

**MLML** means Macquarie Leisure Management Limited ACN 079 630 676.

**MLOL** means Macquarie Leisure Operations Limited ACN 104 529 106.

**MLT** means the Macquarie Leisure Trust ARSN 093 193 438.

**MMG** means Macquarie Media Group consisting of MMHL, MMML (in its capacity as the responsible entity of MMT) and MMIL.

**MMG Group** means MMG and each entity which it controls (as defined in section 50AA of the Corporations Act) as if the entities in MMG were one entity and separate entities.

**MMG Group Shares** means any Shares held by or on behalf of the MMG Group on the Share Scheme Record Date.

**MMG Information** means the information in **Section 6**.

**MMG Licences** has the meaning given to it in **Section 6.1(c)**.

**MMGPL** means Macquarie Media Group Pty Limited ACN 110 357 036.

**MMHL** means Macquarie Media Holdings Limited ACN 116 024 536

**MMIL** means Macquarie Media International Limited EC 37694 ARBN 118 577 423.

**MMML** means Macquarie Media Management Limited ACN 115 524 019.

**MMT** means Macquarie Media Trust ARSN 116 151 467.

**MRR** means Macquarie Regional Radioworks Pty Ltd ACN 109 243 110.

**National Australia Bank Limited** means National Australia Bank Limited ACN 004 044 937.

**NWS9** means Channel 9 South Australia Pty Limited.

**Officers** means, in relation to an entity, its directors, officers, partners and employees.

**Option** means an option or other right to acquire a Share issued by SCB under an SCB Option Plan.

**Option Holder** means a holder of Options.

**Option Register** means the register of Option Holders maintained by or on behalf of SCB in accordance with 168(1) of the Corporations Act.

**Option Scheme** means the proposed scheme of arrangement between SCB and Option Holders, set out in **Annexure G**, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by SCB.

**Option Scheme Implementation Date** means the date on which the Option Scheme becomes Effective.

**Option Scheme Meeting** means the meeting of Option Holders ordered by the Court to be convened and to be held at 8.30am on 19 October 2007 to consider and, if thought fit, to approve the Option Scheme.

**Option Scheme Payment** has the meaning set out in **Section 8.5**.

**Option Scheme Record Date** means 7.00pm on the Business Day before the Effective Date for the Option Scheme or such other date as SCB determines.

**Other SCB Entities** has the meaning given to it in **Section 6.5(c)(ii)**.

**Partly Paid Shareholder** means a holder of Partly Paid Shares.

**Partly Paid Shares** means partly paid ordinary shares in the capital of SCB.

**Procurement Deed** has the meaning given to it in **Section 6.3**.

**Regulatory Authority** means a government or a governmental, semi governmental or judicial entity or authority or any Minister, department, office or delegate of any government. It includes a self regulatory organisation established under statute or a financial market, ACMA, ACCC, ASIC, FIRB and ASX.

**Related Entity** of a party means another entity which:

- (a) is a related body corporate of the first entity under section 50 of the Corporations Act;
- (b) is in any consolidated entity (as defined in section 9 of the Corporations Act) which contains the party; or

(c) the party controls (as defined in section 50AA of the Corporations Act),

and in the case of the MMG the above paragraphs will be applied both as if the entities in MMG were one entity and separate entities.

**Relevant Requisite Majority** means the Requisite Majority of Shareholders or the Requisite Majority of Option Holders (as applicable).

**Requisite Majority of Shareholders** means, in relation to a resolution to be put to a Share Scheme Meeting, a resolution passed by:

- (a) a majority in number (more than 50%) of Shareholders, who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
- (b) passed by at least 75% of the votes cast on the resolution.

**Requisite Majority of Option Holders** means, in relation to a resolution to be put to an Option Scheme Meeting, a resolution passed by:

- (a) a majority in number (more than 50%) of Option Holders, who are present and voting, either in person or by proxy or an attorney; and
- (b) Option Holders who will be entitled to at least 75% of the total amount payable on cancellation of Options under the Option Scheme to Option Holders who are present (in person or by proxy or attorney) and voting at the Option Scheme Meeting.

**RM1** means Regional Media No. 1 Pty Limited ACN 124 719 400.

**RM2** means Regional Media No. 2 Pty Limited ACN 124 720 289.

**RM2 Prescribed Occurrence** has the meaning given in the Merger Implementation Agreement.

**RM2 Warranties** means the representations and warranties made by RM2 in clause 15.2 of the Merger Implementation Agreement.

**SCB** means Southern Cross Broadcasting (Australia) Limited ABN 86 006 186 974.

**SCB Group** means all of the SCB Group Members.

**SCB Group Member** means SCB and any Related Entity of SCB except that, when used in the definition of "SCB Prescribed Occurrences", the term "SCB Group Member" shall not include any of Homebush Transmitters Pty Ltd, Youplay Pty Ltd, Darwin Digital Television Pty Ltd and Tasmanian Digital Television Pty Ltd.

**SCB Information** means the information contained in this Scheme Booklet other than the MMG Information, the Fairfax Media Information, the Independent Expert's Report and the Share Scheme Tax Opinion.

**SCB Licences** has the meaning given to it in **Section 6.5(c)(iii)**.

**SCB Material Adverse Change** has the meaning given in the Merger Implementation Agreement.

**SCB Option Plan** means each of the following option or performance rights plans under which the Options were issued:

- (a) SCB Executive Performance Plan; and
- (b) 2002 Managing Director Option Grant Terms.

**SCB Prescribed Occurrence** has the meaning given in the Merger Implementation Agreement.

**SCB Warranties** means the representations and warranties made by SCB in clause 15.1 of the Merger Implementation Agreement.

**Scheme Booklet** means this scheme booklet.

**Schemes** means the Share Scheme and the Option Scheme.

**Scheme Meetings** means the Share Scheme Meeting and the Option Scheme Meeting.

**Scheme Order**, in respect of a Scheme, means the order of the Court made for the purposes of section 411(4)(b) of the Corporations Act in respect of the Scheme.

**Scheme Record Date** means, in respect of the Option Scheme, the Option Scheme Record Date and, in respect of the Share Scheme, means the Share Scheme Record Date.

**Scheme Shares** means all of the Shares on issue on the Share Scheme Record Date excluding the MMG Group Shares but including any Shares issued on or before the Share Scheme Record Date including upon exercise of any Option.

**Scheme Value** has the meaning given in the Merger Implementation Agreement.

**Second Court Date**, in respect of a Scheme, means the first day on which an application made to the Court for the Scheme Order is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

**Second Court Hearing** means the commencement of the hearing by the Court on the Second Court Date.

**Sevanlab** means Sevanlab Star Investments Pty Limited ACN 101 830 719.

**Share** means a fully or partly paid ordinary share in the capital of SCB.

**Share Purchase Agreement** means the share purchase agreement described in **Section 6.8**.

**Share Register** means the register of members of SCB maintained in accordance with the Corporations Act.

**Share Registry** means Link Market Services Limited ACN 083 214 537.

**Share Scheme** means the proposed scheme of arrangement between SCB and the Share Scheme Participants in respect of the Shares, set out in **Annexure C**, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by SCB and RM2.

**Share Scheme Consideration** means \$17.05 per fully paid Scheme Share and that amount less the amount of the unpaid issue price in the case of each partly paid Scheme Share.

**Share Scheme Implementation Date** means the Business Day after the Share Scheme Record Date.

**Share Scheme Meeting** means the meeting of Shareholders ordered by the Court to be convened and to be held at 10:00am on 19 October 2007 to consider and, if thought fit, to approve the Share Scheme.

**Share Scheme Participant** means each person registered in the Share Register as the holder of Scheme Shares as at the Share Scheme Record Date.

**Share Scheme Payment** means the Share Scheme Consideration and the Special Dividend.

**Share Scheme Record Date** means 7.00pm on the fifth Business Day after the Effective Date for the Share Scheme or such other date as SCB and RM2 agree.

**Share Scheme Tax Opinion** means the tax opinion given by Corrs Chambers Westgarth in respect of the Share Scheme, a copy of which is set out in **Annexure E**.

**Shareholder** means a person registered in the Share Register as the holder of Shares.

**Shareholder Information Line** means the information line Shareholders can call in respect of queries in relation to the Scheme, the telephone number for which is 1800 127 953 (if in Australia) or +61 2 8280 7720 (if outside Australia) during business hours.

**Southern Star** means Southern Star Group Limited ACN 003 321 266.

**Special Dividend** means the proposed dividend of \$0.36 per Share to be paid by SCB on the Implementation Date.

**Subsidiary** has the meaning given to it in section 9 of the Corporations Act.

**Superior Proposal** has the meaning given in the Merger Implementation Agreement.

**Supreme Court of Victoria Rules** means the Supreme Court (Corporations) Rules 2003.

**Transaction** means the acquisition by RM2 of all of the Scheme Shares through the implementation of the Share Scheme as contemplated in the Merger Implementation Agreement.

**Trustee** means Southern Cross Incentive Pty Ltd ACN 006 780 061.

**Voting Rights Deed** has the meaning given in **Section 5.2**.

## Interpretation

In this Scheme Booklet (other than the Annexures):

- (a) All dates and times are Melbourne, Victoria times.
- (b) Words and phrases not otherwise defined in this Scheme Booklet (excluding the Annexures) have the same meaning (if any) as is given to them by the Corporations Act.
- (c) The singular includes the plural and vice versa. A reference to a person includes a reference to a corporation.
- (d) Headings are for ease of reference only and do not affect the interpretation of this Scheme Booklet.
- (e) A reference to a section is to a section in this Scheme Booklet unless stated otherwise.

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**Annexure A: Independent Expert's Report**

4 September 2007

The Directors  
Southern Cross Broadcasting (Australia) Limited  
70 Park Street  
South Melbourne VIC 3205

Dear Directors

### Macquarie Media Group Proposal

#### 1 Introduction

On 3 July 2007, Southern Cross Broadcasting (Australia) Limited ("Southern Cross") announced a proposal from Macquarie Media Group ("Macquarie Media") for the acquisition by Macquarie Media of all the ordinary shares in Southern Cross that it does not already own ("Proposal"). Under the Proposal, which is to be effected by way of a scheme of arrangement ("Scheme"), Southern Cross shareholders will receive \$17.41 cash per Southern Cross ordinary share, consisting of \$17.05 cash plus a special fully franked dividend of \$0.36 per share ("Proposal Consideration"). Southern Cross shareholders will also be entitled to receive a fully franked final dividend of \$0.37 per share for the period ended 30 June 2007. At the time of the announcement, Macquarie Media held the voting power in 16.4% of the issued shares in Southern Cross.

Following implementation of the Scheme, Fairfax Media Limited ("Fairfax Media") will acquire certain Southern Cross assets from Macquarie Media, including Southern Cross' metropolitan radio business, Southern Star Group Limited ("Southern Star"), Satellite Music Australia Group ("Satellite Music Australia") and other associated businesses. Macquarie Media will retain Southern Cross' regional television operations and associated businesses.

The Scheme is subject to the approval of the Supreme Court of Victoria and Southern Cross shareholders.

The Directors of Southern Cross have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in Grant Samuel's opinion, the Proposal is in the best interests of Southern Cross shareholders. A copy of this report will accompany the Notice of Meeting and Scheme Booklet to be sent to Southern Cross shareholders before the meeting at which shareholders will vote on the Scheme ("Scheme meeting"). This letter contains a summary of Grant Samuel's opinion and main conclusions.

#### 2 Summary of Opinion

**Grant Samuel has valued Southern Cross in the range \$15.58-17.66 per share. The valuation reflects the estimated full underlying value of the business. The valuation range exceeds the price at which Grant Samuel would expect Southern Cross shares to trade in the absence of the Proposal or speculation regarding some alternative corporate transaction.**

**The Proposal Consideration of \$17.41 cash per Southern Cross share is towards the top end of Grant Samuel's estimate of the full underlying value of Southern Cross. On this basis, the Proposal Consideration is fair and reasonable.**



The Proposal Consideration represents high multiples of earnings. It crystallises value for Southern Cross shareholders that could only be delivered by the Southern Cross business if it achieved high rates of earnings growth in the future. Having regard to Southern Cross' modest earnings growth in recent years and subdued short term earnings prospects, Grant Samuel believes that the Proposal Consideration is extremely attractive for Southern Cross shareholders.

In Grant Samuel's view, the prospects of a higher alternative offer are remote.

Accordingly, Grant Samuel has concluded that the Proposal is in the best interests of Southern Cross shareholders.

### Key Conclusions

- Southern Cross has been valued in the range \$1,161-1,316 million, representing \$15.58-17.66 per share.

Southern Cross has been valued in the range of \$15.58-17.66 per share. The valuation represents the full underlying value of Southern Cross. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Southern Cross shares to trade on the Australian Securities Exchange ("ASX") in the absence of the Proposal or expectations of some similar change of control transaction. The valuation is summarised below:

<b>Southern Cross - Valuation Summary (\$ millions)</b>		
	Value Range	
	Low	High
Regional television interests	780	860
Radio businesses	360	400
Southern Star <sup>1</sup>	140	155
Other businesses	40	50
Corporate costs	(70)	(60)
Other assets and liabilities	13	13
<b>Enterprise Value</b>	<b>1,263</b>	<b>1,418</b>
Net borrowings at 30 June 2007 <sup>2</sup>	(102)	(102)
<b>Equity value</b>	<b>1,161</b>	<b>1,316</b>
Fully diluted shares on issue (millions) <sup>3</sup>	74.5	74.5
<b>Value per share</b>	<b>\$15.58</b>	<b>\$17.66</b>

The value for Southern Cross is the aggregate of the estimated market value of Southern Cross' operating businesses and other assets, less external borrowings and other non-trade liabilities. Grant Samuel's valuation of Southern Cross is principally based on capitalisation of earnings. The valuation reflects the particular characteristics and prospects of the Southern Cross' businesses, including:

- the relatively modest rates of growth achieved by Southern Cross in recent years;
- the subdued short term outlook for Southern Cross' earnings;
- the strengthening in the television and radio advertising markets over the last six months; and

<sup>1</sup> For the purpose of the valuation, Southern Star consists of its wholly owned operating businesses, its interests in joint ventures and associates, and its interests in partially held subsidiaries (excluding minority interests).

<sup>2</sup> Net borrowings at 30 June 2007 is based on actual net debt at 30 June 2007, adjusted for the final dividend for the 2007 financial year of \$0.37 per share, and the net proceeds from the sale of Channel 9 South Australia Pty Limited.

<sup>3</sup> The number of shares on issue on a fully diluted basis assumes that all partly paid shares are fully paid, performance rights are vested and options are exercised.

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- the strategic attractiveness of Southern Cross' portfolio of businesses, reflecting their strong market positions and the significant barriers to entry for new participants in the television and radio markets.
- **The multiples implied by the valuation, while high, are consistent with market evidence.**

The earnings multiples implied by the valuation are as follows:

Southern Cross – Implied Valuation Parameters		
	Low	High
<b>Multiple of EBITDA<sup>4</sup> (normalised)</b>		
Year ended 30 June 2006	12.4	13.9
Year ended 30 June 2007	11.6	13.1
Year ending 30 June 2008	11.0	12.4
<b>Multiple of EBIT<sup>5</sup> (normalised)</b>		
Year ended 30 June 2006	14.8	16.6
Year ended 30 June 2007	13.6	15.3
Year ending 30 June 2008	13.2	14.8
<b>Multiple of net profit after tax (normalised)</b>		
Year ended 30 June 2006	22.9	26.0
Year ended 30 June 2007	21.9	24.8
Year ending 30 June 2008	18.7	21.2

In Grant Samuel's view the earnings multiples are high, having regard to Southern Cross' recent earnings track record and expectations for modest near term earnings growth. However, the multiples are consistent with the multiples at which other Australian media companies have been acquired and are trading.

- **The Proposal Consideration is towards the top end of the valuation range. Accordingly, the Proposal Consideration is fair and reasonable.**

The Proposal Consideration consists of a cash payment of \$17.05 plus a fully franked special dividend of \$0.36 per share, for a total cash value of \$17.41 per share. For shareholders that can fully utilise the franking credits attached to the special dividend, the Proposal Consideration could be worth up to \$17.56 per share.

The Proposal Consideration is towards the top end of the valuation range. Accordingly, the Proposal Consideration is fair and reasonable.

- **The Proposal Consideration crystallises value for Southern Cross shareholders that could only be delivered by the Southern Cross business if it achieved high rates of earnings growth in the future.**

Southern Cross has achieved modest earnings growth in recent years and the outlook for 2008 is muted. The Proposal Consideration crystallises value for Southern Cross shareholders that could only be delivered by the Southern Cross business if it achieved significantly higher rates of earnings growth in the future. In Grant Samuel's view the Proposal Consideration is extremely attractive for Southern Cross shareholders.

<sup>4</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>5</sup> EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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- **Premium analysis is not meaningful.**

The Proposal Consideration represents no more than a modest premium to the price at which Southern Cross shares were trading before the announcement of the Proposal. However, since 17 November 2006, when Macquarie Media Group announced that it had acquired a 13.8% stake in Southern Cross at \$16.50, Southern Cross share prices have almost certainly incorporated a substantial premium in expectation of a takeover proposal for Southern Cross. In these circumstances premium analysis is not meaningful.

- **The prospects of a higher alternative offer appear remote.**

Southern Cross has effectively been “in play” since November 2006, when Macquarie Media announced that it had acquired its strategic shareholding in Southern Cross. Other interested parties have had over seven months to consider an alternative proposal for Southern Cross (although Macquarie Media’s holding may have been a disincentive to any competitive proposal). No alternative proposal has been forthcoming. Although there is still the possibility of some higher alternative proposal before the Scheme meeting at which Southern Cross shareholders will vote on the Scheme, in Grant Samuel’s view the prospects of such a higher offer are remote.

- **The Scheme is in the best interests of Southern Cross shareholders.**

In Grant Samuel’s view, the Proposal Consideration is fair and reasonable. The Scheme will crystallise value for Southern Cross shareholders that could only be delivered by the Southern Cross business if it achieved relatively high rates of earnings growth in the future. The prospects of a higher alternative proposal appear remote. Accordingly, in Grant Samuel’s view, in the absence of a superior proposal, the Proposal is in the best interests of Southern Cross shareholders.

- **The Options Scheme is in the best interests of Option holders who continue to hold Options at the date of the Scheme meeting.**

Certain Southern Cross executives hold options and performance rights over unissued shares in Southern Cross (“Options”). Following the Southern Cross Directors’ recommendation of the Scheme, these Options have become exercisable. Holders of the Options can exercise the Options and receive shares in Southern Cross. Any Options not exercised by the date of the Scheme meeting will be eligible to participate in a scheme of arrangement for the Options (“Options Scheme”). Under the Options Scheme, if approved by Option holders and the Court, all outstanding Options will be cancelled. In consideration, Option holders will receive for each Option cancelled a cash payment of \$17.05 less the exercise price (if any) of the Option. The Scheme and the Options Scheme are inter-dependent.

The Directors of Southern Cross have requested that Grant Samuel advise whether, in Grant Samuel’s opinion, the Options Scheme is in the best interests of Option holders who continue to hold options at the date of the Scheme meeting.

In Grant Samuel’s view it will be in the best interests of Option holders who hold Options at the date of the Scheme meeting to vote in favour of the Options Scheme. The value to be realized by Option Holders under the Option Scheme corresponds with the full underlying value of Southern Cross.

Option holders who exercise their Options before the Scheme meeting will be eligible to receive the fully franked special dividend and, assuming that they exercise their options before the relevant record date, will be eligible to receive the ordinary dividend to be paid by Southern Cross. Option holders who retain their Options and participate in the Options Scheme will not receive these dividends. There are expected to be different tax consequences for Option holders who exercise their Options before the Scheme meeting and for Option holders who participate in the Option Scheme. Depending in part on the personal tax position of the relevant Option holders, participation in the Option Scheme may be more attractive from a taxation perspective for some Option holders. Grant Samuel offers no advice or recommendation as to whether Option holders will be better off exercising their Options and participating in the Scheme, or not exercising their

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Options and participating in the Options Scheme. Option holders who are in any doubt in this regard should seek their own professional advice.

**4 Other Matters**

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual shareholders in Southern Cross. Because of that, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Southern Cross in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders, based on their own views as to value and future market conditions and their particular circumstances including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action they should take should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully  
**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

*Grant Samuel & Associates*

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**Financial Services Guide  
and  
Independent Expert's Report  
in relation to the Proposal by  
Macquarie Media Group**

**Grant Samuel & Associates Pty Limited  
(ABN 28 050 036 372)**

**4 September 2007**

## Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Southern Cross Broadcasting (Australia) Limited ("Southern Cross") in relation to its acquisition by Macquarie Media Group ("the Southern Cross Report"), Grant Samuel will receive a fixed fee of \$450,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Southern Cross Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Practice Note 42 issued by the Australian Securities Commission (the predecessor to the Australian Securities & Investments Commission) on 8 December 1993. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Southern Cross Report:

*"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Southern Cross, Macquarie Media Group or Fairfax Media Limited that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that seven executives of Grant Samuel and its related entities hold parcels of less than 30,000 shares in Macquarie Bank Limited, and one executive of Grant Samuel and its related entities has a parcel of less than 2,000 shares in Fairfax Media Limited. No Grant Samuel group executive has an interest in any shares of Southern Cross or Macquarie Media Group.*

*Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*

*Grant Samuel will receive a fee of \$450,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*

*Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Industry Complaints Services' Complaints Handling Tribunal, No. F 4197.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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## Appendix: Market Evidence



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## 1 Details of the Proposal

On 3 July 2007, Southern Cross Broadcasting (Australia) Limited (“Southern Cross”) announced a proposal from Macquarie Media Group (“Macquarie Media”) for the acquisition by Macquarie Media’s acquisition vehicle Regional Media No. 2 Pty Limited (“RM2”) of all the ordinary shares in Southern Cross that Macquarie Media does not already own (“Proposal”). Under the Proposal, which is to be effected by way of a scheme of arrangement (“Scheme”), Southern Cross shareholders will receive \$17.41 cash per Southern Cross ordinary share, consisting of \$17.05 cash plus a special fully franked dividend of \$0.36 per share (“Proposal Consideration”). Whether or not the Scheme is implemented, Southern Cross shareholders will receive the fully franked final dividend of \$0.37 per share for the period ended 30 June 2007 declared by the company on 23 August 2007. Southern Cross, and Macquarie Media entities (Macquarie Media Holdings Limited and RM2) have entered into a Merger Implementation Agreement to implement the Proposal. Macquarie Media acquired a 13.8% shareholding in Southern Cross in November 2006. As a result of share acquisitions by associates of Macquarie Media and contractual arrangements which came into effect on 20 July 2007, Macquarie Media has a voting power of 16.4% in Southern Cross.

Following implementation of the Scheme, Fairfax Media Limited (“Fairfax Media”) will acquire certain Southern Cross assets from Macquarie Media, including Southern Cross’ metropolitan radio business, Southern Star Group Limited (“Southern Star”), Satellite Music Australia Group (“Satellite Music Australia”) and other associated businesses. Macquarie Media will retain Southern Cross’ regional television operations and other associated businesses.

Macquarie Media is a diversified media company listed on the Australian Securities Exchange (“ASX”) and has a market capitalisation of approximately \$840 million. Macquarie Media owns:

- a 100% interest in Macquarie Regional Radioworks, owner and operator of 87 commercial radio licences across 45 regional licence areas reaching more than 4.6 million radio listeners in Australia;
- a 60% interest in Taiwan Broadband Communications, which is the leading cable television broadcaster in five regions of Taiwan with over 670,000 subscribers; and
- a 100% interest in American Consolidated Media, which is the publisher of 70 community newspapers, which serve 15 communities in Texas, Oklahoma, Kansas, Minnesota, Wisconsin and Michigan in the United States.

The Directors of Southern Cross unanimously recommend that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of shareholders. The Directors of Southern Cross intend to vote shares they hold (or on whose behalf shares are held) in Southern Cross in favour of the Scheme.

The Scheme is subject to the approval of the Supreme Court of Victoria. The Scheme is also subject to the approval of Southern Cross shareholders, at a meeting to vote on the Scheme (“Scheme meeting”).

The Proposal is subject to a number of conditions that are summarised in Section 4.3 of the Scheme Booklet and set out in full in the Merger Implementation Agreement. In summary, these include:

- that the Scheme is approved (or cleared) by relevant regulators including the Australian Competition and Consumer Commission (“ACCC”), the Australian Communications and Media Authority (“ACMA”) and, if required, the Foreign Investment Review Board (“FIRB”);
- that no material adverse change occurs. Material adverse change is defined as an event which has or is likely to have a significant affect on the net assets of Southern Cross, Southern Cross’ EBITDA<sup>1</sup> or cause Southern Cross to be unable to carry on its existing business in substantially the same manner as currently conducted;
- that no prescribed occurrences for Southern Cross have occurred (which is defined to cover standard takeover prescribed occurrence events, such as changes to capital structure, share issues,

<sup>1</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.



unauthorised dividend payments, acquisition or disposal of material assets, insolvency events, and also includes material contraventions of the Broadcasting Services Act, 1992 or any material licence);

- that certain warranties given by Southern Cross and Macquarie Media are true and correct on the Second Court Date;
- that Southern Cross does not dispose to a non-Southern Cross member its interests in Tricom Radio Holdings Pty Ltd, Southern Star, Tricom Group Pty Ltd or Southern Cross View Pty Ltd (“Southern Cross View”);
- that Southern Cross does not acquire control of another radio broadcasting licence or licensee;
- that Southern Cross completes the sale of Channel 9 South Australia Pty Limited (“Channel 9 Adelaide”); and
- that specified counterparties to material contracts provide all necessary consents and waivers to any change in control, event of default or termination right which may be triggered by reason of the implementation of the Scheme.

The Merger Implementation Agreement includes no-talk and no-shop provisions. Under these provisions, Southern Cross may not solicit, invite, initiate or participate in any negotiations or discussions in relation to any competing proposal for Southern Cross. The no-talk obligations do not apply if the Southern Cross Board determines that the competing proposal is from a person of reputable commercial standing and is a superior proposal.

A break fee of approximately \$10.9 million is payable by Southern Cross to Macquarie Media in certain circumstances, including where the Southern Cross Board withdraws its support or recommendation for the Scheme. The break fee will not be payable if Southern Cross is entitled to terminate the Merger Implementation Agreement due to a breach by Macquarie Media of the Merger Implementation Agreement, or if the independent expert advises the Southern Cross Board that it will not conclude that the Scheme is in the best interests of Southern Cross shareholders (except because of a superior proposal).

Certain Southern Cross executives hold options and performance rights over unissued shares in Southern Cross (“Options”). Following the Southern Cross Directors’ recommendation of the Scheme, these Options have become exercisable. Holders of the Options can exercise the Options and receive shares in Southern Cross. Holders who exercise their Options prior to the Scheme meeting will be eligible to receive the special dividend and, assuming that they exercise their options before the relevant record date, will be eligible to receive the ordinary dividend to be paid by Southern Cross. Any Options not exercised by the date of the Scheme meeting will be eligible to participate in a scheme of arrangement for the Options (“Options Scheme”). Under the Options Scheme, if approved by Option holders, all outstanding Options will be cancelled. In consideration, Option holders will receive for each Option cancelled a cash payment of \$17.05 less the exercise price (if any) of the Option. The Scheme and the Options Scheme are inter-dependent.

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## 2 Scope of the Report

### 2.1 Purpose of the Report

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act, 2001 (“Corporations Act”) between Southern Cross and its shareholders. Under Section 411 the Scheme must be approved by a majority in number (i.e. at least 50%) of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Southern Cross shareholders, the Scheme will then be subject to approval by the Supreme Court of Victoria.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its Directors are also Directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert’s report pursuant to the Corporations Act or the ASX Listing Rules, the Directors of Southern Cross have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Proposal is in the best interests of Southern Cross shareholders and to state reasons for that opinion. The Directors of Southern Cross have also requested that Grant Samuel include in its report Grant Samuel’s opinion as to whether the Options Scheme is in the best interests of Option holders who continue to hold Options at the date of the Scheme meeting. A copy of the report will accompany the Notice of Meeting and the Scheme Booklet to be sent to shareholders by Southern Cross. A copy of the report will also be provided to Option holders.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Southern Cross shareholders and Option holders. Accordingly, before acting in relation to their investment, shareholders and Option holders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders and Option holders should read the Scheme Booklet issued by Southern Cross in relation to the Proposal.

Approval or rejection of the Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser. Option holders who are in doubt as to the action they should take in relation to the Options Scheme, or whether they should exercise their Options prior to the Scheme meeting, should consult their own professional adviser.

### 2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. The Australian Securities Commission (now the Australian Securities and Investments Commission (“ASIC”)) issued Policy Statement 75 which established certain guidelines in respect of independent expert’s reports prepared for the purposes of Sections 411, 640 and 703 of the Corporations Act. Policy Statement 75 is primarily directed towards reports prepared for the purpose of Section 640 and comments on the meaning of “fair and reasonable” in the context of a takeover offer. The statement gives limited guidance as to the regulatory interpretation or meaning of “in the best interests” other than to imply that it is similar to “fair and reasonable”.

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, “in the best interests” must be capable of a broad interpretation to meet the particular



circumstances of each transaction. In this case the Proposal is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Proposal as if it was a takeover offer under Chapter 6 of the Corporations Act. In these circumstances an expert has to consider whether the offer is “fair and reasonable”.

The term “fair and reasonable” has no legal definition although over time a commonly accepted interpretation has evolved. In the context of a takeover, an offer is considered fair and reasonable if the price fully reflects the value of a company’s underlying businesses and assets. Policy Statement 75 attempts to provide a precise definition of fair and reasonable. The Policy Statement continues earlier regulatory guidelines that create a distinction between “fair” and “reasonable”. Fairness is said to involve a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. In determining fairness any existing entitlement to shares by the offeror is to be ignored. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to accepting a takeover offer such as:

- the existing shareholding of the offeror and its related parties;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company’s shares.

A takeover offer could be considered “reasonable” if there were valid reasons to accept the offer notwithstanding that it was not “fair”.

For the purpose of this report, Grant Samuel has treated “fair” and “reasonable” as separate concepts in accordance with Policy Statement 75. Fairness is a more demanding criteria. A “fair” offer will always be “reasonable” but a “reasonable” offer will not necessarily be “fair”.

A fair offer is one that reflects the full market value of a company’s businesses and assets. A takeover offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the bid price. This is commonly the case in takeover offers where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Proposal is fair by comparing the estimated underlying value range of Southern Cross with the Proposal Consideration. The Proposal will be fair if the Proposal Consideration falls within the estimated underlying value range. In considering whether the Proposal is reasonable, the factors that have been considered include:

- the estimated value of Southern Cross compared to the Proposal Consideration;
- the existing shareholding structure of Southern Cross;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Southern Cross shares in the absence of the Proposal; and
- other advantages and disadvantages for Southern Cross shareholders of approving the Proposal.

A proposal that, under the “takeovers” analysis, was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders.

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### 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

#### *Publicly Available Information*

- the Scheme Booklet (including earlier drafts);
- annual reports of Southern Cross for the five years ended 30 June 2007;
- press releases, public announcements, media and analyst presentation material and other public filings by Southern Cross including information available on its website;
- brokers' reports and recent press articles on Southern Cross and the media industry; and
- sharemarket data and related information on Australian and international listed companies engaged in the media industry and on acquisitions of companies and businesses in this industry.

#### *Non Public Information provided by Southern Cross*

- management accounts for Southern Cross for the two years ended 30 June 2007;
- management budget for the year ending 30 June 2008;
- other confidential documents, presentations and working papers; and
- recent board papers for Southern Cross.

Grant Samuel has also held discussions with, and obtained information from, senior management of Southern Cross and its advisers.

### 2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Southern Cross and its advisers. Grant Samuel has considered and relied upon this information. Southern Cross has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is in the best interests of Southern Cross shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. In this context, Grant Samuel advises that it is not in a position nor is it practicable for Grant Samuel to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers. Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and



financial implications of the Proposal rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Southern Cross. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included the budget for Southern Cross for the year ending 30 June 2008 prepared by management and adopted by the Directors of Southern Cross ("2008 Budget"). Southern Cross is responsible for the 2008 Budget. Grant Samuel has used and relied on the 2008 Budget for the purposes of its analysis.

Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the 2008 Budget has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, inter alia, into account:

- Southern Cross has sophisticated management and financial reporting processes. The 2008 Budget has been prepared through a detailed budgeting process involving preparation of "ground up" budgets by the management and is subject to ongoing analysis and review to reflect the impact of actual performance or assessments of likely future performance;
- the 2008 Budget has been endorsed by the Directors of Southern Cross;
- Grant Samuel has reviewed the 2008 Budget and principal assumptions, discussed the 2008 Budget and its principal assumptions with Southern Cross management, and sought and received explanations from management as to the reasons for variations between actual 2007 performance and budgeted performance as per the 2008 Budget.

Grant Samuel has no reason to believe that the 2008 Budget reflects any material bias, either positive or negative. However, the achievability of the 2008 Budget is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are estimates by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Scheme Booklet sent by Southern Cross to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



### 3 Overview of the Australian Media Industry

#### 3.1 Overview

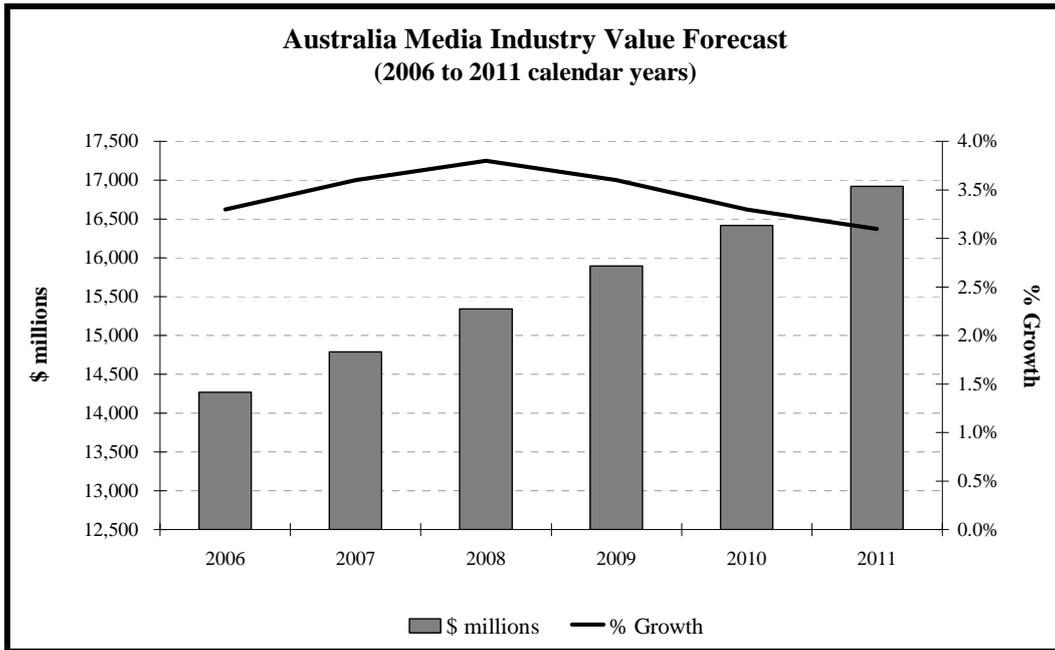
The Australian media industry is made up of the following segments:

- advertising, which involves the provision by agencies of advertising services including display advertising;
- television and radio. Broadcasters earn revenues through advertising, licensing (or public donations) and subscriptions. The television segment includes metropolitan and regional free-to-air television and subscription television, while the radio segment includes metropolitan, regional and community radio;
- publishing, which consists of the publishing of books, newspapers, and magazines. Publishers generate revenues from the sale of hard or electronic copies of their products, as well as from advertising within those products;
- online media, which includes general online media, online classifieds and online search and directories. Revenues are primarily generated through advertising and subscriptions;
- outdoor media, which includes large format and poster media, transit media and street furniture. Revenues are generated through the sale of advertising; and
- movies and entertainment, which include both production and distribution of public entertainment formats, such as movies, music and videos. The movie box office generates revenues from admissions. The music and video sectors generate revenues from the sale of products including DVDs and CDs.

The Australian media industry generated total revenues of \$14.2 billion in the 2006 calendar year. This represents a compound annual growth rate (“CAGR”) of 7.8% for the five-year period 2002 to 2006 and an increase of 3.3% over the 2005 calendar year. In line with global trends, publishing and broadcasting are the two largest segments of the media industry in Australia. However, both media sectors have seen their share of revenues decline in recent years, caused in part by the growing strength of alternative media, such as the internet.

Growth in the media sector is influenced by a number of macroeconomic factors including real gross domestic product (“GDP”) growth and population growth, together with more specific industry factors such as media regulation. For the five year period between 2006 and 2011, media industry revenues are forecast to grow at a CAGR of 3.5%, resulting in total industry revenues of approximately \$16.9 billion by 2011.

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Source: Datamonitor

The profitability of companies operating in the media industry is primarily influenced by advertising demand, which in turn is significantly influenced by demographic trends, economic activity and consumer demand.

### 3.2 Industry Regulation

On 13 July 2006, the Commonwealth Government announced a new media framework for Australia. The media reform package came into effect on 4 April 2007. The reforms were given effect by three pieces of legislation:

- Broadcasting Services Amendment (Media Ownership) Act 2006;
- Broadcasting Legislation Amendment (Digital Television) Act 2006; and
- Communications Legislation Amendment (Enforcement Powers) Act 2006.

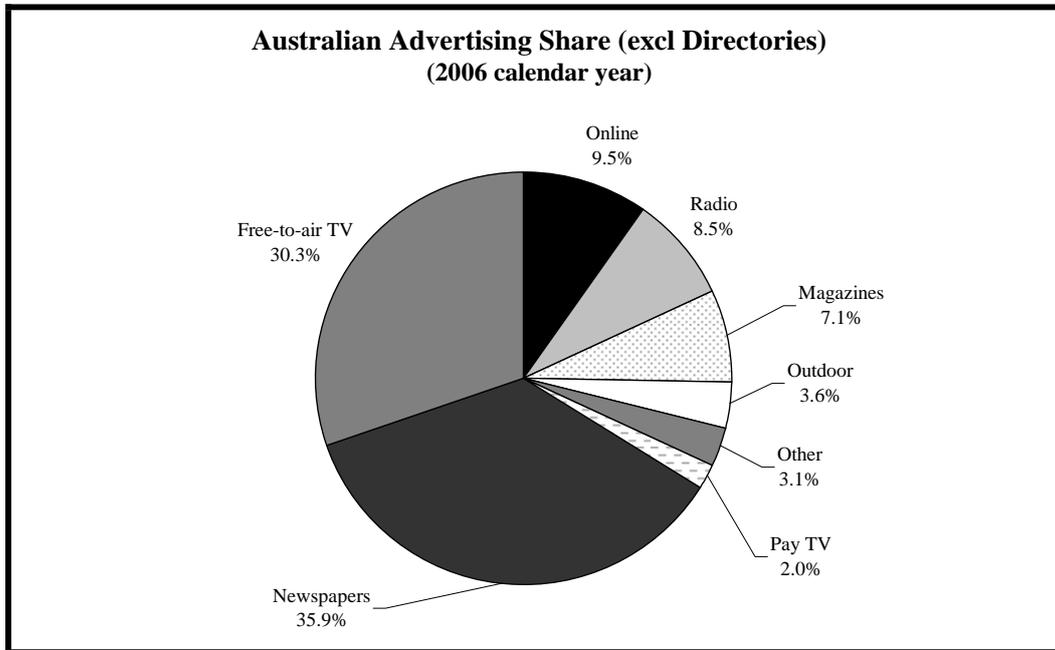
The most significant change resulting from these reforms was the easing of restrictions on cross media holdings and foreign ownership. As evidenced by recent transactions in the sector, this easing of restrictions has encouraged consolidation within the industry and has helped drive an inflow of foreign direct investment, primarily from private equity investors. However, cross-media transactions are still not permitted to the extent that they result in a reduction in the number of commercial media groups to less than four in regional markets or less than five in mainland State capitals, or they result in a single party owning all three of television, radio and newspaper assets in the same market.

The ACCC is responsible for ensuring that competition levels are not compromised as a result of these media reforms. The Government has also provided additional regulatory powers to ACMA and introduced additional regulations such as the 'Regional Service Protections' to allow ACMA to enforce the new rules around the provision of local content and the number of commercial media groups represented in a single market. These regulations require regional commercial television stations in all Australian States to provide minimum levels of content in relation to matters of local significance. These conditions also cover regional commercial radio licensees, which are required to broadcast minimum local content, including news, local community service announcements and local emergency warnings.



### 3.3 Advertising

The advertising market is competitive, with traditional forms of media (print, television and radio) competing for advertising revenue. Pay television and the internet are more recent entrants to the market and have intensified competition. Total advertising revenues in Australia for the 2006 calendar year were \$11.9 billion. The proportion of advertising revenues for each type of media is set out below:



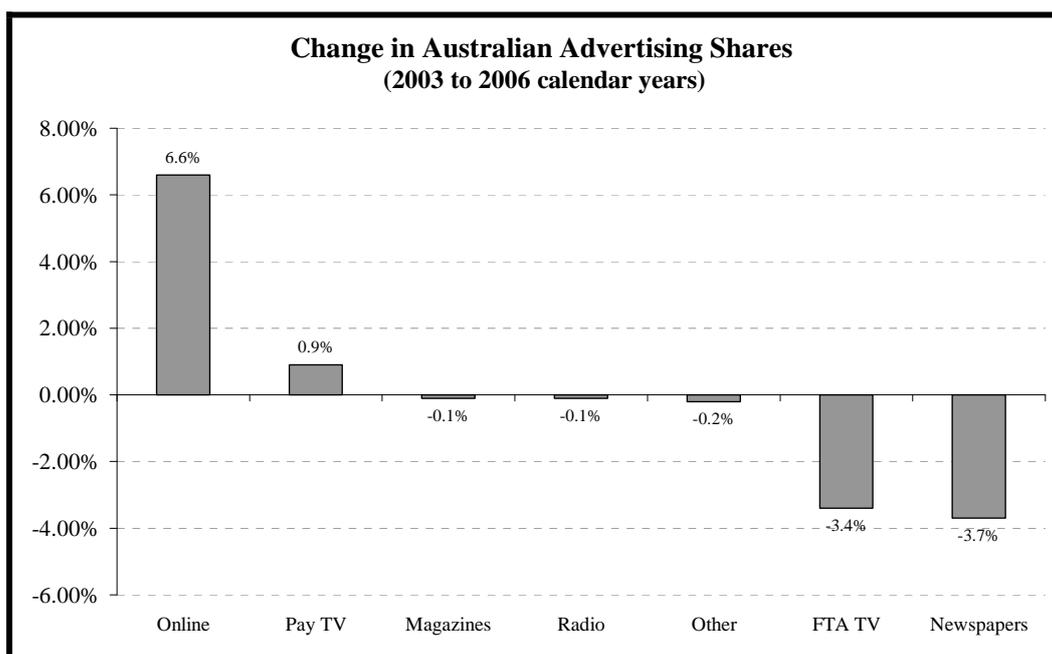
Source: Commercial Economic Advisory Service of Australia

Newspapers and free-to-air (“FTA”) television have a dominant share of Australian advertising revenues, accounting for over 66% of advertising market share in 2006. Radio holds a much smaller share with 8.5%.

Online advertising has captured increasing market share over the last few years, increasing from a negligible market share in 2000 to a 9.5% share in 2006. Online advertising remains the fastest growing advertising medium. In the 2007 financial year, Australian advertisers are expected to increase their total online advertising expenditure to approximately \$1.3 billion. Between 2007 and 2015, online advertising is expected to grow at a CAGR of 14.9%.

Pay television is now the second fastest growing advertising category, with growth of 30% in 2005 and 25% in 2006. Pay television captured 2% of the advertising market in 2006. Another small but high growth segment is outdoor advertising, which is expected to grow at a CAGR of 6.0% between 2007 and 2015. As shown below, the rapid shift of advertising revenues has been predominantly at the expense of newspapers and FTA television, which recorded falls in market share of 3.7% and 3.4% respectively from the 2003 to 2006 calendar year.

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Source: Commercial Economic Advisory Service of Australia

Media companies generate revenues from the sale of both national and local advertising. National advertising arrangements are usually negotiated through advertising agencies and buying groups. At the local level, agreements are normally entered into directly with the advertisers.

Generally, the sensitivity of advertising volumes to changes in levels of economic activity is greatest for television, followed by radio and then newspaper. This is due to the greater reliance of the television industry on national advertising, whereas radio and newspapers capture a greater share of local advertising.

### 3.4 Television

Television is a dominant force in Australian mass media with an average 2.4 televisions per household. Australians, on average, spend more than three hours a day watching television. During the peak prime viewing period between 7pm and 9pm, more than 60% of households are tuned in to FTA television. FTA television has over 99% penetration in Australian homes. Such penetration and audiences enable television broadcasters to capture a substantial share of advertising revenues, with FTA television ranking second only to newspapers as an advertising medium.

