

# GARRATT'S LIMITED

ACN 000 003 725

Telephone: +61 2 9224 5555 Facsimile: +61 2 9224 5550

---

Company Announcements Office  
Australian Stock Exchange  
20 Bridge Street  
Sydney NSW 2000

7 August 2000

Via Facsimile To: 1300 300 021

## ANNOUNCEMENT

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

(Page 1 of 18)

# GARRATT'S LIMITED

ACN 000 003 725

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of Garratt's Limited will be held at Clarendon Business College, Level 11, 26 O'Connell Street, Sydney, on Thursday 7 September 2000 at 11.00am.

### AGENDA:

To consider and, if thought fit, pass the following as a *special resolution*:

“That the Company accepts the offer by Syman Pty Limited to purchase Electrodata Pty Limited from the Company for consideration of \$2.0 million on the basis outlined in the explanatory notes.”

(Please refer to the explanatory notes and the voting exclusion statement pursuant to Listing Rule 14.11 of the Official Listing Rules of the Australian Stock Exchange Limited.)

By Order of the Board  
Petah Fitzsimmons  
Company Secretary  
4 August 2000

A member entitled to attend and vote is entitled to appoint not more than two proxies to attend and vote in their stead. That person need not be a member of the Company, but should be a natural person over the age of 18 years. Where more than one proxy is appointed, each proxy must be appointed to represent a proportion of the member's voting rights. Proxy forms executed by companies must be under seal or in accordance with the Corporations Law.

Proxy forms must be lodged at the registered office of the Company, Suite 1401, Level 14, 33 Bligh Street, Sydney NSW 2000, or sent by facsimile to the registered office of the Company on +61 2 9224 5550, not less than 48 hours before the timing of the meeting. (Proxy form attached)

### Voting Exclusion Statement (Listing Rule 14.11)

The Company will disregard any votes cast on this resolution by:

- Syman Pty Limited;
- an associate of Syman Pty Limited;
- Dr. Stanley Baker; or
- an associate of Dr. Stanley Baker.

However, a vote will not be disregarded if:

- it is cast by a person as proxy for a shareholder who is entitled to vote, in accordance with the directions on the proxy form;
- or
- it is cast by the person chairing the meeting as a proxy for a shareholder who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Any shareholder entitled to vote who is thinking of appointing a person who is not entitled to vote as their proxy, should be aware that unless the proxy contains specific instructions on the manner in which they want their vote to be cast on this resolution, that person will be prohibited from exercising votes on behalf of the shareholder giving the proxy in relation to this resolution.

---

# GARRATT'S LIMITED

ACN 000 003 725

## PROXY FORM FOR THE EXTRAORDINARY GENERAL MEETING

Registered Office & Mailing Address: Suite 1401, Level 14  
33 Bligh Street  
Sydney NSW 2000  
Australia

I/We .....  
of.....  
being a member/members of Garratt's Limited, hereby appoint .....  
of.....

or, in his/her absence, the Chairman of the Meeting, as my/our general/special proxy to vote on my/our behalf at the Extraordinary General Meeting of the Company, to be held on 7 September 2000 or at any adjournment of that meeting.

Signed this ..... day of ..... 2000

Signature of Shareholder(s)

Company Seal

Should you decide to direct your proxy how to vote, please tick the appropriate box below. Otherwise your proxy may vote as he/she thinks fit or abstain.

**Resolution:**

To accept the offer of Syman Pty Limited to purchase Electrodata Pty Limited from the Company.

For

Against

Abstain



# GARRATT'S LIMITED

ACN 000 003 725

## **EXTRAORDINARY GENERAL MEETING:**

### **EXPLANATORY NOTES TO AGENDA ITEM**

AGENDA ITEM: TO ACCEPT THE OFFER BY SYMAN PTY LIMITED TO PURCHASE ELECTRODATA PTY LIMITED FROM THE COMPANY FOR CONSIDERATION OF \$2,000,000.

