

# Site Group International Limited

## INDEPENDENT EXPERT'S REPORT

For the purposes of ASX Listing Rule 10.11

10 November 2011

For further information please contact:

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# Financial Services Guide

Dated 10 November 2011

## General Advice – Expert’s Report

This Financial Services Guide is designed to help retail clients make a decision as to their use of the relevant general financial product advice; to ensure that we comply with our obligations as a financial services licensee; and to provide you with information on:

- how we and our associates are paid
- any potential conflict of interest we may have
- our internal and external dispute resolution procedures and how you can access them.

## Introduction

Crowe Horwath Corporate Finance Ltd ACN 001 508 363 has been engaged to issue general financial product advice in the form of an Expert’s Report for inclusion in a disclosure or other document in relation to the issuing of a financial product.

## Who is responsible for the financial services provided to me?

Crowe Horwath Corporate Finance Ltd holds an Australian Financial Services Licence No. 239170 and is responsible for the financial services provided by it and its Authorised Representatives, including authorising the distribution of this Financial Services Guide.

Crowe Horwath Corporate Finance Ltd is wholly owned by WHK Pty Ltd and operates as part of the business advisory and professional accounting practice of Crowe Horwath.

## General Financial Product Advice

In the Expert’s Report we provide general financial product advice, not personal financial product advice, because the advice has been prepared without taking into account your personal objectives, financial situation or needs.

You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs.

## What kinds of financial services are you authorised to provide to me?

We are authorised to provide advice on, and deal in, the following classes of financial products to wholesale and retail clients:

- 1) Provide financial product advice for the following classes of financial products:
  - (a) derivatives; and
  - (b) securities.
- 2) Deal in a financial product by:
  - (a) issuing, applying for, acquiring, varying or disposing of a financial product in respect of the following classes of financial products:
    - (i) derivatives,
  - (a) applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of the following classes of products:
    - (i) derivatives; and
    - (ii) securities.

**Expert's Reports**

We provide financial product advice by issuing an Expert's Report in connection with a financial product of another person or entity. Our Report includes a description of the circumstances of our engagement and identifies the person or entity who has engaged us. You have not engaged us directly but you will be provided with a copy of the Report due to your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

**Do you have any relationships or associations with financial product issuers?**

Crowe Horwath Corporate Finance Ltd and any of its associated entities may at any time provide professional or financial services to financial product issuers in the ordinary course of our business.

**How is Crowe Horwath Corporate Finance Ltd paid to produce an Expert's Report?**

We will charge a fee in the vicinity of \$60,000 excluding GST for providing this Expert's Report. This fee will be paid by the person or entity which engages us to provide the Report. The fee has not affected the opinion we have expressed in the Report.

Except for this fee, neither Crowe Horwath Corporate Finance Ltd, nor any of its principals, employees or related entities, receives any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

**Does Crowe Horwath Corporate Finance Ltd get paid for referring clients to invest in the products associated with your Expert's Reports?**

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the Expert's Report that we are engaged to provide.

We do not receive commissions or any other benefits for referring clients in connection with the underlying financial product and/or financial service that is the subject of the reports we are engaged to provide.

**Do I pay for the financial services provided?**

You do not pay us a fee for the production of the Expert's Report. It is the responsibility of the person or entity which engaged our services to produce the Report to meet this cost.

**Who can I complain to if I have a complaint about the financial services provided?**

If you have any complaint about the service provided to you, you should take the following steps:

- 1) Contact us and tell us about your complaint.
- 2) If your complaint is not satisfactorily resolved within three business days, please contact the Complaints Officer on (07) 3233 3555, or put your complaint in writing and send it to us at:  
The Complaints Officer  
Crowe Horwath Corporate Finance Ltd  
GPO Box 736  
BRISBANE QLD 4001
- 3) If you still do not get a satisfactory outcome you can contact the Financial Ombudsman Service (FOS) of which Crowe Horwath Corporate Finance Ltd is a member. FOS can be contacted on 1300 780 808 or you can write to them at GPO Box 3, Melbourne, Victoria 3001.

The Australian Securities & Investments Commission (ASIC) has a freecall Infoline on 1300 300 630 which you may also use to make a complaint or obtain information about your rights.

If you have any further questions about the financial services Crowe Horwath Corporate Finance Ltd provides, please contact our office on (07) 3233 3555.

The Directors  
 Site Group International Limited  
 Ground Floor  
 144 Edward Street  
 BRISBANE QLD 4000

Dear Sirs

On 1 September 2011, Site Group International Limited (**Site**) announced plans to raise up to \$4 million through the issue of convertible notes (**Capital Raising**). Site subsequently issued these convertible notes (**Notes**) on 27 October 2011 and by 31 October 2011 (**Conversion Date**), Site had received conversion notices from all convertible noteholders (**Noteholders**) at a conversion price of \$0.10 (**Conversion Price**). A breakdown of the Noteholders and the value of their Notes are detailed in the table below:

**Table A: Site Convertible Notes Issue**

Site Noteholder	Site Related Party	Principal Amount	Accrued Interest	Total Value
Mr Vernon Wills and associates ( <b>Mr Wills</b> )	Site Executive Chairman	\$1,463,000	\$20,183	\$1,483,183
Mr Darryl Somerville	Site Non-Executive Director	\$250,000	\$2,528	\$252,528
Mr Shaun Scott	Site Non-Executive Director	\$125,000	-	\$125,000
<b>Total Notes issued to Related Parties</b>		<b>\$1,838,000</b>	<b>\$22,711</b>	<b>\$1,860,711</b>
Claymore Capital	not applicable	\$2,162,000	-	\$2,162,000
<b>Total Amount Raised</b>		<b>\$4,000,000</b>	<b>\$22,711</b>	<b>\$4,022,711</b>

Source: Site

The above table shows that as part of the Capital Raising, Mr Vernon Wills and his associates (**Mr Wills**), Mr Darryl Somerville and Mr Shuan Scott, related parties of Site (**Related Parties**) acquired convertible notes in Site of approximately \$1.861 million in total value.

## Purpose of the Report

Although there is no regulatory requirement for Site to commission an independent expert report, the directors understand that the conversion of the Notes will result in the issuance of securities to Related Parties (**Proposed Transaction**). Due to the related party nature of the Proposed Transaction, the directors have decided to provide the non-associated shareholders of Site (**Site Shareholders**) with proper and full disclosure. Crowe Horwath Corporate Finance Limited (**CHCF**) has been appointed by the directors of Site to prepare an Independent Expert's Report (**IER/Report**) to express an opinion as to whether the Proposed Transaction is fair and reasonable to Site Shareholders.

The Report will be included in the Notice of Meeting and accompanying Explanatory Memorandum (**Transaction Documents**) to be forwarded to Site Shareholders for their consideration in determining whether to approve the Proposed Transaction. Site Shareholders will be required to vote on the Proposed Transaction at a general meeting convened for the purposes of ASX Listing Rule 10.11.

This letter is a summary of CHCF's analysis and opinion and does not constitute a substitute for the reading of the entire Report. Site Shareholders should read the Transaction Documents issued by Site, together with the Report in full, prior to deciding whether to approve the Proposed Transaction.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. CHCF has considered the Proposed Transaction generally; it has not taken into account the objectives, financial situation or needs of individual Site Shareholders. Due to particular circumstances, individual Site Shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in the Report. Accordingly, individuals may reach different conclusions as to whether to approve the Proposed Transaction.

Except for the Report, CHCF had no involvement in the preparation of the Transaction Documents, and as such, CHCF, its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from, the information contained in the Transaction Documents other than the Report, or any loss or damage suffered by any person directly or indirectly through relying on this information.

## Evaluation Criteria

In determining whether the Proposed Transaction is fair and reasonable, CHCF has had regard to RG 111 in relation to the content of independent expert's reports.

RG 111 states that an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The terms fair and reasonable are not defined in the Corporations Act, however ASIC provides the following guidance:

- An offer is fair if the value of the consideration is equal to or greater than the value of the securities the subject of the offer.
- An offer is deemed to be reasonable if it is fair.
- An offer may be reasonable if, despite not being fair, the expert believes after considering other significant factors, shareholders should accept the offer in the absence of any higher bid.

To assess the fairness of the Proposed Transaction, CHCF has:

- Compared the estimated fair market value of the securities on a minority basis to the value of the consideration to be paid.