Australian FTA is delivered on a broadcast basis (i.e. by terrestrial transmission and satellite), and pay television is delivered by satellite and by cable. Australia is following a global trend in converting FTA television (delivered by terrestrial transmission and satellite) from an analogue to a digital platform. Australian broadcasters are currently in a simulcast period whereby they must transmit their television programs in both analogue and digital. The simulcast period is expected to continue until approximately 2012, after which time it is expected that analogue services will be switched off.

In recent times, the growing popularity of online media and competition from pay television have contributed to a reduction in FTA television audiences and its share of total advertising income.

Approximately 90% of total FTA television revenue is derived from advertising. The remaining income is generally derived from the sale of in-house productions overseas and, for the large networks, from affiliation agreements whereby programming is sold to regional networks. Given its dependence on volatile advertising revenues and a predominantly fixed cost structure, the profitability of FTA television is sensitive to changes in levels of economic activity. In particular,

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it is sensitive to changes in levels of consumer expenditure on goods that tend to be heavily advertised on television including retail goods, cars, travel, telecommunications and financial services.

The total advertising revenue of the FTA television networks for the three years to 30 June 2007 is set out below:

<b>Segmented Advertising of FTA Television Operators (\$ millions)</b>						
	<b>Half Yearly Revenue</b>					
	<b>Dec 2004</b>	<b>Jun 2005</b>	<b>Dec 2005</b>	<b>Jun 2006</b>	<b>Dec 2006</b>	<b>Jun 2007</b>
<b>Metropolitan services</b>						
Sydney	545.5	474.5	550.9	467.6	549.1	508.2
Melbourne	435.6	360.6	414.4	353.2	404.6	367.1
Brisbane	245.0	211.2	241.6	211.2	247.4	222.8
Adelaide	122.4	104.0	118.2	104.0	112.0	104.6
Perth	153.3	128.6	150.3	126.1	147.9	135.0
<b>Total</b>	<b>1,501.7</b>	<b>1,278.8</b>	<b>1,475.4</b>	<b>1,262.1</b>	<b>1,461.0</b>	<b>1,337.8</b>
<i>Increase on PCP (%)</i>	<i>10.5</i>	<i>6.6</i>	<i>(1.8)</i>	<i>(1.3)</i>	<i>(1.0)</i>	<i>6.0</i>
<b>Regional Services</b>						
New South Wales	174.6	158.4	177.0	161.0	177.1	176.4
Victoria	60.8	52.9	61.0	56.8	63.1	60.1
Queensland	92.0	82.0	95.3	87.3	100.2	96.5
South Australia	14.9	13.8	15.0	14.2	15.2	14.6
Western Australia	20.5	19.1	20.9	19.6	21.4	21.2
Northern Territory/Tasmania	34.3	30.1	33.1	31.8	34.2	33.5
<b>Total</b>	<b>397.1</b>	<b>356.2</b>	<b>402.3</b>	<b>370.6</b>	<b>411.1</b>	<b>402.3</b>
<i>Increase on PCP (%)</i>	<i>8.6</i>	<i>4.7</i>	<i>1.3</i>	<i>4.0</i>	<i>2.2</i>	<i>8.6</i>
<b>State Revenue</b>						
New South Wales	720.1	632.9	727.9	628.6	726.2	684.6
Victoria	496.4	413.5	475.4	410.0	467.7	427.2
Queensland	337.0	293.1	336.9	298.4	347.5	319.3
South Australia	137.3	117.8	133.2	118.1	127.2	119.2
Western Australia	173.8	147.6	171.1	145.7	169.3	156.2
Northern Territory/Tasmania	34.3	30.1	33.1	31.8	34.2	33.5
<b>Total</b>	<b>1,898.8</b>	<b>1,635.0</b>	<b>1,877.6</b>	<b>1,632.7</b>	<b>1,872.1</b>	<b>1,740.0</b>
<i>Increase on PCP (%)</i>	<i>10.0</i>	<i>6.2</i>	<i>(1.1)</i>	<i>(0.1)</i>	<i>(0.3)</i>	<i>6.6</i>

Source: FreeTV Australia

Note: Percentage increase calculated when compared to the corresponding period in the previous year ("PCP").

The above table shows:

- annual metropolitan revenues have generally remained stable;
- annual regional revenues have generally increased;
- there is some seasonality in the television earnings profile, with slightly more than half of total revenues generally derived in the 6 months to December each year; and
- overall FTA television advertising revenues in the 6 months to 30 June 2007 are higher than in the half year to 30 June 2006, indicating that after an extended period of contraction the industry may be experiencing a small recovery.

The Australian television market is characterised by three major networks (Seven Network, Nine Network and Network Ten) with significant market shares, affiliates to these networks and Government owned stations. With a couple of exceptions, Seven Network, Nine Network and Network Ten operate in the capital cities of each State. They have distribution arrangements whereby they provide programming to affiliates including Prime Television Limited ("Prime"), WIN Group ("WIN") and Southern Cross. Generally, under their affiliation agreements with the major networks, the programming costs for the regional operators are based on a percentage of their advertising revenues. Metropolitan operators in Adelaide and Perth, affiliated to the major networks, pay a negotiated percentage of the programming costs of the major network to which



they are affiliated. The presence of affiliates in the Australian FTA market is a result of Australia's broadcasting 'reach' limits, which prohibit a broadcasting licence from reaching more than 75% of the population. Notably, this reach cap does not prevent affiliated stations from taking most of their programming from the major networks.

Audience ratings, which are monitored by independent research companies, are a primary driver of advertising revenue. For a long period, the Nine Network was the top rating channel and received the largest share of advertising revenue. However, during 2006 and 2007 the Seven Network has achieved ratings leadership on the back of successful new programming and increased sports coverage. Although Network Ten continues to trail the Seven Network and Nine Network in market share, in recent years it has successfully repositioned itself to appeal to younger viewers. Since 2001 it has led the ratings in the 16 to 39 year old demographic, which is an attractive segment for many advertisers.

Traditionally, television stations have been protected by substantial barriers to entry, both regulatory and commercial:

- Government control over the number of FTA television licences has effectively prevented new entrants to the FTA television market;
- establishment of a new FTA television service would require considerable capital, to fund high distribution costs, marketing costs acquisition of programming, establishment of news and current affairs infrastructure, and operating losses during the start-up period before profitability was achieved; and
- since most formats are already offered by the incumbents, it would be difficult for new operators to capture market share.

These barriers to entry have been progressively undermined by new technology. The introduction and growing penetration of pay television, with its ability to offer multiple channels and a broader array of programming, has resulted in viewer and revenue leakage away from FTA television. Online television (also referred to as IPTV) provides a further potential threat to Australian FTA television, particularly pay television. Television content from around the world will soon be available to Australian viewers via the internet, although the extent of this threat will be limited by the levels of broadband penetration and the speed and costs of internet services.

#### ***Metropolitan versus Regional Television Markets***

In the six months to June 2007, the metropolitan television advertising market grew by 6%. This solid growth in part reflected a recovery from the soft market conditions in the prior comparable period, and was supported by greater political advertising spend ahead of the expected Commonwealth Government election later this year. The growth in advertising revenues follows declines in each of the three previous six month periods, which were largely attributable to an erosion in advertising rates caused by the increasing competition between the Seven Network and Nine Network, softness in the retail sector and advertisers experimenting with emerging forms of media such as online services.

Regional FTA television fared better than its metropolitan counterpart in the six months to June 2007, with advertising revenues up 8.5%. This increase appears largely attributable to strong macroeconomic conditions and buoyant local advertising conditions (sales made directly to local clients account for approximately 33% of regional television advertising sales). In addition, regional Australia has lower penetration of pay television and broadband services, which results in less audience fragmentation.

#### ***Regulation***

FTA television is subject to extensive regulation, with licences issued under the Broadcasting Services Act 1992. Annual licence fees are collected based on the gross earnings of the licence holder.

Australian content requirements were introduced in 1961 to promote a sense of Australian identity, cultural and character. Since 1998, Australian content requirements have been set at a minimum

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level of Australian programming of 55% for viewing times between 6am and midnight. There are also minimum Australian content requirements in relation to drama, documentary and children's programs. In addition, 80% of Australian advertisements viewed from 6am to midnight are required to be produced in Australia.

Regional stations also face minimum local content conditions. In April 2003, the Australian Broadcasting Authority ("ABA") introduced an additional licence condition for regional commercial television licensees. All television licensees in the four regional aggregated markets are now required to broadcast material of local significance within each specified local area, to meet minimum requirements of 720 points per six-week period and 90 points per week. Points accrue on the basis of two points per minute for local news and one point per minute for most other types of local content, excluding paid advertising.

In 2000, the Commonwealth Government introduced a financial assistance package to help regional and remote broadcasters fund the conversion of terrestrial television from an analogue to a digital platform. The financial assistance is provided as an annual rebate against licence fees payable and was intended to represent approximately 50% of the overall cost of digital conversion. For Southern Cross, the majority of this assistance will fall away from the 2008 financial year.

### **Outlook**

While the total numbers of television viewers did not fall in the six years to 2006, commercial FTA television viewer numbers declined by 11%. This is largely attributable to a combination of the growing penetration of pay television and gains in market share by the Government operated (non-commercial) television stations.

Australian teenagers are increasingly turning away from FTA television. However, the experience in Australia has not been as dramatic as in the United States, where the internet and other forms of entertainment (like computer games) have reduced teenage viewership by as much as four times the rate of decline seen in Australia.

The average cost of reaching 1,000 adults during prime time has increased 85% over the past decade. Over the same period, the average number of people watching commercial FTA television has dropped some 9%. However, online media, pay television and other distribution channels like mobile phones and computer games do not have the mass appeal of commercial television. As such FTA television is expected to remain a popular choice for advertisers seeking a large viewing audience, or those who adopt an integrated multi-media approach to advertising and brand building.

Overall, FTA television is expected to face increasing pressure from pay television and online media. It is widely expected that commercial FTA television's advertising growth will remain marginally positive. However, its share of total advertising revenues is likely to continue to decrease over time.

## **3.5 Radio**

Australia's radio broadcasting industry consists of a mix of privately owned commercial stations, Government owned stations (operated by the Australian Broadcasting Commission ("ABC") and Special Broadcasting Service ("SBS")) and community not-for-profit stations broadcasting on both the AM and FM bands. Only the commercial stations sell significant advertising time, although the Government owned and community stations do have an impact on audience levels. It is considered a mature industry with commercial radio broadcasting accounting for over 90% of the industry's turnover. Statistics from Commercial Radio Australia suggest that radio reaches 78% of the Australian population over the age of 10, which indicates that radio is a highly effective advertising medium. Advertising revenues account for over 90% of commercial radio broadcasting revenues. Advertising revenues have risen steadily in recent years, including 6.7% growth in 2005, largely driven by strong advertising demand as a result of buoyant domestic economic conditions. Radio advertising in Australia generated approximately \$902 million in the 2006 calendar year, and is forecast to grow to \$943 million in 2007.

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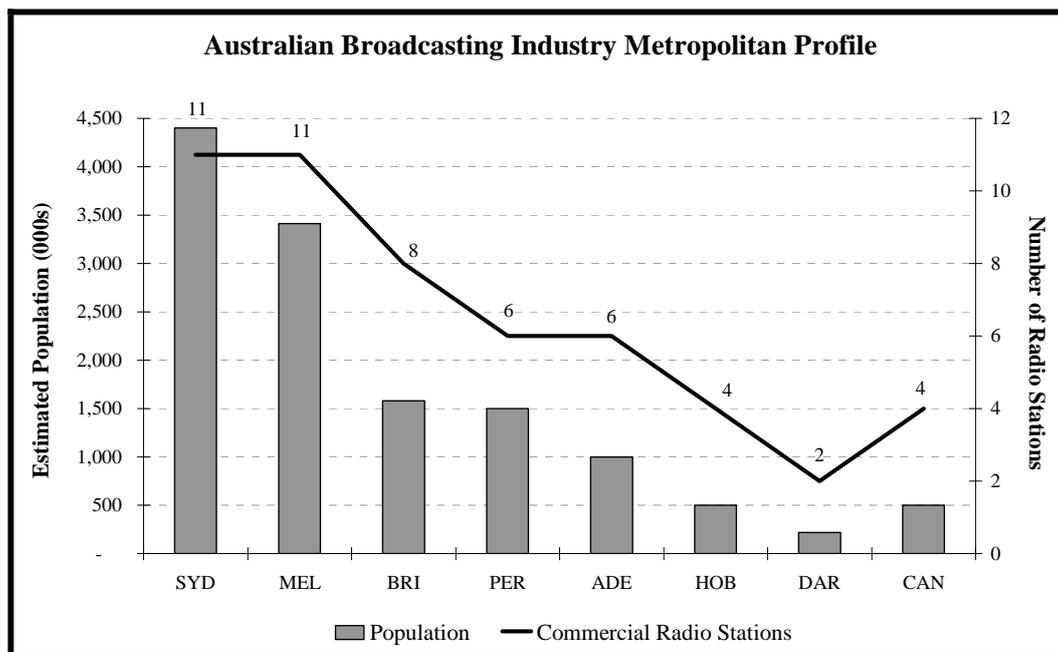


There are currently 274 commercial radio stations in operation across Australia, owned by 35 operators. Of these 35 operators there are 12 major radio networks, which own approximately 80% of Australia’s commercial radio stations. The majority of these stations operate in regional markets, with 48 located in metropolitan areas. The number of commercial radio stations in each of the five largest metropolitan centres in Australia (which generate the majority of radio advertising revenue) is shown in the following table:

Commercial Broadcasting Radio Stations			
Market	AM	FM	Total
<b>Metropolitan services</b>			
Sydney	5	6	11
Melbourne	5	6	11
Brisbane	4	4	8
Adelaide	2	4	6
Perth	2	4	6
<b>Total of five metropolitan cities</b>	<b>19</b>	<b>23</b>	<b>42</b>
Regional	105	127	232
<b>Total</b>	<b>124</b>	<b>150</b>	<b>274</b>

Source: Commercial Radio Australia

The following graph compares the number of radio stations in each metropolitan area with the population:



Source: ABA Commercial Radio Broadcasting Licences as at 28 June 2007 and ABS

Commercial radio signals are broadcast on both the AM and FM bands. The FM band was introduced for commercial radio in 1980 and offers a number of technical advantages in terms of sound, quality and reliability. The FM band is therefore attractive for radio stations with a music based format. It is less important for those stations with a talk format (including news, current affairs, sport and racing). Music radio stations that have remained on the AM band are generally oriented towards “hits and memories” or “easy listening” formats that target the 40 plus demographic. FM radio stations generate the majority of overall advertising revenues, although some AM stations (particularly successful talk back stations in the major markets of Sydney and Melbourne) have substantial revenue bases.

Commercial radio stations compete by adopting popular program formats that may consist of music or talk content to target specific demographics which in turn attract different types of advertisers. The success of a radio station depends on the following factors:

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- the ability to effectively program the radio station to attract and maintain a sizeable dedicated and loyal target audience;
- having a sales force adept at identifying advertising opportunities for direct and agency advertisers; and
- ensuring an appropriate response to competition for advertising spend on other media sources and new technology.

There are four major commercial radio broadcasters in Australia: Austereo Group Limited (“Austereo”), Australian Radio Network Pty Limited, DMG Radio Investments Pty Ltd (“DMG”) and Southern Cross. All four have established national metropolitan networks. Macquarie Media Group has the largest regional radio network, which is estimated to cover over 70% of regional markets. In addition, there are a number of small regional commercial radio operators that own five stations or more.

#### ***Metropolitan versus Regional Radio Markets***

Approximately 66% of total radio advertising revenue is earned by metropolitan commercial radio with the remaining 34% accruing to regional radio. Metropolitan radio stations generate approximately 62% of their advertising revenue from national advertisers and approximately 38% from local advertisers. On the other hand, regional radio stations generate approximately 23% of their advertising revenue from national advertisers with the remaining 77% generated from the local market. Regional radio stations reach lower numbers of listeners than metropolitan radio stations. However, in regional areas radio plays a much more significant advertising role than in metropolitan areas, in part because regional radio operators often face lower levels of competition within a specific region.

In the 2006 calendar year, metropolitan commercial radio stations recorded advertising revenue of approximately \$600 million, which represented an increase of 1.4% from the previous year. In terms of capital city focus, approximately 36% of metropolitan radio advertising spend is in the Sydney market, 28% is in Melbourne, 15% is in Brisbane and the remainder is split between Adelaide and Perth. Perth and Brisbane recorded strong growth of 7% and 6% respectively in 2006, while the Sydney market declined by 5%, primarily driven by the weaker New South Wales economy.

#### ***Regulation***

The Commonwealth Government regulates the entry of new competitors into the radio services market through ACMA, which is responsible for the issuance of new radio broadcast licences under Section 36 of the Broadcasting Services Act 1992. Once a licence is granted, it is generally renewed every five years, at no cost. Section 39 of the Broadcasting Services Act 1992 allows the ACMA to issue a supplementary licence to an existing Section 36 licensee in a licence area, if it believes that an additional commercial licence can be supported. Recently, ACMA has issued a number of new community licences in regional areas and a small number of new commercial licences.

Commercial radio licences in Australia are in effect held in perpetuity. Substantial upfront sums have recently been paid to secure new radio licences and ongoing licence fees are also paid.

Following the introduction of the media reform package, commercial radio licensees are required to submit a local content plan to ACMA for approval and registration if certain changes occur including:

- the licensee becomes part of a cross media group;
- there is a change in the control of the licence; or
- the minister directs ACMA to consider imposing greater local content requirements.

The ACMA will review and ensure the licensee’s compliance with local content plans and licence conditions.

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### **Outlook**

Australian radio advertising revenues in Australia are expected to grow at an annual average rate of approximately 4.7% between 2007 and 2015 driven by continued strength in advertising demand and overall buoyancy in domestic economic conditions. Because of the lower transmission costs and the ability to provide enhanced services, digital radio remains a potential opportunity for radio broadcasters in Australia. Major trials of digital radio have been conducted in Sydney and Melbourne with full digital radio services expected to be offered from 1 January 2009. Commercial radio stations are trialling digital radio through Commercial Radio Australia, the industry association. In October 2005, the Commonwealth Government gave mainstream radio companies exclusive rights to launch digital radio for six years. In April 2006, it was announced that the Government would license digital radio services to start from 1 January 2009 in urban areas. The opportunities for generating commercial returns from digital radio are still being evaluated. The uptake of digital radio will be driven by the adoption and penetration of digital receivers, and full migration may take more than 15 years.

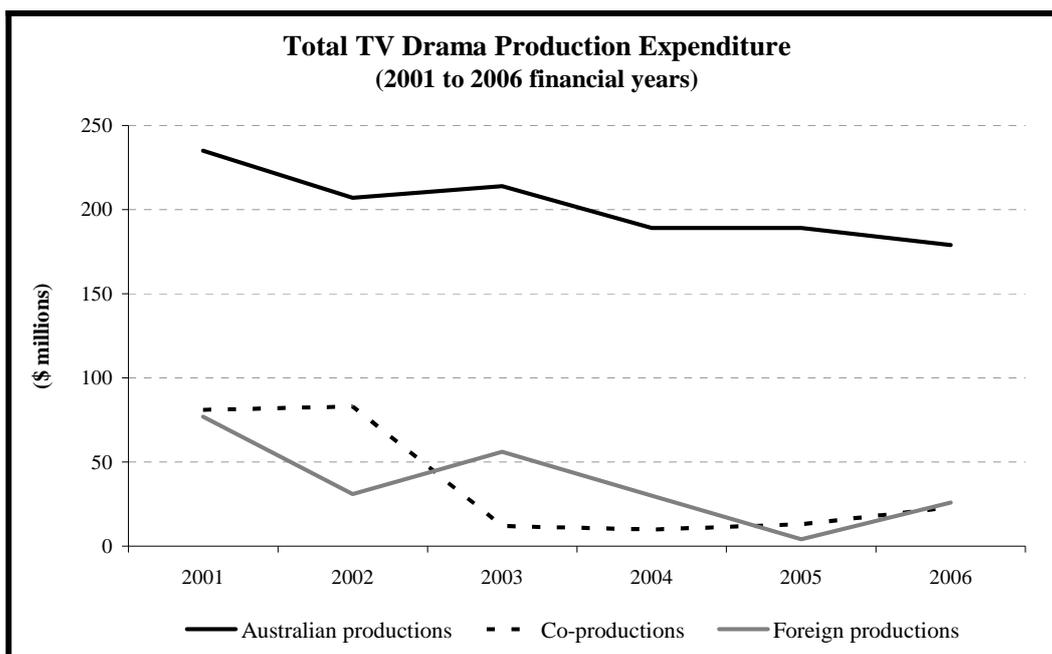
### **3.6 Production and Distribution**

The major areas of production in the Australian film and television production industry are news and current affairs, television drama and situation comedy, light entertainment, sport, commercials and feature films. In the 2006 financial year, there were approximately 2,000 businesses in the production industry, employing more than 14,000 individuals and generating total revenues of approximately \$1.1 billion. Industry revenue is derived from the following activities:

- television productions (approximately 25% of industry revenues);
- post production services, including visual and sound editing, duplication and film laboratory services (approximately 23% of the industry revenue);
- production of commercials (approximately 14% of industry revenues);
- the provision of production services to other businesses including producers fees and line production, directors fees, cinematography and other like services (approximately 22% of the industry revenue); and
- production of completed works and other areas (approximately 16% of the industry revenue).

Productions are either created in-house by broadcasters or externally by specialist production businesses, which ordinarily pre-sell their productions to the broadcasters. Australian Bureau of Statistics' ("ABS") most recent industry survey (2004) indicated that just over 70% of the cost of productions made specifically for television can be attributed to in-house production, whilst only 28% of commercials were made in-house. Finance for productions is sourced from the Government, from the Australian television industry and from local and foreign private investors.

News, current affairs and sports programs account for more than half of total television production costs. However, despite representing the majority of total production costs, news, current affairs and sport have the lowest average costs per hour. Drama production incurs the highest average cost per hour. The drama production sector (which includes Australian, co-production and foreign telemovies, mini-series, series and serials) grew significantly during the 1990s, but has since undergone a period of contraction. The decline in drama production has been attributed to increasing demand for entertainment products targeted at younger audiences (e.g. reality television) and the overall increase in drama production costs. Movements in the total expenditure on Australian television drama production over the last five years are depicted below:



Source: Australian Film Commission

The major determinants of demand for Australian film and television production include:

- the extent to which television networks outsource production rather than produce content in-house;
- choices of the FTA and pay television networks as between local and foreign (mainly United States) content;
- the ratings performance of Australian produced content;
- levels of advertising expenditure and the profitability of the free and pay television networks; and
- the cost of production versus the revenue from broadcast and distribution.

The major participants in the industry (outside the large television networks) are Southern Star (a subsidiary of Southern Cross, which has a 49% interest in Endemol Southern Star Pty Limited, a joint venture between Southern Star and the Dutch production company Endemol N.V.), FremantleMedia Australia (a subsidiary of FremantleMedia Ltd), Beyond Productions (a subsidiary of Beyond International Limited) ("Beyond"), and Granada Productions Australia (a subsidiary of Granada Ltd). In addition, numerous smaller domestic production companies and various international production companies participate in the market, and competition is fierce. There are limited potential customers for Australian productions (only two Government television networks, three commercial FTA television networks and effectively one pay television service provider). The major entry barrier for new entrants is the need to either self-fund or obtain sufficient external funding to develop, produce and deliver projects. New entrants seeking to pre-sell projects typically rely on personal track records or alignment with experienced and well known producers and actors.

The rate of technological change in the industry is high. Most notably, new computer technology and software have lowered production costs through facilitating easier production.

#### ***Government assistance***

Government assistance to the industry is provided in four major forms:

- local content rules. The Australian Content Standard 2005 which came into effect on 30 December 2005 requires all commercial FTA television licensees to broadcast an annual minimum transmission quota of 55% Australian programming between 6am and midnight. It

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also requires subscription television operators to spend at least 10% of their drama channel programme expenditure on new Australian and New Zealand programmes. In addition there are specific minimum annual sub-quotas for Australian (adult) drama, documentary and children's programs;

- taxation incentives (e.g. the recently introduced producer rebate scheme);
- Government subsidy financing of films and television programmes; and
- Government support for the development of production studios.

### ***Outlook***

Although difficult to predict and historically volatile, the outlook for the Australian film and television production industry appears reasonable. Industry growth is expected to be supported by:

- an expected recovery in the television broadcasting industry, underpinned by ongoing macroeconomic growth and growth in advertising expenditures;
- new distribution opportunities in the Australian market through emerging users of content, including as a result of FTA multi-channelling;
- the availability of investment finance to fund productions;
- the increased profile of Australian content in overseas markets;
- continued regulatory support from the Commonwealth Government; and
- growing demand for Australian content around the world and particularly in European markets, reflecting the proliferation of digital and satellite channels and broadcasters' need for additional programming.

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## 4 Profile of Southern Cross

### 4.1 Background

Southern Cross was incorporated in Victoria on 10 August 1983 and acquired television and radio operations in regional Victoria before listing on the ASX on 20 August 1987. During the following 16 years, Southern Cross acquired various regional and metropolitan television stations, metropolitan radio stations and telecommunications and transmission facilities across Australia.

In April 2004, Southern Cross diversified into film and television production and distribution by acquiring Southern Star for approximately \$95.0 million. In November 2004, Southern Cross acquired the 60% that Southern Star did not already own of the United Kingdom based drama production company Carnival (Films and Theatre) Limited (“Carnival”) for \$9.5 million. In 2005, the company continued to diversify by acquiring Satellite Music Australia, an Australian supplier of subscription music, for \$11.1 million, and the British television production company Darrall Macqueen Limited (“Darrall Macqueen”) for \$4.7 million.

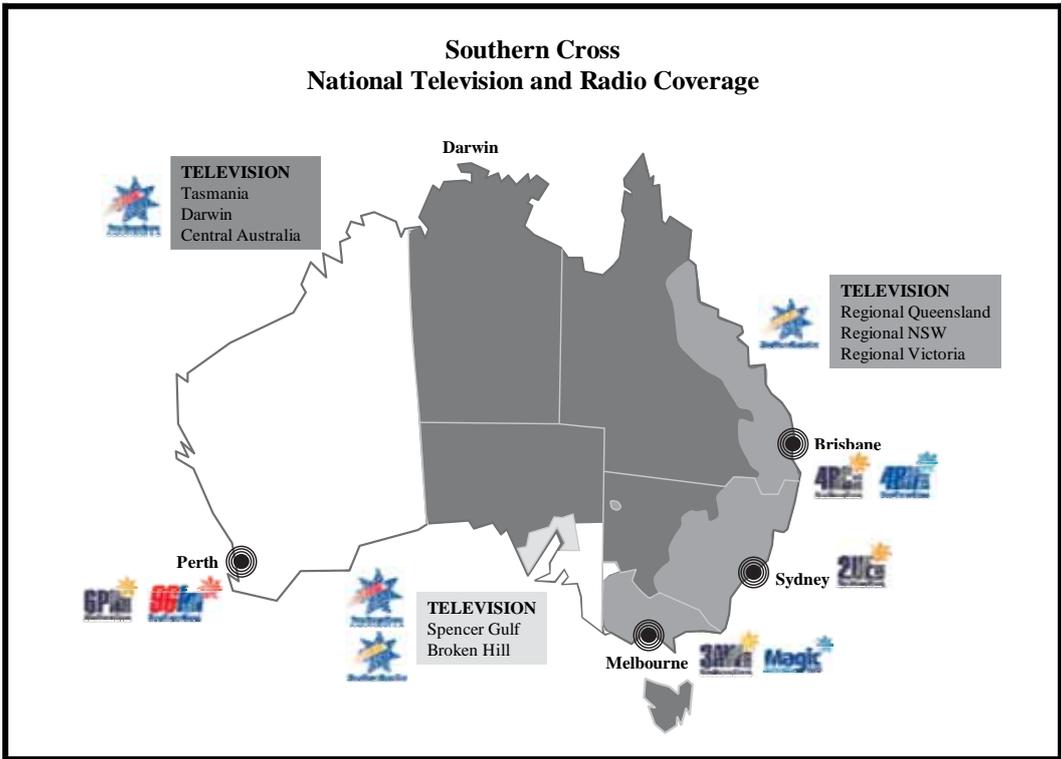
On 30 May 2007, Southern Cross announced it had reached an agreement to sell its wholly-owned subsidiary Channel 9 Adelaide to another Nine Network affiliate, WIN. The consideration was \$105.0 million in cash, which was paid on 23 July 2007.

Following the divestment of Channel 9 Adelaide, Southern Cross’ operations comprise:

- **Southern Cross Ten and Southern Cross Television:** television networks covering regional Queensland, Victoria, New South Wales, Northern Territory and South Australia, and the whole of Tasmania and Darwin;
- **radio assets:** a total of four talk radio stations and three music radio stations in Melbourne, Sydney, Perth and Brisbane and Southern Cross Syndication (which sells programming produced by Southern Cross’ radio stations);
- **Southern Star:** film and television production and distribution; and
- **other businesses:** Southern Cross View (operator of a news and current affairs website and casual gaming website), Southern Cross Telecommunications (a licensed telecommunications carrier) and Satellite Music Australia (supplier of subscription music).

Through its regional television networks and metropolitan radio stations, Southern Cross has the potential to reach 88% of Australia’s population as shown on the map below:

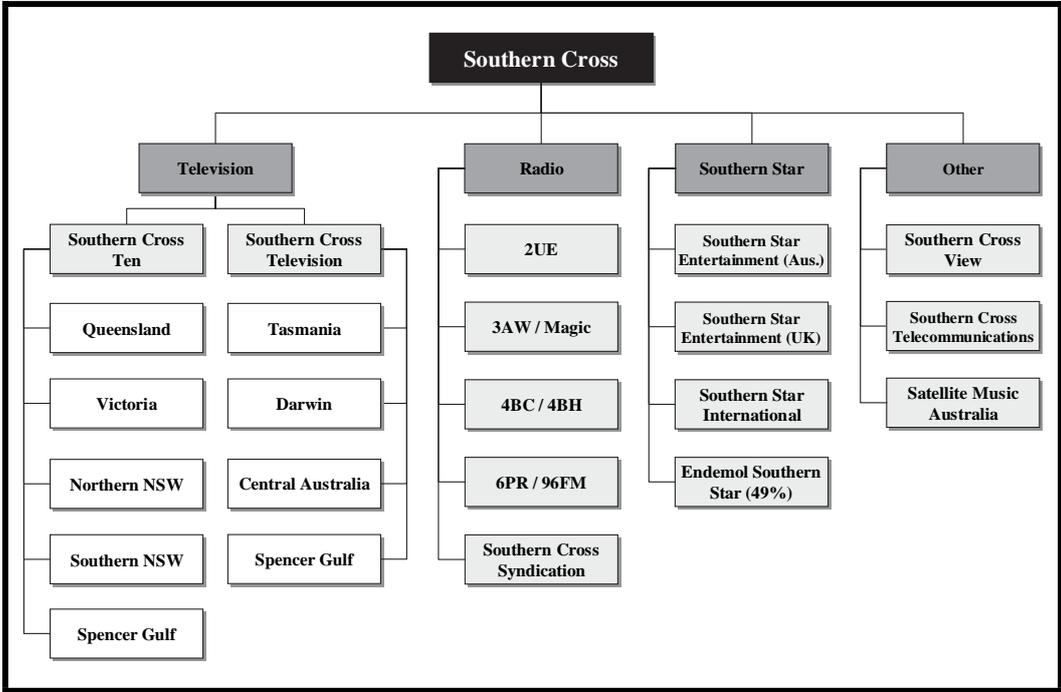
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Source: Southern Cross

4.2 Operations

Southern Cross' operations are organised by line of business:

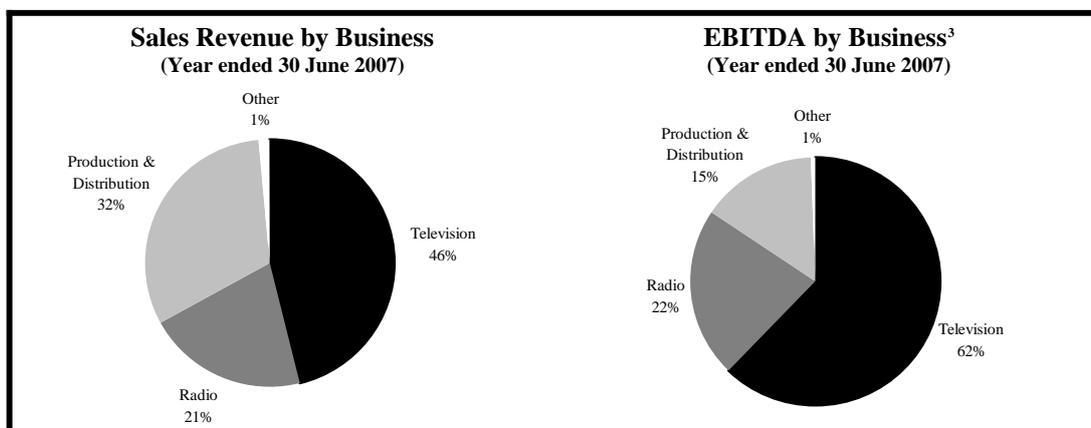


Source: Southern Cross

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The television business is the main contributor to revenues and EBITDA<sup>2</sup> (numbers exclude the contribution from Channel 9 Adelaide):



Source: Southern Cross

#### 4.2.1 Television

Southern Cross' television business services regional Victoria, New South Wales, Queensland, the Northern Territory and South Australia, as well as Tasmania and Darwin. Within these regions are 29 separate local sub-markets. Each market receives national content as well as a minimum requirement of local content. National content is sourced from one or both of Network Ten and the Seven Network, as part of formal affiliation agreements. Selected content from the Nine Network is also used in the Spencer Gulf region. Local content, such as local news updates and current affairs programs, is produced by Southern Cross either locally or centrally, with the assistance of journalists on the ground.

The Southern Cross' television business comprises:

Television Market – 2007				
	Market	Affiliation	Population (000s)	Advertising Market - TV (\$ millions)
Southern Cross Ten	Regional Queensland			
	Regional NSW	Ten	5,939	648
	Regional Victoria			
	Spencer Gulf <sup>1</sup>			
Southern Cross Television	Tasmania	Seven & Ten		
	Darwin	Seven & Ten	1,159	98
	Central Australia	Seven		
	Spencer Gulf <sup>1</sup>	Seven & Nine		

Source: Southern Cross

Note 1: The population for the Spencer Gulf region is included within Southern Cross Television only. The advertising market for Southern Cross television includes the \$30m regional South Australia market, of which Spencer Gulf is a part, as market size figures for Spencer Gulf are not publicly available.

<sup>2</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>3</sup> Before allocation of corporate costs. EBITDA from the Television business includes licence fee rebates. EBITDA from the Production and distribution business includes 49% of the EBITDA from Endemol Southern Star and excludes the minority interests in Darrall Macqueen (25%).

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***Southern Cross Ten***

Southern Cross Ten is affiliated with Network Ten and operates in the regional areas of the eastern seaboard of Victoria, New South Wales and Queensland, as well as the Spencer Gulf region of South Australia. These markets represent 27% of the Australian population or 5.9 million people. Southern Cross Ten delivers a common television program stream to all viewers in these areas and is also able to customise and localise programming and advertising where appropriate. The affiliation agreement with Network Ten is long term. Under the agreement, Southern Cross Ten is required to pay fees calculated as a fixed percentage of revenues.

In recent years, Network Ten has been gaining market share following its repositioning. Programs such as *Big Brother*, *House*, *Australian Idol*, *Thank God You're Here* and *The Biggest Loser* have contributed to the network's strong performance. However, Southern Cross Ten has recently underperformed in both the national and local advertising markets, except in Southern New South Wales. In the 2006 financial year, Southern Cross Ten did not perform as strongly as the previous year's ratings might have suggested. In the 2007 financial year, the network was affected by Southern Cross Ten's ratings for the 2006 financial year, which were lower than expected.

***Southern Cross Television Tasmania ("SCTV Tasmania")***

SCTV Tasmania has program affiliations with both the Seven Network and Network Ten and broadcasts to the major cities and to regional Tasmania. SCTV Tasmania is one of two analogue television stations, with the other operated by WIN, an affiliate of the Nine Network. A digital-only service, operated as a joint venture between Southern Cross and WIN, was launched in January 2004. As a result of the third service being digital-only, digital take-up is higher in Tasmania than in the rest of Australia. However, the digital service captures less than 3% of Tasmania's total advertising revenue. SCTV Tasmania has a dominant ratings share in a market of approximately 492,000 people.

***Southern Cross Television Darwin ("SCTV Darwin")***

Southern Cross Darwin is one of two television stations in Darwin. It broadcasts programming from both the Seven Network and Network Ten. The other station in the market is operated by the Nine Network. A digital service is expected to be launched in May 2008. A joint venture established by Southern Cross and the Nine Network has been granted the licence to operate this service. Southern Cross Darwin reaches a total audience of approximately 113,000 people. Unlike in other markets, ratings surveys are only conducted once a year and are then used as the basis for ratings for the following 12 months. The network had been performing strongly for the past few years, but experienced a slight decrease in earnings in the 2007 financial year following personnel changes.

***Southern Cross Television Central ("SCTV Central")***

Southern Cross Central is a satellite delivered service reaching approximately 422,000 people in remote locations throughout the Northern Territory, rural Queensland and parts of New South Wales, Victoria and South Australia. Southern Cross Central is a Seven Network only service. The only other station broadcasting to these areas has affiliation agreements with both the Nine Network and Network Ten. It is not expected that a third network will be launched in the foreseeable future.

***Southern Cross Television Spencer Gulf & Broken Hill***

Southern Cross operates two television stations in the upper Spencer Gulf region of South Australia and Broken Hill in New South Wales, reaching a potential audience of almost 131,000 people. The first channel, launched in 1968, primarily broadcasts programs from the Seven Network, as well as major international sporting events such as cricket and the Wimbledon tennis championship sourced from the Nine Network. The other channel is Southern Cross Ten (described above), which commenced broadcasting in the area in December 2003.

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### *Southern Cross Sales*

Southern Cross Sales is the national sales arm for Southern Cross' television business. Its team of approximately 60 people services the four major advertising buying groups, the two largest independent advertising agencies and the smaller national agencies. Southern Cross Media Sales also consults to the radio business.

### *Digital Transmission*

Southern Cross currently offers digital services in all of its 29 required digital television markets. Digital transmission provides a widescreen, standard definition ("SD") version of the analogue program stream. There is also a requirement to broadcast a certain number of hours of high definition ("HD") versions of SD programs. The rollout strategy for digital transmission has been to first install high power sites to reach the greatest number of viewers and then install low power sites to cover the remaining service areas. Southern Cross currently has 119 high and low power digital transmission sites and plans to install a further 102 low power transmitters.

The ACMA has stated that both analogue and digital signals are to be broadcast until sometime between 2010 and 2012, at which point it is expected that broadcasters will be allowed to terminate analogue services. To offset the cost of introducing and operating digital broadcast infrastructure, the Commonwealth Government has granted rebates against the ACMA licence fees payable by regional broadcasters. For Southern Cross, these rebates, which contributed significantly towards the cost of digital infrastructure, will diminish significantly with effect from the 2008 financial year. When the analogue signal is switched off, significant costs savings should be available to broadcasters.

### *Financial Performance*

The table below summarises the financial performance of the television business for the three years to 30 June 2007. It excludes the contribution of Channel 9 Adelaide, which was divested on 23 July 2007, and includes allocated corporate costs:

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<b>Television – Financial Performance (\$ 000s)<sup>4</sup></b>			
	<b>Year ended 30 June</b>		
	<b>2005 actual AIFRS</b>	<b>2006 actual AIFRS</b>	<b>2007 actual AIFRS</b>
Sales revenue	232,273	229,192	237,378
EBITDA <sup>5</sup> before licence fee rebates	67,446	63,839	64,143
EBIT <sup>6</sup> before licence fee rebates	57,402	53,542	54,073
Licence fee rebates	7,820	8,810	10,707
Reported EBITDA	75,266	72,649	74,850
Reported EBIT	65,222	62,352	64,780
Equity accounted share of profits of associates	8	13	21
Capital Expenditure	13,296	9,551	9,760
<i>Statistics (Reported earnings)</i>			
<i>Sales revenue growth</i>	<i>7%</i>	<i>(1%)</i>	<i>4%</i>
<i>EBITDA growth</i>	<i>(1%)</i>	<i>(3%)</i>	<i>3%</i>
<i>EBIT growth</i>	<i>(1%)</i>	<i>(4%)</i>	<i>4%</i>
<i>EBITDA margin</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>
<i>EBIT margin</i>	<i>28%</i>	<i>27%</i>	<i>27%</i>

Source: Southern Cross

The television business generates revenues from national and local advertising. National advertising arrangements are usually negotiated through advertising agencies and buying groups. At the local level, agreements are normally entered into directly with the advertisers. Revenue generated through agencies and buying groups accounts for approximately 67% of total revenue, with the remaining 33% sourced directly from local advertisers. The main cost items are program supply fees and engineering, which represent approximately 40% and 15% respectively of total costs (excluding Channel 9 Adelaide).

In 2003, Network Ten saw its ratings improve and the performance of Channel 9 Adelaide strengthened. The 2004 results benefited from revenue growth at Channel 9 Adelaide of 16%, higher than the national average of 12.6%, thanks to the station's number 1 rating. This good performance, compounded with cost reductions stemming from the centralisation of play-out and presentation operations to Canberra, more than offset the step-up increase in affiliation fees at Southern Cross Ten Victoria and southern New South Wales. In the six months ended 31 December 2004, Southern Cross' revenue grew 10%, but a step-up increase in program affiliation fees for the Queensland and northern New South Wales markets combined with higher digital transmission costs and the commencement of the provision of local news services resulted in EBIT growth of only 5%. In the second half of the 2005 financial year, both the metropolitan and regional television advertising market grew significantly more slowly than in the first half of the year and EBIT contracted.

In the 2006 financial year, minimal growth in the regional television market and contraction of the Adelaide market, combined with disappointing ratings performance from Channel 9 Adelaide and Southern Cross Ten, resulted in a 1.7% reduction in revenue. Although other costs across the television business were flat, unrecovered Commonwealth Games costs and higher digital transmission costs compounded the effect of the revenue reduction, resulting in a 10% decrease in EBIT.

<sup>4</sup> Numbers may not add due to rounding.

<sup>5</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>6</sup> EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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In the six months to 30 December 2006, the Adelaide market continued to contract and the regional television market grew a modest 2%. Overall, television revenue was down 4.7% on the previous corresponding period, but a new affiliation agreement at Channel 9 Adelaide and other cost savings limited the impact of the fall in revenues on the EBIT. Overall for the financial year ended 30 June 2007, earnings of the television business were higher than in the previous corresponding period, but this result was partly achieved as a result of higher licence fee rebates.

Generally speaking, Southern Cross' television business is vulnerable to the fragmentation of media, a reduction in advertising spend by the retail sector and fluctuations in ratings (especially Network Ten ratings). However, the regional market should continue to grow faster than the metropolitan market. It has benefited from increased awareness among advertisers as well as from its recent inclusion in the scope of the main media auditing company, Faulkner Media Management. Recent programming deals entered into by Network Ten with Fox Entertainment Group, Inc. are expected to boost the station's ratings. Southern Cross management hopes that future seasons of *Big Brother* will perform strongly after softer ratings in 2007. The restructure of the television business which took place in the 2006 financial year and the sale of Channel 9 Adelaide should also favourably impact Southern Cross' operating margins. On the other hand, the significant reduction in digital rebates in 2008 will result in an increase in costs though this is expected to be offset when analogue broadcasting stops sometime between 2010 and 2012.

The television business includes Southern Cross' interest in two associated companies: Tasmanian Digital Television Pty Limited (50% interest) and Regional TAM Pty Limited (35.71% interest). Tasmanian Digital Television Pty Limited operates a digital television broadcast service in Tasmania. The principal activity of Regional TAM Pty Limited is the acquisition and distribution of television ratings across regional eastern Australia.

#### 4.2.2 Radio

Southern Cross has the only national talk radio network covering Australia's major capital cities. The Southern Cross Radio business comprises:

Radio Market – 2007				
	Market	Format	Population (000s)	Advertising Market - Radio (\$ millions)
2UE	Sydney	News / Talk	3,806	221
3AW Magic 1278	Melbourne	News / Talk Music	3,533	174
4BC 4BH	Brisbane	News / Talk Music	1,649	95
6PR 96FM	Perth	News / Talk Music	1,337	71

Source: Southern Cross

#### 2UE

2UE broadcasts in Sydney, Australia's largest radio market. 2UE competes directly against another commercial talk radio station, 2GB, which is the ratings leader, and against ABC Radio. 2UE's commentators include some of Australia's most influential and controversial personalities, including John Laws, Mike Carlton, John Stanley and Steve Price. John Laws is Australia's most listened to commercial radio talk personality and is heard across Australia on 71 radio stations. His retirement in November 2007 will allow 2UE to restructure its cost base, which Southern Cross expects will boost profitability.