#### 1. Introduction

1.1 Electrodata was established by Dr. Stanley Baker ("Dr. Baker") about 30 years ago. Garratt's Limited ("Garratt's") acquired Electrodata Pty Limited ("Electrodata") in September 1994 following which Dr. Baker joined the Garratt's Board. He resigned from the Garratt's Board on 29 June 2000.

1.2 On 20 March 2000 the Board of Garratt's announced that it had agreed to accept an offer by Syman Pty Limited ("Syman"), a company controlled by Dr. Baker, to purchase Electrodata from the Company for consideration of \$2,000,000. On 30 June 2000 a Deed of Sale of Shares ("Deed of Sale") to this effect was executed.

1.3 This Deed of Sale was completed subject to the following conditions being met on or before 30 September 2000:

- (a) Garratt's receives an agreement in writing from St George Bank to release Garratt's and its subsidiaries from the guarantees, cross guarantees and other obligations pursuant to the two research and development syndications entered into on 22 September 1995 and 11 July 1996;
- (b) Confirmation in writing from AusIndustry that Electrodata shall receive grant funds under the AusIndustry Start Funding Scheme and confirmation that Ausindustry will agree to Garratt's withdrawing its "Letter of Comfort" dated 17 January 2000; and
- (c) The approval of shareholders of Garratt's.

If these conditions are not satisfied on or before 30 September 2000, the transaction will be unwound and the Deed of Sale operates to place all parties in the same position (or as nearly as is possible to do so) as they were immediately prior to the transfer of shares to Syman on 30 June 2000.

1.4 The consideration for the sale of the shares in Electrodata is \$2,000,000, such consideration being settled by a loan which Garratt's made to Syman. The loan is repayable as follows:

- (a) The first repayment of \$1,000,000 shall be made five business days after the completion conditions listed in 1.3 above are fulfilled. This payment will either be in the form of:
  - (i) a bank cheque for \$1,000,000, or

- (ii) a set-off from proceeds of sale from a buy back of the 744,888 shares in Garratt's owned by Syman at \$1.30 per share\* for a total sum of \$968,354 and the payment in cash of \$31,646.
- (b) The second payment of \$1,000,000 is due on or before 31 December 2002, and is payable in cash, by way of bank cheque.

Interest is payable on the second repayment calculated at 12% per annum with monthly rests commencing on 30 June 2002 until the payment is made.

1.5 The following securities have been taken to protect Garratt's position:

- (a) In respect of the first repayment Syman has entered into a "Deed of Mortgage of Shares" whereby Syman has given Garratt's a mortgage over the newly acquired Electrodata shares.
- (b) Dr. Baker has provided a mortgage over a residential property owned by him. The property is expected to have a value in excess of \$800,000.
- (c) Syman has agreed to provide additional security if the value of the property referred to in 1.5 (b), as determined by an independent valuer, is less than \$800,000.

The security referred to in paragraph 1.5 (b) and (c) will remain in place until the total vendor loan balance of \$2,000,000 has been paid.

1.6 Under the contract, Electrodata is required to repay Garratt's an outstanding loan of \$805,618 (Estimated as at 30 June 2000; final figure subject to audit). This loan is secured by a fixed charge over Electrodata's book debts and trade receivables as at 30 June 2000 (and a floating charge over all subsequent book debts and trade receivables). As the cash is received from debtors, the money is to be passed to Garratt's within 7 days of receipt.

## 2. St. George Bank & AusIndustry

- 2.1 St. George Bank have confirmed that they will wind up the two research and development syndications referred to above. They will also release Garratt's and its subsidiaries from the guarantees and obligations pursuant to the research and development syndications in respect to events that occur after the termination of the syndications.
- 2.2 AusIndustry have confirmed their approval to grant funds under the AusIndustry Start Funding Scheme and their agreement to release Garratt's from the "Letter of Comfort" that it had earlier provided to support the Electrodata application.