To assess the reasonableness of the Proposed Transaction, CHCF has considered the following significant factors in addition to determining whether the Proposed Transaction is fair:

- The conditions of the Proposed Transaction.
- The likely impact on the control of Site.
- The extent to which existing Site Shareholders may be diluted.
- The position of Site Shareholders should the Proposed Transaction not proceed.
- Other advantages and disadvantages for Site Shareholders in accepting or rejecting the Proposed Transaction.

## Summary of Opinion

CHCF are of the opinion that the Proposed Transaction is fair and reasonable to Site Shareholders. This opinion should be read in conjunction with the remainder of this letter and the attached Report which sets out CHCF's scope and findings in detail.

## Assessment of Fairness

The Proposed Transaction is fair to Site Shareholders as the consideration offered of \$0.10, being the Conversion Price at Conversion Date, lies within the range of the valuation assessment of Site, as follows:

**Table B: Overview of Fairness Assessment**

	Reference (Report Section)	Low	Mid-point	High
Proposed Transaction consideration	Section 5.3	\$0.100	\$0.100	\$0.100
Value of a Site share (minority basis)	Section 5.4	\$0.075	\$0.100	\$0.125

Source: CHCF analysis

CHCF's detailed valuation is provided at Section 5 of the Report.

## Assessment of Reasonableness

RG 111 states that an offer is deemed to be reasonable if it is fair. As CHCF have assessed the Proposed Transaction as fair, it is deemed to be reasonable. In addition, CHCF has identified the advantages and disadvantages of the Proposed Transaction to Site Shareholders as summarised below:

**Table C: Advantages and Disadvantages of the Proposed Transaction**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Provides working capital to support Site's ability to continue as a going concern.</li> <li>▪ No material transfer of control.</li> <li>▪ The non-associated directors of Site have recommended and intend to vote in favour of the Proposed Transaction.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Dilution of existing ownership.</li> <li>▪ Capital Raising likely to be insufficient.</li> </ul>

Source: CHCF analysis

A detailed discussion of the advantages and disadvantages of the Proposed Transaction can be found in Section 6 of the Report.

**Other matters**

CHCF holds Australian Financial Services Licence No. 239170, and its representatives are qualified to provide this Report. This license authorises CHCF to carry on a financial services business to provide financial product advice for various classes of financial products.

In accordance with the Corporations Act, CHCF confirms that it is not aware of any business relationships or financial interests of a material nature with either Site, or its associates that impacts on CHCF's ability to provide an independent Report.

CHCF provided a draft copy of the Report to the non-associated directors of Site for their comments as to factual accuracy. Changes made, if any, to the Report as a result of the review has not changed the methodology, conclusions, or opinion of CHCF.

It is not intended that the Report be used or relied upon for any purpose other than for CHCF's opinion as to whether the Proposed Transaction is fair and reasonable to Site Shareholders. CHCF expressly disclaims liability to any person who relies on the Report for any other purpose.

CHCF consents to the issuing of the Report in the form and context in which it is to be included in the Transaction Documents. Neither the whole nor any part of the Report nor any reference to it may be included in any other document without the prior written consent of CHCF to the form and context in which it appears.

Yours sincerely



Crowe Horwath Corporate Finance Ltd  
ACN 001 508 363  
AFSL 239170

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# 1. The Proposed Transaction

## 1.1. Introduction

In an announcement on the Australian Securities Exchange (**ASX**) on 1 September 2011, Site Group International Limited (**Site**) detailed its appointment of Claymore Capital Pty Ltd (**Claymore Capital**) to raise up to \$4 million through the issue of convertible notes (**Capital Raising**). Site subsequently issued these convertible notes (**Notes**) on 27 October 2011 and by 31 October 2011 (**Conversion Date**), Site had received conversion notices from all convertible noteholders (**Noteholders**) at a conversion price of \$0.10 (**Conversion Price**). A breakdown of the Noteholders and the value of their Notes are detailed in the table below:

**Table 1: Site Convertible Notes Issue**

Site Noteholder	Site Related Party	Principal Amount	Accrued Interest	Total Value
Mr Vernon Wills and associates ( <b>Mr Wills</b> )	Site Executive Chairman	\$1,463,000	\$20,183	\$1,483,183
Mr Darryl Somerville	Site Non-Executive Director	\$250,000	\$2,528	\$252,528
Mr Shaun Scott	Site Non-Executive Director	\$125,000	-	\$125,000
<b>Total Notes issued to Related Parties</b>		<b>\$1,838,000</b>	<b>\$22,711</b>	<b>\$1,860,711</b>
Claymore Capital	not applicable	\$2,162,000	-	\$2,162,000
<b>Total Amount Raised</b>		<b>\$4,000,000</b>	<b>\$22,711</b>	<b>\$4,022,711</b>

Source: Site

The conversion of the Notes is subject to shareholder approval for the following reasons:

- Claymore Capital – ASX Listing Rule 7.1 prohibits a company, without the prior approval of its shareholders, from issuing new equity securities equivalent in number to more than 15% of its capital in any 12 month period. Where securities are issued with shareholder approval, under ASX Listing Rule 7.1, such shares do not count towards the 15% threshold. ASX Listing Rule 7.4 further provides that that any issue of securities made without prior approval under ASX Listing Rule 7.1 can be treated as having been made with that approval if the company subsequently obtain shareholder approval.

In an announcement on the ASX on 4 November 2011, Site detailed its issuance of 18.71 million ordinary fully paid shares to Claymore Capital from their immediate conversion of the Notes at a Conversion Price of \$0.10. As such, Site is currently seeking shareholder approval to ratify the issuance of the 18.71 million shares in accordance with Listing Rule 7.4. The remaining 2.91 million shares to be issued under the Notes held by Claymore Capital is currently awaiting shareholder approval under ASX Listing Rule 7.1.

- Mr Wills, Mr Somerville and Mr Scott – The listed noteholders are related parties of Site (**Related Parties**). As such, Site is required to obtain shareholder approval prior to the issuance of securities to Related Parties (**Proposed Transaction**) per the requirements of ASX Listing Rule 10.11. The total amount subject to conversion by Related Parties is \$1,860,711 which consists of the principal amount of \$1,838,000 and accrued interest of \$22,711. Accrued interest relates to existing cash paid in advance by the Related Parties by way of loans. As such, a deed of variation was entered into between Site and its directors on 24 October 2011 under which the loans and any accrued interest to date were to be repaid in accordance with the terms of the Notes.

## 1.2. Key Terms of the Convertible Notes

The terms and conditions of the Notes under the Capital Raising are set out in a cleansing notice lodged with the ASX (**Cleansing Notice**) on 27 October 2011. The key terms of the Notes are summarised below:

- Total amount to be raised of \$4 million.
- The Notes are unsecured.
- Term of 6 months.
- Upon conversion, the Notes will rank equally with the then existing shares of Site.
- Convertible at an issue price of:
  - For clients of Claymore Capital, the lesser of 85% of the 30 day volume weighted average price (**VWAP**) or \$0.20 per share, provided that the issue price is not below \$0.10.
  - For all other Noteholders, the greater of 85% of the 30 day VWAP or \$0.10 per share.
- Interest payable on the principal amount outstanding at a rate of 10% per annum.
- Interest is payable within 10 business days after the date of maturity or conversion of the Notes, unless the Noteholder elects to have the interest repaid in the same manner as the principal amount (**Interest Election**).
- If the Noteholder makes the Interest Election then the interest amount will be added to and form part of the conversion amount and may be capable of redemption by the issue of Site shares.
- In the event that the conditions (i.e. shareholder approval) are not satisfied within two months from Site receiving a conversion notice, Site must repay the noteholder the moneys owing in full in immediately available funds.

## 1.3. Purpose of the Capital Raising

Site proposes to apply the funds raised through the issue of the Notes as follows:

- Meet working capital commitments.
- Pursue other business development opportunities as approved by Site.

## 2. Scope of the Report

### 2.1. Purpose of the Report

Crowe Horwath Corporate Finance Limited (**CHCF**) has been appointed by the directors of Site to prepare an Independent Expert's Report (**IER/Report**) to express an opinion as to whether the Proposed Transaction is fair and reasonable to non-associated shareholders of Site (**Site Shareholders**).