**3AW**

3AW has rated No 1 in Melbourne for 10 years, with no other significant commercial radio talk competitor. Its team of commentators includes Ross Stevenson, John Burns, Neil Mitchell, Ernie Sigley and Derryn Hinch. Coverage of AFL football is a significant part of 3AW's program offering. 3AW's AFL coverage is for a three year term until the end of 2009. During the financial year ended 30 June 2006, 3AW and Magic 1278 undertook a frequency swap which allowed 3AW to offer better reception in inner Melbourne and resulted in improved ratings.

***Magic 1278***

Magic 1278 focuses on music targeted at the 50 plus age demographic, broadcast on the AM band. The station benefits from sharing facilities and program services with 3AW.

**4BC**

4BC is the only commercial talk radio station in Brisbane, one of Australia's fastest growing markets. It is the only commercial radio station to broadcast National Rugby League games in Brisbane.

**4BH**

4BH broadcasts an easy listening format on the AM band to metropolitan Brisbane. 4BC and 4BH share personnel and facilities.

**6PR**

Perth's 6PR has maintained its position as the leading commercial talk radio station in the Perth market. 6PR is the only commercial radio station covering AFL football in Western Australia.

**96fm**

96fm focuses on the 25-39 demographic, with a classic rock format targeted at a male skewed audience. It has been growing at a faster rate than the overall Perth market since changing from its previous focus on pop music targeted at a female skewed audience to its current format in December 2002.

***Southern Cross Syndication***

The news and talk programming generated by Southern Cross' talk radio network is packaged and sold by Southern Cross Syndication. It is distributed via satellite to 119 radio stations in every State and Territory in Australia. Southern Cross Syndication also operates Radio Monitoring, a business that tracks commercials played on radio and provides advertisers and agencies feedback on whether their commercials were broadcast as scheduled, and Digital Courier, a radio dub distribution system.

***Financial Performance***

The table below summarises the financial performance of the radio business of Southern Cross for the three years ended 30 June 2007. Earnings include allocated corporate costs:

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<b>Radio – Financial Performance (\$ 000s)<sup>7</sup></b>			
	<b>Year ended 30 June</b>		
	<b>2005 actual AIFRS</b>	<b>2006 actual AIFRS</b>	<b>2007 actual AIFRS</b>
Sales revenue	97,444	103,899	107,629
Reported EBITDA <sup>8</sup>	16,797	19,911	24,780
Reported EBIT <sup>9</sup>	15,283	18,266	23,096
Equity accounted share of profits of associates	12	18	1
Capital expenditure	7,164	3,659	796
<i>Statistics (Reported earnings)</i>			
<i>Sales revenue growth</i>	<i>7%</i>	<i>7%</i>	<i>4%</i>
<i>EBITDA growth</i>	<i>10%</i>	<i>19%</i>	<i>24%</i>
<i>EBIT growth</i>	<i>14%</i>	<i>20%</i>	<i>26%</i>
<i>EBITDA margin</i>	<i>17%</i>	<i>19%</i>	<i>23%</i>
<i>EBIT margin</i>	<i>16%</i>	<i>18%</i>	<i>21%</i>

Source: Southern Cross

In the radio business, advertising revenue accounts for more than 90% of total revenue. In talk radio, agency revenue contributes approximately 45% of the advertising revenue and direct revenue the remaining 55%. In music radio, direct and agency revenue each generate approximately half of the advertising revenue. Programming (including sport) accounts for 50% of total costs in talk radio and approximately 40% in music radio. Administration, sales, and traffic and news are the next largest cost items.

During the 12 months ended 30 June 2003, the radio business suffered from the launch of a new FM competitor in Perth and a competitive AM market in Sydney. The advertising market grew by more than 11% for each of 2004 and 2005. During this period, Southern Cross maintained its ratings and achieved strong earnings growth, assisted by improvements in the performance of 2UE. In 2004, Southern Cross also benefited from the first full year contribution of 4BH, acquired in March 2003. During the 2006 financial year, the radio advertising market grew strongly in Melbourne, Brisbane and Perth (+6.6%) but contracted in Sydney (-1.9%), substantially the result of a poor second half. Despite the contraction of the Sydney market, Southern Cross radio was able to grow its revenue by 6.6% and EBIT by 19.6%, in part due to cost reductions at 2UE. Performance in the 2007 financial year was again strong following gains in revenue share, although growth in Melbourne, Brisbane and Perth markets was not as strong as in 2006.

Like Southern Cross' television business, the radio business is potentially vulnerable to media fragmentation, reductions in advertising spend and fluctuations in ratings, but Southern Cross expects to continue generating solid results from its radio stations. In Melbourne, 3AW experiences movements in market share due to the competitive nature of the market but is still a strong leader. In Sydney, 2UE should benefit from recent cost initiatives and further cost reductions are expected. Southern Cross' Perth and Brisbane stations are expected to continue their recent strong performance, reflecting the strength of the Western Australian and Queensland economies. The medium term prospects for the business are positive. It is not expected that any new radio licences will be granted for at least five years after the commencement of digital radios services, and the introduction of digital radio itself in the next few years presents growth opportunities.

<sup>7</sup> Numbers may not add due to rounding.

<sup>8</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>9</sup> EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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Associates contributing to the result of the radio business include Homebush Transmitters Pty Limited (50% interest), Gold Coast Translators Pty Limited (25% interest) and Perth FM Facilities Pty Limited (33% interest). All these entities are engaged in the rental of transmission facilities.

#### 4.2.3 Southern Star

In April 2004, Southern Cross acquired Southern Star, the leading producer and distributor of television content in Australia. Southern Star was launched 35 years ago, focusing on the production of animation for North American studios. It subsequently shifted its focus to the production of adult drama for the Australian market place and has more recently broadened its scope to include family and children's programs, light entertainment, game shows, documentaries and infotainment. Southern Star comprises:

- **Southern Star Entertainment:** an independent creator and producer of Australian adult drama (e.g. *Love My Way*, *Blue Heelers*, *The Secret Life of Us*, *Water Rats*, *Police Rescue*), family and children's programming (e.g. *Blue Water High*, *Raggs*) and factual programs (e.g. *Forensic Investigators*);
- **Endemol Southern Star:** a joint venture with the Netherlands-based Endemol N.V., a leading international creator of television program formats. Endemol Southern Star produces light entertainment (e.g. the Australian versions of *Big Brother* and *Ready, Steady, Cook*) and game shows (e.g. *Deal or No Deal*, *1 versus 100*). Southern Star has a 49% interest in the joint venture and has access to Endemol N.V.'s library of over 400 formats;
- **Southern Star Entertainment UK:** the umbrella entity for natural history and factual producer Oxford Scientific Films, drama producer Carnival Films & Television ("Carnival") and Darrall Macqueen. Oxford Scientific Films produces the animal soap *Meerkat Manor* for Animal Planet International and *Lemur Wars* for Channel 5 in the United Kingdom, as well as other programs for broadcasters such as BSkyB and Discovery International. Carnival produced *Rosemary and Thyme* and the drama series *Hotel Babylon* for the BBC. Darrall Macqueen produces interactive children's programs for leading broadcasters in the United Kingdom; and
- **Southern Star International:** the sales arm of Southern Star, based in Australia and the United Kingdom. Its catalogue of 14,000 hours of television programming and films is within the top 10 largest catalogues of English languages programmes in the world, excluding the major United States studios. Southern Star International distributes programs produced by Southern Star, as well as other Australian and international productions. Southern Star International distributes most of the productions made by the Australian commercial television networks and pay television operators.

#### *Financial Performance*

The table below summarises the financial performance of Southern Star for the three years ended 30 June 2007. It sets out the reported revenue and earnings for Southern Cross as well as "attributable" revenue and earnings. Attributable revenue and earnings include 49% of the revenue and earnings of Endemol Southern Star and exclude the minority in Darrall Macqueen (25%). Earnings include allocated corporate costs:

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<b>Southern Star – Financial Performance (\$ 000s)<sup>10</sup></b>			
	<b>Year ended 30 June</b>		
	<b>2005 actual AIFRS</b>	<b>2006 actual AIFRS</b>	<b>2007 actual AIFRS</b>
<b>Reported</b>			
Sales revenue	118,326	121,356	162,506
Reported EBITDA <sup>11</sup>	6,986	7,285	10,733
Reported EBIT <sup>12</sup>	6,264	6,435	10,073
Equity accounted share of profits of associates	4,354	5,716	6,006
<b>Attributable</b>			
Sales revenue	na	140,047	174,630
EBITDA	na	14,905	18,858
EBIT	na	14,037	18,174
Capital expenditure	814	857	2,544
<i>Statistics (Attributable earnings)</i>			
<i>EBITDA margin</i>	<i>na</i>	<i>11%</i>	<i>11%</i>
<i>EBIT margin</i>	<i>na</i>	<i>10%</i>	<i>10%</i>

Source: Southern Cross

Southern Star generates revenue from production sales and distribution commissions. Employee costs account for more than two thirds of total costs. Southern Star has performed strongly overall, with growth boosted by the 2005 acquisition of the 60% in Carnival that Southern Star did not already own and the acquisition of Darrall Macqueen in 2006.

Profits from associates in the Southern Star business relate mainly to the 49% interest in Southern Star Endemol. Southern Star Golden Globe Pty Limited (50% interest), a program production company, also contributes to profits from associates.

The prospects for Southern Star appear generally positive, although there is an element of unpredictability in relation to the production business. The recent introduction of new tax rebates for Australian drama is likely to be beneficial for Southern Star's production business. Southern Star's performance will be also affected by the success of future seasons of *Big Brother*. Whilst a major contributor to Southern Star's overall profitability, *Big Brother's* ratings for Season 7 were down in audience share terms when compared to Season 6 but still performed solidly in the Ten Network's desired demographics. The United Kingdom based production business offers significant opportunities. In the distribution business, Southern Star expects to continue to profit from continued growth in content demand resulting from the expansion of pay television services in continental Europe. Given that Southern Star generates approximately two thirds of its distribution revenue offshore, movements in the value of the Australian dollar could significantly affect the performance of the distribution business.

<sup>10</sup> Numbers may not add due to rounding.

<sup>11</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>12</sup> EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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#### 4.2.4 Other operations

##### *Southern Cross View*

The focus of Southern Cross View is to develop Southern Cross' presence on the internet by leveraging the content of all Southern Cross businesses. Southern Cross' online offering currently consists of Mytalk.com.au and Youplay.com. Mytalk.com.au, which was launched in April 2007, is a news and current affairs website, which also allows visitors to listen to any of Southern Cross' radio stations and to participate in online forums. Youplay.com is a casual game play portal that incorporates community and social networking. Youplay.com, which officially launched in August 2007, is a joint venture with Lovatts Interactive, an Australasian leader in puzzle publications.

##### *Southern Cross Telecommunications*

Southern Cross Telecommunications is a licensed telecommunications carrier. It operates a microwave network from Toowoomba to Cairns. The network is used for Southern Cross' communication needs and available capacity is sold to other carriers and large institutions.

##### *Satellite Music Australia*

Satellite Music Australia was acquired by Southern Cross in July 2005 and is a supplier of subscription music. The business generates revenue from supplying music channels to Foxtel and selling music to large retail chains (to be broadcast in their outlets).

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### 4.3 Financial Performance

The financial performance of Southern Cross for the five years ended 30 June 2007 is summarised below:

<b>Southern Cross – Financial Performance (\$ 000s)<sup>13</sup></b>					
	<b>Year ended 30 June</b>				
	<b>2003 actual AGAAP</b>	<b>2004 actual AGAAP</b>	<b>2005 actual AIFRS</b>	<b>2006 actual AIFRS</b>	<b>2007 actual AIFRS</b>
Sales revenue from continuing operations	278,753	326,572	450,280	461,676	514,846
Sales revenue from Channel 9 Adelaide (discontinued)	66,714	77,043	84,655	82,219	72,847
<b>Total sales revenue</b>	<b>345,467</b>	<b>403,615</b>	<b>534,935</b>	<b>543,895</b>	<b>587,693</b>
EBITDA <sup>14</sup> from continuing operations	78,585	90,630	99,903	102,190	110,524
EBITDA from Channel 9 Adelaide (discontinued)	58	6,081	6,912	2,612	5,584
<b>Total EBITDA</b>	<b>78,643</b>	<b>96,711</b>	<b>106,815</b>	<b>104,802</b>	<b>116,108</b>
Depreciation and amortisation	(12,906)	(17,752)	(16,615)	(17,783)	(17,519)
EBIT <sup>15</sup> from continuing operations	67,447	74,767	84,883	86,060	94,691
EBIT from Channel 9 Adelaide (discontinued)	(1,710)	4,192	5,317	959	3,898
<b>Total EBIT</b>	<b>65,737</b>	<b>78,959</b>	<b>90,200</b>	<b>87,019</b>	<b>98,589</b>
Interest paid on Convertible Preference Shares	-	-	(740)	(4,583)	-
Other Net interest	(16,458)	(17,116)	(13,576)	(12,187)	(12,777)
Equity accounted share of profits of associates	(47)	2,383	4,374	5,747	6,028
<b>Operating profit before tax</b>	<b>49,232</b>	<b>64,226</b>	<b>80,258</b>	<b>75,996</b>	<b>91,840</b>
Significant items before tax	(17,188)	-	5,657	(3,696)	(3,159)
Income tax expense	(14,994)	(17,964)	(21,270)	(22,078)	(28,146)
Outside equity interests	(30)	(37)	(34)	(119)	(104)
<b>Profit after tax attributable to Southern Cross shareholders</b>	<b>17,020</b>	<b>46,225</b>	<b>64,611</b>	<b>50,103</b>	<b>60,431</b>
<i>Statistics</i>					
<i>Basic earnings per share (cents)</i>	30	79	100	77	84
<i>Dividends per share (cents)</i>	57	60	66	68	74
<i>Payout ratio</i>	193%	77%	62%	88%	88%
<i>Amount of dividend franked</i>	100%	100%	100%	100%	100%
<i>Sales revenue growth</i>	13%	17%	33%	2%	8%
<i>EBITDA growth</i>	14%	23%	10%	(2%)	11%
<i>EBIT growth</i>	16%	20%	14%	(4%)	13%
<i>EBITDA margin</i>	23%	24%	20%	19%	20%
<i>EBIT margin</i>	19%	20%	17%	16%	17%

Source: Southern Cross and Grant Samuel analysis

<sup>13</sup> Numbers may not add due to rounding.

<sup>14</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

<sup>15</sup> EBIT is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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The following points should be noted in relation to Southern Cross' financial performance over the past five years:

- overall, Southern Cross has delivered modest earnings growth over the three years to 30 June 2007. The underlying financial performance of Southern Cross largely reflects the weak television advertising market during the three years to 30 June 2007 (although the market has improved significantly in the six months to 30 June 2007), compounded by the advertising market share underperformance of Southern Cross Ten relative to its ratings. On the other hand, the radio business has delivered consistent growth after experiencing a decline in revenue and earnings in the 2003 financial year. From a profit perspective, television has incurred increased costs due to the affiliation fee step-ups and digital costs;
- Southern Star made its first full year contribution in the 2005 financial year. In that year, it accounted for a significant share of the increase in revenue and earnings, and the increase in share of profits of associates. Southern Star performed strongly in 2006 and 2007;
- Convertible Preference Shares ("CPS") were issued as consideration for the acquisition of Southern Star in 2004. The increase in interest paid on these CPS in the 2006 financial year mainly reflects a change in the accounting treatment of the dividend paid to the holders of CPS. The full \$4.6 million paid to CPS holders in the 2006 financial year was treated as interest, compared to \$0.7 million of the total \$4.4 million in the 2005 financial year. As all outstanding CPS were converted to ordinary shares on 31 March 2006, no CPS interest was paid during the 12 months ended 30 June 2007;
- Endemol Southern Star Pty Limited, Southern Cross' 49% joint venture with Endemol N.V., is the main contributor to profits from associates;
- the significant items expense in the financial year ended 30 June 2003 primarily related to the write down of an investment in and receivable from an associated entity. This write down was effectively reversed as an income item upon the sale of the investment in 2005. Other significant items in the 2005 financial year included a \$14.4 million write-down of program costs at Channel 9 Adelaide and a \$7.7 million profit on the sale of property. Significant items in the 2006 financial year relate mainly to one-off rationalisation costs; and
- earnings per share increased from 2004 to 2005, in part reflecting the CPS funded acquisition of Southern Star. Earnings per share for the 2006 financial year fell back to 2004 levels, principally as a result of a reduction in EBIT and significant items, compounded by the dilutionary effect of the conversion of the CPS into ordinary shares.



#### 4.4 Financial Position

The financial position of Southern Cross as at 30 June 2007 is summarised below:

<b>Southern Cross – Financial Position (\$ 000s)<sup>16</sup></b>	
	<b>As at 30 June 2007</b>
Debtors and prepayments (net)	143,160
Inventories – Program rights and copyrights	6,699
Creditors and provisions	(110,511)
Current tax liabilities (net)	(17,530)
<b>Net working capital</b>	<b>21,818</b>
Television and radio licences (net)	489,587
Property, plant and equipment (net)	146,103
Net assets held for sale	88,364
Inventories - Program rights and copyrights	2,969
Investments in associates	4,072
Goodwill	77,977
Deferred tax liabilities (net)	(12,236)
Other assets (net)	5,948
<b>Total funds employed</b>	<b>824,602</b>
Cash and cash equivalents	25,442
Interest bearing loans and borrowings	(206,384)
<b>Net borrowings</b>	<b>(180,942)</b>
Outside equity interests	(569)
<b>Equity attributable to Southern Cross shareholders</b>	<b>643,091</b>
<i>Statistics</i>	
<i>Shares on issue at period end (000s)</i>	72,413
<i>Net assets per share (\$)</i>	8.89
<i>Gearing</i>	22%

Source: Southern Cross and Grant Samuel analysis

Southern Cross' debt and gearing levels are conservative. Interest bearing loans and borrowings consist mainly of an unsecured revolving cash advance facility subject to negative pledge.

Other assets consist mainly of deferred government grants, provisions and other assets as classified in Southern Cross' accounts.

#### 4.5 Cash Flow

Over time, profits from operations have funded Southern Cross' operations and have allowed a reduction in net debt:

<sup>16</sup> Numbers may not add due to rounding.



<b>Southern Cross – Cash Flow (\$ 000s)<sup>17</sup></b>					
	Year ended 30 June				
	2003 actual AGAAP	2004 actual AGAAP	2005 actual AGAAP	2006 actual AIFRS	2007 actual AIFRS
<b>EBITDA<sup>18</sup></b>	<b>78,643</b>	<b>96,711</b>	<b>107,784</b>	<b>104,802</b>	<b>116,108</b>
Changes in working capital and other adjustments	1,391	(5,664)	11	(7,341)	(19,617)
Capital expenditure (net)	(27,407)	(26,541)	(31,074)	(17,276)	(11,525)
<b>Operating cash flow</b>	<b>52,627</b>	<b>64,506</b>	<b>76,721</b>	<b>80,185</b>	<b>84,966</b>
Tax paid	(14,887)	(12,456)	(20,575)	(24,826)	(19,381)
Net interest paid	(17,056)	(17,556)	(13,028)	(12,187)	(12,373)
Dividends (net)	(22,621)	(20,580)	(23,099)	(26,628)	(38,343)
Investments (net)	(12,544)	25,126	28,474	(13,996)	(8,185)
Proceeds from equity issue	9,305	745	3,411	5,330	6,042
Proceeds from borrowings	12,037	(32,887)	(18,844)	(20,259)	(7,552)
Other	(6,627)	250	(164)	745	(7,629)
<b>Net cash generated (used)</b>	<b>234</b>	<b>7,148</b>	<b>32,896</b>	<b>(11,636)</b>	<b>(2,455)</b>
<i>Cash - opening</i>	<i>(418)</i>	<i>(184)</i>	<i>8,454</i>	<i>40,259</i>	<i>28,862</i>
<i>Cash - closing</i>	<i>(184)</i>	<i>8,454</i>	<i>40,259</i>	<i>28,862</i>	<i>25,442</i>

Source: Southern Cross and Grant Samuel analysis

The following transactions largely explain the cash flows resulting from investments:

- in the 2003 financial year, Southern Cross acquired a 100% interest in Queensland Radio 2000 Pty Limited (owner of 4BH) and quoted shares in other entities;
- in the 2004 financial year, the acquisition of Southern Star resulted in an increase in cash reserves due to Southern Star's positive cash balance at acquisition;
- during the 2005 financial year, Southern Cross acquired the 60% interest in Carnival that it did not already own and sold its 30.5% interest in Digital Distribution Australia Pty Limited; and
- during the 2006 financial year, Southern Cross acquired 100% of Satellite Music Australia and 75% of Darrall Macqueen for cash.

The most significant changes to the capital structure in the five years ended 30 June 2007 were the issue of 7.2 million CPS as consideration for the Southern Star acquisition in April 2004 and their conversion to 7,665,210 ordinary shares on 31 March 2006. In addition, Southern Cross has issued in the range of 1 to 2 million ordinary shares per year, either in lieu of a cash dividend or upon the exercise of options.

#### 4.6 Capital Structure and Ownership

As at 31 July 2007, Southern Cross had on issue 72,413,344 ordinary fully paid shares quoted on the ASX, held by more than 6,500 registered shareholders. Slightly less than 60% of Southern Cross' shares are held by institutional shareholders.

As at 31 July 2007, Southern Cross also had on issue the following securities not quoted on the ASX:

- 272,300 ordinary shares partly paid to 2.5c;

<sup>17</sup> Numbers may not add due to rounding.

<sup>18</sup> EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income, equity accounted share of profits of associates and joint venture entities and significant items.

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- 30,000 ordinary shares partly paid to 1c;
- 200,000 executive options expiring 1 November 2009 exercisable at \$9.10;
- 994,000 executive options expiring 10 November 2009 exercisable at \$12.35;
- 189,400 executive performance rights over unissued shares expiring 10 November 2009;
- 216,100 executive performance rights over unissued shares expiring 10 November 2010; and
- 211,700 executive performance rights over unissued shares expiring 16 November 2011.

On 16 August 2007, Southern Cross announced that 145,000 partly paid ordinary shares paid to 2.5 cents had been fully paid. On 24 August 2007, Southern Cross announced that 15,000 partly paid ordinary shares paid to 2.5c and 6,000 partly paid ordinary shares paid to 1.0 cent had been fully paid. As a result, the number of ordinary fully paid shares quoted on the ASX is 72,579,344, the number of ordinary shares partly paid to 2.5c is 112,300 and the number of ordinary shares partly paid to 1.0c is 24,000.

The top ten ordinary shareholders in Southern Cross as at 31 July 2007 are shown in the table below. They account for approximately 44% of the ordinary shares on issue:

<b>Southern Cross – Top Ten Shareholders as at 31 July 2007</b>		
	<b>Number of Shares (000s)</b>	<b>% Interest</b>
Macquarie Media Holdings Limited	10,000	13.8
452 Capital Pty Limited	4,847	6.7
Perpetual Investments	4,441	6.1
Interests associated with Mr Neil R Balnaves	2,590	3.6
Interests associated with Mr John J Cowin	2,437	3.4
Barclays Global Investors	2,243	3.1
Dimensional Fund Advisors	1,443	2.0
INVESCO	1,364	1.9
ING Investment Management	1,196	1.7
Australian Foundation Investment Co Ltd	1,092	1.5
<b>Subtotal - Top 10 shareholders</b>	<b>31,653</b>	<b>43.8</b>
Other shareholders	40,760	56.2
<b>Total</b>	<b>72,413</b>	<b>100.00</b>

Source: Southern Cross

Substantial shareholders in Southern Cross who had notified the company of their shareholdings as at 31 July 2007 are set out below.

<b>Southern Cross – Substantial Shareholders as at 31 July 2007</b>		
	<b>Number of Shares (000s)</b>	<b>% Voting Power</b>
Macquarie Media Holdings Limited	11,885	16.4
452 Capital Pty Limited	4,480	6.2
Perpetual Limited	3,830	5.3

Source: DFS IRESS

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#### 4.7 Share Price Performance

A summary of the price and trading history of Southern Cross since 1 January 2003 is set out below:

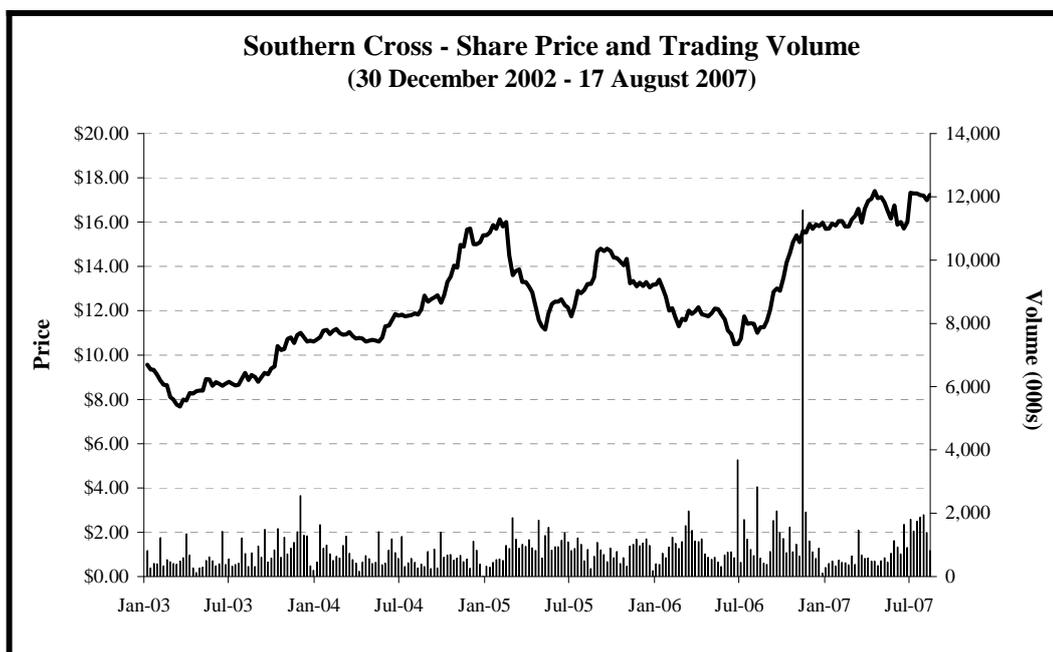
<b>Southern Cross – Share Price History</b>					
	Share Price (\$)			Average Weekly Volume (000s)	Average Weekly Transactions
	High	Low	Close		
<b>Year ended 31 December</b>					
2003	11.60	7.60	10.67	702	312
2004	16.00	10.45	15.41	643	379
2005	16.59	10.82	13.18	867	738
<b>Quarter ended</b>					
31 March 2006	13.63	11.03	11.97	1,040	1,319
30 June 2006	13.05	10.11	10.50	924	958
30 September 2006	13.22	10.40	12.90	1,163	1,540
31 December 2006	16.18	12.52	15.98	1,771	1,737
<b>Month ended</b>					
31 January 2007	16.00	15.60	15.70	396	1,129
28 February 2007	16.72	15.70	16.07	486	1,394
31 March 2007	16.90	15.59	16.60	732	1,562
30 April 2007	17.69	16.19	16.63	480	1,426
31 May 2007	17.62	15.90	16.80	683	2,064
30 June 2007	16.93	15.61	16.00	1,032	3,049
31 July 2007	17.54	16.01	17.25	1,722	2,348
<b>Week ended</b>					
6 July 2007	17.54	16.01	17.33	1,806	2,522
13 July 2007	17.39	17.20	17.29	1,434	2,126
20 July 2007	17.40	17.27	17.30	1,744	2,106
27 July 2007	17.45	17.21	17.21	1,875	2,624
3 August 2007	17.39	17.08	17.20	1,942	2,275
10 August 2007	17.32	16.99	17.00	1,384	2,100
17 August 2007	17.26	17.01	17.23	822	2,187

Source: DFS IRESS

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The following graph illustrates the movement in the Southern Cross share price and trading volumes since 30 December 2002:

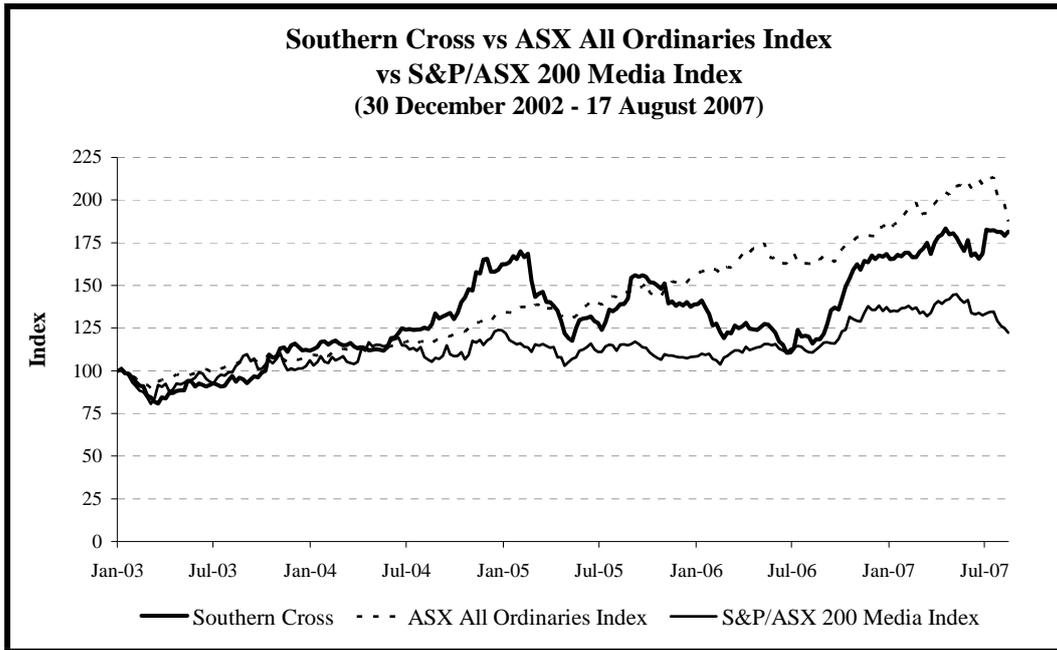


Source: DFS IRESS

From a low of \$7.67 at the end of March 2003, the Southern Cross share price trended upwards through to the end of the 2004 calendar year and peaked at \$16.59 on 3 February 2005. It then fell back to \$10.82 on 12 May 2005, in line with the rest of the media sector. After strengthening again from June to the end of September 2005, the share price fell to a low of \$10.11 in late June 2006, possibly as a result of the uncertainty surrounding the effective date of the relaxation of media ownership laws. In September, October and the first half of November 2006, the share price increased sharply. This followed the release of the company's full year result for the year ended 30 June 2006, the announcement of a share buyback on 8 September 2006 and media speculation in relation to a potential corporate transaction in mid October 2006. On 17 November 2006, Macquarie Media announced that it had acquired a strategic holding of 13.8% in Southern Cross for \$16.50 a share, when the shares were trading below \$16.00. The Southern Cross share price remained relatively stable around \$16.00 until the first week of March 2007. It then spiked at \$17.58 on 18 April 2007, possibly as a reaction to the changes to media ownership laws implemented on 4 April 2007 and renewed media speculation regarding corporate activity. The share price declined to below \$16.00 before Southern Cross announced the Proposal from Macquarie Media for the acquisition of Southern Cross for \$17.41 a share on 3 July 2007. Southern Cross shares have been trading in the range \$16.99-17.45 since the announcement of the Proposal.

The sharp increase in trading volumes in November 2006 reflects the purchase of 10 million Southern Cross shares by Macquarie Media on 16 November 2006 for \$16.50 a share. On the same day, Perpetual Limited and 452 Capital Pty Limited sold approximately 5.4 million shares and 1.8 million shares respectively.

The relative performance of Southern Cross shares against the ASX All Ordinaries Index and the ASX 200 Media Index since 30 December 2002 is shown below:



Source: DFS IRESS

For the past four and a half years, the Southern Cross share price performance has essentially mirrored the performance of the S&P/ASX 200 Media Index, but with more significant fluctuations. As at 17 August 2007, Southern Cross represented 3.35% of the S&P/ASX 200 Media Index. On the other hand, Southern Cross shares have generally underperformed the ASX All Ordinaries Index over the same period, despite strong performances in the first eight months of 2004, July to August 2005 and September to October 2006.

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## 5 Valuation of Southern Cross Broadcasting

### 5.1 Summary

Southern Cross has been valued in the range \$1.161-1.316 billion, which corresponds to a value of \$15.58-17.66 per share. The valuation represents the estimated full underlying value of Southern Cross assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Southern Cross shares to trade on the ASX in the absence of a takeover offer.

The value for Southern Cross is the aggregate of the estimated market value of Southern Cross' operating businesses and other assets less external borrowings and non-trading liabilities. The valuation is summarised below:

<b>Southern Cross - Valuation Summary (\$ millions)</b>			
	<b>Section Reference</b>	<b>Valuation Range</b>	
		<b>Low</b>	<b>High</b>
Television	5.3.2	780	860
Radio	5.3.3	360	400
Southern Star <sup>19</sup>	5.3.4	140	155
Other businesses	5.3.5	40	50
Corporate	5.4	(70)	(60)
Other assets and liabilities	5.5	13	13
<b>Enterprise value</b>		<b>1,263</b>	<b>1,418</b>
Net borrowings at 30 June 2007	5.6	(102)	(102)
<b>Value of equity</b>		<b>1,161</b>	<b>1,316</b>
Fully diluted shares on issue (millions) <sup>20</sup>		74.5	74.5
<b>Value per share</b>		<b>\$15.58</b>	<b>\$17.66</b>

Given the difficulties in developing reliable earnings and cash flow forecasts for Southern Cross beyond the short term, discounted cash flow analysis can be no more than indicative. Accordingly, Grant Samuel has primarily had regard to the capitalisation of earnings methodology in valuing Southern Cross. Grant Samuel has had particular reference to multiples of EBITDA, EBIT and net profit after tax.

The earnings multiples implied by the valuation of Southern Cross' operating businesses and by the value attributed to the equity of Southern Cross are summarised below:

<sup>19</sup> For the purpose of the valuation, Southern Star consists of its wholly owned operating businesses, its interests in joint ventures and associates, and its interests in partially held subsidiaries (excluding minority interests).

<sup>20</sup> The number of shares on issue on a fully diluted basis assumes that all partly paid shares are fully paid, performance rights are vested and options are exercised.

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Southern Cross – Implied Valuation Parameters		
	Low	High
<b>Multiple of EBITDA (normalised)</b>		
Year ended 30 June 2006	12.4	13.9
Year ended 30 June 2007	11.6	13.1
Year ending 30 June 2008	11.0	12.4
<b>Multiple of EBIT (normalised)</b>		
Year ended 30 June 2006	14.8	16.6
Year ended 30 June 2007	13.6	15.3
Year ending 30 June 2008	13.2	14.8
<b>Multiple of net profit after tax (normalised)</b>		
Year ended 30 June 2006	22.9	26.0
Year ended 30 June 2007	21.9	24.8
Year ending 30 June 2008	18.7	21.2

For the purpose of the valuation, the EBITDA, EBIT and net profit after tax of Southern Cross have been adjusted to:

- exclude the digital television licence rebates. As set out in Section 4.2.1 of the report, the Television business is entitled to receive licence fee rebates in respect of the roll out of digital broadcasting infrastructure. The net present value of the rebates has been separately included in the valuation within “Other Assets and Liabilities”; and
- include 49% of the EBITDA and EBIT of the Endemol Southern Star joint venture and exclude the 25% minority interest in the EBITDA and EBIT of Darrall Macqueen (a wholly owned subsidiary of Southern Star Entertainment UK).

The multiples implied by the valuation of Southern Cross have been assessed having regard to the market evidence, and the particular attributes of Southern Cross’ businesses, including their historical performance, market share positions and short to medium term growth outlook. The multiples reflect:

- the recovery of the television and radio advertising markets in the second half of the 2007 financial year and the improving outlook for the sector;
- the expectation for modest overall growth in the earnings of Southern Cross in the 2008 financial year, comprising:
  - a flat forecast performance for Television due to fixed cost growth, increased AFL costs and digital transmission costs;
  - strong growth for Radio, reflecting an expected turnaround in 2UE and significant improvement in the performance of the other stations and other radio businesses;
  - a small decline in the earnings of Southern Star following a strong performance in the 2007 financial year; and
  - small increases in the profitability of SMA and Southern Cross Telecommunications;
- the outlook for growth in all businesses in the medium term through market growth and cost improvements; and
- the strategic attractiveness of Southern Cross’ businesses to a number of buyers. There are high barriers to entry to the Australian television and radio broadcasting markets given the licensing requirements, and it would be difficult and costly for a new entrant to develop television or radio networks comparable to those owned and operated by Southern Cross.

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Southern Star would also have considerable strategic value to any new entrant given its leading position in programming production and distribution in Australia.

## 5.2 Methodology

### 5.2.1 Overview

Grant Samuel's valuation of Southern Cross has been estimated by aggregating the estimated market value of its operating businesses together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities as at 30 June 2007. The value of the operating businesses has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of Southern Cross is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Southern Cross could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

### 5.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.



Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

In estimating values for the Southern Cross businesses, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range by comparison with the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses, but has also considered price earnings multiples.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An additional approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

### **5.2.3 Discounted Cash Flow**

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative, but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, a ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate that reflects the risk associated with the cash flow stream.

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Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, assumptions used in assessing this terminal value become the critical determinant in the valuation (i.e. the valuation may become a “de facto” cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

However, in the case of Southern Cross, there is no Board approved forecast beyond the year ending 30 June 2008. In addition, earnings in the television and radio sectors are difficult to forecast due to their reliance on the performance of the advertising market. The outlook for Southern Star is even more uncertain given its dependence on the success of a small number of programs. As a result, in Grant Samuel’s view, discounted cash flow analysis can provide no more than indicative evidence as to the value of Southern Cross, and it is not appropriate to base a valuation of Southern Cross on discounted cash flow analysis.

#### 5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of Southern Cross. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

#### 5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in the case of Southern Cross.

### 5.3 Valuation of Operating Businesses

#### 5.3.1 Market Evidence

##### *Interpretation of Multiples*

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to

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acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;

- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form an appropriate judgement as to value;
- observed acquisition multiples reflect the economic and other circumstances at the time of the transaction. The price paid in each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and sharemarket conditions at the time; and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In

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addition, there can be differences between companies in the basis of calculation of depreciation.

#### ***Transaction Evidence***

Following the announcement on 13 July 2006 by the Commonwealth Government of its intention to change the media ownership rules, there has been a period of considerable speculation of corporate activity involving a number of participants in the Australian market place. Since this time, there have been a number of corporate transactions in the Australian media sector, notwithstanding that the changes to media ownership regulation only came into effect on 4 April 2007. These transactions have included the sell downs by PBL Media Pty Limited (“PBL Media”) and Seven Network Limited of (respectively) 75% and 50% of their traditional media businesses to private equity, the acquisition of NBN Television Group (“NBN”) by PBL Media, the merger between Fairfax Media and Rural Press Limited, and the recently announced sale of Channel 9 Adelaide by Southern Cross to WIN.

Publishing and Broadcasting Limited has also announced its proposed demerger into separately listed media and gaming entities, which is subject to shareholder approval in October 2007.

In addition, there have been a number of unsuccessful media transactions, including Independent News and Media Limited’s failure to gain shareholder approval for a takeover of its Australian operation by APN News and Media Limited, CanWest Global Communications Corp’s attempted sale of its interest in Ten Network Holdings Limited, and the cessation of negotiations for the acquisition by Foxtel of Liberty Global Inc’s pay television subsidiary, Austar United Communications Limited.

The following table summarises the terms of recent transactions involving Australian media companies with activities in the television and/or radio broadcasting sectors for which terms were publicly disclosed. Grant Samuel has not considered transactions involving international television and radio broadcasting companies given the significant differences in market structures and regulatory frameworks in which these companies operate. Grant Samuel has also considered the transaction parameters for the acquisition of Southern Star by Southern Cross in 2004 in assessing the current underlying value of Southern Star:

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Recent Transaction Evidence							
Date	Target	Transaction	Consideration (A\$ <sup>22</sup> millions)	EBITDA Multiple <sup>23</sup>		EBIT Multiple <sup>24</sup>	
				historical <sup>25</sup>	forecast	historical	forecast
<b>Television</b>							
May 2007	Channel 9 South Australia Pty Ltd	Acquisition by Win Corp Pty Ltd	105	40.4	20.6	151.3	32.2
May 2007	Media assets of SP Telemedia Ltd (NBN)	Acquisition by PBL Media	250	13.8	13.9	na	na
Nov 2006	Seven Network Limited	Recapitalisation & selldown by Seven Media with KKR	1,470	13.8	12.3	16.1	na
Oct 2006	PBL Media	Recapitalisation & selldown of PBL media assets	2,060	11.4	11.3	12.2	12.4
Apr 2004	NBN	Acquisition by SP Telemedia Ltd	145	13.6	11.4	18.4	14.8
Feb 2002	Spencer Gulf Telecasters Limited	Acquisition by Southern Cross Broadcasting (Australia) Limited	36	15.6	na	25.8	na
May 2001	Telecasters Australia Ltd	Acquisition by Southern Cross Broadcasting (Australia) Limited	260	13.6	12.9	17.7	15.8
<b>Radio</b>							
Jun 2004	RG Capital Radio Limited	Acquisition by Regional Media Pty Limited	176	11.1	10.0	12.8	na
July 2003	RedWave Media Limited	Acquisition by West Australian Newspapers Limited	12	na	14.7	na	na
Feb 2003	4BH AM (Brisbane)	Acquisition by Southern Cross Broadcasting (Australia) Limited	10	na	6.7	na	na
Aug 2002	DMG Australia	Acquisition of 25% interest by Daily Mail and General Trust plc	406	9.0	na	17.9	na
Mar 2002	NX FM and KO FM (Newcastle)	Acquisition of 50% interest by RG Capital Radio Limited	24	12.0	11.5	12.6	12.1
Mar 2001	2UE AM, 4BC AM, Sky Radio	Acquisition by Southern Cross Broadcasting (Australia) Limited	89	94.2	12.7	na	15.8
<b>Production and Distribution</b>							
May 2007	Endemol N.V.	Acquisition of 75% interest by Edam Acquisition B.V. with pending takeover offer for remaining 25%	EUR 3,125	17.9	12.8	19.7	13.9
Dec 2003	Southern Star Group Limited	Acquisition by Southern Cross Broadcasting (Australia) Limited	95	8.1	6.8	10.5	8.3

Source: Grant Samuel analysis<sup>26</sup>

A more detailed description of these transactions is contained in the Appendix to this report.

<sup>21</sup> Implied equity value if 100% of the company or business had been acquired.

<sup>22</sup> Unless otherwise specified.

<sup>23</sup> Represents enterprise value divided by EBITDA.

<sup>24</sup> Represents enterprise value divided by EBIT.

<sup>25</sup> Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

<sup>26</sup> Grant Samuel analysis based on data obtained from IRESS, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



The transaction evidence shows that acquirers of television and radio broadcasters have taken place at prices that imply a very wide range of earnings multiples. The multiples that acquirers have been prepared to pay for broadcasting businesses have varied depending on a number of factors:

- acquisitions of television broadcasters and networks have generally taken place at higher multiples than those implied by acquisition prices for radio broadcasters and networks; and
- acquisitions of radio networks tend to have taken place at higher multiples than acquisition multiples for single stations.

Two television broadcasting transactions have recently been completed:

- the sale of Channel 9 Adelaide to WIN. This transaction was completed at very high multiples of earnings. The multiples reflect the modest performance of Channel 9 Adelaide prior to the renegotiation in 2007 of the program supply agreement with the Nine Network and the potential for a substantial improvement in earnings through the realisation of significant synergies; and
- the acquisition of NBN by PBL Media. This acquisition was subject to a competitive process between WIN and PBL Media, as reflected in the reasonably high forecast EBITDA multiple implied by the transaction.

Given their particular circumstances, the multiples implied by these transactions are of little relevance to the valuation of Southern Cross' Television business.

PBL Media and WIN were also involved in a bidding war for Channel Nine Perth, which was owned by regional television broadcaster Sunraysia Television Limited ("Sunraysia") (which is 45% owned by WIN). WIN was the successful acquirer of these assets with Sunraysia shareholders voting in favour of the transaction on 8 June 2007. The multiples implied by the transaction are not meaningful as the business was in a loss making position.

The acquisition of regional radio broadcaster RG Capital Radio Limited ("RG Capital") by Regional Media in 2004 is a relevant benchmark for the valuation of the Radio business. Notably however, RG Capital is a regional radio broadcasting businesses, whilst Southern Cross is a metropolitan radio network. The acquisition of RedWave Media Limited by West Australian Newspapers Limited also involved a regional radio broadcasting network, albeit of a considerably small scale than the Radio business and RG Capital.

Grant Samuel is not aware of any market evidence relating to any significant transactions involving Australian production companies for which there is publicly available information, other than the acquisition of Southern Star by Southern Cross, and the pending acquisition of Becker Group Limited ("Becker") by Prime. However, Becker's film and television production business is not profitable and it generates the majority of its earnings from outside broadcasting equipment supply. Therefore, this transaction is not considered relevant in assessing the value of Southern Star.

