

To ASX Announcements

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Our Ref JFF 30-6273742

Date 8 October 2009

Number of pages (including this one): 5

Subject ASX Announcement : ADULTSHOP.COM LIMITED (ASX:ASC)

Please find attached ASX announcement.

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Companies Announcement Platform, ASX Ltd
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8 October 2009

Dear Sir,

ASX ANNOUNCEMENT
SEXYLAND'S INTENTION TO MAKE TAKEOVER OFFER FOR
ADULTSHOP.COM LIMITED (ASX: ASC)

- Proposed **all-cash** offers:
 - \$0.0084 for each ASC share on a fully diluted basis which is after the effect of the Non Renounceable Entitlement Issue ("NREI");
 - \$0.0006 for each option issued under the NREI; and
 - \$0.0006 for each option issued to employees as at 8 October 2009.

- The share offer will represent the following:

Price of share at last trading price before this announcement ¹ :	\$0.0100
Price of share taken up under the NREI ² :	\$0.0040
Total (for both shares), being the sum of the above two amounts (A):	\$0.0140
Sexyland's Offer for two shares (B)	\$0.0168

(B) is 20% higher than (A)

Sexyland's Offer per share (on a fully diluted basis - (B) / 2)	\$0.0084
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60 day VWAP ¹ :	\$0.0076
Price of share taken up under the NREI ² :	\$0.0040
Total (for both shares), being the sum of the above two amounts (A):	\$0.0116
Sexyland's Offer for two shares (B)	\$0.0168

(B) is 45% higher than (A)

Sexyland's Offer per share (on a fully diluted basis - (B) / 2)	\$0.0084
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120 day VWAP ¹ :	\$0.0069
Price of share taken up under the NREI ² :	\$0.0040
Total (for both shares), being the sum of the above two amounts (A):	\$0.0109
Sexyland's Offer for two shares (B)	\$0.0168

(B) is 54% higher than (A)

Sexyland's Offer per share (on a fully diluted basis - (B) / 2)	\$0.0084
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¹ Sexyland makes no comment about the value of any share in ASC.

² This is the amount of the application price under the NREI (being \$0.004 per share). Sexyland makes no comment about the value of the share acquired in accordance with an acceptance of that offer.

- AdultShop shareholders have the opportunity to exit an underperforming company at a generous cash price.
- The offers will be conditional on at least 50.1% acceptance for each offer and certain other conditions as set out in the schedule to this announcement.
- AdultShop shareholders and optionholders that accept Sexyland's offer will receive their cash within 7 days of receipt upon reaching the offer acceptance threshold.

Sexyland encourages all AdultShop shareholders to TAKE UP THEIR ENTITLEMENTS IN THE NREI IN FULL. If AdultShop shareholders do not take up their entitlements, the associates of the directors of AdultShop, by underwriting the entire NREI, may **together hold more than 50% of the shares in AdultShop.**



SexyLAND Australia Pty Ltd

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Introduction

Sexyland Australia Pty Ltd ("**Sexyland**"), a Melbourne-based Adult Department Store, announces its intention to make an off-market takeover offer for all of the issued capital and options in AdultShop.com Ltd ("**AdultShop**") (ASX:ASC) as at 8 October 2009 (collectively, the "**Offer**"). The formal offer documentation, including how AdultShop shareholders can accept the Offer, will be sent to AdultShop shareholders shortly.

AdultShop Entitlement Issue

AdultShop's NREI announced on 9 September 2009 is underwritten by associates of the AdultShop directors. Therefore, if AdultShop shareholders do not take up their entitlements, the associates of the directors of AdultShop, by underwriting the entire NREI, may **together hold more than 50% of the shares in AdultShop**.

Sexyland encourages all eligible AdultShop shareholders to TAKE UP THEIR ENTITLEMENTS IN THE NREI IN FULL to prevent this occurring.

The Offer

The Offer will be a cash offer at an attractive price (refer summary table on page 1), and provides the opportunity for AdultShop shareholders and optionholders to exit their holding of ASC shares and options quickly and easily **for cash**.

The Offer will be conditional on receiving acceptances of at least 50.1% (in number) of ASC shares and of ASC options. The Offer will also be subject to a number of other conditions, as listed in the schedule to this announcement.

Sexyland will fund the acquisition from its cash reserves and a committed bank facility.