The Report will be included in the Notice of Meeting and accompanying Explanatory Memorandum (**Transaction Documents**) to be forwarded to Site Shareholders for their consideration in determining whether to approve the Proposed Transaction. Site Shareholders will be required to vote on the Proposed Transaction at a general meeting convened for the purposes of ASX Listing Rule 10.11.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. CHCF has considered the Proposed Transaction generally; it has not taken into account the objectives, financial situation or needs of individual Site Shareholders. Due to particular circumstances, individual Site Shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in the Report. Accordingly, individuals may reach different conclusions as to whether to approve the Proposed Transaction.

Except for the Report, CHCF had no involvement in the preparation of the Transaction Documents, and as such, CHCF, its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from, the information contained in the Transaction Documents other than the Report, or any loss or damage suffered by any person directly or indirectly through relying on this information.

### 2.2. Regulatory Requirements

There is no regulatory requirement for Site to commission an IER in relation to the Proposed Transaction. However, the directors understand that the Proposed Transaction will potentially result in the issuance of securities to Related Parties. As a result, Site's directors have decided to provide Site Shareholders with proper and full disclosure to enable them to assess the merits of the Proposed Transaction via the appointment of an independent expert, to provide an opinion as to whether the Proposed Transaction is fair and reasonable to Site Shareholders.

### 2.3. Evaluation Criteria

In determining whether the Proposed Transaction is fair and reasonable, CHCF has had regard to RG 111 in relation to the content of independent expert's reports.

RG 111 states that an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The terms fair and reasonable are not defined in the Corporations Act 2011 (Cth) (**Corporations Act**), however ASIC provides the following guidance:

- An offer is fair if the value of the consideration is equal to or greater than the value of the securities the subject of the offer.
- An offer is deemed to be reasonable if it is fair.
- An offer may be reasonable if, despite not being fair, the expert believes after considering other significant factors, shareholders should accept the offer in the absence of any higher bid.

To assess the fairness of the Proposed Transaction, CHCF has:

- Compared the estimated fair market value of the securities on a minority basis to the value of the consideration to be paid.

RG 111 considers an offer to be reasonable if either the offer is fair, or despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid.

To assess the reasonableness of the Proposed Transaction, CHCF has considered the following significant factors in addition to determining whether the Proposed Transaction is fair:

- The conditions of the Proposed Transaction.
- The likely impact on the control of Site.
- The extent to which existing Site Shareholders may be diluted.
- The position of Site Shareholders should the Proposed Transaction not proceed.
- Other advantages and disadvantages for Site Shareholders in accepting or rejecting the Proposed Transaction.

## 2.4. Limitation of Usage

This Report has been prepared for the express purpose detailed in Section 2.1 of the Report. No reference to or statement of reliance upon the Report can be released other than for that purpose without the prior written consent of CHCF as to the form and context of that release.

## 2.5. Sources of Information

This Report has been prepared with the materials and sources of information set out in Appendix B.

## 2.6. Reliance on Information

This Report is valid only for the stated purpose as of the date of the Report. Financial statements and other related information provided by Site or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted. CHCF has not audited, reviewed, or compiled the financial information provided and, accordingly, CHCF expresses no audit opinion or any other form of assurance on this information. Further, CHCF has no reason to believe that any material facts that a reasonable person would expect to have disclosed has been withheld from CHCF.

Where prospective financial information approved by management has been used in the Report, CHCF has not examined or compiled the prospective financial information and therefore does not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected and there will usually be differences between prospective financial information and actual results, and those differences may be material. If they do change materially, CHCF's opinion could vary significantly. However, CHCF has no obligation to advise any person of any changes in circumstances which come to its attention after the date of this Report or to review, revise or update its Report.

Public information and industry and statistical information have been obtained from sources CHCF believe to be reliable. However, CHCF makes no representation as to the accuracy or completeness of such information and has not performed procedures to corroborate the information.

To the extent that there are legal issues relating to assets, properties, business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, CHCF assumes no responsibility and offers no legal opinion or interpretation. CHCF has generally 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 legal proceedings, other than as publicly disclosed.

## 2.7. Qualifications and Declarations

CHCF holds Australian Financial Services Licence No. 239170, and its representatives are qualified to provide this Report. This license authorises CHCF to carry on a financial services business to provide financial product advice for various classes of financial products.

In accordance with the Corporations Act, CHCF confirms that it is not aware of any business relationships or financial interests of a material nature with either Site, or its associates that impacts on CHCF's ability to provide an independent Report.

## 3. Industry Overview

### 3.1. Introduction

Site delivers employee tailored, non-accredited and Australian accredited vocational education and training through facilities in the Philippines and Australia. This section of the Report provides a brief overview of the vocational education and training (**VET**) industry in Australia, including the demand for VET and the industry outlook.

### 3.2. Background

In Australia, VET is delivered by registered training organisations (**RTOs**) including government technical and further education institutions (**TAFEs**), dual-sector institutions, enterprises and community providers.<sup>1</sup> It is estimated that there are almost 5,000 RTOs in Australia, with approximately 3,700 of these being private providers.<sup>2</sup>

Most VET students are engaged with publicly-funded training providers which largely consist of government administered TAFE colleges or institutes. Other publicly-funded VET is provided by higher education institutions, secondary schools and colleges, agricultural and technical colleges, and adult and community organisations. Private providers of VET include private training organisations, business colleges, industry associations, adult and community organisations and employers.<sup>3</sup>

VET providers offer a wide range of subjects and programs including traditional trades, advanced technical training, para-professional and professional studies as well as basic employment and educational preparation. While formal VET study provides skills and nationally recognised qualifications for employment, students may choose to complete only one or two subjects to gain specific skills without completing a full qualification.

The VET competitive landscape is currently dominated by government-run institutions, with low industry concentration due to federal and state control over TAFEs and Australian Technical Colleges.<sup>4</sup> While there are no major players in the VET industry, the various state based TAFE institutions are the dominant influence in the industry. However, VET in Australia is expected to undergo considerable change as state and federal governments push for national reform of the vocational training system.<sup>5</sup> These national reforms have already begun to affect industry by raising competition and supporting growth for private providers of VET.<sup>6</sup>

### 3.3. Demand for VET

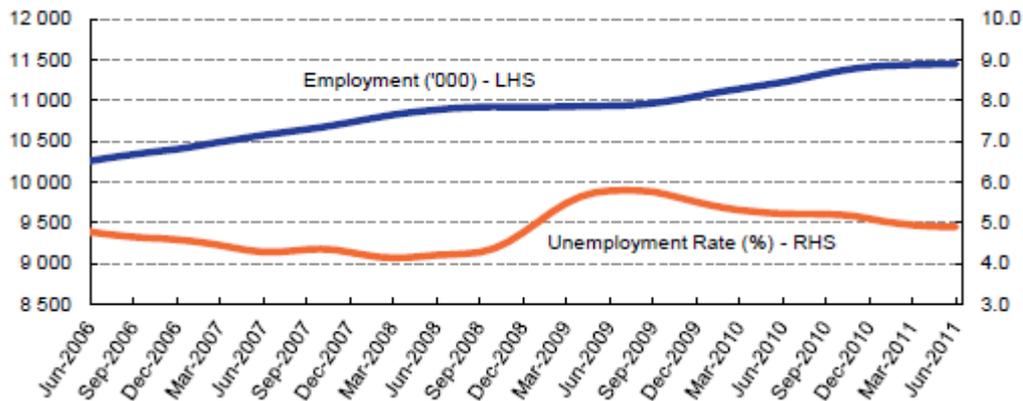
Skill shortages largely stimulate demand for VET, which directly impacts government policies to encourage education and training such as course subsidies and student financial support. Recent strong growth in demand for apprenticeships and traineeships, for example, has been attributed to government funding for expansion of these programs.<sup>7</sup>

Skill shortages were widespread prior to the global recession in mid to late 2008, and were evident across a range of professions and technical trades and occupations. Although there was a significant fall in demand for skilled workers over 2009, the nine months to June 2010 showed strong signs of recovery in demand for skills and shortages became more widespread.<sup>8</sup> More recently, the labour market tightened over 2010-11 compared with 2009-10 with employers experiencing greater difficulty recruiting skilled workers.<sup>9</sup> The Australian Government also noted that over this period labour market for trades tightened markedly and that shortages were mainly for experienced workers.