#### ***Sharemarket Evidence***

There is only one major listed "pure play" Australian metropolitan FTA television broadcaster (Network Ten). Seven Network now has only a 50% interest in the Channel 7 business (with the other 50% interest held by Kohlberg Kravis Roberts), and holds various other investments. The third major metropolitan television broadcasting company, Nine Network Limited ("Nine Network"), is a wholly owned subsidiary of PBL Media, which is owned 25% by Publishing and Broadcasting Limited and 75% by private equity firm, CVC Capital Partners. Southern Cross and Prime are the two major listed Australian regional television broadcasters.

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Austereo is the only “pure” listed Australian radio company, whilst diversified media companies APN and Southern Cross are the other major listed participants in this sector.

Other than Nine Network and Seven Network, which produce a small number of programs in-house, the television production industry in Australia is fragmented, comprising many small unlisted companies. Whilst there are a number of major production companies offshore, most are of limited relevance when assessing the value of Southern Star given their scale and the differences in regulatory environments. Grant Samuel has included a selection of international production companies in its analysis as guidance for assessing the value of Southern Star.

The following table sets out the EBITDA and EBIT multiples implied by the share prices of listed Australian media companies with activities principally in television and radio broadcasting, and by the share prices of a selection of international companies with activities in programming production and distribution, based on share prices as at 17 August 2007:

Sharemarket Ratings of Selected Listed Media Companies							
	Market Capitalisation (millions)	EBITDA Multiple <sup>27</sup>			EBIT Multiple <sup>28</sup>		
		historical <sup>29</sup> Year 1	historical Year 2	forecast Year 1	historical Year 1	historical Year 2	forecast Year 1
<b>Television</b>							
Ten Network Holdings Limited	AUD 2,328	9.1	12.4	12.9	9.8	13.7	14.3
Prime Television Limited	AUD 446	9.3	9.3	8.7	11.1	11.1	10.3
<b>Radio</b>							
APN News & Media Limited	AUD 2,695	10.8	10.8	10.3	12.4	12.2	11.7
Austereo Group Limited	AUD 659	11.6	10.8	10.2	12.7	11.8	11.4
<b>Production and Distribution</b>							
Beyond International Limited	AUD 57	5.3	nc	nc	11.7	nc	nc
Group Carrere	EUR 136	2.9	3.1	nc	8.9	16.3	nc
ITV PLC	GBP 4,060	9.7	11.8	14.0	13.4	16.1	20.3
RDF Media Group	GBP 73	14.1	7.6	nc	18.1	10.2	nc

Source: Grant Samuel analysis<sup>30</sup>

A detailed analysis of these entities is set out in the Appendix to this report.

<sup>27</sup> Represents enterprise value divided by EBITDA.

<sup>28</sup> Represents enterprise value divided by EBIT.

<sup>29</sup> Historical multiples are based on company published earnings or broker report estimates for the two financial years ending prior to or on 30 June 2007. Forecast multiples are based on company published earnings forecasts or brokers' reports. All of the companies have a 30 June year end, except for APN News & Media Limited (“APN”), ITV PLC and Group Carrere which have 31 December year ends, RDF Media Group which has a 31 January year end and Ten Network holdings Limited (“Ten Network”) which has a 31 August year end. Consequently, the historical multiples reflect two years' earnings to 30 June 2007 except for APN, ITV PLC and Group Carrere and Austar which are based on two years' earnings to 31 December 2006, RDF Media Group which is based on two years' earnings to 31 January 2007, and Ten Network which is based on two years' earnings to 31 August 2006. Where companies have not reported their 30 June 2007 full year earnings, Grant Samuel has replied on company published earnings forecasts or brokers' reports.

<sup>30</sup> Grant Samuel analysis based on data obtained from DFS IRESS, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



Corporate activity has recently influenced the trading prices of a number of listed Australian media companies. The following factors are relevant to consideration of the comparable entity multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- Network Ten trades at 12.4 times historical EBITDA and 12.9 times forecast EBITDA, and 13.7 times historical EBIT and 14.3 times forecast EBIT. As reflected in the higher forecast multiples, Network Ten's earnings are expected to decline in the financial year ending 31 August 2007 due to start up costs relating to the outdoor advertising business and the softer television market. Unlike Southern Cross Television, Network Ten is involved in metropolitan television broadcasting;
- Prime, a regional television broadcaster, trades on multiples of 9.3 times historical EBITDA and 8.7 times forecast EBITDA and 11.1 times historical EBIT and 10.3 times forecast EBIT.
- the only listed "pure" radio broadcasting company, Austereo, trades on multiples of 10.8 times historical and 10.2 times forecast EBITDA, and 11.8 times historical and 11.4 times forecast EBIT. Austereo's network has a strong market position in the Australian music/entertainment radio sector targeting the under 40's demographic through its FM network. By comparison Southern Cross' Radio business generates approximately 76% of revenue from its commercial talkback stations;
- APN is a diversified media company with regional radio operations trading on multiples of 10.8 times historical and 10.3 times forecast EBITDA, and 12.2 times historical and 11.7 times forecast EBIT. APN generates approximately half of its earnings from New Zealand and is expected to generate approximately 25% of its total EBIT for the financial year ending 31 December 2007 from its radio operations;
- despite the limited market evidence, production companies appear to trade on lower multiples than other media companies, reflecting lower barriers to entry and the potential for greater earnings volatility than would be expected for companies focussed on television and radio broadcasting. The selected international production companies operate in different economic conditions, market structures and regulatory frameworks than those facing Southern Star. Accordingly, caution must be used in relying on the trading multiples of these companies;
- ITV, which also has broadcasting and multiplatform operations, trades on multiples of approximately 11.8 times historical and 14.0 times forecast EBITDA, and 16.1 times historical and 20.3 times forecast EBIT. ITV has recently been through a period of poor performance. Earnings are expected to return to positive growth in the financial year ending 31 December 2008; and
- RDF Media Group and Group Carrere are smaller production companies operating in the United Kingdom and France respectively. These business are comparable in size to Southern Star and trade on multiples in the range 3.1-7.6 times historical EBITDA and 10.2-16.3 times historical EBIT.



### 5.3.2 Value of Television

Grant Samuel has valued Southern Cross' Television business in the range \$780-860 million. The valuation implies the following multiples of EBITDA and EBIT:

Television – Implied Valuation Parameters		
	Low	High
<b>Multiple of EBITDA (normalised)</b>		
Year ended 30 June 2006	11.1	12.2
Year ended 30 June 2007	10.9	12.0
Year ending 30 June 2008	10.8	12.0
<b>Multiple of EBIT (normalised)</b>		
Year ended 30 June 2006	12.9	14.3
Year ended 30 June 2007	12.7	14.0
Year ending 30 June 2008	12.9	14.2

The EBITDA and EBIT used in the calculation of the multiples above are earnings before the allocation of corporate costs (and are therefore not consistent with EBITDA and EBIT set out in section 4.2.1 of this report). The EBITDA and EBIT have also been adjusted to exclude the digital licence fee rebates. The value of the rebates has been separately assessed and included in the valuation in "Other Assets and Liabilities".

The multiples implied by the valuation are consistent with the multiples at which television broadcasting companies have been acquired in recent years, and have also been referenced to the share market ratings of listed television broadcasting companies.

Grant Samuel believes that the multiples implied by the valuation of Television are reasonable, having regard to the following factors:

- the Australian television broadcasting market has high barriers to entry, given the requirement to obtain a licence from the Australian Communications and Media Authority, and the limit on the number of issued licences. Management expects that there will not be any new licences issued in the short term other than a third digital licence in Darwin. Southern Cross intends to participate in the ownership of this third licence;
- regional television is less exposed to competition from other traditional forms of media (including radio and press) than metropolitan television broadcasting. In addition, arguably, it is less exposed than metropolitan television to competition from new media such as online (internet) and pay television;
- despite weakness during the preceding two years, the television advertising market experienced a recovery in the second half of the 2007 financial year, and is showing improved prospects for the 2008 financial year;
- Television has affiliation agreements with the Seven Network and Network Ten that enable it to broadcast various combinations of programming from these metropolitan networks. The agreement with the Seven Network is due to expire in 2008. In the event that the affiliation agreement is not renewed or is subject to a significant fee increase, the earnings of Television could be significantly affected. The Network Ten affiliation is a longer term agreement. The Television business is expected to benefit from the recent improvement in the ratings of Network Ten;
- given its programming costs, Channel 9 Adelaide was only a marginal contributor to profitability and the sale of the station will have a limited impact on the earnings of the Television business; and

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- excluding the impact of Channel 9 Adelaide, the EBITDA of the Television business is budgeted to fall slightly in the 2008 financial year (excluding the digital licence fee rebate). Budgeted growth in revenues is expected to be more than offset by an increase in AFL programming costs and costs associated with the introduction of digital transmission. However, management expects that earnings will recover in 2009 to reflect market growth.

### 5.3.3 Value of Radio

Grant Samuel has valued Southern Cross' Radio business in the range \$360-400 million. The valuation implies the following multiples of EBITDA and EBIT

<b>Radio – Implied Valuation Parameters</b>		
	<b>Low</b>	<b>High</b>
<b>Multiple of EBITDA</b>		
Year ended 30 June 2006	15.7	17.4
Year ended 30 June 2007	12.8	14.2
Year ending 30 June 2008	11.2	12.4
<b>Multiple of EBIT</b>		
Year ended 30 June 2006	16.9	18.8
Year ended 30 June 2007	13.6	15.1
Year ending 30 June 2008	11.8	13.1

The EBITDA and EBIT used in the calculation of the multiples above are earnings before the allocation of corporate costs (and therefore not consistent with the reported EBITDA and EBIT set out in section 4.2.2).

Grant Samuel's valuation of the Radio business of \$360-400 million reflects the competitive position of Radio's network of stations and the outlook for the sector. In the short to medium term, the financial performance of the Radio business will be driven by the overall performance of the radio advertising market, Radio's ability to control costs, and its ability to compete successfully for market share.

In Grant Samuel's view, the EBITDA and EBIT multiples implied by the valuation of Southern Cross' Radio business are reasonable having regard to the following factors:

- the relative stability of the overall earnings of the Radio business. The Radio business has delivered steady growth in earnings in recent years;
- the strong position of commercial talk back station 3AW in Melbourne. Although 3AW lost some market share in 2007, the business remains highly profitable. Southern Cross expects that the market share will improve in the 2008 financial, with a resultant improvement in earnings;
- management expectations of an improvement in earnings for 2UE in the key Sydney market, reflecting planned cost reductions and expectations of regaining agency revenue market share. Although there is some risk in relation to the impact of the planned cost reductions on the station's ongoing performance, 2UE is forecast to represent only 7% of Radio's EBITDA for the 2008 financial year;
- the strong market positions of Radio's stations in Brisbane and Perth, and the expectation of solid growth from these stations in the short to medium term;
- Radio's status as a leading commercial radio broadcaster of AFL in Melbourne, and the only commercial radio broadcaster of AFL in Perth and rugby league in Brisbane, and the attendant ratings and market share benefits;

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- the improvement in the radio broadcasting advertising sector in the second half of the 2007 financial year, and the expectation for continued improvement in the short term. Radio is well positioned to benefit from any improvement in the Australian radio advertising market. The longer term outlook for the sector is less clear, particularly given the increasing penetration of new forms of media;
- the high level of dependence of the talkback radio stations on personalities to attract listeners, particularly during the critical early morning period and the afternoon “drive time”. Therefore, the ability of Radio’s talkback stations to recruit and retain key personalities is essential to the prospects for the network;
- the modest capital expenditure requirements and strong cash flow generation of the Radio business. In the medium term, however, additional capital expenditure will be required to fund the roll out of the digital radio network; and
- the high barriers to entry to the Australian radio broadcasting sector. It is not expected that any new radio licences will be granted for at least five years after the commencement of digital radio services. Recent new entrants (DMG’s Vega stations) have had little impact on the profitability of Radio’s businesses.

#### 5.3.4 Value of Southern Star

Grant Samuel has valued Southern Star in the range \$140-155 million. The value includes Southern Star’s 49% interest in the Endemol Southern Star joint venture. The valuation implies the following multiples of EBITDA and EBIT:

<b>Southern Star – Implied Valuation Parameters</b>		
	<b>Low</b>	<b>High</b>
<b>Multiple of EBITDA (normalised)</b>		
Year ended 30 June 2006	9.2	10.2
Year ended 30 June 2007	7.3	8.1
Year ending 30 June 2008	8.3	9.2
<b>Multiple of EBIT (normalised)</b>		
Year ended 30 June 2006	9.7	10.8
Year ended 30 June 2007	7.6	8.4
Year ending 30 June 2008	8.7	9.7

The EBITDA and EBIT used in the calculation of the multiples above are earnings before the allocation of corporate costs (and therefore not consistent with the reported EBITDA and EBIT set out in section 4.2.3). In addition, the historical and forecast EBITDA and EBIT of Southern Star have been adjusted to include 49% of the EBITDA of Endemol Southern Star and to deduct the 25% minority interests in Darrall Macqueen (a subsidiary of Southern Star Entertainment UK).

There are no direct peers against which to benchmark the valuation of Southern Star. There are two other listed Australian production companies, Beyond and Becker. However, they are both significantly smaller than Southern Star. Further, Becker’s film and television production business is loss making and the company is currently subject to a takeover offer from Prime. Beyond trades on multiples of approximately 5.9 times historical EBITDA and 11.9 times historical EBIT. No forecast information is available.

Given the limited Australian market evidence, Grant Samuel has considered valuation evidence based on share prices for a number of international production companies. The selected international companies tend to trade on multiples that are higher than those for Beyond, but generally not as high as those of companies operating in other sectors of the media industry. However, differences between Australian and international markets in terms of growth expectations, industry and market conditions and differing interest rate and

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tax regimes impact on the share market valuations and implied multiples. Nonetheless, a review of share market trading of international production companies does provide some guidance for the valuation of Southern Star.

The valuation of Southern Star of \$140-155 million implies multiples of 7.3-8.1 times historical 2007 EBITDA and 7.6-8.4 times historical 2007 EBIT, and 8.3-9.2 times forecast 2008 EBITDA and 8.7-9.7 times forecast 2008 EBIT. These multiples are lower than those implied by the valuations of Southern Cross' Television and Radio businesses. However, Grant Samuel considers that the multiples are reasonable, having regard amongst other factors to the potential for greater volatility in the earnings profile of Southern Star. In particular:

- Southern Star has a strong market position as the largest film and television production and distribution company in Australia, and is a strategically attractive asset;
- Southern Star's earnings have historically experienced a degree of volatility. Profitability depends in part on the number and success of productions completed each year. Therefore, the outlook for Southern Star's production business is difficult to predict with any certainty;
- the performance of Endemol Southern Star continues to be heavily dependent on the Big Brother reality production, which has significantly boosted the profitability of the joint venture over the past seven years. However, Big Brother's ratings in 2007 were significantly poorer than in prior years. The future ratings, profitability and longevity of Big Brother are inherently uncertain. On the other hand, a number of new productions are in pre-production and development. The Endemol Southern Star joint venture is due for renewal in 2009. While there is a risk that it will not be renewed, Southern Cross management believes that the joint venture will continue;
- Southern Star Entertainment UK is expected to continue to perform strongly, particularly in children's production through the Darrall Macqueen and Carnival subsidiaries; and
- the outlook for the global distribution business of Southern Star is positive, although earnings are exposed to movements in the Australian dollar. Given Southern Star's extensive library of film and television programming and its access to new Australian programming (it represents the majority of the Nine Network's production), the business is well positioned to take advantage of continued strong global demand for television content.

### 5.3.5 Other Businesses

Southern Cross' other businesses include the following wholly owned subsidiaries:

- SMA;
- Southern Cross Telecommunications; and
- Southern Cross View.

Grant Samuel has valued these businesses and investments in the range \$40-50 million after deducting the value of outside equity interests, based on a multiple of 8-10 times budgeted 2008 EBITDA. Losses from mytalk.com.au, which is a start-up business, have been added back to budgeted EBITDA for this purpose.



#### 5.4 Corporate Overheads

Southern Cross is budgeting corporate overheads of around \$11.0 million (net of revenue and before depreciation and amortisation) for the 2008 financial year. These corporate overheads represent the costs of the Southern Cross head office and include costs associated with:

- senior group executives (such as the costs of the Chief Executive Officer, Chief Financial Officer, Company Secretary) and Directors;
- being a listed company (such as annual reports and shareholder communications, share registry and listing fees and dividend processing); and
- the provision of group services (such as corporate affairs, finance, tax, treasury, audit and human resources).

Corporate overheads exclude costs associated with the management of the businesses of Southern Cross, which are reflected in the valuation of the business operations.

Any acquirer of Southern Cross would be able to save the costs incurred by Southern Cross in relation to its public company status (budgeted at around \$2.0 million). In addition, it is likely that corporate acquirers would be able to extract further savings in terms of senior executive costs and group services costs. For the purposes of this valuation, Grant Samuel has assumed that residual corporate overheads would be of the order of \$7 million. These corporate overheads have been capitalised at \$60-70 million based on an EBITDA multiple of 9-10 times.

#### 5.5 Other Assets and Liabilities

Southern Cross' other assets and liabilities have been valued as follows:

<b>Southern Cross – Other Assets and Liabilities (\$millions)</b>		
	<b>Value Range</b>	
	<b>Low</b>	<b>High</b>
Hedge book	1.9	1.9
Assets available for sale	3.4	3.4
Net present value of television licence rebates	9.5	9.5
Deferred settlement amounts	(1.5)	(1.5)
<b>Total other assets and liabilities</b>	<b>13.3</b>	<b>13.3</b>

The mark-to-market value of Southern Cross' currency hedge book has been estimated by Southern Cross at \$2.7 million (pre-tax basis) as at 30 June 2007. An after tax value of \$1.9 million has been attributed to the hedge book using a corporate tax rate of 30%.

Southern Cross has investments in listed company shares with a current market value of \$3.4 million.

Southern Cross will receive cash rebates over the next four years to compensate for the costs associated with the rollout of digital television. The benefit of these rebates has been excluded from the valuation of the Television business. The present value of the rebates (after tax) has been separately included in the valuation of other assets and liabilities.

Southern Cross is liable to pay the remaining \$1.5 million balance of the purchase consideration for Darrall Macqueen over the next three to five years.

#### 5.6 Net Borrowings

As at 30 June 2007, Southern Cross had net borrowings of \$180.9 million, comprising \$206.4 million of borrowings and \$25.4 million of cash. This has been adjusted to reflect:

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- cash received from the divestment of Channel 9 Adelaide for consideration of \$105.0 million, less the associated capital gains tax liability of \$13.5 million;
- final dividends declared but unpaid at 30 June 2007 of \$26.8 million;
- cash of \$15.0 million, consisting of cash received since 30 June 2007 upon payment of the outstanding liability on 166,000 partly paid shares and cash that would be received by Southern Cross if all of the 'in the money' options were exercised and the outstanding liability on the partly paid shares was paid in full. This would increase the number of Southern Cross shares on issue by 2.1 million shares; and
- net debt of \$0.8 million, which corresponds to the 49% share of the net debt of the Endemol Southern Star joint venture attributable to Southern Cross.

**Southern Cross – Adjusted Net Borrowings (\$ millions)**

Net borrowings	(180.9)
Net cash received from sale of Channel 9 Adelaide	91.5
Cash provision for final dividend	(26.8)
Cash receivable on exercise of options and payment of partly paid	15.0
Share of the net debt of Southern Star	(0.8)
<b>Adjusted net borrowings</b>	<b>(102.0)</b>

The net effect of these four adjustments is a cash contribution of \$78.9 million. Incorporating these adjustments, the net debt amount used in Grant Samuel's valuation of Southern Cross is \$102.0 million.

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## 6 Evaluation of the Proposal

### 6.1 Opinion

Grant Samuel has valued Southern Cross in the range \$15.58-17.66 per share. As the Proposal Consideration of \$17.41 per share falls within the valuation range, the Proposal Consideration is fair and reasonable. Accordingly, in Grant Samuel's opinion the Proposal is in the best interests of the shareholders of Southern Cross.

The Proposal Consideration of \$17.41 cash is at the high end of Grant Samuel's valuation range. It represents high multiples of earnings. The Proposal Consideration crystallises value for Southern Cross shareholders that could only be delivered by the Southern Cross businesses if they achieved high rates of earnings growth in the future. Having regard to Southern Cross' modest earnings growth in recent years and subdued short term earnings prospects, in Grant Samuel's view the Proposal Consideration is extremely attractive for Southern Cross shareholders. Moreover, for shareholders that can fully utilise the franking credits attached to the special dividend, the Proposal Consideration could be worth up to an additional \$0.15 per share, for a total value of up to \$17.56 per share.

In the absence of the Proposal, it is likely that Macquarie Media's 13.8% shareholding in Southern Cross and continued speculation regarding some takeover proposal for Southern Cross would provide support for the Southern Cross share price. Nonetheless, Grant Samuel believes that Southern Cross shares would trade at prices below \$17.41 in the absence of the Proposal or some alternative proposal. Prior to the announcement on 13 July 2006 of proposed changes to cross media ownership laws, Southern Cross shares were trading below \$12.00. Southern Cross shares have only traded above \$17.41 during April and May 2007, at a time when there was significant speculation regarding corporate activity involving Southern Cross. Moreover, current market conditions are less positive than during the first half of 2007.

### 6.2 Alternatives

In view of the changes to cross media ownership regulation, Southern Cross undertook a comprehensive review of the options available to maximise shareholder value. These options included growth by acquisition, sale of the company as a whole and sale of the company's businesses on a piecemeal basis, either to strategic or financial buyers. On 16 November 2006, Macquarie Media acquired its 13.8% stake in Southern Cross at \$16.50 per share. Subsequent discussions were held with Macquarie Media in relation to a potential transaction, but ceased in April 2007. Discussions with Macquarie Media recommenced in June 2007, before the announcement of the Proposal on 3 July 2007. The Proposal represents, effectively, the sale of the regional television business to Macquarie Media and the sale of the radio network and production and distribution business to Fairfax Media. The Proposal maximises value by facilitating the separation of Southern Cross' assets and the sale of the separated assets to natural owners for whom the various assets have maximum appeal.

There are a number of parties that could be interested in acquiring Southern Cross. However, alternative bidders have had since 3 July 2007 to put forward a superior proposal and have not done so. It is possible that Macquarie Media's 13.8% shareholding is a deterrent to potential alternative acquirers. In addition, the Merger Implementation Agreement includes no-talk and no-shop obligations and provision for a break fee. Accordingly, while a superior offer is possible, in Grant Samuel's view the prospects of such a superior offer are remote.

In any event, it remains open to alternative bidders to put forward a superior proposal at any time before the Scheme meeting to be held on 12 October 2007. In the absence of such a superior proposal, in Grant Samuel's view, the Proposal is in the best interests of Southern Cross shareholders.



### 6.3 Premium for Control

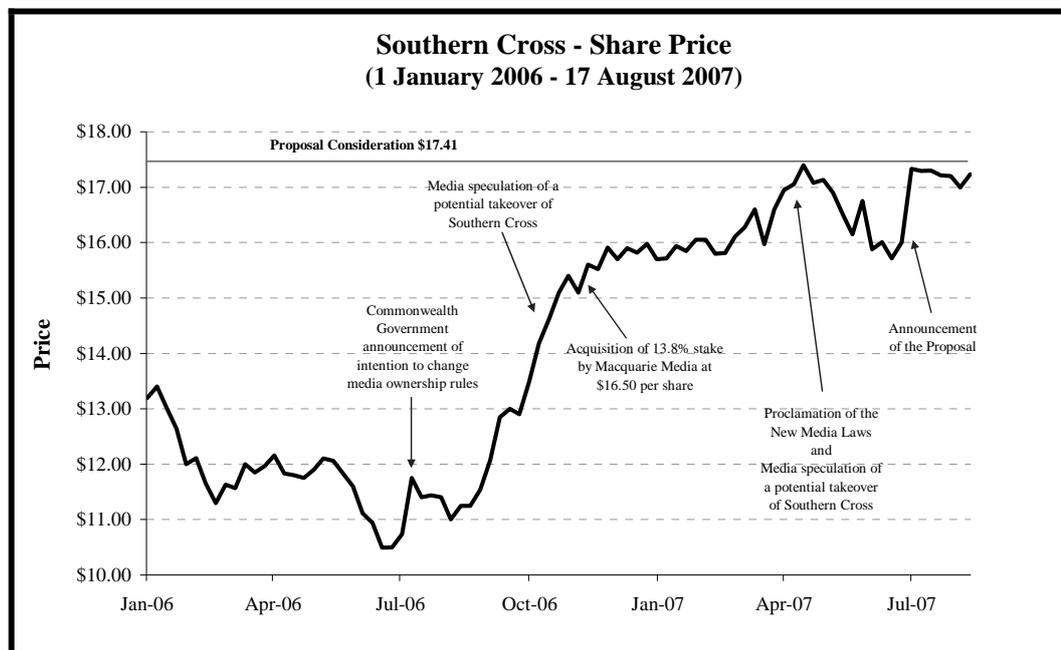
The Proposal is effectively a takeover of Southern Cross and, therefore, it is appropriate to review the premium implied by the Proposal Consideration.

The Proposal Consideration represents the following premiums to the price at which Southern Cross shares traded in the period prior to the announcement of the Proposal:

Proposal Consideration – Implied Premiums		
	Price/VWAP	Premium
Share price prior to trading halt on 2 July 2007	\$16.44	5.9%
Closing share price on 16 November 2006	\$14.49	20.2%
1 month VWAP to 16 November 2006 <sup>31</sup>	\$14.85	17.2%
3 month VWAP to 16 November 2006	\$13.41	29.8%

The premium to the price at which Southern Cross shares traded immediately prior to the announcement of the Proposal, which is the last price before trading was halted on 2 July 2007, is 5.9%. The premium to the last closing share price (on 29 June) of \$16.00 is 8.8%. Premiums of 5.9% and 8.8% are significantly lower than premiums typically observed in takeovers. However, this premium analysis is not particularly meaningful. Macquarie Media acquired a 13.8% interest in Southern Cross at \$16.50 per share on 16 November 2006. Almost certainly, trading in Southern Cross shares since then has reflected expectations of some corporate transaction and the Southern Cross share price has incorporated some control premium. It is arguable that the Southern Cross share price has been affected by speculation of corporate activity over a longer period, potentially dating back to July 2006 when the Commonwealth Government announced its intention to change the media ownership rules.

The following graph shows movements in the Southern Cross share price since January 2006:



Source: IRESS

Based on the closing Southern Cross share price on 16 November 2006 (the day immediately prior to Macquarie Media's announcement that it had taken a strategic interest in Southern Cross of 13.8%), the Proposal Consideration represents a premium of around 20%, at the low end of the

<sup>31</sup> Excluding the acquisition of Macquarie Media's strategic stake in Southern Cross at \$16.50 a share.



range of premiums for control typically observed in Australian takeover offers (20-35%). However, more than seven months elapsed between 16 November 2006 and the date of the announcement of the Proposal. During this period, Southern Cross announced its half year results for the six months ended 31 December 2006 and there were significant movements in overall share market conditions. In these circumstances, it is difficult to make any meaningful observations about the Proposal by reference to premium analysis.

#### **6.4 Option Scheme**

Certain Southern Cross executives hold options and performance rights over unissued shares in Southern Cross ("Options"). Following the Southern Cross Directors' recommendation of the Scheme, these Options have become exercisable. Holders of the Options can exercise the Options and receive shares in Southern Cross. Any Options not exercised by the date of the Scheme meeting will be eligible to participate in a scheme of arrangement for the Options ("Options Scheme"). Under the Options Scheme, if approved by Option holders and the Court, all outstanding Options will be cancelled. In consideration, Option holders will receive for each Option cancelled a cash payment of \$17.05 less the exercise price (if any) of the Option. The Scheme and the Options Scheme are inter-dependent.

The Directors of Southern Cross have requested that Grant Samuel advise whether, in Grant Samuel's opinion, the Options Scheme is in the best interests of Option holders who continue to hold options at the date of the Scheme meeting.

In Grant Samuel's view it will be in the best interests of Option holders who hold Options at the date of the Scheme meeting to vote in favour of the Options Scheme. The value to be realised by Option Holders under the Option Scheme corresponds to the full underlying value of Southern Cross. It is fair and reasonable for all Option Holders who hold Options at the date of the Scheme meeting to receive consideration under the Option Scheme equal to \$17.05 less the exercise price (if any) of the Options.

Option holders who exercise their Options before the Scheme meeting will be eligible to receive the special dividend and, assuming that they exercise their options before the relevant record date, will be eligible to receive the ordinary dividend to be paid by Southern Cross. Option holders who retain their Options and participate in the Options Scheme will not receive these dividends. There are expected to be different tax consequences for Option holders who exercise their Options before the Scheme meeting and for Option holders who participate in the Option Scheme. Depending in part on the personal tax position of the relevant Option holders, participation in the Option Scheme may be more attractive from a taxation perspective for some Option holders. Grant Samuel offers no advice or recommendation as to whether Option holders will be better off exercising their Options and participating in the Scheme, or not exercising their Options and participating in the Options Scheme. Option holders who are in any doubt in this regard should seek their own professional advice.

#### **6.5 Shareholder Decision**

The decision of each shareholder as to whether to vote in favour of the Proposal is a matter for individual shareholders based on each shareholder's views as to value and future market conditions, risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt, shareholders should consult an independent professional adviser.



## 7 Qualifications, Declarations and Consents

### 7.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services and manages specialist funds. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 380 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) ACA CA (SA) ACMA and Hannah Crawford BCom LLB CA F Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Warwick Earl BCom LLB and Matt Leroux MEng MBA assisted in the preparation of the report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### 7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is in the best interests of Southern Cross shareholders, and whether the Options Scheme is in the best interests of Southern Cross Option holders. Grant Samuel expressly disclaims any liability to any Southern Cross shareholder or Option holder 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.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Southern Cross and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

Grant Samuel has had no involvement in Southern Cross' due diligence investigation in relation to the Scheme Booklet and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of Southern Cross.

### 7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Southern Cross, Macquarie Media or Fairfax Media that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal. Grant Samuel advises that:

- seven executives of Grant Samuel and its related entities hold parcels of less than 30,000 shares in Macquarie Bank Limited;
- one executive of Grant Samuel and its related entities has a parcel of less than 2,000 shares in Fairfax Media Limited; and
- no Grant Samuel group executive has an interest in any shares of Southern Cross or Macquarie Media.



Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$450,000 for the preparation of this report. This fee is not contingent on the outcome of the Proposal. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.

#### **7.4 Declarations**

Southern Cross has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence or wilful misconduct by Grant Samuel. Southern Cross has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been negligent or to have engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Southern Cross are limited to an amount equal to four times the fees paid to Grant Samuel.

Advance drafts of this report were provided to Southern Cross and its advisers. Advance drafts of Sections 1 to 4 of this report were also provided to Macquarie Media. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

#### **7.5 Consents**

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Southern Cross. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

#### **7.6 Other**

The accompanying letter dated 4 September 2007 and the Appendix form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

4 September 2007

*Grant Samuel & Associates*



## Appendix

### Market Evidence

#### 1 Valuation Evidence from Transactions

In recent years there have been a number of transactions in Australia involving the acquisition of media companies. While none of the transactions involves businesses that are precisely comparable to Southern Cross, the transactions identified below provide evidence of prices that acquirers are willing to pay and provide some support for the multiples implied by the valuation of Southern Cross' operating business:

Recent Transaction Evidence							
Date	Target	Transaction	Consideration <sup>1</sup> (\$ millions)	EBITDA Multiple <sup>2</sup>		EBIT Multiple <sup>3</sup>	
				historical <sup>4</sup>	forecast <sup>4</sup>	historical <sup>4</sup>	forecast <sup>4</sup>
<b>Television</b>							
May 2007	Channel 9 South Australia Pty Ltd	Acquisition by Win Corp Pty Ltd	105	40.4	20.6	151.3	32.2
May 2007	Media assets of SP Telemedia Ltd (NBN Television)	Acquisition by PBL Media	250	13.8	13.9	na	na
Nov 2006	Seven Media Group	Recapitalisation & sell down by Seven Network Limited of its media assets with Kohlberg Kravis Roberts & Co	1,470	13.8	12.3	16.1	na
Oct 2006	PBL Media	Recapitalisation & sell down of Publishing & Broadcasting Limited media assets	2,060	11.4	11.3	12.2	12.4
Apr 2004	NBN Television Group	Acquisition by SP Telemedia Ltd	145	13.6	11.4	18.4	14.8
Feb 2002	Spencer Gulf Telecasters Limited	Acquisition by Southern Cross Broadcasting (Australia) Limited	36	15.6	na	25.8	na
May 2001	Telecasters Australia Ltd	Acquisition by Southern Cross Broadcasting (Australia) Limited	260	13.6	12.9	17.7	15.8
<b>Radio</b>							
Jun 2004	RG Capital Radio	Acquisition by Regional Media Pty Limited	176	11.0	10.0	12.8	na
Jul 2003	RedWave Media Limited	Acquisition by West Australian Newspapers Limited	12	na <sup>5</sup>	14.7	na	na
Feb 2003	4BH AM (Brisbane)	Acquisition by Southern Cross Broadcasting (Australia) Limited	10	na	6.7	na	na
Aug 2002	DMG Australia	Acquisition of 25% interest by Daily Mail and General Trust plc	406	9.0	na	17.9	na
Mar 2002	NX FM and KO FM (Newcastle)	Acquisition of 50% interest by RG Capital Radio	24	12.0	11.5	12.6	12.1
Mar 2001	2UE AM, 4BC AM, Sky Radio	Acquisition by Southern Cross Broadcasting (Australia) Limited	89	94.2	12.7	na	15.8
<b>Production and Distribution</b>							
May 2007	Endemol NV	Acquisition of 75% interest by Edam Acquisition B.V. with pending takeover offer for remaining 25%	EUR 3,125	17.9	12.8	19.7	13.9
Dec 2003	Southern Star Group Limited	Acquisition by Southern Cross Broadcasting (Australia) Limited	95	8.1	6.8	10.5	8.3

Source: Grant Samuel analysis<sup>6</sup>

<sup>1</sup> Implied equity value if 100% of the company or business had been acquired.

<sup>2</sup> Represents enterprise value divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation investment income and significant and non-recurring items.

<sup>3</sup> Represents enterprise value divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

<sup>4</sup> Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

<sup>5</sup> na = not available.



The transactions have taken place at prices that imply multiples in a very wide range (even after outlying multiples are excluded).

The majority of the selected transactions involved acquirers who were building or adding to national or regional media networks.

The multiples that acquirers have been prepared to pay for television and radio broadcasting businesses have varied depending on a number of factors:

- acquisitions of television stations and networks have generally taken place at higher multiples than those that applied to radio stations;
- acquisitions of radio networks have generally taken place at higher multiples than acquisitions of single stations; and
- acquisitions of broadcasting companies have generally taken place at higher multiples than those of production companies.

While none of the transactions involve companies that are precisely comparable to Southern Cross, the transactions provide evidence of prices that acquirers are willing to pay and provide some support for the multiples implied by the valuation of Southern Cross' operating businesses. A brief outline of those transactions is set out below:

#### ***Channel 9 Adelaide / WIN Corporation***

On 29 May 2007, WIN Corporation ("WIN") made an offer to acquire the issued capital in Channel 9 South Australia ("Channel 9 Adelaide"). Southern Cross, the parent company of Channel 9 Adelaide, accepted that offer. Channel 9 Adelaide is the holder of a commercial television broadcasting licence for the Adelaide TV1 commercial television broadcast area. WIN holds commercial television broadcasting licences in the Mount Gambier and Riverland Commercial TV licence areas in South Australia. The transaction was settled on 23 July 2007. Prior to the renegotiation in 2007 of its program supply agreement, Channel 9 Adelaide had been only modestly profitable. The high multiples implied by the transaction may reflect the expected earnings improvements following the program supply renegotiation and the synergies potentially available to WIN.

#### ***PBL Media / SP Telemedia***

In May 2007, SP Telemedia Ltd ("SP Telemedia") announced that it had entered into an agreement with PBL Media Pty Limited ("PBL Media") to sell its media assets, including NBN Television and its outside broadcasting and production operations (trading as One80 Digital Post). The total offer consideration for the assets was \$250 million. The sale was settled on 9 May 2007.

#### ***Seven Media / KKR***

On 19 November 2006, Kohlberg Kravis Roberts & Co ("KKR") acquired 50% of Seven Media, a joint venture between KKR and Seven Network Limited ("Seven Network"), comprising Seven Network's interest in television, magazine publishing and online interests. The gross proceeds to Seven Network were approximately \$4 billion, which, net of its interest in Seven Media, is approximately \$3.2 billion. Completion of the transaction occurred in December 2006.

#### ***PBL Media / CVC***

On 18 October 2006, some of Publishing & Broadcasting Limited's ("PBL") media interests ("PBL Media"), including ACP, Nine Network (including its interest in Sky News), a 50% interest in ninemsn and its 41% shareholding in carsales.com.au, were transferred to a new company, PBL Media, in which PBL and CVC Asia Pacific ("CVC") each held a 50% economic interest. PBL received net cash proceeds of \$4.542 billion for the transfer. On 1 June 2007 PBL announced it had sold a further 25% in PBL media to CVC.

<sup>6</sup> Grant Samuel analysis based on data obtained from DFS IRESS, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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***NBN Television / SP Telemedia***

On 29 April 2004, SP Telemedia announced it had agreed to buy the NBN Television Group (“NBN”) from Washington H Soul Pattinson & Company Limited for \$145 million, to be funded by \$80 million in cash with the balance consisting of 44,217,688 million SPT shares at \$1.47. NBN was a network affiliate of the Nine Network with operations across the Central Coast of New South Wales up to and including the Queensland Gold Coast, and north western New South Wales. The acquisition was completed in August 2004.

***Spencer Gulf Telecasters / Southern Cross***

On 5 February 2002 Southern Cross announced its intention to acquire all the ordinary shares in Spencer Gulf Telecasters Limited (“SGT”) for \$23.00 cash per share. SGT was a regional television station with operations in the Spencer Gulf in South Australia. The acquisition completed in April 2002. The transaction multiples appear relatively high reflecting the strategic importance of SGT to Southern Cross from a geographic and marketing viewpoint as well as the significant synergies resulting from the transaction.

***Telecasters / Southern Cross***

On 1 May 2001, Southern Cross announced its intention to acquire all the ordinary shares in Telecasters Australia Limited (“Telecasters”). The consideration was one Southern Cross share for each Telecasters share. Telecasters was a regional television station which owned Ten Queensland, Ten Northern New South Wales, Seven Darwin, Seven Central and Telecasters Communications. The acquisition was completed in August 2001.

***RG Capital Radio / Regional Media***

In June 2004, Regional Media Pty Limited, a subsidiary of Macquarie Bank Limited, announced its intention to acquire all of the ordinary shares in RG Capital Radio Limited (“RG Capital”) for a cash consideration of \$3.00 per ordinary share. RG Capital operated 35 commercial radio broadcasting licenses in 20 regional markets in Queensland, New South Wales, Victoria and Tasmania.

***RedWave Media / West Australian Newspapers***

On 11 July 2003, West Australian Newspapers Holdings Limited (“WAN”) announced the acquisition of the unlisted Western Australian regional broadcast group RedWave Media Limited (“RedWave Media”) for \$11.7 million in cash. RedWave Media operated AM and FM radio licences in the north west towns of Karratha, Port Hedland and Broome through two principal radio networks, the Star AM network that targeted an over 35 year old demographic and the WA FM network that targeted the 18 to 35 year old demographic. RedWave Media also operated the Red FM station transmitting to the remote mining areas of the State. The transaction represented the first non-print acquisition for WAN and was viewed as a strategic acquisition with minimal synergies. As RedWave Media was a private company, there is limited historical financial information. The forecast EBITDA multiple appears high and is based on brokers’ best estimates of the contribution by RedWave Media to WAN.

***4BH / Southern Cross***

On 13 February 2003, Southern Cross announced that it had agreed to acquire Brisbane radio station 4BH from DMG Australia for \$10.1 million. 4BH broadcasts an “easy listening” format on the AM band to metropolitan Brisbane. The combination of 4BH and Southern Cross’ existing news/talk station, 4BC, would have a station share in excess of 16% of the Brisbane radio market, providing an enhanced ratings position and additional synergies through co-locating programming and sharing of resources.

***DMG Australia / Daily Mail***

On 1 August 2002, Daily Mail announced the acquisition of GWR plc’s (“GWR”) 25% stake in DMG Australia for approximately £35 million (\$101.5 million). Following the acquisition, DMG Australia was 100% owned by Daily Mail. When considering the historical EBITDA multiple of 9.0 times and the historical EBIT multiple of 17.9 times, the following should be taken into account:

- the acquirer was the 75% controlling shareholder and the consideration paid may not have reflected a takeover premium;

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- DMG Australia's business comprised capital city radio licences (only some of which were operating at the time of the transaction) and an established operating regional radio network; and
- DMG Australia is the only Australian radio network owner that amortises radio licences. If radio licence amortisation is added back the historical EBIT multiple is significantly lower.

#### ***NX FM and KO FM / RG Capital***

On 11 March 2002, Austereo Group Limited ("Austereo") announced that it had sold a 50% stake in its two Newcastle radio stations, NX FM 106.9 and KO FM 102.9, to RG Capital for \$11.8 million. RG Capital and Austereo formed a joint venture to operate the stations with Austereo overseeing the programming and RG Capital assuming management responsibility.

#### ***2UE AM, 4BC AM and Sky Radio / Southern Cross***

On 22 March 2001, Southern Cross announced that it had acquired Sydney radio station 2UE, Brisbane radio station 4BC and Sky Radio through the acquisition of all the issued shares in Broadcast Investment Holdings Pty Limited and United Broadcast Holdings Pty Limited, for a total consideration of \$89.8 million. Through the acquisition, Southern Cross significantly expanded its news/talk network which consisted of Melbourne's 3AW and 6PR in Perth. The national integrated talk network was expected to provide synergies through higher advertising appeal, programming synergies and resource sharing. At the time of the acquisition, 2UE was a dominant performer in the Sydney radio market and 4BC was the only commercial news/talk station in the Brisbane radio market. Sky Radio packaged and sold program material produced by 2UE, news and other programs for regional stations.

#### ***Becker Group Limited / Prime Television Limited***

On 30 March 2007, Prime Television Limited ("Prime") announced its offer to acquire all of the ordinary shares in Becker Group Limited ("Becker") for \$0.40 cash per Becker share. In recommending the offer, the Becker board also announced its intention to sell its film exhibition, production and distribution assets to a related private company, Becker Film Group Pty Limited ("Becker Film Group") (thereby leaving Prime with Becker's on-site broadcasting and television production businesses). On 25 May 2007 Prime increased its offer to \$0.43 cash per Becker share. On 13 June 2007, Prime further increased its offer to \$0.47 cash per Becker share. On 22 June 2006, following an unfavourable ruling by the Takeovers Panel, the board of Becker abandoned the proposal to sell the film and cinema assets to Becker Film Group. Prime's takeover proposal is now unconditional but is yet to be concluded.

#### ***Endemol N.V. / Edam Acquisition N.V.***

On 14 May 2007, Telefonica, S.A. announced it had agreed to sell its 99.7% interest in Endemol Investment Holding B.V. ("Endemol Holding") to the private consortium Edam Acquisition N.V. ("Edam Acquisition"), for EUR2.6 billion. Endemol Holding indirectly owns 75% of Endemol N.V. ("Endemol"). The total consideration, which included additional liabilities and assets of Endemol Holding, valued each Endemol share at EUR25.00 (including a EUR0.45 dividend). Edam Acquisition is a joint venture company equally owned by Mediaset S.p.A and its listed subsidiary Gestevisión Telecinco, S.A., Cyrté Fund II B.V. and G.S. Capital Partners VI Fund, L.P. On 18 June 2007, Edam Acquisition announced an all cash public takeover offer for the remaining 25% interest in Endemol for EUR25.00. The offer was conditional on the closing of the acquisition of Endemol Holding, which was settled on 3 July 2007. The takeover is yet to be concluded.

#### ***Southern Star / Southern Cross***

On 15 December 2003, Southern Cross announced its offer to acquire the ordinary shares in Southern Star Group Limited ("Southern Star"). Southern Cross offered one Southern Cross Convertible Preference Share with a face value of \$12.50 for every 16 Southern Star shares plus a special dividend of approximately 8.7 cents to be declared when the offer became unconditional. Southern Star was Australia's largest film and television production and distribution group involved in film, television and video production of Southern Star titles and third party productions. The acquisition completed in May 2004.

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## 2 Valuation Evidence from Sharemarket Prices

The valuation of Southern Cross' operating businesses has been considered in the context of the sharemarket ratings of listed Australian and international media companies whose activities include broadcasting and production. While none of these companies is precisely comparable to Southern Cross' operating businesses and the number of Australian companies involved purely in broadcasting or production is limited, the sharemarket data provides some guidance by which to assess the valuation of Southern Cross' operating businesses.