## 3. ASX Rules

Under clause 10.1 of the ASX Rules, a transaction such as this requires the approval of shareholders. In addition, clause 10.10 of the rules requires a report on the transaction from an independent expert.

## 4. Independent Expert's Report

Attached is a report by an Independent Expert. The report states that the transaction is fair and reasonable to Garratt's shareholders whose votes are not to be disregarded.

5. Special Resolution

Under clause 10.1 of the ASX Rules an ordinary resolution would be adequate to approve the sale to Syman. However, we are seeking approval by special resolution to cover the possibility of the Company buying back and cancelling the 744,888 Garratt's shares.

6. Recommendation

6.1 Your Directors recommend that you vote in favour of the resolution.

6.2 Shareholders are asked to note particularly the following points:

- (a) The Independent Expert's Report concludes that the transaction is fair and reasonable from the perspective of Garratt's shareholders.
- (b) The transaction will result in a capital gain of \$529,000 for Garratt's. There will also be a reversal of the provision of \$200,000 against this investment.

6.3 If Syman should pay the first tranche by bank cheque, Garratt's will get an injection of \$1,000,000 in cash. However, in the context of the current share price levels, and assuming these levels prevail at the relevant time, it would seem more likely that Syman will opt for the cancellation of its holding of 744,888 shares in Garratt's. Should this be the case, as the 744,888 shares represent 6.1% of the total shares on issue (12,140,169), the effect would be to increase each of the other shareholders' holdings of shares in Garratt's by 6.1%.

7. Voting Exclusion Statement

7.1 The Company will disregard any votes cast on this resolution by:

- Syman;
- an associate of Syman;
- Dr. Baker; or
- an associate of Dr. Baker.

7.2 However, a vote will not be disregarded if:

- it is cast by a person as proxy for a shareholder who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as a proxy for a shareholder who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Any shareholder entitled to vote who is thinking of appointing a person who is not entitled to vote as their proxy, should be aware that unless the proxy contains specific instructions on the manner in which they want their vote to be cast on this resolution, that person will be prohibited from exercising votes on behalf of the shareholder giving the proxy in relation to this resolution.

*\* Note (Paragraph 1.4 (a) (ii): The terms of the transaction were agreed with Syman on 17 March 2000. Details of the trades in Garratt's shares on ASX for the two weeks ended 17 March 2000 and the following week are shown in the appendix. The average price per share for the three weeks from 6 March to 24 March 2000 was \$1.75.*

---

APPENDIX TO EXPLANATORY NOTES:  
GARRATT'S SHARE TRADES ON ASX

Monday 6 March 2000 to Friday 24 March 2000

<u>Date</u>	<u>Close</u>	<u>VWP</u>	<u>Open</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
6 Mar	128.0	128.0	128.0	128.0	128.0	11,000
7 Mar	130.0	130.0	130.0	130.0	130.0	500
8 Mar	130.0	130.0	130.0	130.0	130.0	10,814
9 Mar	128.0	128.1	129.0	129.0	128.0	11,500
10 Mar	130.0	130.0	130.0	130.0	130.0	1,931
13 Mar	130.0	130.0	130.0	130.0	130.0	5,719
14 Mar	130.0	130.0	130.0	130.0	130.0	900
15 Mar	121.0	123.3	125.0	125.0	121.0	8,500
16 Mar	160.0	138.4	125.0	160.0	125.0	137,181
17 Mar	190.0	202.7	200.0	240.0	175.0	402,381
20 Mar	170.0	176.5	190.0	190.0	165.0	175,588
21 Mar	160.0	164.5	165.0	170.0	155.0	29,500
22 Mar	153.0	156.7	164.2	164.2	152.0	85,996
23 Mar	170.0	156.0	153.0	170.0	150.0	94,577
24 Mar	176.0	174.8	180.0	180.0	169.0	61,000

Notes:

All prices in cents.