In terms of labour market trends, the unemployment rate has varying impacts on different aspects of the VET industry. For example, an increase in the unemployment rate creates demand for VET as workers seek to update their skills or retrain to improve their prospects for employment. Conversely, a reduction in unemployment rate creates demand for the VET industry in relation to traineeships and apprenticeships in areas of skill shortages.

The trend in the employment rate and unemployment rate in Australia, from June 2006 through to June 2011, is shown below:

**Figure 1: Employment and Unemployment Rate in Australia**



Source: Australian Bureau of Statistics Labour Force Survey<sup>10</sup>

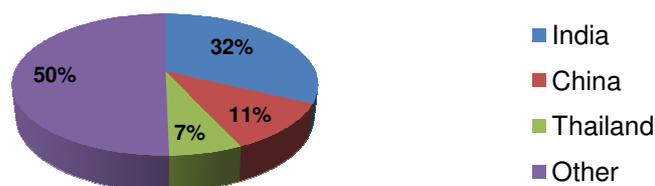
Over the last five years through 2010-11, VET industry revenue has grown at an average of 2.1% per annum.<sup>11</sup> One of the drivers of this growth has been the increased number of international students studying in Australia over this period. International students have been attracted to Australian VET providers by immigration policies which favoured study in areas of skill shortages in the Australian economy which has been approaching full employment rates for some time. Demand has been particularly strong from China and India over this period.<sup>12</sup>

In 2010, however, enrolment growth from international students slowed mainly due to:

- Unfavourable changes to student visa requirements.
- The strength of the Australian dollar which reduces the affordability of Australian based education for international students.
- A reduction in the level of Indian students electing to study in Australian VET institutions, mainly attributed to racial issues and perceived reductions in the quality of some RTOs.

The trend in 2011 has continued downward for international student VET enrolments and commencements for calendar year to date August 2011, falling by 18% and 7.7%, respectively in the same period in 2010. Over this period, India had the largest share of total enrolments followed by China, then Thailand, as illustrated below:

**Figure 2: VET International Student Enrolments by Nationality**



Source: Australian Education International, 2011

### 3.4. Industry Outlook

The Australian economy is expected to strengthen within the next two years, underpinned by an improved international economic outlook. The International Monetary Fund (IMF) has forecasted continued strong growth for Australian resources exports in key developing economies, while the Australian Government (Treasury) forecasts Australia's real Gross Domestic Product (GDP) growth to strengthen to 4% in 2011-12 and 3.75% in 2012-13. Further, Treasury anticipates the unemployment rate forecast to fall gradually to 4.5% in the final quarter of 2013 as the economy reaches capacity.<sup>13</sup>

The expectation is that employment in the resources sector, including mining, will experience strong growth. Skills Australia's projections now suggest that, based on Australian Bureau of Agriculture and Resources Economics and Sciences (ABARE) projections of likely increases in mining commodities between 2010 and 2016, employment in mining operations will rise from 187,700 persons in November 2010 to 270,600 persons in 2016, a rise of 44%.

Although the supply of skills through short term or long term migration appears to be waning, the Australian Government 2011-12 Budget introduces Enterprise Migration Arrangements (EMAs) to streamline arrangements for access to overseas workers. The Critical Skills Investment Fund and the Cairns based Fly-In-Fly-Out (FIFO) Coordinator is also expected to assist more flexible labour market responses.<sup>14</sup>

Enrolments in VET will continue to be influenced by economic growth and the labour market. In addition, Government driven VET system reform in Australia is expected to increase competition and lead to consolidation of public institutions and a reduction in industry concentration in the short term.<sup>15</sup> The reduced competitive position of public institutions should lead to more favourable operating conditions for private RTOs.

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1 (IBISWorld, 2011)

2 (Australian Bureau of Statistics, 2010)

3 (Australian Bureau of Statistics, 2010)

4 (Australian Bureau of Statistics, 2010)

5 (IBISWorld, 2011)

6 (IBISWorld, 2011)

7 (IBISWorld, 2011)

8 (Skills Australia, 2010)

9 (Australian Government, 2011)

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11 (IBISWorld, 2011)

12 (IBISWorld, 2011)

13 (Skills Australia, 2011)

14 (Skills Australia, 2011)

15 (IBISWorld, 2011)

## 4. Business Overview

### 4.1. Overview of Site

Site is an Australian registered company listed on the ASX and a provider of Australian VET through its Clark Education City campus in the Philippines and Adelaide campus in Australia. Workforce planning solutions are delivered by Site WorkReady, the recruitment and placement arm of the Site business. Site's operations are currently at an early stage of development. The company aims to become a leading provider of integrated vocational education and workforce planning solutions to skill shortage areas.

Site comprises of three business segments as follows:

- Site Education Australia
- Clark Education City
- Site WorkReady

#### 4.1.1. Site Education Australia

Site Education Australia is an Australian RTO and registered Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) provider holding both Overseas Students Tuition Assurance Scheme and Australian Tuition Assurance Scheme certifications.

Based in Adelaide at Hindmarsh Stadium, Site Academy has been in operation since March 2001 and specialises in providing courses in the hotel and tourism industry. As well as operating Site Academy, Site Education Australia provides the policy, quality control, compliance and auspice framework for sister campus, Clark Education City.

#### 4.1.2. Clarke Education City

In 2009, Site entered into a 25 year lease with a 25 year option over the former Philippine Expo site where it has invested over \$10 million on establishing its Clark Education City (**Clark EC**) business. The 300,000m<sup>2</sup> site has been developed as a VET campus with onsite living facilities including kitchens, restaurant and bar, dining facilities, health clinic, library, gym and recreational facilities. The campus is located within the Clark Freeport Zone and is in close proximity to Clark Airport.

Clark EC aims to provide affordable VET to international students through suitably qualified Australian teachers. The facility has the capacity to cater for up to 1,300 students and the potential to increase this capacity to 15,000 students. Clarke EC currently offers a range of courses including fabrication trade, diesel fitting, hospitality, aged care and English.

#### 4.1.3. Site WorkReady

Site WorkReady is the recruitment and placement arm of the Site business. Site WorkReady aims to provide workforce planning solutions to employers with a particular focus on skill shortage areas. Currently, Site WorkReady's target customers are primarily employers in the Australian resources, construction, and hospitality industries.

Site WorkReady aims to work in conjunction with its educational campuses to provide tailored courses in areas where there is employment demand. Site's business model involves the assessment of candidate skills and the provision of gap training to ensure candidates are 'WorkReady' before commencing with an employer.

## 4.2. Board and Management

Site's board of directors currently consists of:

- Mr Vernon Wills, Board Chairman and Chief Executive Officer, appointed 12 October 2010.
- Mr Nicasio Alcantara, Non-executive Director, appointed 12 October 2010.
- Mr Shaun Scott, Non-executive Director, appointed 2 August 2011.
- Mr Darryl Somerville, Non-executive Director, appointed 2 August 2011.

Mr Paul Young and Mr David Hutchinson resigned as directors of Site effective 1 April 2011 and 31 July 2011, respectively.

Current key management personnel of Site, other than directors, are as follows:

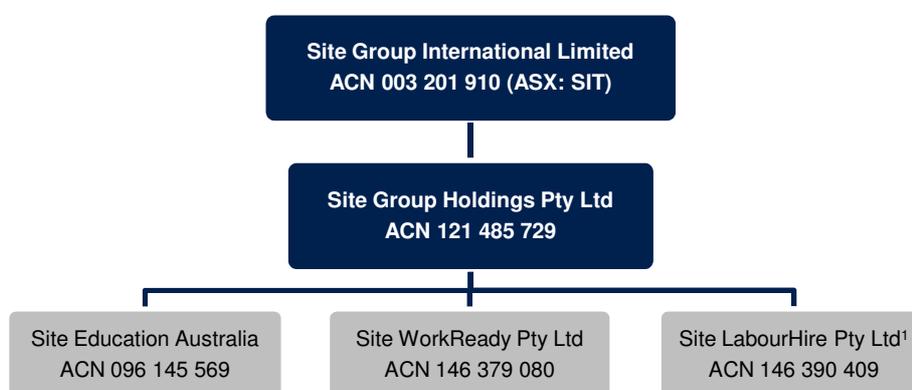
- Mr Gary Prime, Chief Financial Officer.
- Mr Steven Ghost, Director of Education and Training.
- Mr Ray Hince, General Manager of Site WorkReady.
- Mr Ismail Tahir, Manager of Facilities and Infrastructure.
- Mr Shane O'Sullivan, General Manager of Health, Safety and Equipment Training.