Sharemarket Ratings of Selected Listed Companies <sup>7</sup>										
	Market Capitalisation (million)	Revenue Multiple <sup>8</sup>			EBITDA Multiple <sup>9</sup>			EBIT Multiple <sup>10</sup>		
		historical Year 1 <sup>11</sup>	historical Year 2 <sup>11</sup>	forecast Year 1 <sup>11</sup>	historical Year 1 <sup>11</sup>	historical Year 2 <sup>11</sup>	forecast Year 1 <sup>11</sup>	historical Year 1 <sup>11</sup>	historical Year 2 <sup>11</sup>	forecast Year 1 <sup>11</sup>
<b>Television</b>										
Ten Network Holdings Limited	AUD 2,328	3.2	3.5	3.2	9.1	12.4	12.9	9.8	13.7	14.3
Prime Television Limited	AUD 446	2.9	3.0	2.8	9.3	9.3	8.7	11.1	11.1	10.3
<b>Radio</b>										
APN News & Media Limited	AUD 2695	2.7	2.8	2.7	10.8	10.8	10.3	12.4	12.2	11.7
Austereo Group Limited	AUD 659	3.7	3.5	3.4	11.6	10.8	10.2	12.7	11.8	11.4
<b>Production &amp; Distribution</b>										
Beyond International Limited	AUD 57	0.9	na	na	5.3	na	na	11.7	na	na
Group Carrere	EUR 136	2.0	1.7	na	2.9	3.1	na	8.9	16.3	na
ITV PLC	GBP 4,060	2.2	2.2	na	9.7	11.8	14.0	13.4	16.1	20.3
RDF Media Group	GBP 73	0.1	0.7	na	14.1	7.6	na	18.1	10.2	na

Source: Grant Samuel analysis<sup>12</sup>

The above analysis indicates that Australian media companies with significant television and radio broadcasting businesses are trading on multiples in the range of 2.8-3.5 times historical revenue, 2.7-3.4 times forecast revenue, 9.3-12.4 times historical EBITDA and 8.7-12.9 times forecast EBITDA.

Australian and international media companies with significant production businesses appear to trade on lower implied multiples than those for broadcasting businesses, a reflection of, among other things, the more volatile nature of their earnings. The production businesses selected are trading on multiples in the range of 0.7-2.2 times historical revenue and approximately 3.1-11.8 times historical EBITDA.

<sup>7</sup> The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

<sup>8</sup> Represents enterprise value (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by revenue.

<sup>9</sup> Represents enterprise value divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

<sup>10</sup> Represents enterprise value divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

<sup>11</sup> Historical multiples are based on company published earnings or broker report estimates for the two financial years ending prior to or on 30 June 2007. Forecast multiples are based on company published earnings forecasts or brokers' reports. All of the companies have a 30 June year end, except for APN News & Media Limited ("APN"), ITV PLC and Group Carrere which have 31 December year ends, RDF Media Group which has a 31 January year end and Ten Network holdings Limited ("Network Ten") which has a 31 August year end. Consequently, the historical multiples reflect two years' earnings to 30 June 2007 except for APN, ITV PLC and Group Carrere and Austar which are based on two years' earnings to 31 December 2006, RDF Media Group which is based on two years' earnings to 31 January 2007, and Network Ten which is based on two years' earnings to 31 August 2006. Where companies have not reported their 30 June 2007 full year earnings, Grant Samuel has relied on company published earnings forecasts or brokers' reports.

<sup>12</sup> Grant Samuel analysis based on data obtained from DFS IRESS, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.



The multiples shown above are based on sharemarket closing prices as at 17 August 2007 and do not reflect a premium for control.

All of the companies have a 30 June year end, except for APN News & Media Limited (“APN”), ITV PLC (“ITV”) and Group Carrere which have 31 December year ends, RDF Media Group (“RDF”) which has a 31 January year end and Ten Network holdings Limited (“Network Ten”) which has a 31 August year end. Consequently, the historical multiples reflect full year earnings to 30 June 2006 except for APN, ITV and Group Carrere and Austar which are based on full year earnings to 31 December 2006, RDF which is based on full year earnings to 31 January 2007, and Network Ten which is based on full year earnings to 31 August 2006.

A brief description of each company is set out below.

### ***Network Ten***

Network Ten was formed to act as the holding company of The TEN Group. The TEN Group owns and operates Network Ten stations in Sydney, Melbourne, Brisbane, Perth and Adelaide. Network Ten was listed on the ASX in 1998 and has a market capitalisation of approximately \$2.3 billion (including approximately 0.5 billion shares issuable to CanWest and other parties).

Network Ten’s commercial television stations include TEN-10 Sydney, ATV-10 Melbourne, TVQ-10 Brisbane, ADS-10 Adelaide, and NEW-10 Perth. Network Ten also has programme supply agreements with Southern Cross. TEN Sydney is the broadcast centre for the network and affiliate stations. It provides a commercial-free program feed by fibre optic cable to affiliates in their market, where commercials and some programming are inserted and the signal is then broadcast by local transmitter towers. Over the last few years, Network Ten’s programming strategy has targeted the 16 to 39 year old demographic and more recently has broadened to the 18 to 49 year old demographic.

Eye Corp is Network Ten’s wholly owned outdoor advertising company. Eye Corp’s operations comprise six businesses:

- Eye Drive, encompassing large format outdoor signage at sites including airports, major roads and transit routes in capital cities and large urban centres;
- Eye Fly, providing signage at all Australian domestic and international airports;
- Eye Shop, with exclusive rights to Westfield, AMP, Gandel and Highpoint shopping centres, covering over 60 centres across Australia and New Zealand;
- Eye Plus, a digital media solution providing approximately 450 screens in 350 elevators throughout the central business districts of Sydney, Melbourne, Brisbane and Adelaide;
- Eye Study, providing street furniture and digital poster displays throughout universities in Australia and New Zealand; and
- Adval, a visual merchandising and point-of-sale supplier to retailers.

Eye Corp also has operations in South East Asia, Europe and North America.

Network Ten and Seven Network have secured the television rights for the 2007-2011 football seasons. Network Ten and Seven Network will pay \$780m over 5 years, with such consideration to be shared between Network Ten and Seven Network based on match allocations across all television media.

In February 2007, Network Ten re-launched its website [www.ten.com.au](http://www.ten.com.au) with a focus on video streaming, downloads and core television brands.

Network Ten trades at 12.4 times historical EBITDA and 12.9 times forecast EBITDA, and 13.7 times historical EBIT and 14.3 times forecast EBIT. As reflected in the multiples of forecast earnings, which are higher than the historical multiples, Network Ten’s earnings are expected to decline in the financial year ending 31 August 2007 due to start up costs relating to the outdoor advertising business and the softer television market.

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**Prime**

Prime operates as a free-to-air television broadcaster in Australia and New Zealand. Prime's revenues are primarily sourced from advertising and the production of programs and commercials. Prime was listed on the ASX in 1984 and has a market capitalisation of approximately \$446 million.

Prime operates 13 television broadcasting stations and has 19 sales offices throughout Australia and New Zealand including Sydney, Melbourne, Brisbane, Perth and Auckland. Prime's major broadcasting facilities are based in Canberra, Wollongong, Wagga Wagga, Newcastle, Orange, Tamworth, Ballarat, Albury and Bunbury. Programming is supplied through an affiliation agreement with Seven Network which provides entertainment programs, Seven News and major sporting programs. In addition, Prime is rolling out digital transmission services for WIN TV in Mildura, Victoria.

Prime also owns and operates a radio network in Queensland with 8 radio licences including two radio stations in Queensland, AM846 'Easy Listening' and 4AA 'Easy Listening'.

Prime has entered into a joint venture arrangement with several partners to form the Prime Digital Media Group. Prime Digital Media will focus on the development, deployment and management of in-store digital signage networks to provide advertising content, consumer information, staff training and media sales.

Prime trades on multiples of 9.3 times historical EBITDA and 8.7 times forecast EBITDA and 11.1 times historical EBIT and 10.3 times forecast EBIT.

**APN News & Media Limited**

APN is a diversified media company with operations across Australia and New Zealand in publishing, radio broadcasting, and transit and outdoor advertising and printing. APN was listed on the ASX in 1992 and has a market capitalisation of approximately \$2.7 billion.

APN's titles include 23 daily and over 100 non-daily newspapers across Australia and New Zealand. In Australia, APN services the Queensland and northern New South Wales markets, and is the largest regional newspaper publisher in Australia. In New Zealand, APN operates the country's largest metropolitan daily, The New Zealand Herald, as well as the Herald on Sunday, The Aucklander and a number of regional newspapers and mass market magazines.

APN has a 50% interest in the Australian Radio Network which operates 12 radio stations in key metropolitan markets. The programming strategy focuses on two music streams being 'Mix' and 'Classic Hits' which target the key 25 to 54 year old demographic. In New Zealand, APN also owns 50% of The Radio Network which operates 120 stations in New Zealand. APN is expected to generate approximately 25% of its total EBIT for the financial year ending 31 December 2007 from its radio operations.

APN also has an outdoor advertising group operating throughout Australasia and also operates print and specialist publishing businesses in Australia and New Zealand. APN's printing operations are located in Brisbane and the Sunshine coast in Australia, and Auckland and Christchurch in New Zealand.

APN trades on multiples of 10.8 times historical EBITDA and 10.3 times forecast EBITDA and 12.2 times historical EBIT and 11.7 times forecast EBIT.

**Austereo Group Limited**

Austereo is a radio broadcasting company with operations in every mainland capital city of Australia. Austereo operates its radio stations under two brands, the Today and Triple M networks, and enjoys significant domestic market share. Austereo was listed on the ASX in 2001 and has a market capitalisation of approximately \$659 million.

Austereo's Today network consists of 2DAY FM in Sydney, Fox FM in Melbourne, B105 in Brisbane, 92.9 FM in Perth and SA FM in Adelaide. The Triple M network consists of 104.9 in Sydney, 105.1 in Melbourne, 104.5 in Brisbane, 104.7 in Adelaide and Mix 94 in Perth. Joint venture stations operate in Canberra and Newcastle as FM 104.7 and NX FM respectively.

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Austereo has also diversified its radio operations offshore including:

- the provision of services to Malaysian radio through a joint venture, including the operation of 8 nationwide FM music stations supported by advanced interactive media including websites, mobile applications, on-ground teams and database marketing;
- through a commercial services and equity option agreement with UKRD Ltd in the United Kingdom; and
- operating Village 88.3FM in Athens, Greece.

Austereo has a content supply arrangement with MCM entertainment, an international radio and television production and marketing business.

Austereo trades on multiples of 10.8 times historical and 10.3 times forecast EBITDA, and 12.2 times historical and 11.7 times forecast EBIT.

#### ***Beyond International Limited***

Beyond International Limited (“Beyond”) produces and distributes television programs and feature films. Beyond is the largest international feature films sales company based in Australia. Beyond was listed on the ASX in 1987 and has a market capitalisation of approximately \$57 million.

Beyond’s production arm (“Beyond Productions”) is an independent Australia producer of television programming with production bases both locally and internationally. Beyond Production’s programming covers a broad spectrum of genres including documentary, natural history, science, drama, children’s entertainment, adventure, information and magazine programs. Programming is also produced by independent producers and joint venture partners including Beyond Simpson Le Mesurier, Mullion Creek and Beyond, Pacific & Beyond, and Beyond New Zealand.

Television programs and feature films from Beyond productions and other parties are distributed in domestic and international markets. As such, Beyond is focused on acquiring programs and films that have worldwide appeal. The two primary markets for Beyond television sales are multi-territory satellite and Western Europe. For feature films, the main markets are western Europe and Australia.

Beyond Vision is the Beyond’s footage sales arm. Beyond Vision offers royalty-free shots, themed packages, traditionally licensed footage, film research and clearances, and consumer products. Beyond Vision owns over 20,000 hours of footage.

#### ***ITV PLC***

ITV is a United Kingdom based multi-channel, multi-platform, content-driven business. ITV has three core businesses being broadcasting, production and consumer. ITV is listed in the United Kingdom and has a market capitalisation of approximately GBP4.1 billion. ITV employs almost 6,000 people worldwide.

ITV’s broadcasting operations consist of several television channels including ITV1 (comprising 15 regional Channel 3 licences) and four free to air digital channels (ITV1, ITV2, ITV3 and Men and Motors). It is the United Kingdom’s largest television commercial broadcaster. ITV also sells advertising on behalf of all 15 Channel 3 regional licences.

ITV’s production business is one of Europe’s leading commercial production businesses producing more than 3,000 hours of original programming each year, and includes the Granada production group. ITV produces much of the programming broadcast on the ITV channels.

ITV’s consumer business works with the broadcasting and content business to deliver content through other platforms including ITV’s digital terrestrial multiplex SDN platform, broadband, ITV’s participation business and mobile business.

ITV trades on relatively high multiples of 11.8 times historical and 14.0 times forecast EBITDA, and 16.1 times historical and 20.3 times forecast EBIT. ITV has recently been through a period of poor

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performance. Earnings are expected to return to positive growth in the financial year ending 31 December 2008.

#### ***RDF Media Group***

RDF creates, acquires and distributes television content, mainly in the factual, entertainment, drama and children's programming genres. RDF was listed on the Alternative Investment Market in the United Kingdom in 2005 and has a market capitalisation of approximately GBP73 million. RDF includes IWC Media, Presentable, Radar and Touchpaper Television.

In the United Kingdom, RDF originates, sells and produces popular and original television programmes for all the United Kingdom's terrestrial broadcasters and a number of the nonterrestrial digital channels. In the United States, RDF produces local versions of the RDF's United Kingdom hits, as well as devising original programming for a number of broadcast networks and cable companies.

RDF's most successful products include *Wife Swap* for Channel 4 and the ABC network, *Late Night Poker* for Channel 4, *Shipwrecked* for Channel 4 and *Perfect Housewife* for BBC3. RDF has offices throughout the United Kingdom as well as in Santa Monica and New York in the United States. RDF employs about 500 people.

#### ***Group Carrere***

Group Carrere is a diversified audiovisual group which produces and distributes programmes for television. It is listed on the Paris Stock Exchange and has a market capitalisation of approximately EUR136 million.

In the audiovisual production sector, Group Carrere mainly supplies programmes to a wide range of television stations. Programming includes drama (films and televised series, feature films), TV shows (entertainment programmes, documentary, short programmes) and animation (series and films). In terms of distribution, Group Carrere markets the television, video and cinema rights to its own catalogue and those of other producers. It has a catalogue of over 6,000 hours of programmes and a large part of its business is international. In addition to production and distribution, Group Carrere's marketing division incorporates advertising, communication and merchandising activities.

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**Annexure B: Merger Implementation Agreement**

# Parties

**Southern Cross Broadcasting (Australia) Limited** ABN 86 006 186 974 of 70 Park Street, South Melbourne, Victoria (**SCB**)

**Regional Media No.2 Pty Limited** ACN 124 720 289 of Level 7, No 1 Martin Place, Sydney, New South Wales (**RM2**)

**Macquarie Media Holdings Limited** ABN 91 116 024 536 of Level 11, No 1 Martin Place, Sydney, New South Wales (**MMHL**)

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## Background

- A RM2 has agreed with SCB that it will acquire the Scheme Shares by means of the Scheme.
- B SCB has agreed that it will propose the Scheme, and issue the Scheme Booklet.
- C RM2 has agreed with SCB to implement the Scheme upon the terms of this document.
- D MMHL has agreed to guarantee the obligations of RM2 upon the terms of this document.

## Agreed terms

### 1. Interpretation

#### 1.1 Definitions

In this document:

**ACCC** means the Australian Competition and Consumer Commission.

**ACMA** means the Australian Communications and Media Authority.

**ACMA Undertakings** means the draft undertakings given to ACMA under sections 61AS and 205W of the BSA, by RM2 and certain of their Related Entities dated 20 June 2007 or such other enforceable undertakings given to ACMA by RM2 and certain of its Related Entities in respect of the Transaction.

**Advisers** means, in relation to an entity, its legal, financial, accounting, insurance, taxation and other expert advisers (but excludes the Independent Expert).

**Anticipated Divestiture Businesses** means the businesses of the SCB Group and RM2 and its Related Entities described in the ACMA Undertakings as "Divestiture Businesses".

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

**ASX** means Australian Stock Exchange Limited.

**ASX Listing Rules** means the official listing rules of ASX.

**Break Fee** is an amount equal to 1% of the Scheme Value (inclusive of GST).

**BSA** means the Broadcasting Services Act 1992 (Cth).

**Business Day** means:

for receiving a notice under **clause 17**, a day that is not a Saturday, Sunday, public holiday or bank holiday in the place where the notice is sent; and

- (a) for all other purposes, a day that is not a Saturday, Sunday, bank holiday or public holiday in Melbourne, Australia.

**Competing Proposal** means a bona fide proposed transaction or arrangement pursuant to which a person (other than RM2 or any of its Related Entities) would, if the proposed transaction or arrangement is completed substantially in accordance with its terms or expected terms:

- (a) directly or indirectly acquire, have a right to acquire or otherwise acquire an economic interest in all of the business or assets of the SCB Group or a part of the business or assets of the SCB Group that makes a Material Contribution;
- (b) acquire voting power (under section 610 of the Corporations Act) in SCB of more than 9.9%;
- (c) acquire control (within the meaning of section 50AA of the Corporations Act or within the meaning of section 6 of the BSA) of SCB or of any Material SCB Group Members; or
- (d) otherwise acquire or merge with SCB or one or more Material SCB Group Members whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure or other synthetic merger or any other transaction or arrangement.

**Conditions Precedent** means the conditions precedent to the parties' obligations to implement the Scheme as set out in **clause 3**.

**Confidential Information** has the meaning ascribed to that term in the Confidentiality Deed.

**Confidentiality Deed** means the document dated 4 April 2007 between SCB and MM Group.

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

**Court** means the Supreme Court of Victoria or any other court of competent jurisdiction under the Corporations Act agreed in writing by SCB and RM2.

**Data Room Index** means the index of Data Room Materials agreed between, and signed by, the parties on or around the date of this document.

**Data Room Materials** means all documents and information which were on the day prior to entry into this document, contained in the online data room made available to RM2 and its Representatives by SCB, as specified in the Data Room Index.

**Deed Poll** means a deed poll to be agreed by the parties in writing on terms that are consistent with the provisions of this document under which RM2 covenants in favour of the Scheme Shareholders to perform its obligations under the Scheme.

**Disclosures** means all of the information disclosed in writing by SCB and its Advisers to RM2, any of its Related Entities or any of their respective Advisers, prior to the date of this document in:

- (a) the Data Room Materials; and
- (b) the Disclosure Letter,
- (c) which information shall be taken to also include:
- (d) all information available on a public register as at the date of this document;
- (e) the contents of any public announcement or disclosure (including ASX disclosure) made by SCB prior to the date of this document; and
- (f) all information actually known by RM2 or MMHL prior to the date of this document other than by virtue of non-written disclosures from SCB.

**Disclosure Letter** means a letter from SCB to RM2 dated on or about the date of this document called a disclosure letter and signed on behalf of SCB and RM2.

**Employment Benefits** means in respect of a person, the remuneration of, or payment of any bonuses or the issue of any securities or the giving of any other benefits to that person.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme or the Option Scheme, as the case may be, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means the later of:

- (a) 15 November 2007; or

(b) such other date as agreed in writing between SCB and RM2,

provided, however, that if the audited SCB Group financial reports for the financial year ending 30 June 2007 are finalised after 20 August 2007, the date referred to in paragraph (a) shall be extended by the same number of Business Days after 20 August 2007 as it takes SCB to finalise those reports.

**Exclusivity Period** means the period commencing on the date of this document and ending on the earlier of:

- (a) the Effective Date; and
- (b) termination of this document.

**Fiduciary Exposure** means a situation in which the SCB Board, acting reasonably and in Good Faith (based on a written legal opinion from their external legal advisers) considers that complying with SCB's obligations under this document would, more likely than not cause a breach of the fiduciary duties owed by each of the SCB directors to SCB or SCB Shareholders, or would otherwise be unlawful or in breach of any guidance note or determination of the Takeovers Panel or would involve a contravention of SCB's constitution.

**Final Dividend** means the proposed dividend of \$0.37 per fully paid SCB Share for the period to 30 June 2007.

**FIRB** means the Foreign Investment Review Board.

**First Court Hearing Date** means the first day on which an application made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.

**Good Faith** means, in respect of the actions of a person, that person acting, or having acted (as the case requires), honestly and genuinely and with the primary objective of the Scheme becoming Effective.

**Implementation Date** means, in relation to the Scheme, the Business Day after the Record Date.

**Independent Expert** means the independent expert SCB appoints to prepare the independent expert's report for inclusion in the Scheme Booklet.

**Insolvency Event** means in relation to a person:

- (a) that person resolving that it be wound up or the calling by that person of a meeting to consider such resolution (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person);
- (b) a liquidator, provisional liquidator or administrator being appointed in respect of that person;
- (c) the making of an order by a court for the winding up of the person;
- (d) the person executing a deed of company arrangement or entering into a compromise or arrangement with its creditors generally;
- (e) a receiver, or a receiver and manager, in relation to the whole or a material part of the property of that person being appointed. For the purposes of this paragraph, property of SCB or of a member of the SCB Group is material only if the relevant property has a Material Contribution; or
- (f) that person suspends or threatens to suspend payment of its debts, generally ceases or threatens to cease to carry on business, or that person is, or becomes, insolvent under the Corporations Act.

**Market Factor** means matters, events or circumstances that apply generally to securities quoted on the stock exchange conducted by ASX Limited.

**Material Contract** means the agreements specified in **Schedule 1** to this document.

**Material Contribution** measured at a particular date:

- (a) in relation to any assets, business or shares of one or more SCB Group Members (including in respect of the transfer of such assets, business or shares), means such assets, business or shares which alone or together:
  - (i) comprise consolidated net assets of SCB of at least \$30 million;
  - (ii) generated \$6 million or more of the operating earnings before interest, tax, depreciation and amortisation of SCB in the 2006-07 financial year; or

- (iii) in the case of the transfer of such assets, business or shares, include any assets, business or shares of the Retained Entities; or
- (b) in respect of the property of one or more SCB Group Members means such property as represents at least 5% or \$30 million of the consolidated net assets of SCB or includes the property of the Retained Entities.

**Material Effect** means in relation to a matter, the matter (in aggregate) will result or is likely to result in:

- (a) the consolidated net assets of SCB being diminished by an amount of \$30 million or more;
- (b) an adverse financial effect of \$6 million or more on the operating earnings before interest, tax, depreciation and amortisation of SCB in any financial year after taking into account any likely positive financial effect of the relevant matter but excluding from that calculation any effect of the divestment of Channel 9 South Australia Pty Ltd and the expected step down in licence fee rebates for FY07 and FY08; or
- (c) the SCB Group being unable to carry on its business in substantially the same manner as carried on at the date of this document.

**Material SCB Group Members** means:

- (a) one or more SCB Group Members whose assets, business or shares either alone or together would, if transferred out of the SCB Group, have a Material Effect.; and
- (b) the Retained Entities.

**MM Group** means MMHL, Macquarie Media Management Limited ABN 16 115 524 019 (in its capacity as the responsible entity of the Macquarie Media Trust) and Macquarie Media International Limited ARBN 118 577 423.

**Officers** means, in relation to an entity, its directors, officers, partners and employees.

**Optionholder** means the holder of an Option.

**Option** means an option or other right to acquire SCB Shares issued by SCB under an SCB Option Plan which is on issue as at the date of this document as specified in Annexure B.

**Option Price** means the price for the Options as set out in Annexure B.

**Option Scheme** has the meaning given in clause 4.2.

**Permitted Arrangement** means an agreement or arrangement entered into by any member of the SCB Group to the extent fairly disclosed in any Disclosures and any other agreement or arrangement to which RM2 has provided its prior written consent (such consent not to be unreasonably withheld, or delayed and which must not be withheld or delayed if the relevant agreement or arrangement will not or is not likely to have a Material Effect).

**Permitted Dividend** means and includes the Special Dividend and the Final Dividend to the extent that such dividends are able to be declared and fully franked in accordance with applicable law and any dividend agreed upon by SCB and MMG if the End Date is extended.

**PS 60** means Policy Statement 60 issued by ASIC on 4 August 1999, as amended, substituted or replaced from time to time.

**PS 142** means Policy Statement 142 issued by ASIC on 4 August 1999, as amended, substituted or replaced from time to time.

**Record Date** means 5.00 pm on the fourth Business Day following the Effective Date or such other date as SCB and RM2 agree.

**Regulatory Approval** means the regulatory approvals under the Conditions Precedent in clauses 3.1(a), 3.1(b) and 3.1(c).

**Regulatory Authority** means a government or a governmental, semi governmental or judicial entity or authority or any Minister, department, office or delegate of any government. It includes a self regulatory organisation established under statute or a financial market, ACMA, ACCC, ASIC, FIRB and ASX.

**Related Entity** of a party means another entity which:

- (a) is a related body corporate of the first entity under section 50 of the Corporations Act;
- (b) is in any consolidated entity (as defined in section 9 of the Corporations Act) which contains the party; or
- (c) the party controls (as defined in section 50AA of the Corporations Act),

and in the case of the MM Group the above paragraphs will be applied both as if the entities in the MM Group were one entity and separate entities.

**Representatives** means, in relation to a party:

- (a) its subsidiaries; and
- (b) each of the Officers and Advisers of the party or any of its subsidiaries.

**Retained Entities** means the following SCB Group Members:

- (a) Tricom Radio Holdings Pty Ltd (ACN 006 806 088);
- (b) Southern Star Group Limited (ACN 003 321 266);
- (c) Tricom Group Pty Ltd (ACN 007 217 870); and
- (d) Southern Cross View Pty Ltd (ACN 104 575 591),

and including each of their Subsidiaries and shareholdings specified in Schedule 2.

**RM2 Board** means the board of directors of RM2.

**RM2 Information** means all information regarding RM2 and its Related Entities that is required to be included in the Scheme Booklet by the Corporations Act, ASX Listing Rules, PS 60 and PS 142 including all the information that would be required under sections 636(1)(c), (f), (h), (i), (k)(ii), (l) and (m) of the Corporations Act to be included in RM2's statement if RM2 were offering the Scheme Consideration as consideration under a takeover bid, and that is finally approved, and provided to SCB, by RM2 for inclusion in the Scheme Booklet.

**RM2 Prescribed Occurrence** means the occurrence of an Insolvency Event in respect of RM2, provided that the event will not constitute an RM2 Prescribed Occurrence where RM2 has first consulted in detail with SCB in relation to the proposed event, and SCB has, acting in Good Faith, approved the proposed event in writing within five Business Days of having been so consulted.

**RM2 Shares** means any SCB Shares held by or on behalf of RM2 or any of its Related Entities on the Record Date.

**RM2 Warranties** means the representations and warranties made by RM2 in **clause 15.2**.

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

**SCB Group** means all of the SCB Group Members.

**SCB Group Member** means SCB and any Related Entity of SCB except that, when used in the definition of "SCB Prescribed Occurrences", the term "SCB Group Member" shall not include any of Homebush Transmitters Pty Ltd, Youplay Pty Ltd, Darwin Digital Television Pty Ltd and Tasmanian Digital Television Pty Ltd.

**SCB Information** means all information contained in the Scheme Booklet and all information provided by or on behalf of SCB to the Independent Expert to enable the Independent Expert to prepare and complete the report included in or accompanying the Scheme Booklet, but does not include the RM2 Information, the Independent Expert's report and any tax opinion in relation to the Scheme provided by an Adviser to SCB included in or accompanying the Scheme Booklet.

**SCB Material Adverse Change** means matters, events or circumstances occurring after the date of this document which individually or when aggregated with all such events, occurrences or matters have or are reasonably likely to have a Material Effect, other than:

- (a) those required to be done or procured by SCB pursuant to this document or under the Scheme;
- (b) a matter, event or circumstance which has been fairly disclosed by SCB to RM2 in the Disclosures;
- (c) anything which RM2 has consented to in writing; or
- (d) a Market Factor.

**SCB Option Plan** means each of the following option or performance rights plans under which the Options were issued:

- (a) SCB Executive Performance Plan; and
- (b) 2002 Managing Director Option Grant Terms.

**SCB Prescribed Occurrence** means, other than:

- (a) a Permitted Arrangement;
- (b) as fairly disclosed by SCB to RM2 in the Disclosures;

- (c) as required by this document;
- (d) as required under the Scheme; or
- (e) with the express written consent of RM2,
- the occurrence of any of the following:
- (f) the constitution of SCB being amended;
- (g) SCB converting all or any of its shares into a smaller or larger number of shares;
- (h) the terms of any ordinary shares or securities or financial products convertible at the option of the holder into ordinary securities or having the economic characteristics of ordinary shares, issued by SCB being amended;
- (i) SCB or any SCB Group Member resolving to reduce its share capital in any way or reclassify, combine, split or redeem or buy-back any of its shares;
- (j) SCB or any SCB Group Member which is not a wholly owned subsidiary of SCB making or declaring any distribution whether by way of dividend or capital reduction or otherwise and whether in cash or in specie, except the Final Dividend;
- (k) SCB or any SCB Group Member other than in the ordinary course of business:
- (i) acquiring, leasing or disposing of;
- (ii) agreeing to acquire, lease or dispose of; or
- (iii) offering, proposing or announcing a bid or tenders for,  
any business, assets, property, interest in any joint venture or entity valued in excess of \$15 million (other than capital expenditure commenced or approved prior to the date of this document);
- (l) SCB or any SCB Group Member creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a part, of its business or property which:
- (i) is not subject to a mortgage, charge, lien or other encumbrance as at the date of this document; and
- (ii) makes a Material Contribution;
- (m) other than Southern Star Group Ltd or any of its subsidiaries providing distribution guarantees in the ordinary course of business, SCB or any SCB Group Member incurring any indebtedness or issuing any indebtedness or debt securities by way of borrowings, loans or advances for amounts in aggregate in excess of \$15 million other than by way of replacement of current financing or which would otherwise not result in a Material Effect;
- (n) SCB or any SCB Group Member making, or entering into an agreement to make, in aggregate, capital expenditure in excess of \$6 million on matters not commenced or approved by SCB prior to the date of this document;
- (o) SCB or any SCB Group Member making any change in its accounting methods, principles or practices, which would materially affect the reported consolidated assets, liabilities or results of operations of SCB, other than as required to comply with any changes to generally accepted accounting principles, standards, guidelines or practices in Australia;
- (p) an Insolvency Event occurs in respect of SCB or any SCB Group Member;
- (q) SCB or any SCB Group Member buying back any of its ordinary shares, including by:
- (i) entering into a buy-back agreement; or
- (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;
- (r) SCB or any SCB Group Member making an allotment or issue of, or granting an option to subscribe for, any ordinary shares or securities or financial products convertible into, or having the economic characteristics of, ordinary shares, or agreeing to make such an

allotment or issue or to grant such an option (other than the issue of SCB ordinary shares upon the exercise of any Option on issue at the date of this document);

- (s) SCB or any SCB Group Member:
- (i) entering into or agreeing to enter into a material contract other than on arms length market terms in the ordinary course of business;
  - (ii) terminating or materially amending the terms of any Material Contract or a counterparty to a Material Contract becoming entitled to terminate that Material Contract (including if a counterparty would become entitled to terminate a Material Contract as a result of the Transaction);
  - (iii) waiving any material claims or rights under, or waiving the benefit of, any material provisions of any Material Contract;
- (t) SCB or any SCB Group Member:
- (i) increasing, accelerating or otherwise varying the entitlement to the Employment Benefits of any of its directors or executives, (including a termination payment or a variation that would require payment to be made to a director or executive in the event of a change of control or change in responsibilities), except, in the case of salary or bonus reviews or payments, where the relevant conduct is contemplated by the terms of engagement by SCB or the relevant SCB Group Member (as the case may be) of the director or executive or such conduct is consistent with the normal salary review processes implemented in respect of such entities;
  - (ii) subject to **clause 4**, materially varying the terms of an SCB Option Plan or establishing any other employee share or option plan in respect of Officers of any SCB Group Member.  
  
For the purposes of this subparagraph (t) a reference to an "executive" is a reference to the Managing Director of SCB, his direct reports or a general manager within the SCB Group;
- (u) SCB or any SCB Group Member entering into or maintaining any agreement to pay any amount to an Adviser in connection with the Transaction that is materially greater than that disclosed in the Disclosures excluding any agreements on market terms with new Advisers that SCB wishes to retain after the date of this document;
- (v) SCB or any SCB Group Member disposing of, or agreeing to dispose of any business, asset, property or joint venture which has a Material Effect or any Material SCB Group Member;
- (w) SCB or any SCB Group Member or any of their Officers (who is entitled to the benefit of an indemnity from the SCB Group in the particular context) being, or becoming, a party to any material prosecution, litigation or arbitration (other than as a plaintiff or applicant) in respect of SCB or any SCB Group Member or their respective business or assets that exposes SCB or any SCB Group Member to a **material** potential liability (excluding legal costs), provided that an SCB Prescribed Occurrence will not occur to the extent that the litigation is frivolous or vexatious, initiated or instigated by RM2 or any of its Subsidiaries or where SCB receives legal advice within 7 days of SCB being served with the relevant proceedings to the effect that the litigation has no reasonable prospects of success, and for the avoidance of doubt, an SCB Prescribed Occurrence will be taken not to occur during the 7 day period referred to in this paragraph;
- (x) SCB or any SCB Group Member licensing, selling or otherwise giving any third party rights under any of the material intellectual property that SCB or any SCB Group Member owns or has a right to use, other than in the ordinary course of business or pursuant to contractual requirements in effect on the date of this document; or
- (y) SCB or any SCB Group Member **materially** contravening the BSA or breaching a material licence issued under the BSA which has a Material Effect.

**SCB Share** means a fully or partly paid ordinary share in SCB.

**SCB Shareholder**, as at a particular date, means each person who is registered in the register of members of SCB as a holder of one or more SCB Shares as at 5.00 pm on that date.

**SCB Warranties** means the representations and warranties made by SCB in **clause 15.1**.

**Scheme** means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between SCB and SCB Shareholders to be agreed by the parties in writing on terms that are consistent with the provisions of this document, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by each party.

**Scheme Booklet** means the information to be dispatched to SCB Shareholders and approved by the Court, including the Scheme, explanatory statements in relation to the Scheme issued pursuant to section 412 of the Corporations Act and registered with ASIC, an independent expert's report prepared by the Independent Expert, summaries of each of this document, the Deed Poll, a tax opinion on the Scheme provided by SCB's taxation Advisers and notices convening the Scheme Meeting (together with proxy forms).

**Scheme Consideration** means \$17.05 per fully paid Scheme Share and that amount less the amount of the unpaid issue price in the case of each partly paid Scheme Share.

**Scheme Meeting** means the meeting ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.

**Scheme Order** means the order of the Court made for the purposes of section 411(4)(b) of the Corporations Act in relation to the Scheme.

**Scheme Shareholder** means each holder of Scheme Shares.

**Scheme Shares** means all the SCB Shares on issue on the Record Date excluding the RM2 Shares but including any SCB Shares issued on or before the Record Date including upon exercise of any Option.

**Scheme Value** means the aggregate of:

- (a) an amount equal to the total number of fully paid SCB Shares on issue as at the date of this document (less the number of fully paid SCB Shares in respect of which MM Group has a relevant interest) multiplied by the aggregate of:
  - (i) the Scheme Consideration in respect of each of those fully paid SCB Shares; and
  - (ii) the amount of the Special Dividend per fully paid share; and
- (b) an amount equal to the total number of partly-paid SCB Shares on issue as at the date of this document, multiplied by:
  - (iii) the Scheme Consideration in respect of each of those partly-paid SCB Shares; and
  - (iv) the amount of the Special Dividend per partly-paid share.

**Second Court Date** means the first day on which an application made to the Court for the Scheme Order is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

**Special Dividend** means the proposed dividend of \$0.36 per fully paid SCB Share to be paid by SCB on the Implementation Date and the amount to which the holders of partly paid SCB Shares are entitled as resolved by the SCB Board per partly paid SCB Share.

**Subsidiary** has the meaning given to it in section 9 of the Corporations Act.

**Superior Proposal** means a Competing Proposal that:

- (a) was not solicited or initiated by SCB;
- (b) has been communicated in writing to SCB, or announced publicly;
- (c) is from, by or on behalf of a person who the SCB Board acting in Good Faith considers:
  - (i) genuinely intends to proceed with the proposal; and
  - (ii) is of reputable commercial standing; and
- (d) the SCB Board have determined in Good Faith, would, if completed, result in a transaction more favourable to SCB Shareholders (as a whole) than the Scheme or any RM2 Counterproposal (as referred to in **clause 9.2(b)**) (as the case may be), taking into account any relevant matter, including taxation impacts of the relevant Competing

Proposal on SCB Shareholders, provided that a Competing Proposal will not fail to satisfy this criteria solely because:

- (i) it is subject to the completion of due diligence; or
- (ii) it is subject to other conditions which remain unsatisfied but which the SCB Board consider to be reasonably likely to be satisfied.

**Takeovers Panel** means the Panel as defined in section 9 of the Corporations Act.

**Timetable** means the timetable in **Annexure A**.

**Transaction** means the acquisition by RM2 of all of the Scheme Shares through the implementation of the Scheme as contemplated in this document.

## 1.2 Construction

Unless expressed to the contrary, in this document:

- (a) words in the singular include the plural and vice versa;
- (b) any gender includes the other genders;
- (c) if a word or phrase is defined its other grammatical forms have corresponding meanings;
- (d) "includes" means includes without limitation;
- (e) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (f) a reference to:
  - (i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
  - (ii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
  - (iii) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
  - (iv) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
  - (v) a right includes a benefit, remedy, discretion or power;
  - (vi) time is to local time in Melbourne;
  - (vii) "\$" or "dollars" is a reference to Australian currency;
  - (viii) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
  - (ix) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
  - (x) this document includes all schedules and annexures to it; and
  - (xi) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this document;
- (g) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded;

- (h) a reference to a party using **reasonable endeavours** does not include a reference to that party paying money (except immaterial amounts payable to Advisers and similar expenses) or providing other valuable consideration to or for the benefit of any person; and
- (i) a reference to a matter being **disclosed** is a reference to that matter being fairly disclosed.

### 1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

## 2. Implementation of the Scheme

- (a) SCB must propose the Scheme to its members and implement the Scheme on and subject to the terms of this document.
- (b) RM2 must:
- (i) comply with its obligations under the Scheme and the Deed Poll; and
  - (ii) provide reasonable assistance to SCB in proposing and implementing the Scheme.
- (c) The parties will use their best endeavours to implement the Scheme substantially in accordance with the Timetable, provided that neither party will be liable to the other for any failure to meet the Timetable, unless such delay was caused solely by a failure by that party to perform its obligations under this agreement in Good Faith.

## 3. Conditions Precedent

### 3.1 Conditions Precedent

The Scheme will not become Effective unless and until each of the following Conditions Precedent has been satisfied, taken to be satisfied in accordance with **clause 3.2** or waived in accordance with **clause 3.2**:

- (a) **(ACCC)** before 8.00 am on the Second Court Date, either:
- (i) RM2 receiving written advice from the ACCC that it does not propose to intervene in the Transaction pursuant to section 50 of the Trade Practices Act 1974 (Cth) (**TPA**);
  - (ii) RM2 receiving written advice from the ACCC that it does not propose to intervene in the Transaction pursuant to section 50 of the TPA, subject to the provision of written undertakings to the ACCC which are acceptable to the ACCC and the party required to provide them;
  - (iii) the ACCC granting RM2 clearance pursuant to Part VII, Division 3, Subdivision B of the TPA (**merger clearance**) to proceed with the Transaction;
  - (iv) the ACCC granting RM2 merger clearance to proceed with the Transaction, subject to conditions which are acceptable to the party required to comply with them;
  - (v) the Australian Competition Tribunal (**Tribunal**) granting RM2 authorisation pursuant to Part VII, Division 3, Subdivision C of the TPA (**merger authorisation**) to proceed with the Transaction;

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- (vi) the Tribunal granting RM2 merger authorisation to proceed with the Transaction, subject to conditions which are acceptable to the party required to comply with them;
  - (vii) the Tribunal reviewing a merger clearance determination of the ACCC and making a determination pursuant to Part IX, Division 3 of the TPA (**review determination**), the effect of which is to grant RM2 clearance to proceed with the Transaction; or
  - (viii) the Tribunal reviewing a merger clearance determination of the ACCC and making a review determination, the effect of which is to grant RM2 clearance to proceed with the Transaction, subject to conditions which are acceptable to the party required to comply with them;
- (b) (ACMA approval – unacceptable media diversity situation, breach of the limitation on control of commercial radio and television broadcasting licences): RM2 having received written notice from ACMA, before 8.00 am on the Second Court Date, approving:
- (i) the Transaction in accordance with section 61AJ(4) of the BSA, including all potential breaches of sections 61AG and 61AH of the BSA that but for the approval would be caused by the Transaction; and
  - (ii) all potential breaches of sections 53, 54, 55 and 56 of the BSA that may be caused by the Transaction in accordance with section 67(4) of the BSA (or being taken to have approved the breaches in accordance with section 67(7) of the BSA),  
either unconditionally or on conditions which are acceptable to the party required to comply with them;
- (c) (**FIRB**): RM2 having obtained, if it becomes required, written advice from the Treasurer that there is no objection under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) or under the Australian Federal Government's foreign investment policy to the Transaction (provided that such advice will not be required if the Treasurer becomes precluded from making an order under the FATA in respect of the Transaction);
- (d) (**No prohibitions for Scheme**) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition being in effect at 8.00 am on the Second Court Date which prevents the consummation of any aspect of the Scheme;
- (e) (**Court approval of Scheme**) the Court approving the Scheme under section 411(4)(b) of the Corporations Act;
- (f) (**SCB Shareholder approval of Scheme**) the Scheme being approved by the necessary majorities required under section 411(4)(a)(ii) of the Corporations Act at the Scheme Meeting (or any adjournment or postponement thereof);
- (g) (**No SCB Material Adverse Change**) no SCB Material Adverse Change occurring or becoming known to RM2 after the date of this document and before 8.00 am on the Second Court Date;
- (h) (**No SCB Prescribed Occurrences**) no SCB Prescribed Occurrence occurring or becoming known to RM2 after the date of this document and before 8.00 am on the Second Court Date which has not been remedied or materially rectified by SCB by that time;
- (i) (**SCB Warranties**) the SCB Warranties being true and correct in all material respects on the date of this document and as at 8.00 am on the Second Court Date;
- (j) (**RM2 Warranties**) the RM2 Warranties being true and correct in all material respects on the date of this document and as at 8.00 am on the Second Court Date;
- (k) (**Option Scheme**): if RM2 elects to propose an Option Scheme in accordance with clause 4.2, the Option Scheme becoming Effective;

- (l) **(Ownership of all shares):** RM2 being satisfied, acting honestly and reasonably, that there are arrangements in place sufficient to ensure that at the end of the Implementation Date (subject to the Scheme becoming Effective and payment of the Scheme Consideration) all of the shares issued in the capital of SCB will have been transferred to it in accordance with the Scheme and that all Options will have been exercised before the Second Court Date or cancelled;
- (m) **(No rights to Options):** RM2 being satisfied, acting honestly and reasonably, that on the Implementation Date no person will have any right or option to subscribe for or to otherwise acquire any securities in SCB or its wholly owned Subsidiaries (other than existing securities issued by SCB) and SCB and its wholly owned Subsidiaries will not otherwise be under any obligation to allot any securities to any person or to alter the structure of any part of its share capital;
- (n) **(Material Contracts)** Network Ten Pty Limited and Seven Network (Operations) Limited (or any Related Entity) having given all necessary consents and waivers of any change in control, event of default or termination right under the Material Contracts in connection with the implementation of the Scheme;
- (o) **(Retained Entities):** SCB not having disposed of (pursuant to a Competing Proposal or otherwise) all or any interest in the Retained Entities to a non-SCB Group Member;
- (p) **(No Acquisitions):** SCB not having acquired control of another radio broadcasting licence or radio broadcasting licensee;
- (q) **(Sale of NWS9):** SCB having completed the sale of all of the shares issued and to be issued in Channel 9 South Australia Pty Ltd (ACN 007 577 880) ("**NWS**") to WIN Corporation Pty Limited (or its nominee) ("**WIN**") for no less than \$105 million (subject to a working capital adjustment) and otherwise on terms that are, taken as a whole, materially no less favourable to SCB than the terms set out in the letter dated 29 May 2007 from WIN to SCB or the draft Share Purchase Agreement as at 28 June 2007 contained in the Data Room Materials.