VWP = Volume Weighted Price

Average price per share for the three weeks from 6 March to 24 March 2000 = \$1.75

---

■

**LORD & BROWN**  
Chartered Accountants

---

Ref:GAR1002807.2000MT/RB/Independent Experts Report



28 July 2000

The Directors  
Garratt's Limited  
Suite 1401, Level 14  
33 Bligh Street  
**SYDNEY NSW 2000**

Dear Sirs,

**RE: INDEPENDENT EXPERTS REPORT**

**1. INTRODUCTION**

This report has been prepared to assist the shareholders of Garratt's Limited (Garratt's) in their consideration of the resolution to be put to shareholders in respect of the sale of Electrodata Pty Limited (Electrodata).

The resolution to be put to shareholders is that Garratt's sell all of the shares in Electrodata to Syman Pty Limited (Syman). Syman is owned and controlled by Dr Stanley Baker a former Director of Garratt's. Details of the proposed sale are outlined in Section 3 of this report.

**2. PURPOSE OF REPORT**

The Australian Stock Exchange Limited (ASX) listing rules at 10.1 requires a company listed on the exchange to obtain shareholder approval when the company proposes to sell a substantial asset to a related party. As Syman is a related party, the sale requires the approval of shareholders.

The ASX listing rules at 10.10 further require that the notice for the shareholders meeting must include:

“A report on the transaction from an independent expert. The report must state whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.”

Level 8 1 York Street Sydney NSW 2000 ~ PO Box N613 Grosvenor Place Sydney NSW 1220  
Tel: (02) 9251 6700 ~ Fax: (02) 9251 6744 ~ E-mail: general@lord-brown.com.au

Member of Nexia International - A Worldwide Network of Independent Accounting and Consulting Firms  
Liability is limited by the Accountants' Scheme pursuant to the NSW Professional Standards Act 1994

This report has therefore been produced to advise shareholders in accordance with Listing Rule 10.10, whether the sale of Electrodata has been completed on terms and conditions, which are fair and reasonable.

### 3. BASIS OF TRANSACTION

On June 30, 2000 the directors completed a "Deed of Sale of Shares" (The Deed), which effectively sold the company's interest in Electrodata to Syman. This sale, which was completed on June 30, 2000, was completed subject to the following conditions being met on or before September 30, 2000:

- (a) Garratt's receives an agreement in writing from St George Bank to release Garratt's and its subsidiaries from the guarantees, cross guarantees and other obligations pursuant to the two research and development syndications entered into on 22 September 1995 and 11 July 1996;
- (b) Confirmation in writing from Ausindustry that Electrodata shall receive grant funds under the Ausindustry Start Funding Scheme and that Ausindustry will agree to Garratt's withdrawing its "Letter of Comfort" dated 17 January 2000; and
- (c) The approval of shareholders of Garratt's.

If these conditions are not satisfied on or before September 30, 2000, the transaction is unwound and the deed operates to place all parties in the same position (or as nearly as is possible to do so) immediately prior to the transfer of shares to Syman on June 30, 2000.

The consideration for the sale of the shares in Electrodata is \$2,000,000, the consideration being settled by a loan which Garratt's made to Syman. The loan is repayable as follows;

- (a) The first repayment shall be made on the day, which is five business days after the completion conditions noted above have been fulfilled. This payment will either be in the form of:
  - (i) a bank cheque for \$1,000,000, or
  - (ii) a set-off from proceeds of sale from a buy back of the 744,888 Garratt's shares owned by the purchaser at \$1.30 per share for a total sum of \$968,354 and the payment in cash of \$31,646.
- (b) The second payment of \$1,000,000 is due on or before 31 December 2002, and is payable in cash, by way of bank cheque.

Interest is payable on the second repayment calculated at 12% per annum with monthly rests commencing on June 30, 2002 until the payment is made.

Other major features of the transaction involve the security which has been taken to ensure the repayment of the vendor loan. The following securities have been taken.