Site's recent management appointments include Mr Ray Hince, previously head of Human Resources at BHP Iron Ore, and Mr Shane O'Sullivan, previously regional director of M&O Global.

## 4.3. Corporate Structure

Site operates out of individual wholly owned subsidiaries within the Site group of companies as illustrated below:

**Figure 3: Site Corporate Structure**



Source: Site

<sup>1</sup> Not in operation as at 10 November 2011

#### 4.4. Share Capital and Share Price

As at 12 October 2011, Site had 134,035,101 ordinary shares (comprises 132,919,101 fully paid shares and 1,116,000 partly paid shares) and 7,315,000 options on issue. Major shareholdings of Site include:

- Talbot Group Holdings Pty Ltd holds 44,171,121 ordinary shares, which represents a 31.2% interest in Site on a fully diluted basis (33.0% on an undiluted basis).
- Mr Wills holds 42,705,000 ordinary shares and 500,000 options, which represents a 30.6% interest in Site on a fully diluted basis (31.9% on an undiluted basis).
- Other Shareholders hold 47,158,980 ordinary shares and 6,815,000 options and on an individual basis have less than a 2% interest in Site.

Site's options are exercisable as follows:

**Table 2: Site's Options**

Number of Options <sup>1</sup>	Exercise Price	Vesting Date <sup>2</sup>	Expiry Date
320,000	\$0.25	31 May 2012	30 June 2012
320,000	\$0.30	31 May 2013	30 June 2013
1,000,000	\$0.25	1 November 2010	1 November 2013
3,675,000	\$0.25	1 November 2010	26 November 2013
2,000,000	\$0.25	Vest on grant date	10 December 2013
<b>7,315,000</b>	<b>Total number of options</b>		

Source: Site

<sup>1</sup> As at 12 October 2011

<sup>2</sup> Exercisable upon remaining employed until vesting date

The following Site securities are currently subject to escrow restrictions as a result of Site's reverse acquisition of Lazco Limited in December 2010:

**Table 3: Site's Securities in Escrow**

Class	Number of Securities	Release Date
Shares	40,700,000	16 December 2012
Options	3,465,000	16 December 2012

Source: Site

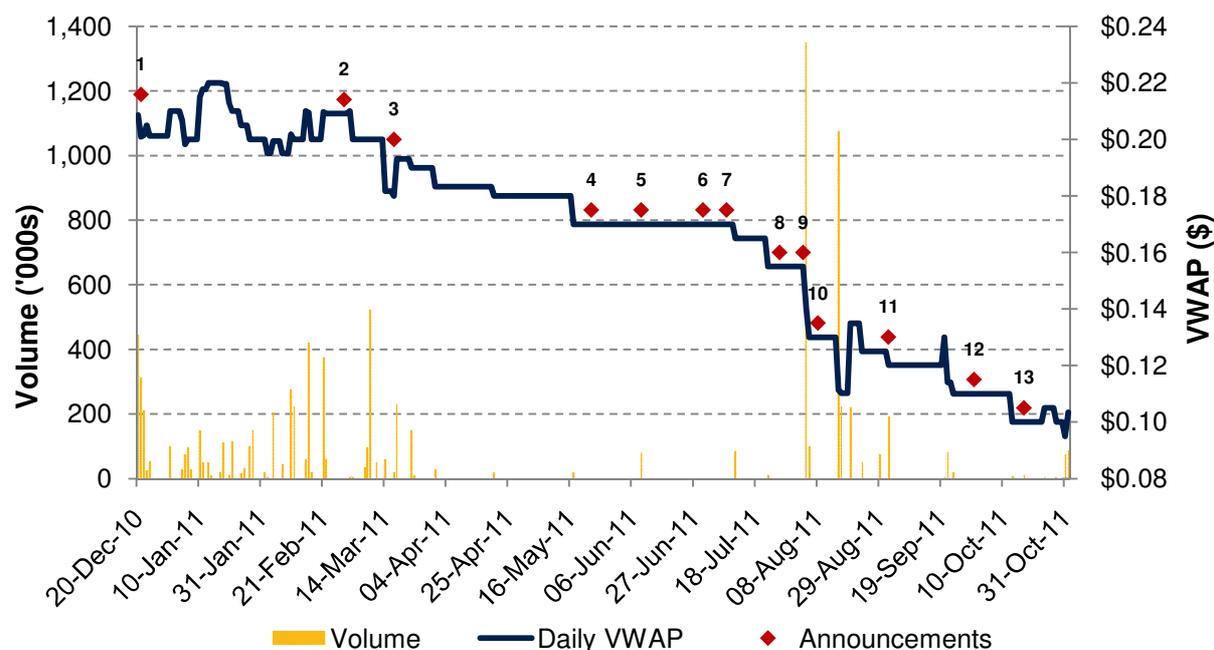
The significant number of Site securities which are escrowed may impact on liquidity and adversely affect the market price of Site's shares. Additionally, if securities are sold following their release this could adversely impact the market price of Site's shares.

## 4.5. Share Price Trading History

CHCF has noted the recent share price trading history of Site by reviewing the daily VWAP of Site's shares trading on the ASX.

The graph below illustrates the daily Site VWAP and volumes for the period since Site was readmitted to official quotation on the ASX on 20 December 2010, together with reference points of Site's significant announcements on the ASX up to and including 31 October 2011.

**Figure 4: Daily VWAP and Volume of Site's Shares<sup>1</sup>**



Source: Capital IQ, CHCF analysis

<sup>1</sup> Numbered items correspond to Site announcements in Table 4 below

**Table 4: Site's ASX Announcements<sup>1</sup>**

Site Announcements	
1	On 20 and 22 December 2010, Site announced the signing of a memorandum of understanding with Crew Skills International and Shore Based Philippines Inc, respectively.
2	On 28 February 2011, Site released its half year accounts.
3	On 17 March 2011, Site announced its proposed takeover bid for Careers Australia Group Limited. Subsequently, Site issued its bidder's statement and Careers Australia Limited issued its target's statement. A supplementary bidder's statement was then issued by Site on 29 April 2011.
4	On 23 May 2011, Site's takeover bid for Careers Australia Group Limited lapsed.
5	On 9 June 2011, Site released its presentation to investors.
6	On 30 June 2011, Site announced the resignation of Mr David Hutchinson as a director of Site.
7	On 8 July 2011, Site announced the signing of an academic pathway agreement with Swinburne University.
8	On 26 July 2011, Site announced the signing of a services agreement with Cyba Recruitment.
9	On 3 August 2011, Site announced the appointment of Mr Darryl Somerville and Mr Shaun Scott as directors of Site.
10	On 8 August 2011, Site announced the signing of a services agreement with TWI South East Asia.
11	On 1 September 2011, Site announced the signing of a convertible note mandate with Claymore Capital Pty Ltd.

Site Announcements	
12	On 30 September 2011, Site released its full year statutory accounts.
13	On 18 October 2011, Site released its company update regarding revenue timing, convertible notes and management appointments.

Source: ASX

<sup>1</sup> Site announcement numbers correspond to numbered items in Figure 4 above

CHCF notes the following with regard to the above VWAP analysis:

- From readmission to the ASX in December 2010 to the announcement of the takeover bid for Careers Australia Group Limited in mid March 2011, Site's shares traded around \$0.20 with approximately \$960,000 worth of shares traded during that period. Following the Careers Australia Group Limited takeover bid, Site's shares have had limited trading with the price of Site's shares falling to \$0.10 as at Conversion Date.
- In terms of volume, the two most significant trading days occurred recently in August 2011, with 1.35 million shares traded at \$0.14 on 4 August 2011 and 1.075 million shares traded at \$0.11 on 15 August 2011. These trading days did not appear to coincide with any particular significant announcements other than the appointment of new directors on 3 August 2011.

The table below summarises the VWAP and liquidity of Site's shares over various look back periods prior to the Conversion Date for the purposes of this Report.