### 3.2 Benefit and waiver of Conditions Precedent

- (a) The Condition Precedent in **clause 3.1(j)** is for the benefit of SCB and may only be waived in part or full by SCB by notice in writing to RM2.
- (b) The Conditions Precedent in **clauses 3.1(a), 3.1(b), 3.1(c), 3.1(g), 3.1(h), 3.1(i), 3.1(k), 3.1(l), 3.1(m), 3.1(n), 3.1(o), 3.1(p) and 3.1(q)** are for the benefit of RM2 and may only be waived in part or full by RM2 by notice in writing to SCB.
- (c) The Conditions Precedent in **clauses 3.1(d), 3.1(e) and 3.1(f)** cannot be waived.
- (d) A person entitled to waive a Condition Precedent under this **clause 3.2** may do so in its absolute discretion.
- (e) A Condition Precedent can only be waived in writing.
- (f) If a waiver by a party of a Condition Precedent is itself conditional and the other party accepts the condition in writing, the terms of that condition apply accordingly. If the other party does not accept a conditional waiver of the Condition Precedent, the Condition Precedent has not been waived.
- (g) If a party waives the breach or non-fulfilment of any of the Conditions Precedent, that waiver will not preclude it from suing the other party for any breach of this document, including a breach that resulted in the non-fulfilment of the Condition Precedent that was waived.
- (h) Unless specified in the waiver, a waiver of the breach or non-fulfilment of any Condition Precedent will not constitute:
- (i) a waiver of breach or non-fulfilment of any other Condition Precedent resulting from events or circumstances giving rise to the breach or non-fulfilment of the first Condition Precedent; or

- (ii) a waiver of breach or non-fulfilment of that Condition Precedent resulting from any other event or circumstance.
- (i) A Regulatory Approval will be regarded as having been obtained even though a condition has been attached to that Regulatory Approval if the party or parties:
- (i) entitled to the benefit of that condition has given its written consent to treating that approval as having been obtained; and
- (ii) any party required to comply with such condition has (subject to **clause 3.4(d)**) given its written consent to complying with that approval,
- and, subject to **clause 3.4(d)**, that approval will not otherwise be regarded as having been obtained.

### 3.3 Best endeavours

- (a) Subject to **clause 3.3(e)**, SCB must use its best endeavours to procure that each of the Conditions Precedent set out in **clauses 3.1(d), 3.1(e), 3.1(f), 3.1(g), 3.1(h), 3.1(i), 3.1(k), 3.1(l), 3.1(m), 3.1(n), 3.1(o), 3.1(p) and 3.1(q)** are satisfied as soon as practicable after the date of this document, or continues to be satisfied at all times until the last time it is to be satisfied (as the case may require).
- (b) Subject to **clause 3.3(e)**, RM2 must use its best endeavours to procure that each of the Conditions Precedent set out in **clauses 3.1(a), 3.1(b), 3.1(c) and 3.1(j)** are satisfied as soon as practicable after the date of this document, or continues to be satisfied at all times until the last time it is to be satisfied (as the case may require), with a view to the Effective Date for the Scheme occurring on or before the End Date.
- (c) Subject to **clause 3.3(e)**, each of SCB and RM2 must use their best endeavours to procure that there is no event or circumstance within the reasonable control or influence of SCB or RM2 respectively that would prevent the Conditions Precedent being satisfied.
- (d) Neither party will take any action that will or is likely to hinder or prevent the satisfaction of any Condition Precedent, except to the extent that such action is required to be done or procured pursuant to, or is otherwise permitted by, this document, is required by law, ASX Listing Rules or any determination of the Takeovers Panel.
- (e) Subject to **clause 3.4(d)**, a **best endeavours** obligation under this clause will not require a party to accept in relation to any of the Conditions Precedent in **clauses 3.1(a), 3.1(b) or 3.1(c)** any conditions to the grant of an approval of a Regulatory Authority (including any obligation to divest any material assets or business).

### 3.4 Regulatory Approvals

- (a) SCB must use reasonable endeavours to:
- (i) co-operate and provide assistance to RM2 in relation to the Regulatory Approvals that RM2 seeks, including provision of information reasonably requested by RM2; and
- (ii) if reasonably requested to do so by RM2, make appropriate submissions to any Regulatory Authority from which a Regulatory Approval is sought.
- (b) Nothing in **clause 3.4(a)** requires SCB to:
- (i) provide to RM2 any information that is, subject to the exception in ASX Listing Rule 3.1, commercially sensitive information until the relevant Regulatory Authority confirms that it will keep such information confidential in accordance with the Regulatory Authority's usual procedures;
- (ii) provide to RM2 any information in contravention of a confidentiality obligation, provided that SCB must use reasonable endeavours to obtain a release from that

confidentiality obligation to the extent required to permit the release of the information to RM2; or

- (iii) implement, or undertake to implement, any disposal of its assets or any other change to its business or operations.
- (c) RM2 must provide to SCB copies of all material filings, applications and submissions which RM2 proposes to give to any Regulatory Authority after the date of this agreement for the purposes of obtaining any regulatory approval, no later than 2 Business Days before doing so. For such 2 Business Day period RM2 must consult with SCB on the form and content of those documents and must consider, for the purposes of amending any such documents, all comments received from SCB and its Representatives on those documents.
- (d) RM2 agrees that if ACMA requires it to do so, as a condition to issuing any Regulatory Approval under clause 3.1(b), RM2 will:
  - (i) provide written undertakings (in the form required by ACMA) to ACMA that it will divest, or that it will procure the divestment of, any or all of the Anticipated Divestiture Businesses; and
  - (ii) in respect of any application to approve potential breaches of sections 55 and 56 of the BSA, RM2 will procure that the relevant director of RM2 or a Related Entity of RM2 (as the case may be) take such action in respect of the Anticipated Divestiture Businesses as ACMA considers the director is required to take so that the director is no longer in breach of the relevant provision, and will procure its Related Entities to act accordingly.

### 3.5 Notification of certain events

Each party must:

- (a) keep the other promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Conditions Precedent that it is required to use best endeavours to satisfy under **clause 3.3**;
- (b) promptly notify the other party upon becoming aware that any Condition Precedent has been satisfied, in which case the notifying party must also provide reasonable evidence that the Condition Precedent has been satisfied;
- (c) promptly notify the other if it becomes aware that any Condition Precedent has failed to be satisfied or has become incapable of being satisfied or is not reasonably capable of being satisfied or of any circumstances which may reasonably be expected to lead to such a state of affairs; and
- (d) after having given or received a notice in accordance with **clause 3.5(c)** in relation to a Condition Precedent that it is entitled under **clause 3.2** to waive, give notice to the other party as soon as possible (and in any event no later than five Business Days or such shorter time to ensure that notice is given before 5.00 pm on the day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of the relevant Condition Precedent, specifying that Condition Precedent.

### 3.6 Delay to Scheme Meeting

If SCB and RM2 become aware at any time prior to the proposed date of the First Court Hearing Date, that the satisfaction (or otherwise) of any Condition Precedent is unlikely to be known prior to the proposed date of the Scheme Meeting as set out in the Timetable, SCB and RM2 are to consult in Good Faith to determine whether the holding of the Scheme Meeting should be delayed until after the satisfaction (or otherwise) of that Condition Precedent is likely to be known.

### 3.7 Failure to satisfy: End Date

If:

- (a) any Condition Precedent is not satisfied or waived by the time and date specified in **clause 3.1** for its satisfaction;
- (b) any Condition Precedent becomes incapable of being satisfied by the time and date specified **clause 3.1**; or
- (c) the Transaction is not completed by the End Date,

the parties will consult in Good Faith with a view to determining whether the Transaction may proceed by way of alternative means or methods or whether to extend the relevant time or date for the satisfaction of the Condition Precedent and/or the End Date or to adjourn or change the date of an application to the Court, it being acknowledged that there is no obligation whatsoever on either party to agree to any extension. This **clause 3.7** does not require a party to proceed by way of an alternative means or methods to the extent the failure to satisfy a Condition Precedent is the result of a breach of this document by the other party (**Defaulting Party**).

### **3.8 Termination without liability**

- (a) If the parties are unable to reach agreement under **clause 3.7** within 3 Business Days after one party notifies the other in writing that any of the circumstances referred to in **clauses 3.7(a), 3.7(b) or 3.7(c)** has occurred, then, unless the relevant Condition Precedent is waived in accordance with clause 3.2, a party which is not a Defaulting Party may terminate this agreement (without any liability to the other party because of that termination) by notice in writing to the other party if the relevant Condition Precedent is stated in **clause 3.2** to be for the benefit of the first party (whether or not the Condition Precedent is also stated to be for the benefit of the other party) and that notice will have immediate effect.
- (b) For the purposes of this clause, a party is only a **Defaulting Party** if:
- (i) that party is in material breach of its obligations under **clauses 3.3 or 3.4**; and
  - (ii) the circumstances referred to in **clauses 3.7(a), 3.7(b) or 3.7(c)** arise as a direct result of that material breach.

## **4. Options**

### **4.1 Agreements in respect of Options**

- (a) SCB must use its best endeavours to procure that as soon as reasonably practicable after the date of this agreement, but in any event by no later than 10 Business Days prior to the First Court Hearing Date, each Optionholder has either:
- (i) exercised its Options; or
  - (ii) entered into a binding, irrevocable agreement (**Binding Agreement**), on terms approved by SCB and RM2 acting reasonably, with SCB and RM2 under which they agree:
    - (A) to exercise all of their Options by no later than the Business Day prior to the Second Court Date; and
    - (B) if they have not exercised all of their Options in accordance with paragraph (A), they irrevocably and unconditionally agree to the cancellation of all of their Options on the Implementation Date in return for the Option Price conditional at the election of RM2 on:
      - 1) the Scheme becoming Effective; and
      - 2) all Optionholders exercising such Options or entering into a Binding Agreement in accordance with this **clause 4.1**.

- (b) SCB must ensure that each Optionholder who exercises their Options pursuant to **clause 4.1(a)** is registered as the holder of the relevant number of SCB Shares into which their Options are exercised on the first Business Day after they have been exercised, and in any event no later than the last Business Day before the Second Court Date.
- (c) SCB agrees that, on request from RM2, RM2 will be reasonably consulted on, and be permitted to attend, any discussion or negotiations with Optionholders with a view to facilitating the exercise of Options or entry into of Binding Agreements.
- (d) If by the date that is 10 Business Days prior to the First Court Hearing Date, or such longer period as may be agreed between the parties, SCB has satisfied RM2, acting honestly and reasonably, that all Optionholders have either:
- (i) exercised their Options in accordance with **clause 4.1(a)(i)**; or
  - (ii) entered into Binding Agreements in accordance with **clause 4.1(a)(ii)**, then RM2 will, acting reasonably and expeditiously, waive the Conditions Precedent in **clauses 3.1(k), 3.1(l) and 3.1(m)**.

#### 4.2 Option scheme of arrangement

- (a) If, by the date that is 10 Business Days prior to the First Court Hearing Date or such longer period as may be agreed between the parties, all Optionholders have not exercised their Options in accordance with **clause 4.1(a)(i)** or entered into Binding Agreements in accordance with **clause 4.1(a)(ii)** or if RM2 is not satisfied in accordance with either **clause 3.1(l) or (m)**, RM2 may elect by giving written notice to SCB to have SCB propose a scheme of arrangement under Part 5.1 of the Corporations Act in respect of the Options (**Option Scheme**).
- (b) Upon receipt of a notice from RM2 under **clause 4.2(a)**, SCB agrees to propose the Option Scheme between SCB and all Optionholders (including, for the avoidance of doubt, any Optionholder who provides a written agreement within the terms contemplated by **clause 4.1**), the purpose of which is to cancel all of the Options on issue.
- (c) If SCB proposes an Option Scheme:
- (i) the Optionholders scheme of arrangement will be in a form to be agreed between the parties that is, as far as possible, consistent with the Scheme and otherwise in accordance with ordinary market practice;
  - (ii) the Option Scheme will be conditional on the Scheme becoming Effective; and
  - (iii) the resolution proposed to SCB Shareholders for SCB Shareholders to approve and implement the Scheme will be conditional on the approval and implementation of the Option Scheme, if that scheme is required.
- (d) If RM2 does not elect to have SCB propose an Option Scheme, 4.1 will continue to apply in respect of each Optionholder.
- (e) For the avoidance of doubt, the Option Scheme is conditional on the Scheme becoming Effective.

## 5. Scheme

### 5.1 Scheme

Subject to the terms of this document and of the Scheme, SCB must propose and implement a scheme of arrangement under Part 5.1 of the Corporations Act between it and the SCB Shareholders in a form to be agreed between the parties in writing acting in Good Faith, under which, subject to the Scheme becoming Effective and to the terms of the Scheme, all of the

Scheme Shares are to be transferred to RM2 and the Scheme Shareholders are to be entitled to receive the Scheme Consideration and the Special Dividend. The form of the Scheme shall include the common provision to the effect that RM2 will, from the time of payment of the Scheme Consideration to Scheme Shareholders on the Implementation Date and pending registration, be beneficially entitled to the Scheme Shares transferred to it under the Scheme.

## 5.2 Scheme Consideration

Subject to the terms of the Scheme and the Scheme being Effective, RM2 covenants in favour of SCB that in consideration for the transfer to RM2 of the Scheme Shares held by each Scheme Shareholder under the terms of the Scheme, it will on the Implementation Date:

- (a) accept that transfer; and
- (b) in accordance with the Deed Poll and this document, pay to each Scheme Shareholder the Scheme Consideration by complying with clause 5.3.

## 5.3 Deposit of Scheme Consideration

RM2 must before 8.00 am on the Implementation Date deposit or procure the deposit of an amount in cleared funds sufficient to pay the Scheme Consideration to each Scheme Shareholder into an account in SCB's name with those funds to be held on trust by SCB for the purpose of paying the Scheme Consideration to the Scheme Shareholders, without any set off or counterclaim and free and clear of and without any deduction or withholding.

## 5.4 Clean exit

SCB must, unless otherwise agreed by RM2 and SCB, no later than the Record Date:

- (a) procure that each Retained Entity is released from the SCB Tax Sharing Agreement;
- (b) procure that each Retained Entity pay to SCB any payments required under clause 4 of the SCB Tax Sharing Agreement; and
- (c) procure that each Retained Entity will enter into a deed of release as contemplated by clause 9.3(a) of the SCB Tax Funding Agreement.

In this clause 5.4:

**"SCB Consolidated Group"** means the tax consolidated group formed pursuant to Part 3-90 of the Income Tax Assessment Act 1997 (Cth) of which SCB is the head company.

**"SCB Tax Sharing Agreement"** means the agreement entered into by SCB and each of the members of the SCB Consolidated Group on or about 24 September 2004 entitled the Tax Sharing Agreement .

**"SCB Tax Funding Agreement"** means the agreement entered into by SCB and each of the members of the SCB Consolidated Group on or about 24 September 2004 entitled the Tax Funding Agreement.

## 5.5 Payment of Special Dividend

Subject to the terms of the Scheme and the Scheme being Effective, SCB covenants in favour of RM2 that it will on the Implementation Date pay the Special Dividend to each Scheme Shareholder.

## 5.6 Other Dividends

Between the date of this document and the Implementation Date SCB may not without the prior written consent of RM2, pay or declare any dividends or other distributions other than the Final Dividend and the Special Dividend.

# 6. Steps for implementation

## 6.1 Obligations of both parties

Both parties must:

- (a) **(Certificate)** at the hearing by the Court of the application for the Scheme Order provide to the Court a certificate confirming whether or not to the best of their knowledge:
- (i) the Conditions Precedent (other than the condition in **clause 3.1(e)**) have been satisfied or waived in accordance with the terms of this document;
  - (ii) an SCB Prescribed Occurrence has occurred, save that the obligation to provide any confirmation in respect of this **clause 6.1(a)(ii)** falls only on SCB; or
  - (iii) an RM2 Prescribed Occurrence has occurred, save that the obligation to provide any confirmation in respect of this **clause 6.1(a)(iii)** falls only on RM2.
  - (iv) The form of such certificate is to be provided by each party to the other party by 5 p.m. on the Business Day prior to the Second Court Date;
- (b) **(Timing)** consult with each other regularly in relation to:
- (i) the schedule for performing their respective obligations within the overall framework set by the Timetable; and
  - (ii) the need (if any) to adjust the Timetable.

## 6.2 SCB's obligations

Subject to **clause 8**, SCB must execute all documents and do all acts and things within its power as may be necessary or desirable for the implementation and performance of the Scheme on a basis consistent with this document. In particular SCB must:

- (a) **(Scheme Booklet)** as soon as practicable after the date of this document, prepare the Scheme Booklet in compliance with all applicable laws, and in particular the Corporations Act, PS 60, PS 142 and the ASX Listing Rules, provide a draft to RM2 and provide RM2 with a reasonable opportunity to provide suggested amendments to that draft prior to the provision of a draft to ASIC under **clause 6.2(d)**;
- (b) **(Independent Expert)** promptly appoint the Independent Expert and provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the independent expert's report for inclusion in the Scheme Booklet;
- (c) **(approval of draft for ASIC)** as soon as practicable after the preparation of an advanced draft of the Scheme Booklet suitable for review by ASIC, procure that a meeting of the SCB Board (or a sub-committee of it) is convened to approve that draft as being in a form appropriate for provision to ASIC for review;
- (d) **(liaison with ASIC)** as soon as reasonably practicable, but no later than 14 days before the proposed First Court Hearing Date, provide an advanced draft of the Scheme Booklet, in a form acceptable to SCB, to ASIC for its review and approval for the purposes of section 411(2) of the Corporations Act and to RM2, and:
  - (i) liaise with ASIC during the period of its consideration of that draft of the Scheme Booklet;
  - (ii) keep RM2 informed of any matters of substance raised by ASIC in relation to the Scheme Booklet; and
  - (iii) use all reasonable endeavours to resolve any such matters in co-operation with RM2;
- (e) **(approval of Scheme Booklet)** as soon as practicable at the conclusion of the review by ASIC of the Scheme Booklet, procure that a meeting of the SCB Board is convened for the purpose of considering and if thought fit approving the Scheme Booklet and an application to the Court for an order that the Scheme Meeting be convened by the dispatch of the Scheme Booklet to the SCB Shareholders;

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- (f) **(section 411(17)(b) statements)** apply to ASIC for the production of a statement in writing pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
  - (g) **(Scheme Meeting)** promptly after ASIC's review of the Scheme Booklet:
    - (i) apply to the Court for an order under section 411(1) of the Corporations Act directing SCB to convene the Scheme Meeting;
    - (ii) prepare and lodge all documents with the Court which are required to be filed in connection with the order proposed to be sought under **clause 6.2(g)(i)** and take all other reasonable steps to ensure that the application referred to in **clause 6.2(g)(i)** is heard by the Court; and
    - (iii) take all steps necessary to comply with the order of the Court including, as required, dispatching the Scheme Booklet to the SCB Shareholders and holding the Scheme Meeting;
  - (h) **(consultation with RM2)** consult with RM2 in relation to the form of the Scheme Booklet and the content of the documents required for the purpose of each of the Court hearings held for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act in relation to the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and consider comments from RM2 and its Representatives on those documents;
  - (i) **(registration of explanatory statements)** lodge the explanatory statements included in the Scheme Booklet in relation to the Scheme with ASIC for registration in accordance with section 412(6) of the Corporations Act;
  - (j) **(convening Scheme Meeting)** take all reasonable steps necessary to comply with the orders of the Court including, as required, dispatching the Scheme Booklet to the SCB Shareholders and convening and holding the Scheme Meeting;
  - (k) **(approval and implementation of Scheme)** if the resolution submitted to the Scheme Meeting is passed by the necessary majorities required under section 411(4)(a)(ii) of the Corporations Act and once the Conditions Precedent are satisfied or waived, promptly apply (and, to the extent necessary, re-apply) to the Court for orders approving the Scheme and if that approval is obtained:
    - (i) promptly lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act;
    - (ii) close the SCB share register in respect of SCB Shares on the Record Date and determine entitlements to the Scheme Consideration in accordance with the Scheme;
    - (iii) subject to RM2 providing the Scheme Consideration, promptly execute proper instruments of transfer of, and effect and register the transfer of, the Scheme Shares in accordance with the Scheme;
    - (iv) on the Implementation Date disburse the Scheme Consideration to each Scheme Shareholder entitled to receive the Scheme Consideration; and
    - (v) promptly do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme;
  - (l) **(Certificate)** on the Effective Date, provide to RM2 or its nominee, a certificate confirming that the Court order approving the Scheme has been lodged with ASIC in accordance with section 411(10) of the Corporations Act and nominating the account into which the Scheme Consideration is to be paid;
  - (m) **(SCB Prescribed Occurrence)** subject to **clause 18.3**, use its best endeavours to ensure that no SCB Prescribed Occurrence occurs between the date of this document and 8.00 am on the Second Court Date and if, notwithstanding the foregoing, an SCB

Prescribed Occurrence does occur during that time, take reasonable steps to either remedy or materially rectify the relevant SCB Prescribed Occurrence;

- (n) **(Share information)** promptly send such notices under section 672A of the Corporations Act at such times and to such persons as RM2 reasonably requires, and give copies of the responses SCB receives to RM2;
- (o) **(Special Dividend)** declare the Special Dividend on or before the Record Date to be paid to SCB Shareholders who hold Scheme Shares; and
- (p) **(No misleading or deceptive statements)** from the First Court Hearing Date until the Implementation Date, promptly inform RM2 if it becomes aware that the Scheme Booklet contains a statement which is misleading or deceptive in a material respect or contains a material omission.

### 6.3 RM2's obligations

RM2 must execute all documents and do all acts and things within its power as may be necessary or desirable for the implementation and performance of the Scheme on a basis consistent with this document, substantially in accordance with the Timetable. In particular RM2 must:

- (a) **(RM2 Information)** prepare and provide to SCB for inclusion in the Scheme Booklet the RM2 Information;
- (b) **(Independent Expert)** provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the independent expert's report for inclusion in the Scheme Booklet;
- (c) **(review of Scheme Booklet)** review the drafts of the Scheme Booklet prepared by SCB and provide comments on those drafts to SCB;
- (d) **(accuracy of RM2 Information)** confirm to SCB in writing that the RM2 Information in the Scheme Booklet does not contain any statements that are misleading or deceptive in any material respect (including by omission) before SCB approves the draft Scheme Booklet for release to ASIC under **clause 6.2(c)**;
- (e) **(approval of draft for ASIC)** as soon as practicable after the preparation of an advanced draft of the Scheme Booklet suitable for review by ASIC, procure that a meeting of the RM2 Board (or a committee of it) is convened to approve those sections of that draft that relate to RM2 and its Related Entities as being in a form appropriate for provision to ASIC for review;
- (f) **(approval of Scheme Booklet)** as soon as practicable at the conclusion of the review by ASIC of the Scheme Booklet, procure that a meeting of the RM2 Board (or a sub-committee of it) is convened to approve those sections of the Scheme Booklet that relate to RM2 and its Related Entities as being in a form appropriate for dispatch to the SCB Shareholders, subject to approval of the Court;
- (g) **(representation)** if requested by SCB, procure that RM2 is represented by counsel at the Court hearings held for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act in relation to the Scheme, at which, through its counsel, RM2 undertakes (if requested by the Court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under the Scheme, and, to the extent that leave of the Court is required for RM2 to be represented at those Court hearings, apply for that leave;
- (h) **(Deed Poll)** prior to the dispatch of the Scheme Booklet, execute the Deed Poll;
- (i) **(compliance with laws)** do everything reasonably within its power to ensure that the Transaction is effected in accordance with all laws and regulations applicable in relation to the Transaction;
- (j) **(RM2 Prescribed Occurrence)** ensure that no RM2 Prescribed Occurrence occurs between the date of this document and 8.00 am on the Second Court Date;
- (k) **(unconditional financing)** no later than 2 Business Days prior to the Second Court Date, provide to SCB such evidence as may be reasonably required by SCB to satisfy

SCB that RM2 will satisfy its obligation to provide the Scheme Consideration in accordance with **clause 5.2** on the Implementation Date; and

- (l) **(Scheme Consideration)** if the Scheme becomes Effective, provide the Scheme Consideration in accordance with **clause 5.3** on the Implementation Date.

#### **6.4 Court approval generally**

- (a) If the Court refuses to make an order pursuant to section 411(1) of the Corporations Act convening the Scheme Meeting, SCB must appeal the Court's decision to the fullest extent possible except where the parties agree otherwise or SCB is advised by its legal counsel that an appeal would have either no reasonable prospect or a low probability of success.
- (b) The costs of any appeal will be borne equally by SCB and RM2.

#### **6.5 Disagreement on content of Scheme Booklet**

If the parties disagree on the form or content of the Scheme Booklet:

- (a) they must consult in Good Faith to try to settle an agreed form of the Scheme Booklet; and
- (b) failing agreement within 2 Business Days, the dispute must be referred to the managing directors of SCB and RM2. If within 1 Business Day of the referral to the managing directors there is still no agreement between the parties, SCB will determine the final form and content of any SCB Information in the Scheme Booklet and RM2 will determine the final form and content of any RM2 Information in the Scheme Booklet.

#### **6.6 Standstill**

The parties acknowledge and agree that **clause 7** of the Confidentiality Deed continues to apply after the date of this document on the terms set out in the Confidentiality Deed.

#### **6.7 Board changes**

With effect from the Effective Date, SCB must:

- (a) procure the appointment of persons nominated in writing by RM2 before the Effective Date to the SCB Board and/or the board of directors of any SCB Group Member provided that there is no need for the existing SCB directors as at that date to resign; and
- (b) subject to RM2 having complied with its obligation to pay the Scheme Consideration, ensure that all directors of SCB (except as notified by RM2 in writing before the Implementation Date) resign with effect from the date upon which the Scheme Consideration is paid to Scheme Shareholders.

## **7. Conduct of SCB's business**

### **7.1 Conduct of business**

To the extent permitted by law and subject to **clauses 7.2** and **18.3**, during the Exclusivity Period, SCB must, and must cause each of its Subsidiaries to:

- (a) conduct its business in the ordinary and proper course of business;
- (b) use reasonable endeavours to maintain its business and assets and its relationships with suppliers, customers, financiers and joint venturers;
- (c) comply in all material respects with all material laws binding on it or affecting its business;
- (d) use reasonable endeavours to:

- (i) identify any change of control or similar provisions in its Material Contracts, its joint venture documentation or other significant contracts which may be activated by the Transaction;
- (ii) obtain the consents of relevant persons who have rights in respect of the provisions referred to in **clause 7.1(d)(i)** to the Transaction; and
- (iii) keep RM2 informed of its progress in relation to the matters in **clause 7.1(d)(i)** and **7.1(d)(ii)**.

## 7.2 Exceptions

- (a) **Clause 7.1** does not apply to:
  - (i) any SCB Group Member agreeing to, entering into or discharging its obligations under any Permitted Arrangement; or
  - (ii) any other arrangement or matter to the extent fairly disclosed to RM2 in the Disclosures.
- (b) Nothing in **clause 7.1** requires either party to act at the direction of the other and the business of each party and its Subsidiaries will continue to operate independently of the other until the Implementation Date.

## 7.3 Requests for access

From the date of this document to the Implementation Date, SCB will in Good Faith and on reasonable notice from RM2, provide to RM2 reasonable access at reasonable times, to:

- (a) such senior personnel as the SCB Board approves acting reasonably; and
- (b) records and premises of the SCB Group, unless the provision of any such access is prohibited by law,

for the purpose of assisting RM2's planning for integration and/or separation after the Implementation Date, facilitating debt financing for the Transaction or to assist RM2 to meet the terms of any Regulatory Approvals (including the ACMA Undertakings) provided that the person or persons to whom SCB agrees to provide access complies with the reasonable direction of SCB in relation to such access and, if reasonably required by SCB, the relevant person or persons first enters into a confidentiality undertaking (in a form reasonably acceptable to SCB).

# 8. SCB Board's obligations

## 8.1 SCB Board recommendation

Subject to **clause 8.3** and **8.4**, the SCB Board must, in the SCB Announcement and in the Scheme Booklet, unanimously recommend that SCB Shareholders vote in favour of the Scheme and any other resolution submitted to SCB Shareholders for their approval in connection with the Scheme, without any qualifications other than:

- (a) no Superior Proposal being made; and
- (b) the Independent Expert concluding in its final report to SCB for inclusion in the Scheme Booklet that the Scheme is in the best interests of SCB Shareholders.

## 8.2 Change of recommendation

Subject to **clause 8.3** and **8.4**, the SCB Board must not change its recommendation under **clause 8.1** unless:

- (a) a Superior Proposal is made and SCB has first met all of its obligations under **clause 9** in relation to that proposal; or

- (b) the Independent Expert advises the Board in writing that the Independent Expert will not conclude in its final report to SCB for inclusion in the Scheme Booklet that the Scheme is in the best interests of SCB Shareholders.

### 8.3 Necessary Abstention

Nothing in **clauses 8.1 or 8.2** will prevent an individual SCB director from abstaining from making the relevant recommendation if:

- (a) the relevant director is on an approved leave of absence from the SCB Board during the time or times the relevant recommendations are required to be made; or
- (b) that director has a conflict of interest which prevents that SCB Director from making or continuing to make the recommendation.

### 8.4 Fiduciary exception

The obligations and restrictions in this document regarding directors' recommendations in **clauses 8.1 and 8.2** do not apply to the extent that they would create a Fiduciary Exposure for the SCB Board and SCB will not be taken to be in breach of this agreement or of **clause 8.1 or 8.2** to the extent that the relevant obligations or restrictions are not complied with on account of a Fiduciary Exposure in accordance with this **clause 8.4**.

### 8.5 Compliance with law

- (a) If a court or the Takeovers Panel determines that any obligation of SCB under **clauses 8.1, 8.2, 9 or 10**:
- (i) gives rise to or would, if performed, give rise to a Fiduciary Exposure;
- (ii) constitutes, or would if performed constitute, unacceptable circumstances within the meaning of the Corporations Act; or
- (iii) was, or is, or would be if performed, be unlawful for any other reason, then, to that extent, SCB is not obliged to comply with that provision.
- (b) If the Takeovers Panel indicates that in the absence of a written undertaking pursuant to section 201A of the *Australian Securities and Investments Commission Act 2001* (Cth) it will make a declaration of unacceptable circumstances in relation to any of SCB's obligations under **clauses 8.1, 8.2, 9 or 10** each of RM2 and SCB (as the case may be) may give that undertaking on their own behalf and must give reasonable consideration to giving that undertaking if requested by the other party. Each party must endeavour to negotiate the terms of any undertakings with the Takeovers Panel with a view to minimising any material adverse impact on each party's rights under this document. Where such undertakings are given, **clause 8.5(a)** will operate in a manner consistent with the terms of such undertakings.
- (c) Subject to **clause 8.5(f)**, neither party must make, nor may it cause or permit to be made, any application to a court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in **clause 8.5(a)**.
- (d) If any third party makes any application to a court, arbitral tribunal or the Takeovers Panel for or in relation to a determination referred to in **clause 8.5(a)**, then each party must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable the position that no such determination should be made.
- (e) Subject to **clause 8.5(f)**, if it is determined by the Takeovers Panel or a court that all or any part of a payment made under **clause 10** did not comply with **clause 8.5(a)**, the party who received the payment must immediately refund all or such applicable part of it.
- (f) Nothing in this **clause 8.5** precludes either party from bringing or requires either party to bring appeal or review proceedings in relation to any determination referred to in **clause 8.5(a)**. If either party brings such proceedings:

- (i) the other must make submissions in the course of those proceedings supporting to the fullest extent reasonably practicable that no finding or decision of a type referred to in **clause 8.5(a)** should be made; and
- (ii) for the purposes of this **clause 8.5**, the determination subject of the appeal or review proceeding will be deemed not to have been made and **clauses 8.5(a)**, **8.5(b)** and **8.5(e)** will have effect only in relation to any determination made in the appeal or review proceedings.

## 9. Exclusivity

### 9.1 Exclusivity

Except as contemplated by **clause 9.2**, during the Exclusivity Period, SCB must not, and must ensure that its Representatives do not, except with the prior written consent of RM2:

- (a) solicit, invite or initiate any enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to a Competing Proposal;
- (b) directly or indirectly participate in any negotiations or discussions in relation to a Competing Proposal or which may reasonably be expected to lead to a Competing Proposal;
- (c) provide or make available any information (including by way of providing information and access to perform due diligence in relation to any member of the SCB Group) to a third party for the purposes of enabling that party to make a Competing Proposal, or otherwise progress or facilitate such Competing Proposal; or
- (d) announce or publicly recommend a Competing Proposal, enter into any deed, arrangement, commitment or understanding in relation to, or which may reasonably be expected to lead to, a Competing Proposal (including, for the avoidance of doubt, any break fee commitment with a third party),

and including by the continuation of any of the above matters that are existing at the date of this document, or existed prior to the date of this document.

### 9.2 Procedure for SCB to engage in Superior Proposals

- (a) **(Notification)** If, at any time during the Exclusivity Period, SCB or any of its Representatives receives a Competing Proposal that the SCB Board determines is a Superior Proposal SCB must give RM2 notice in writing of that fact (**Notice of Competing Proposal**), which must include details of the proposed acquirer, the proposed consideration, relevant conditions, timing and break fee under the Competing Proposal. RM2 agrees that the Notice of Competing Proposal will be Confidential Information of SCB (as defined in the Confidentiality Deed) and subject to the Confidentiality Deed.
- (b) **(RM2 Counterproposal)** Following receipt of the Notice of Competing Proposal, RM2 may at any time until the expiration of 5 Business Days following receipt of the Notice of Competing Proposal (**Expiry Date**):
- (i) offer to amend the terms of the Scheme and to enter into a replacement Deed Poll in a form reasonably required by SCB; or
- (ii) propose any other transaction in respect of the SCB Group, (each an **RM2 Counterproposal**), but will not be obliged to do so.
- (c) **(No RM2 Counterproposal received)** If SCB does not receive an RM2 Counterproposal within 5 Business Days after providing a Notice of Competing Proposal to RM2, SCB may engage in any of the conduct referred to in **clause 9.1** and may terminate this agreement by notice in writing to RM2, in which case, RM2's only rights in respect of such termination will be to receive the Break Fee under **clause 10**.

- (d) **(M2 proposal inferior)** If the SCB Board receives an RM2 Counterproposal, and the SCB Board determines in Good Faith, that the Competing Proposal is more favourable to SCB Shareholders than the proposal contemplated by this document or the RM2 Counterproposal (as the case may be), SCB may engage in any of the conduct referred to in **clause 9.1** and may terminate this agreement by notice in writing to RM2, in which case, RM2's only rights in respect of such termination will be to receive the Break Fee under **clause 10**.
- (e) **(RM2 proposal superior)** If the SCB Board receives an RM2 Counterproposal, and the SCB Board determines, that the RM2 Counterproposal is more favourable to SCB Shareholders than the Competing Proposal, then:
- (i) if the RM2 Counterproposal contemplates an amendment to the Scheme, the parties must enter into a deed amending this document in relation to the Scheme and reflecting the RM2 Counterproposal;
  - (ii) if required by SCB, RM2 must enter into a replacement Deed Poll in a form reasonably required by SCB;
  - (iii) if the RM2 Counterproposal contemplates any other transaction, SCB must make an announcement as soon as reasonably practicable recommending the RM2 Counterproposal, in the absence of a more favourable proposal, and the parties must pursue implementation of the RM2 Counterproposal; and
  - (iv) unless and until the SCB Board receives a further Superior Proposal to which **clause 9.2(a)** would apply, SCB must not engage in any of the conduct referred to in **clause 9.1(b)**.

## 10. Break Fee

### 10.1 Rationale

SCB acknowledges that:

- (a) RM2 has required the inclusion of this **clause 10**, in the absence of which it would not have entered into this document or otherwise agreed to comply with its obligations under this document; and
- (b) SCB and the SCB Board believe that the Scheme will provide significant benefits to SCB and its members and that it is reasonable and appropriate that SCB agrees to the inclusion of this **clause 10**, in order to secure RM2's execution of this document and RM2's agreement to implement the Scheme and that the SCB Board has carefully considered the impact of the possible payment on the competitive neutrality of the Scheme and of the coercive effect of the possible payment.

### 10.2 Break Fee

- (a) SCB will pay RM2 the Break Fee if at any time between the date of this document and the End Date any of the following occurs (whether or not permitted under this document):
  - (i) a Competing Proposal is made or publicly announced for SCB and that Competing Proposal is:
    - (A) contemplated by an agreement entered into with SCB or any Material SCB Group Members; or
    - (B) recommended by any of the SCB directors; or
    - (C) successfully effected in accordance with the terms of that Competing Proposal (as amended, varied or replaced); or

- (D) any other Competing Proposal is effected that results in any person acquiring 50% or more of the voting power in SCB or any Material SCB Group Members (under section 610 of the Corporations Act) within 8 months of the announcement of the first Competing Proposal; or
- (ii) any SCB director:
- (A) subject to **clause 10.2(c)**, does not recommend that SCB Shareholders vote in favour of the Scheme and all resolutions proposed at the Scheme Meeting; or
- (B) does not announce his or her intention to vote in favour of the Scheme, and all resolutions proposed at the Scheme Meeting, any SCB Shares in respect of which he or she has power to vote, at the time of the SCB Announcement; or
- (iii) any SCB director makes a public statement:
- (A) subject to **clause 10.2(c)**, withdrawing his or her support or recommendation that shareholders vote in favour of the Scheme at the Scheme Meeting; or
- (B) withdrawing his or her statement regarding their intention to vote in favour of all resolutions to be proposed at the Scheme Meeting or to approve the Scheme; or
- (C) supporting or recommending a Competing Proposal;
- (iv) the Conditions Precedent in any of clause **3.1(i)**, **3.1(o)** or **3.1(p)** or, to the extent such Conditions Precedent are within SCB's control, the Conditions Precedent in either clauses **3.1(g)** or **3.1(h)** are not satisfied or waived as at 8:00 am on the Second Court Date; or
- (v) RM2 is entitled to terminate this document in accordance with clause **11.1(b)** to the extent that RM2's right to terminate arises as a result of matters within SCB's control.
- (b) A Break Fee is not payable (even where any of the circumstances set out in **clause 10.2(a)** may have occurred) where:
- (i) SCB is entitled to terminate this document under **clause 11.1(c)** as a result of a breach of this agreement by RM2 and SCB terminates this agreement in accordance with **clause 11.1(c)**; or
- (ii) the Independent Expert advises the SCB Board that it will not conclude in the Independent Expert's final report for inclusion in the Scheme Booklet that the Scheme is in the best interests of SCB Shareholders (except because of a Superior Proposal relating to SCB).
- (c) For the purposes of **clauses 10.2(a)(ii)(A)** and **10.2(a)(iii)(A)** a director will not be taken to have failed to have made a recommendation or withdrawn a recommendation in circumstances where **clause 8.3** applies.

### 10.3 Payment

- (a) If RM2 is entitled to a Break Fee, it will give notice in writing to SCB requesting payment of the Break Fee.
- (b) SCB will pay RM2 a Break Fee to which RM2 is entitled under **clause 10.2** within 10 Business Days of receipt by SCB of written notice from RM2.

#### 10.4 Release

If the Break Fee is paid in accordance with this **clause 10**, SCB is released from any further liability in connection with the event or circumstance giving rise to the payment of the Break Fee.

#### 10.5 Successive Proposals

For the avoidance of doubt, the parties acknowledge that the Break Fee will only be payable once and will not be payable where any of the circumstances set out in **clause 10.2(a)** occur after a Break Fee has already become payable.

## 11. Termination

### 11.1 Termination

Without prejudice to any other rights of termination under this document:

- (a) **(termination by either party)** either party may terminate this document at any time prior to 8.00 am on the Second Court Date by notice to the other party if (other than as the result of a breach by the party seeking to terminate of its obligations under this document):
- (i) in accordance with **clause 3.8**;
  - (ii) the Effective Date for the Scheme has not occurred on or before the End Date;
  - (iii) at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the necessary majorities; or
  - (iv) any court or Regulatory Authority has issued any order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Scheme, or has refused to do anything necessary to permit the Scheme, and such order, decree, ruling or other action has become final and cannot be appealed.
- (b) **(termination by RM2)** RM2 may terminate this document by notice to SCB if at any time prior to 8.00 am on the Second Court Date:
- (i) SCB is in material breach of any of clauses 3, 6.2 or 7 of this document before that time, provided that RM2 is only entitled to terminate if it has given notice to SCB setting out the relevant circumstances and stating an intention to terminate and the relevant circumstances have continued to exist 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time such notice is received by SCB;
  - (ii) SCB is in breach of **clause 8.1, 8.2 or 9**;
  - (iii) any member of the SCB Board does any of the things described in **clause 10.2(a)(ii)** prior to the Scheme Meeting;
  - (iv) an SCB Prescribed Occurrence occurs provided that RM2 is only entitled to terminate if it has given notice to SCB setting out the relevant circumstances constituting the SCB Prescribed Occurrence and stating an intention to terminate and the relevant circumstances have not been remedied, or materially rectified, within 5 Business Days after SCB receives such notice;
  - (v) there is a breach of any of the SCB Warranties which breach is likely to have a Material Effect; or
  - (vi) an SCB Material Adverse Change occurs.

- (c) **(termination by SCB)** SCB may terminate this document by notice to RM2 if at any time prior to 8.00 am on the Second Court Date:
- (i) RM2 or MMHL is in material breach of either **clause 3.3** or **6.3** of this document before that time, provided that SCB is only entitled to terminate if it has given notice to RM2 setting out the relevant circumstances and stating an intention to terminate and the relevant circumstances have not been remedied or materially rectified within 5 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time such notice is received by RM2;
  - (ii) an RM2 Prescribed Occurrence occurs; or
  - (iii) there is a material breach of any of the RM2 Warranties.

## 11.2 Effect of termination

If this document is terminated by a party under this **clause 11**:

- (a) each party will be released from its obligations under this document except its obligations under **clauses 10, 12, 15, 16, 17** and **18**;
- (b) subject to **clause 10.3**, each party will retain the rights it has or may have against the other party in respect of any past breach of this document; and
- (c) in all other respects, all future obligations of the parties under this document will immediately terminate and be of no further force or effect, including without limitation any further obligations in respect of the Scheme.

## 12. Confidentiality

Subject to **clause 6.6**, each party affirms the Confidentiality Deed however the terms of this document are intended to prevail to the extent there is any inconsistency between the terms of this document and the Confidentiality Deed.

## 13. Conduct of Court proceedings

- (a) SCB and RM2 are entitled to separate representation at all Court proceedings affecting the Transaction.
- (b) This document does not give SCB or RM2 any right or power to give undertakings to the Court for or on behalf of the other party without that party's consent.

## 14. Announcement of Scheme

### 14.1 Announcement of Scheme after execution of this document

Immediately after the execution and delivery of this document, RM2 and SCB must make announcements concerning the Scheme in the forms agreed between the parties.

### 14.2 Public announcements

Subject to **clause 14.3** each party (**Announcing Party**) must consult with the other party (**Non Announcing Party**) in relation to any other public announcement relating to the Scheme and, subject to the Non-Announcing Party acting reasonably, take the Non-Announcing Party's comments into consideration in making any public announcement in relation to the Scheme.

### 14.3 Required disclosure

The Announcing Party must endeavour to give as much notice as practicable to the Non Announcing Party and consult to the fullest extent practicable in the circumstances with the Non

Announcing Party, except to the extent that prior notice or prior consultation is not permitted or practicable in the circumstances because of the effect of a legal obligation (including any obligation under the ASX Listing Rules).

## 15. Representations and warranties

### 15.1 SCB's representations

Subject to any matters disclosed in the Disclosure Materials or the Disclosure Letter (as the case may be), SCB warrants to RM2 that:

- (a) **(status)** it, and each of its Related Entities that is a body corporate, is a validly existing body corporate duly incorporated under the laws of its jurisdiction of incorporation or formation;
- (b) **(power)** it has the corporate power to enter into and perform or cause to be performed its obligations under this document, the Transaction and the Deed Poll to be carried out by SCB;
- (c) **(corporate authorisations)** it has taken or will take all necessary corporate action to authorise the entry into and performance of this document, the Scheme and the Deed Poll and to carry out the Transaction;
- (d) **(binding)** this document is a valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping;
- (e) **(Transaction permitted)** the execution and performance by it of SCB's obligations under this document will not violate in any material respect a provision of a law or treaty or an existing judgment, ruling, order or decree of a Regulatory Authority binding on it, or its constitution;
- (f) **(disclosure to RM2)** it is in compliance with its continuous disclosure obligations under ASX Listing Rule 3.1 and the Corporations Act and has not relied on any of the exceptions in Listing Rule 3.1A except to the extent disclosed to RM2 in the Disclosures; and
- (g) **(no issued securities)** as at the date of this document except as disclosed in the Disclosures, SCB has no issued securities, options or instruments other than the SCB Shares and the Options and SCB has not issued (and is not required to issue) or agreed to issue any other securities or instruments which are still outstanding (or may become outstanding) and which may convert into SCB securities.

### 15.2 RM2's representations

Each of RM2 and MMHL warrants to SCB that:

- (a) **(status of RM2)** it and each of its Related Entities that is a body corporate is a validly existing body corporate duly incorporated under the laws of its jurisdiction of incorporation or formation;
- (b) **(power of RM2)** it has the corporate power to enter into and perform or cause to be performed its obligations under this document, the Transaction and the Deed Poll to be carried out by RM2;
- (c) **(corporate authorisations for RM2)** it has taken or will take all necessary corporate action to authorise the entry into and performance of this document, the Scheme and the Deed Poll and to carry out the Transaction to be carried out by RM2;
- (d) **(binding)** this document is a valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping;
- (e) **(Transaction permitted)** the execution and performance by it of this document, and the Transaction did not and will not violate in any material respect a provision of a law or treaty or a judgment, ruling, order or decree of a Regulatory Authority binding on it, or its

constitution, save that the Regulatory Approvals will be required to implement the Scheme.