- (a) In respect of the first repayment Syman has entered into a “Deed of Mortgage of Shares” whereby Syman has given a mortgage over the newly acquired Electrodata shares.
- (b) Dr Stanley Baker has provided a mortgage over a property owned by him. The property is expected to have a value in excess of \$800,000.
- (c) Syman has agreed to provide additional security if the value of the property referred to in (b) above, as determined by an independent valuer, is less than \$800,000.

The security referred to in paragraph (b) and (c) above will remain in place until the total vendor loan balance of \$2,000,000 has been paid.

The contract also addresses the repayment of the loan owing from Electrodata to Garratt’s. This loan is supported by a charge over Electrodata trade debtors existing as at June 30, 2000. As the cash is received from debtors, the money is to be passed to Garratt’s within 7 days of receipt.

#### **4. SUMMARY OPINION**

In my opinion, after having completed a detailed review of the proposed transactions outlined in Section 3 above, the transaction appears to be structured on a fair and reasonable basis.

This opinion is supported by the fact that the consideration being paid by Syman is reasonable in comparison to my independent assessment of the fair market value of the shares in Electrodata.

#### **5. CONCEPTS OF VALUE**

In assessing whether the transaction is fair and reasonable, the key factor to consider is the consideration being received by Garratt’s and its proximity to the fair value of the asset at the date of sale.

For the purpose of this report the definition of fair value to be applied is as follows:

“the value at which a transaction would be completed between a willing but not anxious buyer and seller on an arms length basis.”

In assessing the fairness of the transaction we have assessed the fair value of the Electrodata shares being sold and compared that to the consideration package being offered.

## **6. VALUATION METHODOLOGIES**

Given that Electrodata is a profitable going concern, it is appropriate to value the shares using the Capitalisation of Future Maintainable Profits Method. This should then be compared to valuation using an asset valuation approach and a decision taken as to the most appropriate valuation methodology.

Under this method an estimate is made of the expected level of profits which the company can maintain in the future. This is then capitalised by the rate of return which a prudent investor would expect from such an investment, having regard to issues such as industry risk factors, growth prospects, the general economic outlook alternative investment opportunities and the risk free rate of return.

## **7. BACKGROUND OF ELECTRODATA**

Electrodata was founded by Dr Stanley Baker in September 1971 and, since its foundation, Electrodata has pursued the research, design and development of instrumentation recorders.

Today, Electrodata is a company, which is recognised throughout the world as a supplier of communications logging equipment.

Electrodata is operating in a highly competitive field, and the company is now exporting its products worldwide. Customers include major banks, financial institutions, emergency services, government agencies, aviation, stock exchanges, betting services and other organisations which require verification of telephone or broadcast information.

## 8. FINANCIAL PERFORMANCE OF ELECTRODATA

The following table reflects the financial performance reported by Electrodata over the last three years:

	<b>30.6.00</b>	<b>30.6.99</b>	<b>30.6.98</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales	1,947	2,281	4,368
Less: Cost of Sales	(643)	(1,004)	(2,399)
	<hr/>	<hr/>	<hr/>
Gross Margin	1,304	1,277	1,969
Other Income	14	(190)	(254)
Expenses	(1,294)	(937)	(430)
R & D Syndicate Gain	2	365	(262)
	<hr/>	<hr/>	<hr/>
Operating Profit/(Loss) Before Income Tax	26	515	1,023
Income Tax Expense	(9)	(136)	(368)
	<hr/>	<hr/>	<hr/>
<b>OPERATING PROFIT/(LOSS) AFTER INCOME TAX</b>	<b>17</b>	<b>379</b>	<b>655</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Clearly the results of Electrodata have been diminishing over the years. This is due primarily to a fall in the level of business activity and an increase in the overall cost of running the business.

Our review indicates that a significant investment is required in research and development to enable the company to generate new products and revitalise the business. We understand that the Garratt's board are unwilling to make such an investment.

The profit and loss account in 1998 and 1999 were affected by a very large contract from a large telecommunications company, which spanned those years.