**Table 5: VWAP prior to the Conversion Date**

ASX Trading Days	VWAP <sup>1</sup>	Volume	Value (\$)	Volume Traded % <sup>1 &amp; 2</sup>	Volume Traded % (excluding escrow shares) <sup>1 &amp; 3</sup>
5 Trading Days	\$0.10	79,860	7,611	0.06%	0.09%
10 Trading Days	\$0.10	84,620	8,111	0.06%	0.09%
30 Trading Days	\$0.11	209,220	22,080	0.16%	0.22%
60 Trading Days	\$0.11	2,042,060	234,558	1.52%	2.19%
90 Trading Days	\$0.13	3,587,060	452,133	2.68%	3.84%
120 Trading Days	\$0.13	3,686,060	468,963	2.75%	3.95%
150 Trading Days	\$0.13	3,736,060	478,063	2.79%	4.00%
180 Trading Days	\$0.15	5,851,710	905,362	4.37%	6.27%
210 Trading Days	\$0.17	7,777,010	1,300,112	5.80%	8.33%
216 Trading Days	\$0.17	8,821,990	1,513,735	6.58%	9.45%

Source: Capital IQ

<sup>1</sup> Includes rounding

<sup>2</sup> Volume traded divided by total number of shares issued

<sup>3</sup> Volume traded divided by total number of shares issued less shares held in escrow

The table above shows that the volume of trading in Site's shares is low and reasonably illiquid with less than 7% traded (excluding shares in escrow) in 216 trading days. Trading volumes have also been volatile with approximately \$1 million of shares traded in the initial 66 trading days since readmission to the ASX followed by limited trading until August 2011 when approximately \$400,000 of shares were traded.

## 4.6. Financial Performance

CHCF's analysis of the financial performance of Site for the financial year ended 30 June 2010 (**FY10**) and FY11 are detailed in the table below:

**Table 6: Site Financial Performance**

(\$'000s)	FY10 (Audited) <sup>1</sup>	FY11 (Audited)
<b>Revenue</b>	<b>346</b>	<b>984</b>
Cost of Goods Sold	(444)	(1,016)
<b>Gross Profit</b>	<b>(97)</b>	<b>(32)</b>
Operating Expenditure	(3,494)	(8,276)
Foreign Currency Gain/(Loss)	346	(1,166)
<b>EBITDA</b>	<b>(3,245)</b>	<b>(9,475)</b>
Depreciation and Amortisation	(101)	(445)
<b>EBIT</b>	<b>(3,346)</b>	<b>(9,920)</b>
Net Interest	14	31
<b>NPBT</b>	<b>(3,332)</b>	<b>(9,889)</b>
Tax	(1)	(11)
<b>NPAT</b>	<b>(3,333)</b>	<b>(9,900)</b>

Source: Site

<sup>1</sup> Includes operating results of Lazco Limited

With respect to the above table, CHCF notes the following:

- The business made a loss in FY10 as it focused on establishing its presence in the market and on establishing and developing its facilities at Clark EC. In FY11 the loss increased as a result of a number of one off expenses and a realignment of the business strategy.
- Included in the loss for FY11 are the following:
  - Listing costs - \$1.2 million
  - Takeover bid costs - \$0.3 million
  - Foreign currency losses - \$1.2 million
- Adjusting for the costs above and depreciation and amortisation of \$0.4 million, the loss is approximately \$6.8 million which is broadly consistent with estimates outlined in the financial statements that the business requires approximately \$500,000 cash per month for operating costs.

#### 4.7. Financial Position

CHCF's analysis of the financial position of Site as at 30 June 2010, 30 June 2011, and the unaudited financial position as at 30 September 2011 are detailed in the table below:

**Table 7: Site Financial Position**

(\$'000s)	As at		
	30 June 2010 (Audited)	30 June 2011 (Audited)	30 September 2011 (Unaudited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	55	409	198
Trade and other receivables	127	172	283
Other current assets	170	214	182
<b>Total Current Assets</b>	<b>352</b>	<b>796</b>	<b>664</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	5,310	4,811	5,271
Intangibles	166	-	-
Other non-current assets	503	324	154
<b>Total Non-Current Assets</b>	<b>5,980</b>	<b>5,135</b>	<b>5,425</b>
<b>TOTAL ASSETS</b>	<b>6,332</b>	<b>5,931</b>	<b>6,088</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	1,344	1,938	2,132
Provisions	88	113	114
Tax payable	1	9	11
Related Party Loans	-	-	1,450
<b>Total Current Liabilities</b>	<b>1,432</b>	<b>2,059</b>	<b>3,707</b>
<b>Non-Current Liabilities</b>			
Provisions	5	13	13
<b>Total Non-Current Liabilities</b>	<b>5</b>	<b>13</b>	<b>13</b>
<b>TOTAL LIABILITIES</b>	<b>1,437</b>	<b>2,072</b>	<b>3,719</b>
<b>NET ASSETS</b>	<b>4,896</b>	<b>3,859</b>	<b>2,369</b>

Source: Site

With respect to the above table, CHCF notes the following:

- As outlined in the FY11 financial statements the monthly cash operating expenses of the business total approximately \$500,000 per month. Site, historically and currently, has insufficient revenue or cash balances to support this level of expenditure and as such, has been supplemented by equity and debt funding:
  - A capital raising of \$5 million was completed in December 2010.
  - Loans from Mr Vernon Wills and Mr Darryl Somerville totalling \$1.45 million (**Related Party Loans**) were provided during the period July 2011 to September 2011. This is represented as Related Party Loans as at 30 September 2011.
  - The Capital Raising will also support Site's working capital purposes.
- Property, plant and equipment is predominately represented by Site's investment in leasehold improvements for Clark EC and accounts for approximately 80% of the total balance.

- The current ratio (current assets / current liabilities) as at 30 September 2011 is approximately 0.18, indicating that Site may have difficulty meeting its current liabilities without the continued support of its investors. In addition, CHCF notes that Site's auditors drew special attention to the material uncertainty regarding Site's continuation as a going concern.

#### 4.8. Cash Flow Statements

CHCF's analysis of the cash flow of Site for FY10 and FY11 are detailed in the table below:

**Table 8: Site Cash Flow Statements**

(\$'000s)	FY10 (Audited) <sup>1</sup>	FY11 (Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	243	1,374
Payments to suppliers and employees	(3,584)	(6,922)
Borrowing Costs & Interest Paid	(4)	(14)
Interest Received	-	41
Income tax paid	-	(12)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(3,345)</b>	<b>(5,534)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant & equipment	(5,346)	(639)
Proceeds from sale of property, plant & equipment	-	44
Cash received on acquisition of a subsidiary	-	670
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(5,346)</b>	<b>75</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	8,420	6,675
Proceeds from borrowings	-	-
Repayment of finance lease liabilities	(23)	-
Transactions costs on issue of shares	-	(827)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>8,397</b>	<b>5,848</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(293)</b>	<b>389</b>
Net foreign exchange differences	346	(35)
Cash at the beginning of the financial year	2	55
<b>CLOSING CASH AT END OF PERIOD</b>	<b>55</b>	<b>409</b>

Source: Site

<sup>1</sup> Includes operating results of Lazco Limited

With respect to the above table, CHCF notes the following:

- Cash flows from operating activities are largely consistent with the estimation in the financial statements of a loss of \$500,000 per month.
- Cash flows used in investing activities in FY10 relate to Site's investment in Clark EC and development of potential opportunities.
- In all periods examined above, Site's investing activities and operating losses have been funded by proceeds from the issuance of shares.

## 5. Valuation Analysis

### 5.1. Introduction

To assess the fairness of the Proposed Transaction, CHCF has compared the estimated fair market value of a Site share on a minority basis, to the Conversion Price of the Notes. CHCF has used the Market Approach methodology to estimate the fair market value of a Site share. A more detailed overview of valuation methods is provided in Appendix C.

### 5.2. Valuation of Site's Shares

CHCF has used the Market Approach to estimate the fair market value of a Site share on a minority basis. This involved an examination of the following:

- Historical transactions completed by Site.
- Major share price movements and trading volumes of Site's shares.
- Market movements and company results.
- Conversion Price of the Notes.

