

MARKET UPDATE: BBY Group Administrations

18 June 2015

Following a preliminary investigation of BBY Group's business, property, affairs and financial circumstances by Administrators Stephen Vaughan and Ian Hall of KPMG Australia, we presented our initial findings and recommendations to clients and creditors last Friday 12 June 2015.

Headline Preliminary Findings from Administrators' Report 12 June 2015 Were:

- 1 As early as June 2014 there were indications of possible application by BBY of client trust funds for unauthorised purposes.
- 2 Since June 2014, inaccurate information may have been provided to BBY's lender to support additional funding requests.
- 3 The BBY Companies' financial records may not have been maintained in compliance with the requirements of the Corporations Act.
- 4 There are a number of director and related party transactions that require further investigations.
- 5 The above and other findings led us to conclude that the BBY Companies may have been insolvent since June 2014.
- 6 There could be a shortfall in client monies accounts in the order of \$10 million against total client trust account obligations of over \$24 million (see update below).
- 7 In the event of liquidation, unsecured creditors of the BBY Companies are likely to receive distributions of between zero and 24 cents in the dollar.
- 8 We concluded there were a number of factors that contributed to the failure of the business which includes: poor governance and an inadequate risk management framework, inadequate capital, trading losses and an inability of management to foreshadow and appropriately respond to a number of adverse events and margin calls.

The full report is available at kpmg.com/au/bby

Developments

We mentioned in our report that it appeared that there could have been a shortfall of up to \$6 million in one of the client monies pools, relating to any shortfalls in payments by BBY to clients from Saxo remittances. At the time of our appointment it appeared that there were over \$30 million in unreconciled transactions relating to the return of Saxo funds. Further reconciliation work now indicates that outstanding obligations to clients in relation to the Saxo pool may indeed be in the order of \$6 million. This means that there may be a shortfall in the BBY Limited client monies accounts in the order of \$16 million against total client trust account obligations of over \$30 million (in contrast to point 6 above). These numbers may change if further information comes to light as a result of ongoing investigations.

The Administrators have lodged a statutory report with ASIC on the outcome of investigations to date, pursuant to section 438D of the Corporations Act, in respect of the main operating entity, BBY Limited. This report is confidential and is not available to creditors.

The Administrators continue to be in contact with ASIC on various aspects of the Administrations. If these companies are placed into liquidation and creditors resolve to appoint us as Liquidators, there will be further investigation and reporting by the Liquidators to ASIC. The Liquidators will explore all avenues to maximise returns to former clients of BBY and creditors. It is the role of ASIC to determine what if any further action may be warranted in relation to any possible breaches of the Corporations Act.

Second Creditors' Meeting - for 6 BBY Companies

Creditors are reminded that concurrent meetings of creditors of each of the following 6 (out of the 10) BBY companies are being held on Monday 22 June 2015, from 2pm to determine the future of the BBY Companies in administration:

- BBY Holdings Pty Limited (Receivers and Managers Appointed) ACN 075 187 432
- BBY Limited (Receivers and Managers Appointed) ACN 006 707 777
- Broker Services Australia Pty Ltd (formerly Receivers and Managers Appointed) ACN 074 976 364
- BBY Advisory Services Pty Ltd (Receivers and Managers Appointed) ACN 102 761 008
- SmarTrader Limited ACN 115 752 102
- BBY Hometrader Pty Ltd ACN 134 838 207

Decisions to be taken at the meeting

At this meeting the Administrators will ask creditors to vote upon the future of these 6 companies.

The Administrators have recommended that each of the following 3 companies be placed into liquidation and wound up:

- BBY Holdings Pty Ltd (the parent company),
- BBY Limited (the main trading company) and
- Broker Services Australia Pty Ltd (the employment company)

The Administrators have recommended acceptance of proposals for Deeds of Company Arrangement made by BBY Asia Pacific Group Holdings Pty Ltd (a subsidiary of the AIMS financial group) in relation to the following companies on the basis that estimated returns would be higher than in a liquidation:

- BBY Advisory Services Pty Ltd,
- Smartrader Limited and BBY Hometrader Pty Ltd (a 'pooled' deed proposal)

The recommendations will be discussed at the meetings on Monday when the Administrators will update creditors on the status of the Administrations.

The Remaining 4 BBY Companies

The Administrators applied to the Supreme Court of NSW for an extension of the convening periods for calling a second meeting of creditors for the following 4 BBY companies to allow time to carry out further investigations into the assets and liabilities of each company and to assess a proposal for a pooled Deed of Company Arrangement:

- BBY Nominees Pty. Ltd. ACN 007 001 443
- BBY Protection Nominees Pty. Ltd. ACN 007 001 710
- Options Research Pty. Ltd. ACN 006 770 627
- Tilbia Nominees Pty Ltd ACN 007 001 578

The Court granted an extension to 30 September 2015. During that period the Administrators will obtain and review further records before reporting to affected creditors in accordance with the Corporations Act.

Note:

Stephen Vaughan and Ian Hall of KPMG were appointed joint and several voluntary administrators of BBY Limited and 9 other group companies, as set out below, on 17 May 2015.

BBY Holdings Pty Limited (Receivers and Managers Appointed) ACN 075 187 432
BBY Limited (Receivers and Managers Appointed) ACN 006 707 777
BBY Advisory Services Pty Ltd (Receivers and Managers Appointed) ACN 102 761 008
Broker Services Australia Pty Ltd) ACN 074 976 364
BBY Nominees Pty. Ltd. ACN 007 001 443
BBY Protection Nominees Pty. Ltd. ACN 007 001 710
Options Research Pty. Ltd. ACN 006 770 627
Tilbia Nominees Pty Ltd ACN 007 001 578
SmarTrader Limited ACN 115 752 102
BBY HomeTrader Pty Ltd ACN 134 838 207
(All Administrators Appointed)