## 9. ASSETS AND LIABILITIES OF ELECTRODATA

Set out below is a summary statement of net assets of Electrodata as at June 30, 2000.

	<b>30.6.00</b>
	<b>\$</b>
<b>CURRENT ASSETS</b>	
Cash	106,815
Receivables	651,964
Inventories	817,325
Other	<u>60,827</u>
<b>TOTAL CURRENT ASSETS</b>	1,636,931
<b>NON-CURRENT ASSETS</b>	
Plant and Equipment	30,633
Other	<u>181,050</u>
<b>TOTAL NON-CURRENT ASSETS</b>	211,683
<b>TOTAL ASSETS</b>	1,848,614
<b>CURRENT LIABILITIES</b>	
Accounts Payable	119,800
Provisions	<u>54,246</u>
<b>TOTAL CURRENT LIABILITIES</b>	174,046
<b>NON-CURRENT LIABILITIES</b>	
Loans - Related Company	805,618
Provisions	86,814
Other	<u>47,966</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	940,398
<b>TOTAL LIABILITIES</b>	<u>1,114,444</u>
<b>NET ASSETS</b>	<u>734,170</u>

It should be understood by shareholders that the Loan-Related Party of \$805,618 is a loan payable to Garratt's. This loan is to be repaid and is secured against Trade Debtors of \$651,964, which existed as at June 30, 2000. Additional security has been taken over a property owned by Dr Stanley Baker.

A substantial asset of the business is the rights to the technology which Electrodata owns. In 1995, as part of the Research and Development syndicate a licence to use the technology was sold by Electrodata to a related company which subsequently granted a head licence over the technology to Hanstock Pty Limited a nominee company of St George. The transaction was done in two stages and the total value of the technology transferred totals \$10.6 million.

When the Research and Development syndicate is unwound in accordance with the contract the technology will be returned to Electrodata at no additional cost. The value of the technology is significantly lower given its age and the poor sales performance.

There are no significant unrecognised tax losses for this company.

## 10. VALUATION OF ELECTRODATA

### (a) Future Maintainable Earnings (FME)

In arriving at a future maintainable earnings we have made the following Adjustments to historical data.

	<b>30.6.00</b>	<b>30.6.99</b>	<b>30.6.98</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Operating Profit Before Tax	26	515	1,023
Garratt's Management Fees	64	243	190
R & D Syndicate	(2)	(365)	261
	<hr/>	<hr/>	<hr/>
Adjusted Profit Before Tax	88	393	1,474
Income Tax Expense	(32)	(141)	(530)
	<hr/>	<hr/>	<hr/>
	56	252	944
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

We feel that the most appropriate base to use as a Future Maintainable earnings would be the latest year, given the declining profit performance. As a result we have decided to use a Future Maintainable Earning's figure of \$60,000.

**(b) Capitalisation Rate**

The choice of capitalisation rate is extremely subjective. The current rate of return on 90 day Bank Bills is 6.22% which creates an earnings multiple of 16 times. Clearly given the risk factors outlined below a significantly smaller multiple is appropriate:

- Ageing technology requiring significant investment in Research and Development.
- Declining sales and profit flow.
- Cash flow negative.
- Unique industry
- Company will lose status that was created by being a wholly owned subsidiary of a public company.

Our judgement is that a prudent investor would require a total return of between 20% and 25% to compensate for the risks outlined. This would create a risk premium of 13.78% and 18.78% respectively. As a result the appropriate earnings multiple to be used in the valuation is between 4 and 5.

As a check of the reasonableness of this multiple the Garratt's earnings multiple based on June 30, 1999 published financial data was 7.2. The norm is that these figures would be discounted by 30% to adjust for the difference in marketability of Public Company shares and Private Company shares.

A suitable comparison therefore would be an adjusted Garratt's multiple of 5.04.

As a result our multiple of between 4 and 5 appears reasonable.