#### 5.2.1. Historical Transactions

CHCF has considered relevant market transactions that Site has recently undertaken. Specifically, CHCF has considered the transactions that occurred in December 2010 shown below:

**Table 9: Site Share Issues**

Date	Description	No. of shares ('000s)	Value (\$'000s)	Price per share
16 December 2010	Lazco Limited acquisition – shares issued for the reverse acquisition of Lazco Limited	7,471	1,494	\$0.20
16 December 2010	Prospectus – public offer shares issued for cash.	25,000	5,000	\$0.20
16 December 2010	Advisor fees – shares issued for the advisory fees in relation to the issuance of the public offer shares and acquisition of Site Group Holdings Pty Ltd by Lazco Limited	700	140	\$0.20
<b>Total</b>		<b>33,171</b>	<b>6,634</b>	<b>\$0.20</b>

Source: Site

The above transactions show that over 33 million shares were issued at \$0.20 including a public offer of shares which raised \$5 million. CHCF notes that whilst the above identified transactions are able to assist with identifying the fair market value of a Site share, the transaction was conducted in December 2010 and hence does not sufficiently represent the value of a Site share as at October 2011. Given that Site has not undertaken any further transactions post December 2010, CHCF has undertaken a VWAP analysis of Site's share trading.

### 5.2.2. VWAP Analysis

CHCF has reviewed the trading of Site's shares over various look back periods prior to 31 October 2011. This analysis is summarised in the table below:

**Table 10: VWAP prior to 31 October 2011**

ASX Trading Days	VWAP <sup>1</sup>	Volume	Value (\$)	Volume Traded % <sup>1 &amp; 2</sup>	Volume Traded % (excluding escrow shares) <sup>1 &amp; 3</sup>
5 Trading Days	\$0.10	79,860	7,611	0.06%	0.09%
10 Trading Days	\$0.10	84,620	8,111	0.06%	0.09%
30 Trading Days	\$0.11	209,220	22,080	0.16%	0.22%
60 Trading Days	\$0.11	2,042,060	234,558	1.52%	2.19%
90 Trading Days	\$0.13	3,587,060	452,133	2.68%	3.84%
120 Trading Days	\$0.13	3,686,060	468,963	2.75%	3.95%
150 Trading Days	\$0.13	3,736,060	478,063	2.79%	4.00%
180 Trading Days	\$0.15	5,851,710	905,362	4.37%	6.27%
210 Trading Days	\$0.17	7,777,010	1,300,112	5.80%	8.33%
216 Trading Days	\$0.17	8,821,990	1,513,735	6.58%	9.45%

Source: Capital IQ

<sup>1</sup> Includes rounding

<sup>2</sup> Volume traded divided by total number of shares issued

<sup>3</sup> Volume traded divided by total number of shares issued, less shares held in escrow

For the quoted market price methodology to be reliable there needs to be a liquid and active market (RG 111.69). In light of this, CHCF has considered the following in determining whether Site's shares exhibit characteristics that are representative of a liquid and active market:

- Regular trading of the company's securities.
- Site's shares VWAP range was \$0.10 to \$0.17 during the period from 20 December 2010 to 31 October 2011.
- Approximately 6.58% of Site's current stock was traded over 216 trading days to 31 October 2011.

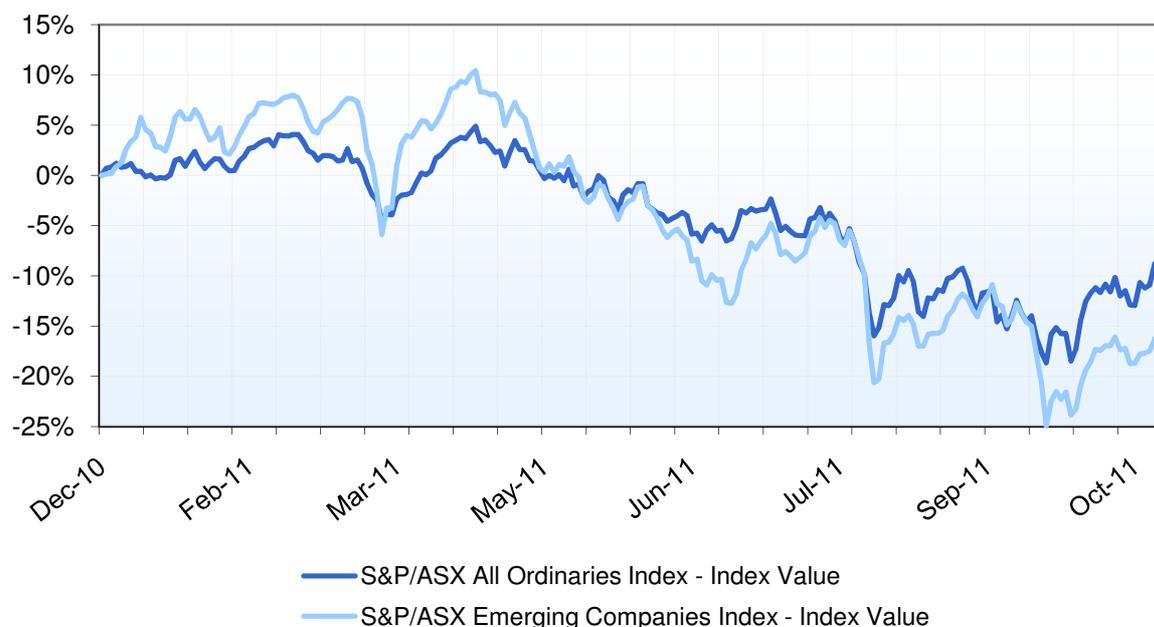
From an analysis of the trading volumes of Site's shares presented in the table above, it is concluded by CHCF that Site's shares do not display a sufficient level of liquidity over the total period examined (i.e. 216 trading days) and hence is arguably not representative of a liquid and active market. Whilst this is the case, CHCF's notes that Site's shares have had consistent trading throughout particular periods as described in the following analysis:

- From December 2010 to March 2011 Site's shares traded around \$0.20 with approximately \$960,000 worth of shares traded during that period. Whilst the volume is not significant and reasonably illiquid it did support the \$0.20 price paid in the public offer.
- In terms of volume, the two most significant trading days occurred recently in August 2011, with 1.35 million shares traded at \$0.14 on 4 August 2011 and 1.075 million shares traded at \$0.11 on 15 August 2011. These two transactions do not provide enough liquidity to be fully relied upon to support a value assessment however they do indicate that Site's Share price had fallen from the \$0.20 established in December 2010.

### 5.2.3. Market Movements and Company Results

In addition to share price performance, CHCF notes that recent concerns relating to global economic uncertainty in 2011 has led to market volatility and decreasing values for Australian equities and in particular, emerging equities as shown in the graph below. Specifically, the S&P/ASX All Ordinaries Index and S&P/ASX Emerging Companies Index have decreased by 10% and 16% respectively, between 20 December 2010 and 31 October 2011.

**Figure 5: S&P/ASX All Ordinaries Index and S&P/ASX Emerging Companies Index**



Source: Capital IQ

Specifically, the above graph indicates that small companies, like Site for example, have been particularly impacted by general market conditions. As such, this lends support to Site's share price decline in the period post March 2011.

In addition to the general stock market movements, CHCF notes that Site has had some potentially negative company announcements such as internal restructuring, lapse of the takeover bid for Careers Australia Group Limited, realignment of its business strategy, delays in achieving revenue targets and going concern issues as highlighted in the financial statements. These issues are arguably reflected in Site's share price movement and have been examined as part of CHCF's analysis of the fair market value of a Site share.

### 5.3. Conversion Price of the Notes

As at 31 October 2011, Site issued and raised \$4 million through the Capital Raising. Of the \$4 million, \$2.162 million was raised from third parties and \$1.838 million was raised from Related Parties. CHCF notes that Site has received Conversion Notices from all Noteholders at a Conversion Price of \$0.10. As such, the conversion of the \$2.162 million noteholding at a Conversion Price of \$0.10, represents a significant recent transaction arranged through third parties and assists in providing support for the value of a Site share.