AdultShop shareholders have the opportunity to exit an underperforming company

Since 1999:

- AdultShop's market capitalisation has decreased from over \$600 million in December 1999 to approximately \$3 million as at the date of this announcement. The NREI will raise a further \$1.2 million cash (ignoring the exercise of any options). The Offer totals approximately \$5.2 million so far as it relates to ASC shares;
- net profit before tax has fallen from \$5.1 million in FY2002 to recurring losses from FY2005 to FY2009 (including a loss of \$2.6 million in FY2008) whilst revenues have remained reasonably consistent over that time;
- pre-tax losses of approximately \$7.8 million have accumulated over the last five years. We note the market capitalisation of AdultShop before the announcement of this offer was approximately \$3 million (and the NREI will raise a further \$1.2 million in cash, ignoring the exercise of any options); and
- AdultShop has **not paid a dividend** since 1999.

In addition, Sexyland believes that AdultShop's future is uncertain, given the following recent comments.

- The NREI Prospectus sets out that the use of funds raised is to "provide funds for the review and acquisition of potential new opportunities, including but not limited to those in the technology, industrial and/or resources sectors..."
- The Managing Director of AdultShop, Mr Malcolm Day, has been publicly quoted as saying "In reality, it's not in the best interests of shareholders for the business of AdultShop.com to continue as a public company, so we've got to look at other alternatives" (*Perth Now*, 12 September 2009).



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About Sexyland

Sexyland is a chain of female-friendly Adult Department Stores. Operating for over 10 years, Sexyland currently has 11 store locations throughout Melbourne. Sexyland provides a place where women, men, couples and friends can all shop together in a relaxed and professional environment.

Sexyland's success is attributed to its friendly yet professional customer service coupled with warehouse-sized stores which have been uniquely designed and decorated to make shopping at Sexyland a fun and exciting experience. Sexyland has been acknowledged worldwide for being the new look of an Adult Retail Store.

Further information about Sexyland may be found at: www.sexyland.com.au

Next Steps

Sexyland encourages all eligible AdultShop shareholders to TAKE UP THEIR ENTITLEMENTS IN THE NREI IN FULL.

If AdultShop shareholders do not take up their entitlements, the associates of the directors of AdultShop, by underwriting the entire NREI, may **together hold more than 50% of the shares in AdultShop.**

Further details of the proposed offer and explanations of how to accept will be set out in Sexyland's Bidder's Statement. This Bidder's Statement is expected to be lodged on 31 October 2009 and to be dispatched to shareholders within approximately 2 to 3 weeks after that, with the scheduled closing date of the proposed offer expected to be in late November 2009 (unless extended).

Schedule

The proposed offers and a contract resulting from your acceptance of any offers once made will be subject to the following conditions.

Subject to the *Corporations Act 2001* (Cth) (**Corporations Act**), Sexyland may declare the proposed offers and all contracts resulting from the acceptance of the offers free from these conditions (or any one or more or any part of them).

(a) Minimum acceptance

Before the end of the Offer Period, Sexyland and its associates have relevant interests in at least 50.1% (by number) of all issued ASC shares and of all issued ASC options.

(b) Prescribed Occurrences

That between the proposed announcement date and the end of the offer period, none of the following occurrences happens:

- (i) ASC converts all or any of its shares into a larger or smaller number of shares in accordance with section 254H of the Corporations Act;
- (ii) ASC or a subsidiary of ASC resolves to reduce its share capital in any way;
- (iii) ASC or a subsidiary of ASC enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under section 257C or 257D of the Corporations Act;
- (iv) ASC or a Subsidiary of ASC issues shares, or grants an option over its shares, or agrees to issue shares or grant an option over its shares, with the exception of any issue of Shares as a result of:
 - (A) the exercise of ASC options on issue as at 8 October 2009; or
 - (B) the NREI;
- (v) ASC or a subsidiary of ASC issues, or agrees to issue, convertible notes;
- (vi) ASC or a subsidiary of ASC disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (vii) ASC or a subsidiary of ASC charges, or agrees to charge, the whole, or a substantial part, of its business or property;
- (viii) ASC or a subsidiary of ASC resolves to be wound up;
- (ix) a liquidator or provisional liquidator of ASC or a subsidiary of ASC is appointed;
- (x) a court makes an order for the winding up of ASC or of a subsidiary of ASC;
- (xi) an administrator of ASC, or of a subsidiary of ASC, is appointed under section 436A, 436B or 436C of the Corporations Act;
- (xii) ASC or a subsidiary of ASC executes a deed of company arrangement;
- (xiii) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of ASC or of a subsidiary of ASC.