**(c) Valuation**

We then use the Future Maintainable Earning's and the capitalisation rates above to calculate a value as follows:-

	<b>High</b> \$	<b>Low</b> \$
Future Maintainable Profit	60,000	60,000
Earnings Multiple	5	4
	—————	—————
	\$300,000	\$240,000
	=====	=====

This valuation method estimates a value of the business of between \$300,000 and \$240,000.

**(d) Assets Valuation**

As the net assets base of \$734,170 as disclosed in Section 9 of this report is higher than the earnings based valuation it is appropriate to use the Assets as the basis of the valuation.

We need to also note that the main asset of the business being the Core Technology is not included in the balance sheet.

When the technology was originally sold in 1995 it had a value of \$10.6 million. If we accept that a useful life for this technology is small given its technical nature it is clearly worth significantly less in 2000 when it will be transferred back. This view is supported by the significantly declining sales value and the acknowledged need to reinvest in technology.

As a result we would view that the technology would be worth no more than \$1,000,000 as it could only contribute to sales over the next 2-3 years and at a diminishing level.

As a result our total estimate of the asset values of the business is as follows:

Net Assets at Book Value	734,170
Estimated Value of Technology	<u>1,000,000</u>
	<u>\$1,734,170</u>

**(e) Electrodata Valuation Conclusion**

Based on the analysis above our conclusion is that the fair value of the shares in Electrodata is \$1,734,170.

**11. ASSESSMENT OF FAIRNESS**

In assessing the fairness of the transaction we will compare the fair value of the Electrodata shares with the consideration package.

	\$
Consideration to be paid	2,000,000
Less: Fair value of Electrodata	<u>(1,734,170)</u>
	<u>\$265,830</u>

The consideration compares favourably with our assessment of the fair value of Electrodata and therefore the price set appears reasonable.

Other considerations for the shareholders of Garratt's in accepting this transaction;

- (i) ***Repayment of Garratt's Loan*** - this loan is to be repaid in the short term through the collection of trade debtors. Without the sale of the shares the loan will not be repaid in the foreseeable future,
- (ii) ***Consideration Security*** - the \$2,000,000 vendors loan which was used to settle the transaction has been secured over the Electrodata shares and a property owned by Dr Stanley Baker.

Given all of these factors it is our conclusion that the transaction which was entered into is fair and reasonable from the perspective of Garratt's shareholders.

## 12. QUALIFICATIONS

This report has been prepared by Michael Traynor who holds a Bachelor of Commerce Degree from the University of New South Wales and is a Fellow of the Institute of Chartered Accountants. Mr Traynor has operated as a Chartered Accountant in public practice for over 15 years and is a registered company auditor.

Mr Traynor is an audit and investigations partner with the firm Lord & Brown who act as auditors of certain Garratt's controlled entities. They are not however, the auditors of Garratt's or Electrodata.

This report has been prepared for the exclusive use of the shareholders of Garratt's Limited in assessing the fairness of the sale agreement proposed by directors. Lord & Brown disclaim any assumption of liability to any other party who may attempt to rely on this report.

The statements and opinions contained in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. I have evaluated the information provided by Electrodata as well as other parties through inquiry, analysis and review and nothing has come to my attention to indicate the information provided was materially misstated or would not afford reasonable grounds on which to base my opinions. However, I do not imply and it should not be construed that I have verified any information provided to me or that my inquiries could have identified matters which a more extensive examination might disclose.

The preparation of the report does not imply that I have audited in any way the financial records of Electrodata.

Lord & Brown will receive a fee for the preparation of this report based on time spent at normal professional rates, however not to exceed \$15,000. With the exception of that fee, neither Mr. Traynor nor Lord & Brown have received nor will receive any pecuniary or other benefits, whether direct or indirect for or in connection with the making of this report.

Neither Mr. Traynor nor Lord & Brown takes any responsibility for, nor have they authorised or caused the issue of any part of the Notice to Shareholders other than this Independent Expert's Report.

Yours faithfully  
LORD & BROWN

MICHAEL TRAYNOR  
Registered Company Auditor