- (f) **(committed funding)** RM2 has committed funding in place on a certain funds basis, sufficient for it to satisfy its obligations under this document, the Scheme and the Deed Poll (as the case may be) and on or prior to the date which is one Business Days prior to the Second Court Date, all conditions contained in such funding arrangements will be satisfied or waived in accordance with the terms of the relevant funding arrangements, save for conditions that the Court has approved the Scheme, the lodgement of the Court order approving the Scheme with ASIC in accordance with section 411(10) of the Corporations Act and certain other conventional conditions which RM2 reasonably believes are capable of being satisfied concurrently with the first drawdown under the funding agreements;
- (g) **(provision of RM2 Information)** the RM2 Information will comply in all material respects with the requirements of the Corporations Act and all relevant policy statements, practice notes and other guidelines and requirements of ASIC to the extent that they relate to it; and
- (h) **(RM2 Information true)** the RM2 Information included or incorporated by reference in the Scheme Booklet in the form consented to by RM2 will, as at the date of dispatch of the Scheme Booklet to the SCB Shareholders be accurate and complete, and not contain any material statement which is misleading or deceptive in any material respect having regard to applicable disclosure requirements and RM2 will not be responsible for any other information in the Scheme Booklet.

### 15.3 Timing of representations

Each warranty made under this **clause 15** is made, unless otherwise expressly stated, as at the date of this document and as at 8.00 am on the Second Court Date.

### 15.4 Notifications

Each party will promptly advise the other in writing if it becomes aware of any fact, matter or circumstance which constitutes or may constitute a breach of any of the representations or warranties given by it under this **clause 15**.

### 15.5 Reliance by parties

Each party acknowledges that in entering into this document the other party has relied on the warranties provided under this **clause 15**. The representations provided are not extinguished or affected by any investigation made by or on behalf of the other party.

### 15.6 Survival of representations

The warranties provided by each party under this **clause 15**:

- (a) are severable;
- (b) will survive the termination of this document; and
- (c) are given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this document.

## 16. Guarantee

### 16.1 Guarantee

MMHL unconditionally and irrevocably guarantees to SCB (in SCB's own right and separately as trustee for each of the Scheme Shareholders):

- (a) the payment by RM2 of all present and future monetary liabilities of RM2 under or in connection with this document or any document contemplated by an RM2 Counterproposal (or both); and

- (b) the performance by RM2 of each other obligation of RM2 under this document or any document contemplated by an RM2 Counterproposal (or both),

and if RM2 fails to pay such monies or fails to perform such obligation on the due date for payment or performance MMHL must immediately on demand by SCB pay such monies in the manner contemplated by this document or procure the performance by RM2 of such obligation, as the case may be.

**16.2 No requirement to take steps against RM2**

SCB may make a demand under the guarantee in **clause 16.1** without first taking any steps against RM2.

**16.3 Continuing effect**

Each guarantee contained in this **clause 16** is a continuing guarantee of MMHL, is not wholly or partially discharged at any time by the payment of any monies or the performance of any obligations guaranteed under it and remains in full force and effect until all monetary liabilities and other obligations guaranteed under it have been fully paid and performed.

**16.4 No effect**

Neither the liabilities of MMHL nor the rights of SCB in any capacity under this **clause 16** are affected by anything which might otherwise affect them at law or in equity including, without limitation, any one or more of the following:

- (a) SCB in any capacity or another person granting time or other indulgence to, compounding or compromising with or releasing RM2;
- (b) acquiescence, delay, acts, omissions or mistakes on the part of SCB in any capacity; or
- (c) any novation of a right of SCB in any capacity or change to this document.

**16.5 No set off**

MMHL may not, in reduction or its liability under this **clause 16**, raise any defence (other than a defence which contests liability under this clause), set off or counterclaim available to it or RM2 against SCB in any capacity or claim a set off or make a counterclaim against SCB in any capacity.

## 17. Notices and other communications

**17.1 General**

A notice, demand, certification, process or other communication relating to this document must be in writing in English and may be given by an agent of the sender.

**17.2 How to give a communication**

In addition to any other lawful means, a communication may be given by being:

- (a) personally delivered;
- (b) left at the party's current address for notices;
- (c) sent to the party's current address for notices by pre-paid ordinary mail or, if the address is outside Australia, by pre-paid airmail; or
- (d) sent by fax to the party's current fax number for notices.

**17.3 Particulars for delivery of notices**

- (a) The particulars for delivery of notices are initially:

### **SCB**

Address 70 Park Street, South Melbourne, Victoria

Fax: 03 96825158

Attention: Company Secretary

### **RM2**

Address: Level 7, No. 1 Martin Place, Sydney, New South Wales

Fax: (02) 8232 4713

Attention: Company Secretary

### **MMHL**

Address: Level 11, No. 1 Martin Place, Sydney, New South Wales

Fax: (02) 8232 4713

Attention: Company Secretary

- (b) Each party may change its particulars for delivery of notices by notice to each other party.

#### **17.4 Communications by post**

Subject to **clause 17.6**, a communication is given if posted:

- (a) within Australia to an Australian address, three Business Days after posting; or  
(b) in any other case, five Business Days after posting.

#### **17.5 Communications by fax**

Subject to **clause 17.6**, a communication is given if sent by fax, when the sender's fax machine produces a report that the fax was sent in full to the addressee. That report is conclusive evidence that the addressee received the fax in full at the time indicated on that report.

#### **17.6 After hours communications**

If a communication is given:

- (a) after 5.00 pm in the place of receipt; or  
(b) on a day which is a Saturday, Sunday or bank or public holiday in the place of receipt, it is taken as having been given at 9.00 am on the next day which is not a Saturday, Sunday or bank or public holiday in that place.

#### **17.7 Process service**

Any process or other document relating to litigation, administrative or arbitral proceedings relating to this document may be served by any method contemplated by this **clause 17** or in accordance with any applicable law.

## **18. General**

### **18.1 Legal costs**

Subject to **clause 10**, each party must pay its own legal and other costs and expenses of negotiating, preparing, executing and performing its obligations under this document and the Scheme Booklet and the proposed, attempted or actual implementation of this document and the Scheme.

## 18.2 Amendment

This document may only be varied or replaced by a document executed by the parties.

## 18.3 Severability and prior approvals

- (a) Subject to clauses 18.3(b) and (c), if a provision of this document is illegal or unenforceable in any relevant jurisdiction it will be severed for the purposes of that jurisdiction without affecting the enforceability of the other provisions of this document.
- (b) **Clause 18.3(a)** does not apply if severing the provision:
  - (i) materially alters the:
    - (A) scope and nature of this document; or
    - (B) the relative commercial or financial positions of the other party; or
  - (ii) would be contrary to public policy.
- (c) If a provision or a part of a provision of this document would cause MMHL, RM2 or any Representative of either of them or any of their Related Entities to contravene Part 5 of the BSA, but ACMA has the power to grant a prior approval or make an order (including under sections 67 or 61AJ of the BSA) in respect of the breach or transaction that causes such a contravention, it is a condition precedent to such a provision that ACMA has granted such a prior approval or makes such an order and such a provision will not take effect until such an approval is granted.

## 18.4 Consents

A consent required under this document from a party may not be unreasonably delayed or withheld, unless this document expressly provides otherwise.

## 18.5 Entire agreement

This document and the Confidentiality Deed embody the entire understanding of SCB and RM2 and constitute the entire terms agreed by SCB and RM2 in relation to the subject matter of this document and together supersede any prior written or other agreement between SCB and RM2 in relation to that subject matter.

## 18.6 Waiver and exercise of rights

- (a) A single or partial exercise or waiver by a party of a right relating to this document does not prevent any other exercise of that right or the exercise of any other right.
- (b) A party is not liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

## 18.7 Control under the BSA

If any right granted to RM2 or MMHL under this document would place RM2 or MMHL in a position to exercise control of SCB or any licence issued to SCB or any of its Related Entities under the BSA, RM2 and MMHL may, at any time, permanently and irrevocably waive that right, by notice in writing to SCB.

## 18.8 Rights cumulative

Except as expressly stated otherwise in this document, the rights of a party under this document are cumulative and are in addition to any other rights of that party.

## 18.9 Further steps

Each party must promptly do whatever any other party reasonably requires of it to give effect to this document and to perform its obligations under it including, in the case of SCB, exercising its rights under its constitution, any SCB Option Plan or other employee share plan to facilitate the

transactions contemplated by this document. Each party must not take any steps that would undermine this document or the transactions contemplated by it.

**18.10 Governing law and jurisdiction**

- (a) This document is governed by and is to be construed in accordance with the laws applicable in Victoria.
- (b) Each party irrevocably and unconditionally submits to the non exclusive jurisdiction of the courts of Victoria and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

**18.11 Assignment**

- (a) A party must not assign or deal with any right under this document without the prior written consent of the other party.
- (b) Any purported dealing in breach of this clause is of no effect.

**18.12 Counterparts**

This document may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.

For personal use only

# Schedule 1

## Material Contracts

- (a) Affiliation Agreement between Australian Capital Television Pty Ltd and Network Ten Pty Limited dated 31 August 2005
- (b) Affiliation Agreement between Northern Rivers Television Pty Ltd and Network Ten Pty Limited dated 31 August 2005
- (c) Affiliation Agreement between Regional Television Pty Limited and Network Ten Pty Limited dated 31 August 2005
- (d) Affiliation Agreement between Southern Cross Communications Ltd and Network Ten Pty Limited dated 31 August 2005
- (e) Program Licence Agreement between Broken Hill Television Ltd and Spencer Gulf Telecasters Ltd and Network Ten Pty Limited dated 21 December 2006
- (f) Program Licence Agreement between Regional Television Pty Limited and Network Ten Pty Limited dated 21 December 2006
- (g) Program Licence Agreement between Southern Cross Television (TNT9) Pty Ltd and Network Ten Pty Limited dated 21 December 2006
- (h) the agreement or agreements in respect of the acquisition or licence of television program content between Seven Network (Operations) Limited (or any Related Entity) and SCB or any SCB Group Member.

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# Schedule 2

## Retained Entities

### 1. Tricom Radio Holdings Pty Ltd

Tricom Radio Holdings Pty Ltd, the subsidiaries of which are:

#### 1.1 SCB Metro Radio entities

The following subsidiaries that conduct commercial radio broadcasting activities in metropolitan regions and their respective subsidiaries and shareholdings listed below:

SCB Subsidiary	Licence No.	On-Air-ID (Frequency)	Radio Licence Area	Subsidiary or shareholding (%)
Radio 2UE Sydney Pty Ltd	4102	2UE (954 kHz)	Sydney RA1 (NSW)	Talk Radio Network Pty Ltd (100%) Homebush Transmitters Pty Ltd (50%)
3AW Southern Cross Radio Pty Ltd ("3AW")	4140	3AW 1278 Talk Radio (1278 kHz)	Melbourne RA1 (QLD)	United Broadcast Holdings Pty Ltd ("UBH") (100%) Broadcast Investments Holdings Pty Ltd (49% by 3AW and 51% by UBH)
1278 Southern Cross Radio Pty Ltd	4146	Magic 1278 (693 kHz)	Melbourne RA1 (QLD)	N/A
96FM Southern Cross Radio Pty Ltd	3038	96fm (96.1 MHz)	Perth RA1 (WA)	Perth FM Facilities Pty Ltd (33.3%)
6PR Southern Cross Radio Pty Ltd	4201	6PR (882 kHz)	Perth RA1 (WA)	N/A
Radio 4BC Brisbane Pty Ltd	4161	4BC (1116 kHz)	Brisbane RA1 (QLD)	N/A
Queensland Radio 2000 Pty Ltd	4162	4BH 882 (882 kHz)	Brisbane RA1 (QLD)	N/A

#### 1.2 Satellite Music entities

Satellite Marketing Australia Pty Limited (ACN 072 328 986), the subsidiaries of which are:

- Satellite Music Australia Pty Limited (ACN 074 162 888);
- Satellite Interactive Marketing Pty Limited (ACN 078 808 554); and
- Digital Radio Australia Pty Limited (ACN 083 365 799).

#### 1.3 Southern Cross Syndication entities

Southern Cross Syndication Pty Ltd (ACN 002 015 821)

## 2. Southern Star Group Limited

Southern Star Group Limited, the Subsidiaries and joint venture investment of which are listed on the attached structure chart together with Southern Star Golden Globe.

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## 3. Tricom Group Pty Ltd

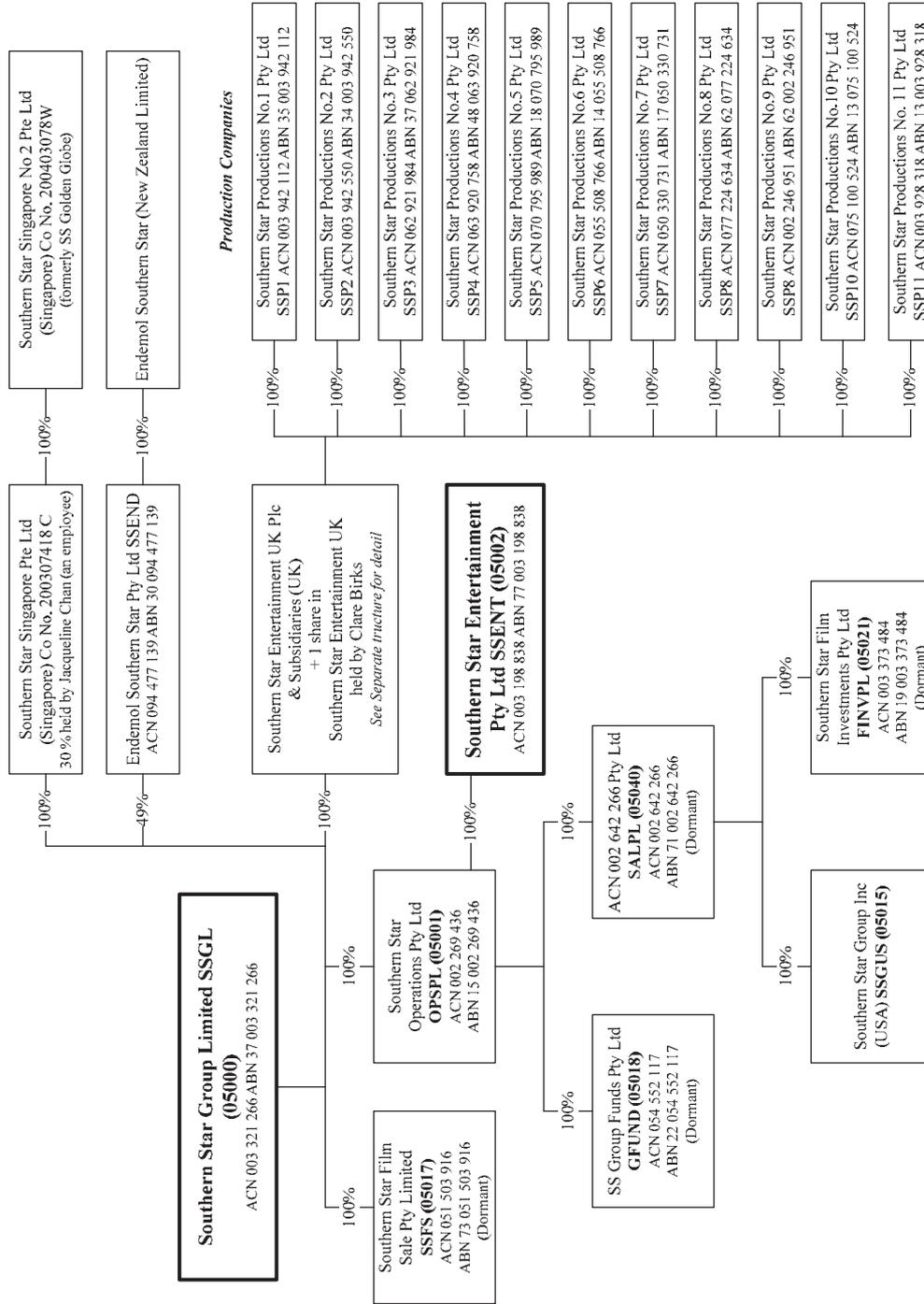
Tricom Group Pty Ltd (ACN 007 217 870), the subsidiaries of which are:

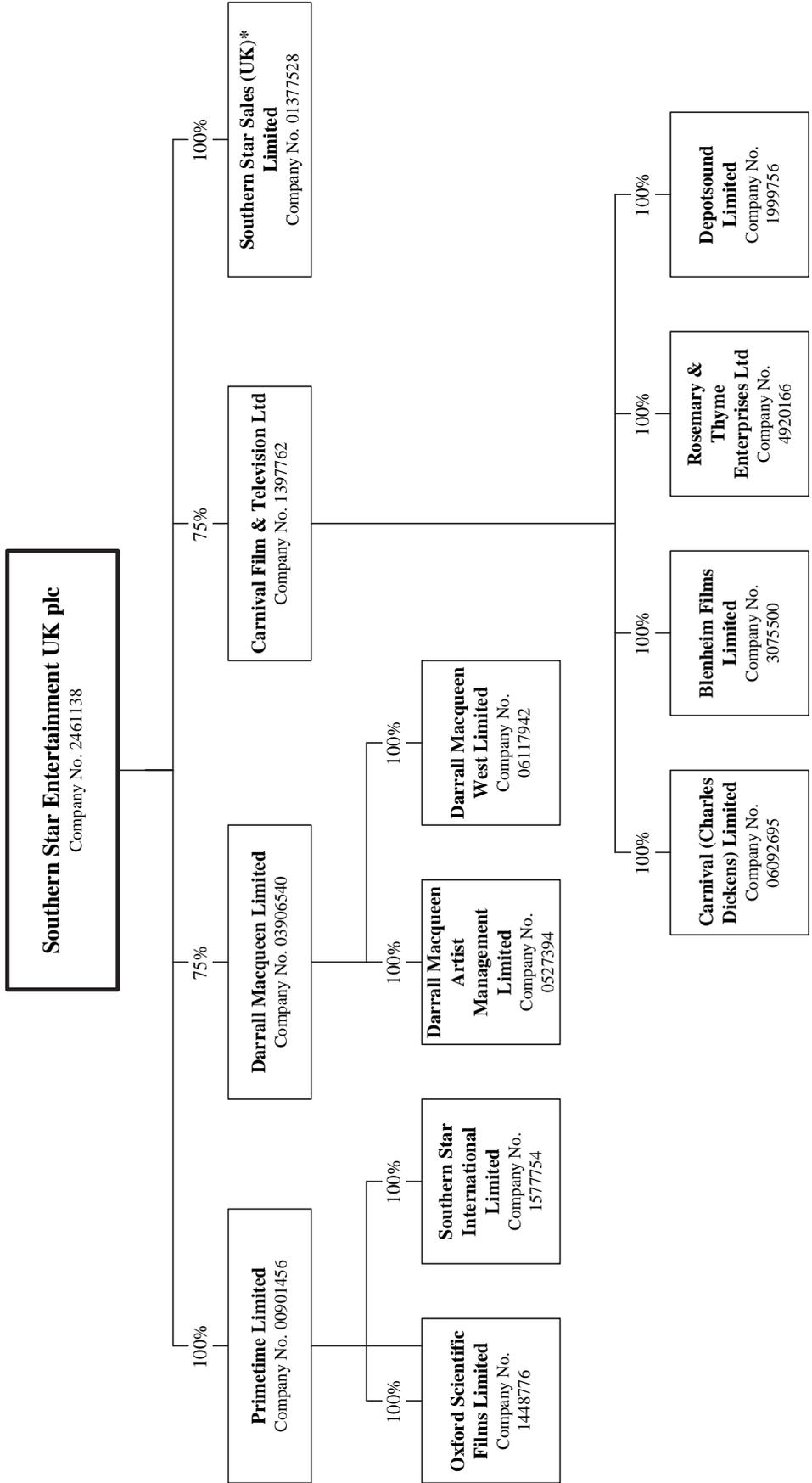
- (a) Southern Cross Emedia Pty Ltd (ACN 007 445 892); and
  - (b) Fantasports Australia Pty Ltd (ACN 067 204 219).
- 

## 4. Southern Cross View Pty Limited

Southern Cross View Pty Ltd (ACN 104 575 591) and its 50% shareholding in You Play Pty Ltd (ACN 123 248 582).

# Attachment to Schedule 1 – Southern Star Corporate Chart





\*Excludes 12,000 preference shares in Southern Star Sales (UK) Limited held by five unrelated third parties

# Annexure A

## Timetable

Event	Date
Commence Preparation of draft Scheme Booklet and Independent Expert's Report (IER)	Friday 29 June 2007
Lodge draft Scheme Booklet and IER with ASIC for review (at least 14 days before First Court Hearing Date)*	Monday 20 August 2007*
Application in respect of the court hearing to be held on the First Court Hearing Date, filed with the court, served on ASIC and delivered to ASX	Monday 20 August 2007
Lodge final Scheme Booklet and IER with ASIC and receive confirmation from ASIC that it will not object to the Scheme Meeting being held	Wednesday 5 September 2007
First Court Hearing Date	Friday 7 September 2007
Scheme Booklet registered with ASIC and filed with ASX	Friday 7 September 2007
Printing and dispatch of Scheme Booklet	Between Friday 7 September 2007 and Wednesday 12 September 2007
Scheme Meeting held	Friday 12 October 2007
Second Court Hearing Date (5 days' notice to be given)	Friday 19 October 2007
Lodge court order with ASIC and announcement made to ASX (Effective Date)	Friday 19 October 2007
Record Date (4th Business Day after the Effective Date)	5pm on Thursday 25 October 2007
Implementation Date (1st Business Day after the Record Date)	Friday 26 October 2007

\* This date (and the remainder of the timetable) is dependent on the finalisation of audited SCB Group financial reports for the year ended 30 June 2007. If the availability of the financial reports is delayed, this date will be altered until a date following the incorporation of the financial reports in the Scheme Booklet and all subsequent dates in the Timetable will be deemed to be altered accordingly.

## Annexure B

### Options

Grant Date	Maturity Date	Exercise Price	Option Price	Number of Options
1/11/2002	1/11/2009	\$9.10	\$7.95	200,000
10/11/2004	10/11/2009	\$12.35	\$4.70	1,034,000
10/11/2004	10/11/2009	\$0.00	\$17.05	197,000
10/11/2005	10/11/2010	\$0.00	\$17.05	224,900
16/11/2006	16/11/2011	\$0.00	\$17.05	211,700

For personal use only

**Annexure C: Share Scheme**

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Southern Cross Broadcasting (Australia) Limited

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The holders of ordinary shares in Southern Cross Broadcasting (Australia) Limited as at the Record Date other than the MMG Group

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# Share Scheme of Arrangement

Date

## Parties

**Southern Cross Broadcasting (Australia) Limited ABN 86 006 186 974 (SCB)**

**The holders of ordinary shares in SCB as at the Record Date other than the MMG Group**

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## Agreed terms

### 1. Definitions and interpretation

#### 1.1 Definitions

In this Share Scheme, except where the context otherwise requires:

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

**ASTC** means ASX Settlement and Transfer Corporation Pty Limited (ACN 008 504 532).

**ASTC Settlement Rules** means the settlement rules of ASTC.

**ASX** means Australian Stock Exchange Limited (ACN 008 624 691).

**Business Day** means a day that is not a Saturday, Sunday, bank holiday or public holiday in Melbourne, Australia.

**CHESS** means the Clearing House Electronic Subregister System, which facilitates electronic security transfer in Australia, operated by ASTC.

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

**Court** means the Supreme Court of Victoria or any other court of competent jurisdiction under the Corporations Act agreed in writing by SCB and RM2.

**Deed Poll** means the deed poll to be executed by RM2 in favour of the Share Scheme Participants, a copy of which is to be annexed to the Scheme Booklet, under which RM2 covenants in favour of each Share Scheme Participant to perform its obligations under the Share Scheme and the Merger Implementation Agreement as regards the implementation of this Share Scheme.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the court made under section 411(4)(b) in relation to the Share Scheme, but in any event at no time before an office copy of the order of the court is lodged with ASIC.

**Effective Date** means the date on which the Share Scheme becomes Effective.

**End Date** means:

- (a) 23 November 2007; or
- (b) such other date as agreed in writing between SCB and RM2.

**Implementation Date** means the Business Day following the Record Date or such later date as ordered by the Court or agreed between the parties.

**Merger Implementation Agreement** means the merger implementation agreement between RM2, MMHL and SCB dated 3 July 2007.

**MMG** means MMHL, Macquarie Media Management Limited ABN 16 115 524 019 (in its capacity as the responsible entity of the Macquarie Media Trust) and Macquarie Media International Limited ARBN 118 577 423.

**MMG Group** means MMG and each entity which it controls (as defined in section 50AA of the Corporations Act) as if the entities in MMG were one entity and separate entities.

**MMG Group Shares** means any SCB Shares held by or on behalf of the MMG Group on the Record Date.

**MMHL** means Macquarie Media Holdings Limited ABN 91 116 024 536 of Level 11, No 1 Martin Place, Sydney, New South Wales.

**Option** means an option or other right to acquire SCB Shares issued by SCB under an SCB Option Plan.

**Option Scheme** means a scheme of arrangement under Part 5.1 of the Corporations Act in respect of the Options to be proposed by SCB in accordance with **clause 4.2** of the MIA.

**Record Date** means 7.00 pm on the fifth Business Day following the Effective Date or such other date and time as SCB and RM2 agree.

**Related Entity** of a party means another entity which:

- (a) is a related body corporate of the first entity under section 50 of the Corporations Act;
- (b) is in any consolidated entity (as defined in section 9 of the Corporations Act) which contains the party; or
- (c) the party controls (as defined in section 50AA of the Corporations Act),

and in the case of MMG the above paragraphs will be applied both as if the entities in MMG were one entity and separate entities.

**Register** means the register of members of SCB maintained by or on behalf of SCB in accordance with section 168(1) of the Corporations Act and **Registry** has a corresponding meaning.

**RM2** means Regional Media No. 2 Pty Limited ACN 124 720 289 of Level 7, No. 1 Martin Place, Sydney, New South Wales.

**SCB Board** means the board of directors of SCB as constituted from time to time.

**SCB Employee Share Plan** means the Tricom Employee Share Plan Consolidated Deed of Trust between Tricom Incentive Pty Ltd, Tricom Corporation Ltd (now SCB) and the 'Initial Employees' (as defined in that document).

**SCB Group** means SCB and any Related Entity of SCB.

**SCB Option Plan** means each of the following option or performance rights plans under which the Options were issued:

- (a) SCB Executive Performance Plan; and
- (b) 2002 Managing Director Option Grant Terms.

**SCB Share** means a fully or partly paid ordinary share in the capital of SCB.

**SCB Shareholder** means each person who is registered in the Register as the holder of SCB Shares.

**SCB Scheme Shares** means all the SCB Shares on issue on the Record Date excluding the **MMG Group Shares** but including any SCB Shares issued before the Record Date including upon the exercise of any Option.

**Share Scheme** means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by SCB and RM2.

**Scheme Booklet** means the information to be dispatched to SCB Shareholders and approved by the Court, including the Share Scheme, explanatory statements in relation to the Share Scheme issued pursuant to section 412 of the Corporations Act and registered with ASIC, an independent expert's report prepared by the Independent Expert, the Deed Poll, a tax opinion on the Share Scheme provided by SCB's taxation advisers and notices convening the Share Scheme Meeting (together with proxy forms).

**Share Scheme Consideration** means \$17.05 per fully paid SCB Scheme Share and that amount less the amount of the unpaid issue price in the case of each partly paid SCB Scheme Share.

**Scheme Meeting** means the meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Share Scheme.

**Share Scheme Participant** means each holder of SCB Scheme Shares as at the Record Date.

**Second Court Date** means the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Share Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

**Share Scheme Transfer** means, for each Share Scheme Participant, a duly completed and executed proper instrument of transfer of the SCB Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all SCB Scheme Shares.

**Special Dividend** means a dividend of \$0.36 per SCB Share.

## 1.2 Interpretation

In this Share Scheme, unless the context otherwise requires:

- (a) headings and bolding are for convenience and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) the word "person" includes a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (d) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes and assigns;
- (e) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (f) references to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (g) references to agreements or deeds are to agreements or deeds as amended from time to time;
- (h) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, the Share Scheme and a reference to the Share Scheme includes any annexure, exhibit and schedule;
- (i) the words "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (j) a reference to a holder includes a joint holder;
- (k) references to a currency are to Australian currency;
- (l) a reference to time is a reference to the time in Melbourne, Australia; and
- (m) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on the next Business Day.

## 2. Preliminary

### 2.1 SCB

- (a) SCB is a public company incorporated in Australia and registered in Victoria, having its registered office at 70 Park Street, South Melbourne, Victoria.
- (b) SCB is a public company limited by shares under section 112(1) of the Corporations Act.
- (c) SCB has been admitted to the official list of ASX and fully paid SCB Shares are quoted on the official list of ASX.

### 2.2 RM2

- (a) RM2 is a private company (limited by shares) incorporated in Australia and registered in NSW.
- (b) RM2 has its registered office at Level 7, No.1 Martin Place, Sydney, New South Wales (ACN 124 720 289).

- (c) RM2 is the acquisition vehicle of MMG.

### 2.3 Effect of Share Scheme

If the Share Scheme becomes Effective, but subject to **clauses 3.1, 3.5 and 3.6**, then:

- (a) in consideration of the transfer of the SCB Scheme Shares to RM2, RM2 will provide the Share Scheme Consideration to each Share Scheme Participant in accordance with the terms of the Share Scheme on the Implementation Date and in any event before the transfer of the SCB Scheme Shares to RM2;
- (b) SCB will declare the Special Dividend and pay the Special Dividend to each person who is a SCB Shareholder as at the Record Date;
- (c) subject to RM2's compliance with its obligations in **clause 2.3(a)**, all of the SCB Scheme Shares will be transferred to RM2; and
- (d) SCB will enter the name and address of RM2 in the Register as the holder of the SCB Scheme Shares transferred to RM2 in accordance with the terms of the Share Scheme.

### 2.4 Merger Implementation Agreement

RM2 and SCB have agreed, by executing the Merger Implementation Agreement, to implement the terms of the Share Scheme and to perform their respective obligations under the Share Scheme.

### 2.5 Deed poll

RM2 has executed the Deed Poll in favour of Share Scheme Participants pursuant to which it has covenanted to perform its obligations under the Share Scheme including to provide to each Share Scheme Participant the Share Scheme Consideration to which such Share Scheme Participant is entitled under the Share Scheme and to carry out its other obligations under the Merger Implementation Agreement and do all things necessary or expedient on its part to implement the Share Scheme.

## 3. Conditions

### 3.1 Conditions of Share Scheme

The Share Scheme is conditional on:

- (a) all of the conditions precedent in **clause 3.1** of the Merger Implementation Agreement having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement (other than the conditions precedent in **clauses 3.1(e)** and **3.1(k)** of that agreement), as at 8am on the Second Court Date;
- (b) as at 8.00 am on the Second Court Date, neither the Merger Implementation Agreement nor the Deed Poll having been terminated;
- (c) the Share Scheme having been approved at the Scheme Meeting by the requisite majority of SCB Shareholders in accordance with section 411(4)(a) of the Corporations Act;
- (d) the Court having approved the Share Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to both SCB and RM2;
- (e) such other conditions made or required by the Court under section 411(6) of the Corporations Act as are acceptable to RM2 and SCB being satisfied; and
- (f)
  - (i) the Court having approved the Option Scheme pursuant to Section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to SCB; or

- (ii) there being no outstanding Options as at 8.00 am on the Second Court Date.

### **3.2 Effect of conditions**

The fulfilment of the conditions in **clause 3.1** is a condition precedent to the operation of the provisions of **clauses 4, 5 and 7**.

### **3.3 Certificate**

SCB and RM2 will each provide to the Court on the Second Court Date a certificate confirming (to the best of their knowledge) whether or not:

- (a) all the conditions precedent in **clauses 3.1(a), 3.1(b) and 3.1(c)** have been satisfied;
- (b) a SCB Prescribed Occurrence (as defined in the Merger Implementation Agreement) has occurred, save that the obligation to provide any confirmation in respect of this **clause 3.3(b)** falls only on SCB and does not extend to any SCB Prescribed Occurrence which RM2 has waived by notice in writing to SCB under clause 3.2(b) of the Merger Implementation Agreement; and
- (c) a RM2 Prescribed Occurrence (as defined in the Merger Implementation Agreement) has occurred, save that the obligation to provide any confirmation in respect of this **clause 3.3(c)** falls only on RM2.

### **3.4 Conclusive evidence**

The giving of a certificate by each of SCB and RM2 under **clause 3.3** will, in the absence of manifest error, be conclusive evidence of the matters referred to in the certificate.

### **3.5 Termination of Merger Implementation Agreement**

Without limiting rights under the Merger Implementation Agreement, in the event that the Merger Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, SCB and RM2 are each released from:

- (a) any further obligation to take steps to implement the Share Scheme; and
  - (b) any liability with respect to the Share Scheme,
- provided that SCB and RM2 retain the rights they have against each other in respect of any prior breach of the Merger Implementation Agreement.

### **3.6 End date**

The Share Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

## 4. Share Scheme

### 4.1 Lodgement of court order

Following the approval of the Share Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, SCB will, as soon as possible, lodge with ASIC an office copy of the Court order approving the Share Scheme pursuant to section 411(10) of the Corporations Act.

### 4.2 Transfer of SCB Scheme Shares held by Share Scheme Participants

On the Implementation Date, in consideration of and subject to payment of the Share Scheme Consideration in accordance with **clause 5.1**:

- (a) all of the SCB Scheme Shares held by Share Scheme Participants, together with all rights and entitlements attaching to the SCB Scheme Shares as at that date (other than the right to receive payment of the Special Dividend), will be transferred to RM2 without the need for any further acts by any Share Scheme Participant (other than acts performed by SCB as attorney and agent for Share Scheme Participants under **clause 4.7**), by:
  - (i) SCB delivering to RM2 on the Implementation Date a duly completed Share Scheme Transfer executed by SCB as attorney for the Share Scheme Participants for execution by RM2; and
  - (ii) RM2 duly executing and delivering the Share Scheme Transfer to SCB on the Implementation Date; and
- (b) as soon as practicable after receipt of the duly executed Share Scheme Transfer pursuant to **clause 4.2(a)(ii)**, but in any event on the Implementation Date, SCB entering the name and address of RM2 in the Register as the holder of all of the SCB Scheme Shares.

### 4.3 Covenants by Share Scheme Participants

- (a) The Share Scheme Participants agree to the transfer of all of their SCB Scheme Shares (together with all rights and entitlements attaching to the SCB Scheme Shares other than the right to receive payment of the Special Dividend) to RM2 in accordance with the terms of the Share Scheme.
- (b) Each Share Scheme Participant consents to SCB doing all things and executing all deeds, instruments, transfers and other documents as may be necessary or desirable to give effect to the Share Scheme and the transactions contemplated by it.

### 4.4 Consent to transfer partly paid SCB Scheme Shares

For the purposes of **clause 9** of the SCB Employee Share Plan, SCB consents to the transfer of all partly paid SCB Scheme Shares in accordance with this Share Scheme.

### 4.5 Beneficial entitlement by RM2

From the time of payment of the Share Scheme Consideration to the Share Scheme Participants in accordance with **clause 5.1** on the Implementation Date, RM2 will be beneficially entitled to the SCB Scheme Shares (together with all rights and entitlements attached to the SCB Scheme Shares other than the right to receive the Special Dividend) to be transferred to it under the Share Scheme pending registration of RM2 in the Register as the holder of those SCB Scheme Shares.

### 4.6 Appointment of RM2 as sole proxy

From the Effective Date until SCB registers RM2 as the holder of all the SCB Scheme Shares in the Register, each Share Scheme Participant:

- (a) is deemed to have irrevocably appointed RM2 as its attorney and agent (and directed RM2 in such capacity) to appoint such officer or agent nominated by RM2 to be its sole proxy and where applicable, corporate representative, to attend shareholders' meetings of SCB, exercise the votes attaching to SCB Scheme Shares registered in its name and sign any shareholders resolution, and no Share Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause **4.6(a)**); and
- (b) must take all other actions in the capacity of the registered holder of SCB Scheme Shares as RM2 directs.

#### **4.7 Appointment of SCB as sole attorney and agent**

Each Share Scheme Participant, without the need for any further act, irrevocably appoints SCB and each of the directors and officers of SCB, jointly and severally, as the Share Scheme Participant's attorney and agent for the purpose of executing any document necessary or expedient to give effect to the Share Scheme (including executing a Share Scheme Transfer and any instrument appointing RM2 as sole proxy for or, where applicable, corporate representative of each Share Scheme Participant as contemplated by **clause 4.6**) or doing any other act necessary or desirable to give full effect to the Share Scheme and the transactions contemplated by it.

#### **4.8 Enforcement of Deed Poll**

SCB undertakes in favour of each Share Scheme Participant to enforce the Deed Poll against RM2 on behalf of and as agent for the Share Scheme Participants.

## **5. Share Scheme Consideration**

### **5.1 Share Scheme Consideration**

- (a) Prior to 8 am on the Implementation Date, RM2 must deposit or procure the deposit in cleared funds without any set off, deduction, withholding or counterclaim an amount equal to the aggregate amount of the Share Scheme Consideration payable to the Share Scheme Participants for the SCB Scheme Shares in a trust account in SCB's name, to be held on trust by SCB for the purpose of sending the Share Scheme Consideration to the Share Scheme Participants, except that any interest on the amount deposited (less any bank fees and other charges) will be to RM2's account.
- (b) On the Implementation Date, SCB must pay to each Share Scheme Participant, from the trust account referred to in **clause 5.1(a)**, the Share Scheme Consideration in respect of each SCB Scheme Share registered in the name of that Share Scheme Participant. This obligation will be satisfied by SCB paying each Share Scheme Participant the amount equal to the number of SCB Scheme Shares held by the Share Scheme Participant at the Record Date multiplied by the Share Scheme Consideration, in the manner described in **clause 5.4**.

### **5.2 Special Dividend**

SCB must declare and on the Implementation Date, subject to the Share Scheme becoming Effective, must pay the Special Dividend to each SCB Shareholder on the Register as at the Record Date. This obligation will be satisfied by SCB paying to each SCB Shareholder at the Record Date the amount equal to the number of SCB Shares held by the SCB Shareholder at the Record Date multiplied by the Special Dividend in the manner described in **clause 5.4**.

### **5.3 Joint holders**

In the case of SCB Scheme Shares held in joint names any cheque required to be paid pursuant to **clauses 5.1(b)** and **5.2** for the Share Scheme Consideration and the Special Dividend respectively will be payable to the joint holders and will be forwarded to the holder whose name appears first in the Register as at the Record Date.

### **5.4 Method of payment**

All amounts payable under this **clause 5** will be paid by SCB:

- For personal use only
- (a) dispatching, or procuring the dispatch, to the Share Scheme Participant by prepaid post to their address in the Register at the Record Date, a pre-printed cheque drawn in Australian currency in the name of the Share Scheme Participant; or
  - (b) making, or procuring the making of, a deposit into an account with any Australian ADI (as defined in the Corporations Act) which has been notified to SCB (or SCB's agent who manages the Register) by a Share Scheme Participant, for the purpose of receiving dividends, not later than the Record Date.

## 6. Dealings in SCB Shares

### 6.1 Determination of Share Scheme Participants

- (a) For the purpose of establishing the persons who are the Share Scheme Participants, dealings in SCB Scheme Shares will only be recognised if:
  - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant SCB Scheme Shares at the Record Date; and
  - (ii) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received at or before the Record Date at the place where the Register is kept.
- (b) **Transmission applications or transfers received at or before the Record Date:** SCB must register registrable transmission applications or transfers of the kind referred to in **clause 6.1(a)(ii)** by the Record Date.
- (c) **Transmission applications or transfers received after the Record Date:** SCB will not accept for registration or recognise for any purpose any transmission applications or transfers in respect of SCB Scheme Shares received after the Record Date, other than a transfer to RM2 in accordance with the Share Scheme and any subsequent transfer by RM2, or its successors in title.

### 6.2 Maintenance of Register

- (a) **Maintaining of the Register:** For the purpose of determining entitlements to the Share Scheme Consideration and Special Dividend, SCB will, until the Share Scheme Consideration and Special Dividend has been provided, maintain the Register in accordance with the provisions of this **clause 6** and the Register in this form will solely determine entitlements to the Share Scheme Consideration and Special Dividend.
- (b) **Effect of the Record Date:** All statements of holding for SCB Scheme Shares (other than statements of holding in favour of RM2 and its successors in title after the Implementation Date) will cease to have any effect from the Record Date as documents of title in respect of those SCB Scheme Shares. Subject to provision of the Share Scheme Consideration by RM2 and registration of the transfer to RM2 contemplated by **clause 4.2**, after the Record Date, each entry current at that date on the Register relating to SCB Scheme Shares will cease to be of any effect other than as evidence of entitlement to the Share Scheme Consideration and Special Dividend in respect of the SCB Scheme Shares relating to that entry.

## 7. Quotation of shares

SCB will apply for termination of the official quotation of SCB Shares on ASX and the removal of SCB from the official list of ASX with effect from the Business Day after the date on which all transfers of the SCB Scheme Shares to RM2 have been duly registered by SCB in accordance with this Share Scheme.

## 8. General

### 8.1 SCB and Share Scheme Participants bound

The Share Scheme binds SCB and all Share Scheme Participants (including Share Scheme Participants who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Share Scheme) and will, for all purposes, to the extent of any inconsistencies and permitted by law, have effect notwithstanding any provision in the constitution of SCB.

### 8.2 Warranties by Share Scheme Participants

Each Share Scheme Participant is deemed to have warranted to SCB, in its own right and for the benefit of RM2, that all of the SCB Scheme Shares (including any rights and entitlements attaching to those shares) which are transferred to RM2 under the Share Scheme, will be transferred to RM2 free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind and that they have full power and capacity to sell and transfer their SCB Scheme Shares to RM2 (but acknowledging that a security interest holder may potentially have an interest in the Share Scheme Consideration in accordance with the terms of such security interest).

### 8.3 Further assurances

SCB will execute all documents and do all acts and things (on its own behalf and on behalf of each SCB Shareholder) necessary or expedient for the implementation of, and performance of its obligations under, the Share Scheme.

### 8.4 Communications

Where a notice, transfer, transmission application, direction or other communication referred to in the Share Scheme is sent by post to SCB, it will not be deemed to have been received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at SCB's registered office or at the share registry of SCB.

### 8.5 Alterations and conditions

SCB may, with the consent of RM2, by its counsel consent on behalf of all Share Scheme Participants to any modifications or conditions which the Court thinks fit to impose, provided that in no circumstances will SCB be obliged to do so.

### 8.6 Stamp duty

RM2 will pay any stamp duty payable on the transfer by Share Scheme Participants of the SCB Scheme Shares to RM2.

### 8.7 Governing law

This Share Scheme is governed by the laws of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

**Annexure D: Notice of Share Scheme Meeting**

# Annexure D: Notice of Court ordered Scheme Meeting of Shareholders of Southern Cross Broadcasting (Australia) Limited

ABN 86 006 186 974

Notice is hereby given that, by an order of the Supreme Court of Victoria, a meeting of members of Southern Cross Broadcasting (Australia) Limited (**SCB**) will be held at the offices of Corrs Chambers Westgarth at Level 36, 600 Bourke Street, Melbourne on 19 October 2007 at 10.00am (Melbourne time) (**Share Scheme Meeting**).

## Business

The purpose of the Share Scheme Meeting is to consider, and if thought fit, to agree to a Scheme of Arrangement (with or without modification) proposed to be made between SCB and Shareholders as at the Share Scheme Record Date (**Share Scheme**) pursuant to Part 5.1 of the Corporations Act 2001 (Cth) (**Corporations Act**). The Share Scheme is proposed to be made in the form of the scheme contained in **Annexure C** to the Scheme Booklet which accompanies this notice.

To assist you in making an informed voting decision, further information regarding the Share Scheme is set out in the Scheme Booklet accompanying this notice.

Terms used in this notice, including in the resolution set out below, have the same meaning as set out in the Glossary of Terms in the Scheme Booklet which accompanies this notice.

## Resolution

To consider and, if thought fit, to pass the following resolution:

*“That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement proposed to be entered into between Southern Cross Broadcasting (Australia) Limited and holders of its fully paid ordinary shares (which is described in the booklet of which the notice convening this meeting forms part) is agreed to with or without such modifications or conditions as may be approved by the Supreme Court of Victoria.”*

In accordance with section 411(4)(b) of the Corporations Act, the Share Scheme is subject to the approval of the Supreme Court of Victoria (**Court**). If the resolution put to the meeting is approved by the Requisite Majority of Shareholders, SCB intends to apply to the Court for approval of the Share Scheme.

## Majority required

In accordance with section 411(4)(a) of the Corporations Act, for the Share Scheme to be effective, the resolution must be passed by:

- a majority in numbers of Shareholders present and voting (either in person or by proxy); and
- 75% of the votes cast on the resolution.

The vote will be conducted by poll.

## Voting entitlement

For the purposes of the Share Scheme Meeting, Shares will be taken to be held by the persons who are the registered holders at 10.00am on 17 October 2007. All holders of Shares as at that time are entitled to vote at the Share Scheme Meeting.

## How to vote

Shareholders entitled to vote at the Share Scheme Meeting can vote:

- by attending the meeting and voting in person; or

- by appointing an attorney to attend the meeting and vote on their behalf, or, in the case of corporate shareholders, a corporate representative to attend the meeting and vote on its behalf; or
- by appointing a proxy to attend and vote on their behalf in their place, using the proxy form accompanying this Notice.

#### **Voting in person (or by attorney or corporate representative)**

Shareholders or their attorneys who intend to attend the meeting are requested to arrive at the venue at least 45 minutes prior to the time of the meeting and to register to vote.

Attorneys should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting.

In order to vote in person at the meeting, a corporation which is a Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of their appointment, including the authority under which it is signed.

#### **Voting by proxy**

- A proxy form is enclosed with this Notice of Meeting.
- A Shareholder has a right to appoint a proxy.
- The proxy need not be a member of SCB.
- A Shareholder who is entitled to cast two or more votes may appoint up to two proxies to attend and vote instead of themselves. If you want to appoint two proxies, an additional proxy form will be supplied by SCB on request by contacting the Share Registry. Where two proxies are appointed, both forms should be completed with the nominated proportion or number of votes each proxy may exercise. Otherwise each proxy may exercise half of the votes.
- Proxy forms must be signed by a Shareholder or the Shareholder's attorney or, if the Shareholder is a corporation, must be signed by two directors or by a director and a secretary, or if it is a proprietary company that has a sole director who is also the sole secretary (or has no secretary), by that director, or under hand of its attorney or duly authorised officer. If the proxy form is signed by a person who is not the registered holder of Shares (eg an attorney), then the relevant authority (for example, in the case of proxy forms signed by an attorney, the power of attorney or a certified copy of the power of attorney) must either have been disclosed previously to SCB or be enclosed with the proxy form.
- **The proxy form sent to you with this notice should be used for the Share Scheme Meeting. To be effective, the proxy form must be sent, delivered or faxed as follows:**

#### **Mail to:**

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia

#### **Deliver to:**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia

#### **Fax to:**

+61 2 9287 0309

by 10.00am on 17 October 2007.

Dated: 7 September 2007

#### **Eddie Chia**

Company Secretary

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**Annexure E: Share Scheme Tax Opinion**

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Bourke Place  
600 Bourke Street Melbourne VIC 3000  
GPO Box 9925 VIC 3001  
Tel (03) 9672 3000  
Fax (03) 9672 3010  
www.corrs.com.au



Sydney  
Melbourne  
Brisbane  
Perth  
Gold Coast

## Tax Opinion

5 September 2007

The Directors  
Southern Cross Broadcasting  
(Australia) Limited  
70 Park Street  
SOUTH MELBOURNE VIC 3205

**Partner**  
Reynah Tang

To the Directors

### **Proposed Scheme of Arrangement Income tax consequences for shareholders**

This letter has been prepared at the request of the Directors of Southern Cross Broadcasting (Australia) Limited (**SCB**) for inclusion in the Scheme Booklet relating to the proposed Share Scheme of Arrangement (**Share Scheme**) between Macquarie Media Holdings Limited and the holders (**SCB Shareholders**) of ordinary shares in SCB (**SCB Shares**).

#### **1 Introduction**

Under the Share Scheme, which is subject to approval by SCB Shareholders, Regional Media No.2 Pty Limited (**RM2**) will acquire all of the SCB Shares that it does not currently own for \$17.05 per share. SCB Shareholders will also be entitled to a fully-franked special dividend of \$0.36 per share (**Special Dividend**). SCB Shareholders may also be entitled to a fully-franked final dividend of \$0.37 per share for the year ended 30 June 2007 (**Final Dividend**) if they hold SCB Shares at the record date for the Final Dividend.

The following is a general outline of the main Australian income tax consequences for Australian resident SCB Shareholders who hold their SCB Shares as a long term investment and who dispose of SCB Shares under the Share Scheme.

This outline relates solely to matters governed by, and should be interpreted in accordance with, the laws of Australia as in force and as interpreted at 9.00am (Melbourne time) on the date of this opinion. This outline does not take into account or anticipate changes in the law (by legislation or judicial decision) or practice (by ruling or otherwise) after that time.

The outline is not a complete analysis of Australian tax laws in relation to the Share Scheme. The outline is also not exhaustive of all income tax considerations which could

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apply in the circumstances of any given SCB Shareholder. In particular, special rules apply to certain shareholders such as persons not resident in Australia for income tax purposes, tax exempt organisations, listed investment companies, insurance companies, superannuation funds, banks and those SCB Shareholders who hold their SCB Shares other than by way of long term investment, such as those SCB Shareholders who trade in shares or who hold shares as trading stock. Further, this outline does not address the tax considerations applicable to executives of SCB (or their associates) holding rights to acquire SCB Shares as these have been addressed in a separate opinion.

**All SCB Shareholders, and particularly those SCB Shareholders not covered by this outline as noted above, should consult with their own independent tax advisers regarding the Australian and, if applicable, foreign, income tax consequences of disposing of SCB Shares given the particular circumstances which apply to them.**

## **2 Australian tax consequences**

### **2.1 Capital gains tax (CGT)**

#### **(a) General**

The sale of SCB Shares pursuant to the Share Scheme will involve the disposal by SCB Shareholders of their SCB Shares by way of transfer to RM2. This change in ownership of the SCB Shares will constitute a CGT event for income tax purposes.

SCB Shareholders (who are Australian residents) may make a capital gain or incur a capital loss in respect of the sale of their SCB Shares that were acquired (or deemed to have been acquired) on or after 20 September 1985. Any capital gain or loss arising on the disposal of SCB Shares acquired (or deemed to have been acquired) before 20 September 1985 (**pre-CGT**) will generally be disregarded.

A capital gain will arise to the extent the capital proceeds from the disposal of SCB Shares exceed the cost base (or, in some cases as discussed below, the indexed cost base) of the SCB Shares.

A capital loss will be incurred to the extent the capital proceeds are less than the reduced cost base (effectively the cost base of an asset excluding certain items, such as deductible expenditure and indexation) of the SCB Shares.

The capital proceeds will include the \$17.05 cash to be paid by RM2 to SCB Shareholders. As a result of a recent High Court decision in relation to stamp duty, there is currently some uncertainty as to the circumstances in which a dividend paid to shareholders in connection with an arrangement for the acquisition of their shares may also form part of the consideration received by the shareholders for those shares. In respect of the Share Scheme, the better view would seem to be that the Special Dividend to be paid to the SCB Shareholders would not form part of the consideration for the disposal of the SCB Shares to RM2. This is on the basis that, while the Share Scheme

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contemplates payment of the Special Dividend, the Scheme Consideration payable by RM2 to acquire the SCB Shares is clearly defined as \$17.05 per share. Moreover, the special dividend is payable to all shareholders, including RM2. If the special dividend is included as part of the capital proceeds for CGT purposes, the CGT anti-overlap rules ought operate to reduce any capital gain to the extent the special dividend is included in assessable income.

The capital gains, after applicable discounts, and any capital losses of an individual taxpayer from all CGT events are aggregated to calculate the taxpayer's net capital gain or loss for the tax year. A net capital gain is included in the assessable income of the individual taxpayer and may be subject to income tax. A net capital loss may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains.

**(b) Date of acquisition of the SCB Shares**

As discussed above, any capital gain or capital loss on the disposal of the SCB Shares will be disregarded where SCB Shareholders acquired or are deemed to have acquired their SCB Shares pre-CGT (ie. prior to 20 September 1985). The availability of indexation or the CGT discounts will also depend upon the date that the SCB Shares were acquired.

The acquisition date of the SCB Shares will generally be the earlier of the date that the contract for acquisition of the SCB Shares was entered or the SCB Shares were issued or transferred to the shareholder. There are, however, circumstances in which a SCB Shareholder will be deemed to have acquired the SCB Shares at an earlier or later date.

SCB Shareholders in doubt as to the acquisition date of their SCB Shares should consult with their own independent tax advisers.

**(c) Indexation of cost base**

*(i) SCB Shares acquired at or before 11.45 am on 21 September 1999*

The cost base of the SCB Shares will generally be the sum of their cost of acquisition and costs associated with their acquisition or disposal (eg. stamp duty, brokerage fees etc). If SCB Shares were acquired at or before 11.45 am on 21 September 1999, a SCB Shareholder who is an individual, the trustee of a complying superannuation entity or the trustee of a trust may elect to adjust the cost base of the SCB Shares to include indexation (by reference to changes in the Consumer Price Index) from the calendar quarter in which the SCB Shares were acquired until the quarter ended 30 September 1999. SCB Shareholders which are companies (not acting as trustees of a trust or superannuation entity) will be entitled to include that indexation adjustment without making an election. Whilst those indexation adjustments are taken into account for the purposes of calculating any capital gain, they are ignored when calculating the amount of any capital loss.

Individuals, trustees of complying superannuation entities or trustees of trusts who do not make the indexation election referred to above may instead be entitled to discount the amount of their net capital gain from the disposal of SCB Shares.

SCB Shareholders in this position should consult with their own independent tax advisers as to whether or not they should make an indexation election having regard to their personal circumstances.

(ii) *SCB Shares acquired after 11.45 am on 21 September 1999*

There is no entitlement to indexation of the cost base for SCB Shareholders who acquired their SCB Shares after 11.45 am on 21 September 1999.

(d) **Discount capital gains**

Individuals, trustees of complying superannuation entities or trustees of trusts that acquired their SCB Shares at or before 11.45 am on 21 September 1999 and do not make the indexation election referred to above may instead be entitled to discount the amount of their net capital gain from the disposal of SCB Shares by:

- (i) 50% in the case of individuals and trustees of trusts (other than a trust that is a complying superannuation entity); or
- (ii)  $33\frac{1}{3}\%$  for trustees of complying superannuation entities.

SCB Shareholders that are companies (not acting as trustees) are not entitled to any discount in respect of their net capital gains on disposal of the SCB Shares.

For those individual or trustee SCB Shareholders that acquired their SCB Shares after 11.45 am on 21 September 1999, the above CGT discounts will only be available if they have held their SCB Shares for at least 12 months.

Those individual or trustee SCB Shareholders that acquired their SCB Shares at or before 11.45 am on 21 September 1999 should consult with their own independent tax advisers as to whether or not they should make an indexation election or apply the above CGT discounts.

(e) **Partly paid shares**

SCB has issued the following partly paid ordinary shares (**Partly Paid Shares**):

- 272,300 Partly Paid Shares, paid to 2.5 cents. The unpaid portion which may be called depends on the issue price for the Partly Paid Shares and ranges between \$1.675 and \$2.375; and
- 30,000 Partly Paid Shares, paid to 1 cent with \$11.125 which may be called.

The Partly Paid Shares are held for the holders (**Partly Paid Shareholders**) on trust by Southern Cross Incentive Pty Ltd, as trustee of the Tricom Corporation Employee Share Plan, and are not listed on the Australian Stock Exchange.

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Southern Cross Broadcasting (Australia) Limited

**Proposed Scheme of Arrangement**

**Income tax consequences for shareholders**



Partly Paid Shareholders are not entitled to receive dividends in the ordinary course of events in respect of the Partly Paid Shares until such time as they become fully paid, but are entitled to receive the Special Dividend. They are also entitled to vote in proportion to the amount paid up on the Partly Paid Shares. If the Partly Paid Shares become fully paid, the Partly Paid Shareholders may direct the trustee to transfer the SCB Shares. As a result of the Share Scheme, the Partly Paid Shareholders may direct the trustee to make a call on the balance of the issue price or to transfer the Partly Paid Shares to RM2 on their behalf.

The Partly Paid Shareholders will be treated as having acquired the Partly Paid Shares at the time they became absolutely entitled to the shares as against the trustee for income tax purposes. Partly Paid Shareholders who are in doubt as to when they became absolutely entitled should consult with their own independent tax advisers.

Under the Share Scheme, Partly Paid Shareholders who:

- do not fully pay the Partly Paid Shares will receive:
  - the Scheme Consideration of \$17.05 per share, less the unpaid balance of the issue price in respect of the Partly Paid Shares from RM2; and
  - the Special Dividend of \$0.36 per share from SCB.
- fully pay the Partly Paid Shares (before the record date for the Final Dividend) will receive:
  - the Scheme Consideration of \$17.05 per share from RM2;
  - the Special Dividend of \$0.36 per share from SCB; and
  - the Final Dividend of \$0.37 per share from SCB.

The cost base of the 2.5 cent and 1 cent Partly Paid Shares in respect of which the balance of the unpaid issue price is not paid would be 2.5 cents per share and 1 cent per share respectively. The cost base of the 2.5 cent and 1 cent Partly Paid Shares where a Partly Paid Shareholder fully pays the shares will be equal to the amount paid per share (ie. the issue price) plus costs associated with their acquisition or disposal.

We are instructed that the Partly Paid Shares were all issued before 11.45 am on 21 September 1999. Accordingly, Partly Paid Shareholders may adjust the cost base of the Partly Paid Shares to include indexation frozen to the 30 September 1999 quarter (discussed above). However, indexation would only be available in relation to the amount that had been paid before 21 September 1999 to acquire the Party Paid Shares (ie. 2.5 cents per share or 1 cent per share). Any balance of the issue price paid by a Partly Paid Shareholder after 21 September 1999 would not be indexed and would not be subject to any discount if indexation had been applied to any amount paid before that date.

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Individuals, trustees of complying superannuation entities or trustees of trusts who do not make the indexation election referred to above may instead be entitled to discount the amount of their net capital gain from the disposal of Partly Paid Shares where they have held the Partly Paid Shares for more than 12 months (under the CGT discount rules discussed above).

Those individual or trustee Partly Paid Shareholders that acquired their Partly Paid Shares at or before 11.45 am on 21 September 1999 should consult with their own independent tax advisers as to whether or not they should make an indexation election or apply the above CGT discounts.

## 2.2 Dividends

Under the Share Scheme, SCB Shareholders and Partly Paid Shareholders will be entitled to receive a Special Dividend of \$0.36 per share if those shareholders hold the shares on the Scheme Record Date. The Special Dividend will be paid on the Implementation Date.

SCB Shareholders, and those Partly Paid Shareholders who have fully paid their Partly Paid Shares, will also be entitled to receive a Final Dividend of \$0.37 per share if they hold (fully paid) SCB Shares at the record date for the Final Dividend.

The Special Dividend and any Final Dividend will both be fully-franked.

The Recipients of the Special Dividend and the Final Dividend will be required to include the dividends (ie. \$0.36 per share and \$0.37 per share respectively) in their assessable income for the year ending 30 June 2008. On the basis that SCB Shareholders acquired their shares before 1 July 1997 or satisfy the 45 day "at risk" test (discussed below) and subject to the comments below in relation to certain anti-avoidance rules, the recipients will also be required to include an amount in their assessable income equal to the franking credits attached to the Special Dividend and the Final Dividend and will generally be entitled to tax offsets for the same amounts.

As there is no reduction in the consideration payable by RM2 on account of the Special Dividend or Final Dividend, we do not consider that SCB Shareholders are passing the benefit of the dividends to RM2. Accordingly, the 45 day "at risk" test requires that recipients of the Special Dividend and the Final Dividend must, during the period commencing the day after they acquired the SCB Shares or the Partly Paid Shares and ending on the 45<sup>th</sup> day after the shares became ex-dividend, continuously hold their shares at risk. Under the Share Scheme, the recipients of the Special Dividend and the Final Dividend will no longer hold the shares at risk after the Scheme Record Date. As such, the recipients of the dividends must have satisfied the 45 day "at risk" test before the Scheme Record Date.

Where a dividend is paid in connection with the disposition of shares, the Commissioner of Taxation (**Commissioner**) may, in certain circumstances, make a determination that no franking credit is available to the recipient of the dividend. The Commissioner can do so if a person had a more than merely

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**Income tax consequences for shareholders**



incidental purpose of conferring a franking benefit under the scheme. The Commissioner may also deny franking credits where dividends are streamed to those shareholders who derive a greater benefit from them. In respect of the Share Scheme, which is an ordinary commercial transaction, it is unlikely that there would be any relevant person with the requisite purpose of providing franking benefits or streaming franking credits, given that all SCB Shareholders are being treated similarly and, on that basis, the Commissioner is unlikely to make a determination under either of these rules.

Certain SCB Shareholders (including Australian resident individuals, certain exempt institutions and complying superannuation funds) will be entitled to a refund of excess franking credits if the tax offsets in relation to franked distributions exceed their tax liability ignoring those offsets.

SCB or Partly Paid Shareholders that are in doubt as to when they acquired their SCB Shares, whether they will have continuously held those shares at risk for 45 days or whether the Commissioner may seek to deny franking credits in relation to the Special Dividend or Final Dividend should consult with their own independent tax advisers.

### **3 Transfer taxes**

No goods and services tax is payable on the transfer of shares. No stamp duty is payable on the transfer of listed shares (such as the SCB Shares) or the transfer of unlisted shares in a listed Victorian registered company (such as the Partly Paid Shares).

### **4 Benefit of opinion**

This opinion has been prepared based on information provided by SCB and is given for the benefit of the Directors of SCB and for no other person and, without limitation, it may not, except with our express prior written consent, be:

- (a) relied on by any person; or
- (b) except as required by law or the rules of any governmental agency or stock or other exchange in relation to the Share Scheme, filed with a governmental agency, stock or other exchange or quoted or referred to in a document.

Yours faithfully

**Corrs Chambers Westgarth**

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**Annexure F: Deed Poll**

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Regional Media No. 2 Pty Limited

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Macquarie Media Holdings Limited

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## Deed Poll

Date 5 September 2007

## Parties

**By:** **Regional Media No. 2 Pty Limited** ACN 124 720 289 of Level 7, No 1 Martin Place, Sydney, New South Wales (**RM2**); and

**Macquarie Media Holdings Limited** ABN 91 116 024 536 of Level 11, No 1 Martin Place, Sydney, New South Wales (**MMHL**).

**In favour of:** Each person registered as a holder of ordinary shares in **Southern Cross Broadcasting (Australia) Limited** ABN 86 006 186 974 of 70 Park Street, South Melbourne, Victoria (**SCB**) other than the MMG Group, as at the Share Scheme Record Date (**Share Scheme Participants**)

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## Recitals

- A The directors of SCB have resolved that SCB should propose the Share Scheme.
- B The effect of the Share Scheme will be that all SCB Scheme Shares will be transferred to RM2.
- C RM2 and SCB have entered into the Merger Implementation Agreement (**MIA**).
- D RM2 is the acquisition vehicle of MMG.
- E MMHL has agreed to guarantee the obligations of RM2 under the MIA.
- F Under the Merger Implementation Agreement, RM2 agreed, subject to the satisfaction or waiver of certain conditions, to do all things necessary or desirable on its part to implement the Share Scheme, including providing the Share Scheme Consideration.
- G RM2 is entering into this document for the purpose of covenanting in favour of Share Scheme Participants to perform its obligations under the Share Scheme.

## Agreed terms

### 1 Definitions and interpretation

#### 1.1 Definitions

The following definitions apply in this deed poll:

**Share Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between SCB and the Share Scheme Participants in respect of SCB Scheme Shares, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by SCB and RM2.

Other capitalised words and phrases have the same meaning as given to them in the Share Scheme.

## 1.2 Interpretation

In this deed poll, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) a reference to any document (including the Share Scheme) is to that document as varied, novated, ratified or replaced;
- (c) a reference to a clause, party, annexure or schedule is a reference to a clause of, and a party, annexure and schedule to, this deed poll and a reference to this deed poll includes any annexure and schedule;
- (d) a reference to a party to a document includes that party's successors and permitted assigns;
- (e) no provision of this deed poll will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this deed poll or that provision;
- (f) a reference to an agreement other than this deed poll includes an undertaking, deed, agreement or legally enforceable arrangement or understanding whether or not in writing;
- (g) the word "includes" in any form is not a word of limitation;
- (h) a reference to "\$" or "dollar" is to Australian currency; and
- (i) a reference to time is a reference to the time in Melbourne, Australia.

## 1.3 Headings

Headings and bolding are for convenience only and do not affect the interpretation of this deed poll.

## 2 Nature of this deed poll

RM2 acknowledges that this deed poll may be relied on and enforced by any Share Scheme Participant in accordance with its terms, even though the Share Scheme Participants are not party to it.

## 3 Conditions

### 3.1 Conditions

The obligations of RM2 under clause 4 are subject to the Share Scheme becoming Effective.

### 3.2 Termination

If the Merger Implementation Agreement is lawfully terminated or the Share Scheme does not become Effective on or before the End Date, the obligations of RM2 under this deed poll will automatically terminate and the terms of this document will be of no further force or effect, unless RM2 and SCB otherwise agree in writing.

### 3.3 Consequences of termination

If this deed poll is lawfully terminated under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to Share Scheme Participants:

- (a) RM2 is released from its obligations to further perform this deed poll, except those obligations contained in clause 9.1 and any other obligations which by their nature survive termination; and

- (b) Share Scheme Participants retain the rights they have against RM2 in respect of any breach of this deed poll which occurred before it is terminated.

## 4 Consideration

### 4.1 Performance of obligations generally

Subject to **clause 3.1**, RM2 must comply with its obligations under the Merger Implementation Agreement and must do all things necessary or expedient on its part to implement the Share Scheme.

### 4.2 Provision of Share Scheme Consideration

Subject to **clause 3.1**, in consideration of the transfer to RM2 of all of the SCB Scheme Shares, RM2 undertakes in favour of each Share Scheme Participant to provide the Share Scheme Consideration to each Share Scheme Participant in accordance with the Share Scheme.

### 4.3 Payment of Share Scheme Consideration

The obligation of RM2 to provide the Share Scheme Consideration will be satisfied by:

- (a) RM2, before 8.00 am on the Implementation Date, depositing or procuring the deposit of an amount equal to the aggregate amount of the Share Scheme Consideration payable to the Share Scheme Participants for the SCB Scheme Shares in cleared funds into a trust account in SCB's name, to be held on trust by SCB for the purpose of sending the Share Scheme Consideration to the Share Scheme Participants, without any set off, deduction, withholding or counterclaim, except that any interest on the amount deposited (less any bank fees and other charges) will be to RM2's account;
- (b) on the Implementation Date, SCB paying to each Share Scheme Participant, from the trust account referred to in **clause 4.3(a)**, the Share Scheme Consideration in respect of each SCB Scheme Share registered in the name of that Share Scheme Participant by:
  - (i) dispatching, or procuring the dispatch, to the Share Scheme Participant by prepaid post to their address in the Register at the Record Date, a pre-printed cheque drawn in Australian currency in the name of the Share Scheme Participant; or
  - (ii) making, or procuring the making of, a deposit into an account with any Australian ADI (as defined in the Corporations Act) which has been notified to SCB (or SCB's agent who manages the Register) by a Share Scheme Participant for the purpose of receiving dividends not later than the Record Date,for the amount equal to the number of SCB Scheme Shares held by the Share Scheme Participant at the Record Date multiplied by the Share Scheme Consideration.

### 4.4 Joint holders

In the case of SCB Scheme Shares held in joint names any cheque required to be paid pursuant to **clauses 4.3(b)(i)** for the Share Scheme Consideration will be payable to the joint holders and will be forwarded to the holder whose name appears first in the Register as at the Record Date.

## 5 Guarantee

MMHL unconditionally and irrevocably guarantees to each Share Scheme Participant:

- (a) the payment by RM2 of all present and future monetary liabilities of RM2 under or in connection with this document and the Share Scheme; and

- (b) the performance by RM2 of each other obligation of RM2 under this document and the Share Scheme,

and if RM2 fails to pay such monies or fails to perform such obligation on the due date for payment or performance MMHL must immediately on demand by SCB pay such monies in the manner contemplated in the MIA or procure the performance by RM2 of such obligation, as the case may be.

## 6 RM2 warranties

RM2 warrants that:

- (a) it is a validly existing corporation registered under the laws of its place of incorporation;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all the necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms.

## 7 Continuing obligations

This deed poll is irrevocable and, subject to **clause 3**, remains in full force and effect until:

- (a) RM2 has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under **clause 3.2**.

## 8 Notices

### 8.1 Form

Any notice, demand, consent or other communication (**Notice**) given or made to RM2 or MMHL under or in connection with this deed poll must be:

- (a) in writing;
- (b) in English;
- (c) addressed as follows:
  - (i) to RM2 at the address shown below:  
Address: Level 7, No.1 Martin Place, Sydney NSW 2000  
Fax No: (02) 8232 4713  
Attention: Company Secretary
  - (ii) to MMHL at the address shown below:  
Address: Level 11, No. 1 Martin Place, Sydney NSW 2000  
Fax No: (02) 8232 4713  
Attention: Company Secretary; and
- (d) signed by the person making the communication or (on its behalf) by the solicitor for, or by any attorney, director, secretary, or authorised agent of, that person.

**8.2 Delivery**

A Notice must be given by being:

- (a) delivered to the address specified in **clause 8.1(c)** of this deed poll;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address specified in **clause 8.1(c)** of this deed poll;
- (c) sent by fax to the fax number specified in **clause 8.1(c)** of this deed poll; or
- (d) given in any other way permitted by law.

**8.3 When effective**

A Notice takes effect from the time it is received unless a later time is specified in the Notice.

**8.4 Receipt - delivery**

If by delivery, a Notice is taken to be received on delivery at the address.

**8.5 Receipt - postal**

If sent by post, a Notice is taken to be received three days after posting (or seven days after posting if sent to or from a place outside Australia).

**8.6 Receipt - fax**

If sent by fax, a Notice is taken to be received at the time shown in the transmission report generated by the sender's machine as the time that the whole fax was sent.

**8.7 Receipt - general**

Despite **clauses 8.4, 8.5 and 8.6**, if a Notice is received after 5.00 pm in the place of receipt or on a non-Business Day, it is to be taken to be received at 9.00 am on the next Business Day.

## 9 Stamp duty

**9.1 Stamp duty**

RM2 will:

- (a) pay all stamp duties and any related fines, interest and penalties in respect of or in connection with this deed poll, the performance of this deed poll and each transaction effected by or made or any instrument executed under this deed poll or the Share Scheme, including the transfer of SCB Scheme Shares under the Share Scheme; and
- (b) indemnify each Share Scheme Participant on demand against any liability arising from its failure to comply with **clause 9.1(a)**.

## 10 General

**10.1 Exercise of rights**

If a Share Scheme Participant does not exercise a right or remedy fully or at a given time, it may, unless it has waived that right of remedy in writing, still exercise it later.

**10.2 Cumulative rights**

The rights, powers and remedies of RM2 and each Share Scheme Participant under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law or equity independently of this deed poll.

**10.3 Assignment**

The rights and obligations of RM2 and each Share Scheme Participant under this deed poll are personal and must not be assigned or otherwise dealt with at law or in equity and no person may attempt or purport to do so without the prior written consent of RM2 and SCB.

**10.4 Variation**

(a) RM2 may only amend or vary this document if the amendment or variation is:

- (i) agreed to by SCB, which agreement SCB may give or withhold in its absolute discretion and without reference to or approval by any Share Scheme Participant; and
- (ii) the Court indicates that the amendment would not of itself preclude approval of the Share Scheme.

(b) If such an amendment or variation is agreed, RM2 will enter into a further deed poll in favour of the Share Scheme Participants giving effect to such amendment or variation.

**10.5 Waiver**

Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this deed poll by any party will not in any way preclude, or operate as a waiver of any exercise or enforcement, or further exercise or enforcement of that or any other rights, power or remedy provided by law or under this deed poll. A waiver is not valid or binding on the person granting that waiver unless made in writing.

**10.6 Severability**

If the whole or any part of a provision of this deed poll is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this deed poll has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause 10.6 has no effect if the severance alters the basic nature of this deed poll or is contrary to public policy.

**10.7 Further action**

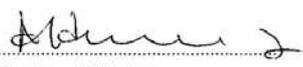
RM2 will promptly do all things (on its own behalf and on behalf of each Share Scheme Participant) and execute and deliver all further documents required by law or reasonably requested by any other party to give effect to this deed poll and the transactions contemplated by it.

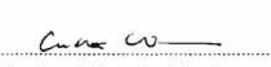
**10.8 Governing law and jurisdiction**

This deed poll is governed by the laws applicable in the State of Victoria. RM2 irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of the State of Victoria and courts of appeal from them.

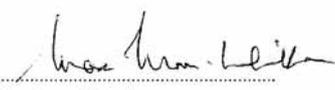
For personal use only

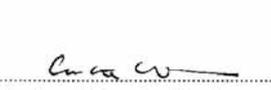
Executed as a deed.  
Executed by Regional Media No. 2 Pty Limited )  
)

  
Signature of Director  
ALEXANDER HARRIS HARLEY  
Name of Director (print)

  
Signature of Secretary/Director  
CHRISTINE ELIZABETH WILLIAMS  
Name of Company Secretary/Director (print)

Executed by Macquarie Media Holdings Limited )  
)

  
Signature of Director  
MAX MOORE-WILTON  
Name of Director (print)

  
Signature of Secretary/Director  
CHRISTINE ELIZABETH WILLIAMS  
Name of Company Secretary/Director (print)

## **Annexure G: Option Scheme**

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Southern Cross Broadcasting (Australia) Limited

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The holders of options and rights to acquire ordinary shares in Southern Cross Broadcasting (Australia) Limited

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# Option Scheme of Arrangement

Date

## Parties

Southern Cross Broadcasting (Australia) Limited ABN 86 006 186 974 (SCB)

The holders of options and rights to acquire ordinary shares in SCB

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## Agreed terms

### 1. Definitions and interpretation

#### 1.1 Definitions

In this Option Scheme, except where the context otherwise requires:

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

**ASX** means Australian Stock Exchange Limited (ACN 008 624 691).

**Business Day** means a day that is not a Saturday, Sunday, bank holiday or public holiday in Melbourne, Australia.

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

**Court** means the Supreme Court of Victoria or any other court of competent jurisdiction under the Corporations Act determined by SCB.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the court made under section 411(4)(b) in relation to the Option Scheme, but in any event at no time before an office copy of the order of the court is lodged with ASIC.

**Effective Date** means the date on which the Option Scheme becomes Effective.

**End Date** means:

- (a) 23 November 2007; or
- (b) such other date as agreed in writing between SCB and RM2.

**Merger Implementation Agreement** means the merger implementation agreement between RM2, MMHL and SCB dated 3 July 2007.

**MMHL** means Macquarie Media Holdings Limited ABN 91 116 024 536 of Level 11, No. 1 Martin Place, Sydney, NSW 2000.

**Option** means an option or other right to acquire shares in SCB issued by SCB under an SCB Option Plan.

**Option Holder** means each person who is registered in the SCB Options Register as the holder of Options.

**Option Scheme** means this scheme of arrangement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by SCB.

**Option Scheme Implementation Date** means the Business Day following the Effective Date.

**Option Scheme Meeting** means the meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Option Scheme.

**Option Scheme Participant** means each holder of Scheme Options.

**Option Scheme Payment** means the consideration to be paid to Option Scheme Participants for the cancellation of each Scheme Option determined in accordance with **clause 5(b)**.

**Option Scheme Record Date** means 7.00pm on the Business Day before the Effective Date or such other date as SCB determines.

**Related Entity** of a party means another entity which:

- (a) is a related body corporate of the first entity under section 50 of the Corporations Act;
- (b) is in any consolidated entity (as defined in section 9 of the Corporations Act) which contains the party; or
- (c) the party controls (as defined in section 50AA of the Corporations Act).

**RM2** means Regional Media No. 2 Pty Limited ACN 124 720 289 of Level 7, No. 1 Martin Place, Sydney, New South Wales.

**SCB Group** means SCB and any Related Entity of SCB.

**SCB Option Plan** means each of the following option or performance rights plans under which the Options were issued:

- (a) SCB Executive Performance Plan; and
- (b) 2002 Managing Director Option Grant Terms.

**SCB Options Register** means the register of holders of Options maintained by or on behalf of SCB in accordance with section 168(1) of the Corporations Act.

**Scheme Options** means all Options on issue as at the Option Scheme Record Date which, for the avoidance of doubt, excludes any Options which have lapsed or which have been exercised before the Option Scheme Record Date.

**Second Court Date** means the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Option Scheme is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

**Share Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act in respect of ordinary shares in SCB, to be proposed by SCB in accordance with the Merger Implementation Agreement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by SCB and RM2.

**Share Scheme Record Date** means the Record Date, as that term is defined in the Share Scheme.

## 1.2 Interpretation

In this Option Scheme, unless the context otherwise requires:

- (a) headings and bolding are for convenience and do not affect interpretation;
- (b) the singular includes the plural and vice versa;
- (c) the word "person" includes a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- (d) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes and assigns;
- (e) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (f) references to any legislation or regulations include any statutory modification of or substitution for such legislation or regulations;
- (g) references to agreements or deeds are to agreements or deeds as amended from time to time;
- (h) a reference to a clause, party, annexure, exhibit or schedule is a reference to a clause of, and a party, annexure, exhibit and schedule to, the Option Scheme and a reference to the Option Scheme includes any annexure, exhibit and schedule;
- (i) the words "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;

- (j) a reference to a holder includes a joint holder;
- (k) references to a currency are to Australian currency;
- (l) a reference to time is a reference to the time in Melbourne, Australia; and
- (m) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on the next Business Day.

## 2. Preliminary

### 2.1 SCB

- (a) SCB is a public company incorporated in Australia and registered in Victoria, having its registered office at 70 Park Street, South Melbourne, Victoria.
- (b) SCB is a public company limited by shares under section 112(1) of the Corporations Act.
- (c) SCB has been admitted to the official list of ASX and fully paid shares in SCB are quoted on the official list of ASX.

### 2.2 Effect of Option Scheme

If the Option Scheme becomes Effective, but subject to **clauses 3.1, 3.3 and 3.4**, then:

- (a) all of the Scheme Options will be cancelled with effect from the Option Scheme Implementation Date; and
- (b) in consideration of the cancellation of the Scheme Options, SCB will pay the Option Scheme Payment to each Option Scheme Participant in accordance with the terms of the Option Scheme on the Option Scheme Implementation Date.

## 3. Conditions

### 3.1 Conditions of Option Scheme

The Option Scheme is conditional on:

- (a) the Court having approved the Share Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to both SCB and RM2;
- (b) the Option Scheme having been approved at the Option Scheme Meeting by the required majority of Option Scheme Participants in accordance with section 411(4)(a) of the Corporations Act;
- (c) the Court having approved the Option Scheme pursuant to section 411(4)(b) of the Corporations Act, without modification or with modifications which are acceptable to SCB; and
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act as are acceptable to SCB being satisfied.

### 3.2 Effect of conditions

The fulfilment of the conditions in **clause 3.1** is a condition precedent to the operation of the provisions of **clauses 4** and **5**.

### 3.3 Termination of Merger Implementation Agreement

Without limiting rights under the Merger Implementation Agreement, in the event that the Merger Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, SCB is released from:

- (a) any further obligation to take steps to implement the Option Scheme; and
- (b) any liability with respect to the Option Scheme.

### **3.4 End date**

The Option Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

## **4. Option Scheme**

### **4.1 Lodgement of court order**

Following the approval of the Option Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, SCB will, as soon as possible (but in any event at least two Business Days prior to the Share Scheme Record Date), lodge with ASIC an office copy of the Court order approving the Option Scheme pursuant to section 411(10) of the Corporations Act.

### **4.2 Cancellation of Scheme Options**

On the Option Scheme Implementation Date, in consideration of and subject to payment of the Option Scheme Payment in accordance with **clause 5.1**, all of the Scheme Options held by Option Scheme Participants, together with all rights and entitlements attaching to the Scheme Options as at that date, will be cancelled without the need for any further acts by any Option Scheme Participant or SCB.

### **4.3 Covenants by Option Scheme Participants**

- (a) The Option Scheme Participants agree to the cancellation of all of their Scheme Options (together with all rights and entitlements attaching to the Scheme Options) in accordance with the terms of the Option Scheme.
- (b) Each Option Scheme Participant consents to SCB doing all things and executing all deeds, instruments and other documents and making such entries as SCB deems fit in the SCB Options Register as may be necessary or desirable to give effect to the cancellation of the Scheme Options under the Option Scheme.

### **4.4 Appointment of SCB as sole attorney and agent**

Each Option Scheme Participant, without the need for any further act, irrevocably appoints SCB and each of the directors and officers of SCB, jointly and severally, as the Option Scheme Participant's attorney and agent for the purpose of executing any document or doing any other act necessary or desirable to give effect to the Option Scheme.

## **5. Option Scheme Payment**

- (a) On the Option Scheme Implementation Date, SCB must pay to each Option Scheme Participant the Option Scheme Payment in respect of each Scheme Option registered in the name of that Option Scheme Participant. This obligation will be satisfied by SCB:
  - (i) dispatching, or procuring the dispatch, to the Option Scheme Participant by prepaid post to their address in the Option Scheme Register at the Option Scheme Record Date, a pre-printed cheque drawn in Australian currency in the name of the Option Scheme Participant; or
  - (ii) making, or procuring the making of, a deposit into an account with any Australian ADI (as defined in the Corporations Act) which has been notified to SCB by an Option Scheme Participant not later than the Business Day immediately before the Second Court Date,

for the relevant amount due to that Option Scheme Participant, being the number of Scheme Options held by that Option Scheme Participant multiplied by the Option Scheme Payment.

- (b) The Option Scheme Payment in respect of each Scheme Option is a cash amount determined in accordance with the following table:

Grant Date	Maturity Date	Exercise Price	Option Scheme Payment
1 November 2002	1 November 2009	\$9.10	\$7.95
10 November 2004	10 November 2009	\$12.35	\$4.70
10 November 2004	10 November 2009	\$0.00	\$17.05
10 November 2005	10 November 2010	\$0.00	\$17.05
16 November 2006	16 November 2011	\$0.00	\$17.05

## 6. Dealings in SCB Options

### 6.1 Determination of Option Scheme Participants

For the purpose of establishing the persons who are the Option Scheme Participants, the SCB Options Register shall, in the absence of manifest error, be conclusive proof of the identity of Option Holders.

### 6.2 No exercise

Notwithstanding any term upon which the Option was granted, from the time immediately after the Option Scheme Record Date, SCB Options will not be capable of being exercised and no rights to convert will exist.

### 6.3 Maintenance of Options Register

For the purpose of determining entitlements to the Option Scheme Payment, SCB will, until the Option Scheme Payment has been provided, maintain the SCB Options Register in accordance with the provisions of this **clause 6** and the SCB Options Register in this form will solely determine entitlements to the Option Scheme Payment.

## 7. General

### 7.1 SCB and Option Scheme Participants bound

The Option Scheme binds SCB and all Option Scheme Participants (including Option Scheme Participants who do not attend the Option Scheme Meeting, do not vote at that meeting or vote against the Option Scheme) and will, for all purposes, to the extent of any inconsistencies and permitted by law, have effect notwithstanding any provision in the constitution of SCB.

### 7.2 Further assurances

If the Option Scheme becomes Effective, SCB will execute all documents and do all acts and things (on its own behalf and on behalf of each Option Scheme Participant) necessary or expedient for the implementation of, and performance of its obligations under, the Option Scheme.

### 7.3 Communications

Where a notice, transfer, transmission application, direction or other communication referred to in the Option Scheme is sent by post to SCB, it will not be deemed to have been received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at SCB's registered office.

### 7.4 Alterations and conditions

SCB may by its counsel consent on behalf of all Option Scheme Participants to any modifications or conditions which the Court thinks fit to impose, provided that in no circumstances will SCB be obliged to do so.

**7.5 Governing law**

This Option Scheme is governed by the laws of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

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**Annexure H: Notice of Option Scheme Meeting**

# Annexure H: Notice of Court ordered Scheme Meeting of Option Holders of Southern Cross Broadcasting (Australia) Limited

ABN 86 006 186 974

Notice is hereby given that, by an order of the Supreme Court of Victoria, a meeting of Option Holders (as defined in the booklet of which this notice forms part) in Southern Cross Broadcasting (Australia) Limited (**SCB**) will be held at the offices of Corrs Chambers Westgarth at level 36, 600 Bourke Street, Melbourne, Victoria on 19 October 2007 at 8:30am (**Option Scheme Meeting**).

## Business

The purpose of the Option Scheme Meeting is to consider, and if thought fit, to agree to a Scheme of Arrangement (with or without modification) proposed to be made between SCB and the holders of options in SCB (**Options**) as at the Option Scheme Record Date (**Option Scheme**) pursuant to Part 5.1 of the Corporations Act 2001 (Cth) (**Corporations Act**). The Option Scheme is proposed to be made in respect of the Options held by Option Holders in the form of the scheme contained in Annexure G to the Scheme Booklet which accompanies this notice.

To assist you in making an informed voting decision, further information on the Option Scheme is set out in the Scheme Booklet accompanying this notice and in particular in Section 8 of that Booklet. A copy of the Option Scheme is set out in Annexure G to the Scheme Booklet and its purpose and effect is explained throughout that document.

Terms used in this notice, including in the resolution set out below, have the same meaning as set out in the Glossary of Terms in the Scheme Booklet which accompanies this notice.

## Resolution

To consider and, if thought fit, to pass the following resolution:

*“That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement proposed to be entered into between Southern Cross Broadcasting (Australia) Ltd and Option Holders (which is described in the booklet of which the notice convening this meeting forms part) is agreed to with or without such modifications or conditions as may be approved by the Supreme Court of Victoria.*”

In accordance with section 411(4)(b) of the Corporations Act, the Option Scheme is subject to the approval of the Supreme Court of Victoria (**Court**). If the resolution put to the meeting is approved by the Requisite Majority of Option Holders and Shareholders approve the Share Scheme by the Requisite Majority, SCB intends to apply to the Court for approval of both the Option Scheme and the Share Scheme. If Shareholders do not approve the Share Scheme, SCB will not apply to the Court for approval of the Option Scheme.

## Majority required

In accordance with section 411(4)(a) of the Corporations Act, for the Option Scheme to be Effective, the resolution must be passed by:

- a majority in numbers of holders of Options present and voting (either in person or by proxy); and
- Option Holders who (upon the Option Scheme becoming Effective) will be entitled to at least 75% of the total amount payable on cancellation of Options to Option Holders present and voting (either in person or proxy).

The vote will be conducted by poll.

## Voting entitlement

For the purposes of the Option Scheme Meeting, Options will be taken to be held by the persons who are the registered holders of Options at 8:30am on 17 October 2007. All holders of Options as at that time are entitled to vote at the Option Scheme Meeting.

### How to vote

Option Holders entitled to vote at the meeting can vote:

- by attending the meeting and voting in person; or
- by appointing an attorney to attend the meeting and vote on their behalf; or
- by appointing a proxy to attend and vote on their behalf in their place, using the proxy form accompanying this Notice.

### Voting in person (or by attorney)

Option Holders or their attorneys who plan to attend the meeting are requested to arrive at the venue at least 20 minutes prior to the time of the meeting so that holdings of Options may be checked against the register and attendances noted.

Attorneys should bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting.

### Voting by proxy

- A proxy form accompanies this Notice of Meeting.
- An Option Holder has a right to appoint a proxy.
- The proxy need not be a member of SCB.
- An Option Holder who is entitled to cast 2 or more votes may appoint 2 proxies to attend and vote instead of themselves. If you want to appoint 2 proxies, an additional proxy form will be supplied by SCB on request by contacting SCB. Where 2 proxies are appointed, both forms should be completed with the nominated proportion or number of votes each proxy may exercise. Otherwise each proxy may exercise half of the votes.
- If the proxy form is signed by a person who is not the registered holder of Options (eg an attorney), then the relevant authority (for example, in the case of proxy forms signed by an attorney, the power of attorney or a certified copy of the power of attorney) must either have been exhibited previously to SCB or be enclosed with the proxy form.
- **The proxy form sent to you with this notice should be used for the Option Scheme Meeting. To be effective, the proxy form must be sent, delivered or faxed as follows:**

#### Mail to:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia

#### Deliver to:

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Australia

#### Fax to:

+61 2 9287 0309

by 8.30am on 17 October 2007.

Dated: 7 September 2007

#### Eddie Chia

Company Secretary

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# Corporate directory

## **Southern Cross Broadcasting (Australia) Limited**

Registered office

70 Park Street, South Melbourne,

Victoria, 3205

Telephone: +61 3 9243 2100

Facsimile: +61 3 9682 5158

## **Financial Adviser**

Goldman Sachs JBWere Pty Limited

Level 48, Governor Phillip Tower

1 Farrer Place

Sydney NSW 2000

## **Legal Adviser**

Corrs Chambers Westgarth

Bourke Place

600 Bourke Street

Melbourne VIC 3000

## **Share Registry**

Link Market Services Limited

Securities Registration Services

Level 12, 680 George Street

Sydney, NSW 2000

## **Independent Expert**

Grant Samuel & Associates

Level 6

1 Collins Street

Melbourne, VIC, 3000

## **Shareholder Information Line**

Telephone (within Australia): 1800 127 953

Telephone (outside Australia): +61 2 8280 7720

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