## 5.4. Implied Valuation of Site's Shares

Whilst CHCF recognises that the liquidity of Site's shares are relatively low, the following factors supports the share value of a Site share on a minority basis:

- Historical transactions completed by Site in December 2010 were at \$0.20 per Site share.
- Significant trading occurred on 4 August 2011 and 15 August 2011, with approximately 2.5 million shares traded between \$0.11 to \$0.14.
- Global economic uncertainty has led to market volatility and decreasing value for Australian equities. Specifically, S&P/ASX emerging Companies index have decreased by 16% between 20 December 2010 and 31 October 2011.
- Negative company announcements such as internal restructuring, lapse of takeover bid, realignment of business strategy, delays in revenue targets and going concern issues indicate a reduction in Site's share price.
- Site has received Conversion Notices from all Noteholders, including non-associated Noteholders, for conversion at a Conversion Price of \$0.10.

**Table 11: Minority Fair Market Value of a Site Share**

Item	Low	Mid-point	High
Value of a Site share (minority basis)	\$0.075	\$0.100	\$0.125

Source: CHCF analysis

Whilst the above range is relatively wide, CHCF is of the opinion that it is reasonable given the following:

- Site's stage of development.
- Site is currently loss making.
- Significant uncertainty regarding Site's ability to continue as a going concern in the absence of the Capital Raising.
- The large amount of shares held in escrow.
- Site's announcement that revenues which were expected to be derived in the first half of FY12, are now expected to be derived in the second half of FY12.

## 6. Evaluation of the Proposed Transaction

### 6.1. The Proposed Transaction is Fair

RG 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer. Set out in the table below is a comparison of CHCF's assessment of the fair market value of Site with the consideration offered under the Proposed Transaction, being the Conversion Price of the Notes of \$0.10.

**Table 12: CHCF Fairness Analysis of the Proposed Transaction**

	Reference (Report Section)	Low	Mid-point	High
Proposed Transaction consideration	Section 5.3	\$0.100	\$0.100	\$0.100
Value of a Site share (minority basis)	Section 5.4	\$0.075	\$0.100	\$0.125

Source: CHCF analysis

Given the Proposed Transaction consideration is within CHCF's valuation range of a Site share on a minority basis, the Proposed Transaction is fair to Site Shareholders.

### 6.2. The Proposed Transaction is Reasonable

The following advantages and disadvantages have been considered in assessing the reasonableness of the Proposed Transaction:

#### 6.2.1. Advantages

##### **Provides working capital to support Site's ability to continue as a going concern**

CHCF notes that Site has a working capital deficiency of approximately \$1.6 million (current liabilities excluding related party loans less current assets) and require funding for the continuance of operations. As such, Site's auditors highlighted significant doubt on Site's ability to continue as a going concern should the Capital Raising (including the Proposed Transaction) not proceed. In Note 1(b) of the FY11 financial statements and further in the audit report the following comment was provided:

*"On 1 September 2011, the Group announced a mandate with Claymore Capital for the raising of up to \$4 million through the issue of a convertible note. The directors are confident of the ability to raise these and additional sufficient funds. Ensuring the Group's ability to finance its future operations is critical to the ability of the Site Group to continue as a going concern...Should the directors not achieve the matters set out above, in raising sufficient capital to meet its cash flow objectives, there is significant uncertainty whether the entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report..."*

### No material transfer of control

The table below summarises the individual shareholding position of Related Parties on a fully diluted basis prior to and immediately following conversion of all Notes:

**Table 13: Shareholding Impacts**

Shareholders	Prior Capital Raising		Post Capital Raising <sup>1</sup>	
	Shares (Fully Diluted)	% of Total <sup>2</sup>	Shares (Fully Diluted)	% of Total <sup>2 &amp; 3</sup>
Mr Wills	43,205,000	30.6%	58,036,826	32.0%
Mr Somerville	-	-	2,525,281	1.4%
Mr Scott	-	-	1,250,000	0.7%
<b>Total Shares held by Related Parties</b>	<b>43,205,000</b>	<b>30.6%</b>	<b>61,812,107</b>	<b>34.1%</b>
Other Shareholders	98,145,101	69.4%	119,765,100	65.9%
<b>Total Shares Issued</b>	<b>141,350,101</b>	<b>100.0%</b>	<b>181,577,207</b>	<b>100.00%</b>

Source: CHCF analysis

<sup>1</sup> Shareholdings post Capital Raising is calculated as the total ordinary shares and options outstanding plus shares issued from the conversion of Notes (including accrued interest as at Conversion Date) at a Conversion Price of \$0.10.

<sup>2</sup> Percentage of total shares held by Related Parties is 31.9% prior to the Capital Raising and 35.2% post the Capital Raising on an undiluted basis.

<sup>3</sup> The increase in Mr Wills' Site shareholdings is approximately 1.2% on an undiluted basis.

Section 606 of the Corporations Act prohibits a party from acquiring a relevant interest in a company of more than 20%, or from a starting point that is above 20% and below 90% unless an exception under Section 611 applies. An exception to the prohibition is Item 9 of Section 611 which allows a party with a relevant interest of at least 19% to increase their relevant interest by no more than 3% in the six months prior to the acquisition. Given that the individual shareholding positions of Related Parties and in particular Mr Wills does not increase by more than 3%, the Proposed Transaction is not prohibited under Section 606 of the Corporations Act. Accordingly, the Proposed Transaction is not a control transaction as no material control will be transferred to Mr Wills or the other Related Parties.

### The non-associated directors of Site have recommended and intend to vote in favour of the Proposed Transaction

The non-associated directors of Site have advised that they consider the Proposed Transaction is in the best interest of the shareholders of Site and will be voting in favour of the Proposed Transaction.

#### 6.2.2. Disadvantages

##### Dilution of existing ownership

If the Proposed Transaction is approved, existing Site Shareholders will collectively be diluted and will have a reduced ability to share in the opportunities of Site in the future. It should be noted however that further capital raisings are required for Site's growth strategy. Therefore unless existing shareholders re-invested they would have been diluted.

**Capital Raising likely to be insufficient**

CHCF notes that of the \$4 million raised from the Capital Raising, \$1.45 million has been provided to Site in advance by way of Related Party Loans from the directors (refer Section 4.7 of the Report). As such, a deed of variation has been entered into between Site and its directors on 24 October 2011, under which the Related Party Loans were agreed to be treated as if it were advanced under, and repayable in accordance with the terms of the Notes. These Related Party Loans are incorporated and represented in the financial position analysis of Site provided in Section 4.7 of the Report.

As Site has received \$1.45 million in advance, Site will receive approximately \$2.55 million in cash as a result of the Capital Raising. These funds will however be required to fund working capital requirements, given the working capital deficiency of \$1.6 million and estimated operating expenditure of \$500,000 per month. CHCF considers that it is likely that future capital raisings will be required to be undertaken by Site for the continuance of operations. These subsequent capital raisings will result in further dilution of existing ownership.

## Appendix A – Glossary

Term	Definition
'000s	Thousands
\$	Australian dollars
ACN	Australian Company Number
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
Capital Raising	Issuance of \$4 million of Notes on 27 October 2011
CHCF	Crowe Horwath Corporate Finance ACN 001 508 363, holder of AFSL No. 239170
Clark EC	Clark Education City
Claymore Capital	Claymore Capital Pty Ltd ACN 082 722 290
Cleansing Notice	The cleansing notice lodged with the ASX setting out the key terms and conditions of the convertible notes
Conversion Date	The date of lodgement of the Conversion Notice
Conversion Notice	The notice issued to Site by Noteholders to convert part or all of their Notes
Conversion Price	The issue price of the Notes on Conversion Date, being \$0.10
Corporations Act	Corporations Act 2001 (Cth)
DCF	Discounted Cash Flow
EBIT	Earning Before Interest and Taxation
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
FME	Future Maintainable Earnings
FY	Financial year ending 30 June
GDP	Gross Domestic Product
IER	Independent Expert's Report
Interest Election	The election of the noteholder to repay the interest in the same manner as the principal amount
Proposed Transaction	Issuance of securities to Related Parties from conversion of their noteholdings

Term	Definition
Notes	The convertible notes issued by Site under the Capital Raising
Noteholders	The holders of the Notes
NPAT	Net Profit After Taxation
NPBT	Net Profit Before Taxation
Related Parties	Mr Vernon Wills and his associates, Mr Darryl Somerville and Mr Shuan Scott, being related parties of Site
Related Party Loans	Loans from Mr Wills and associates and Mr Somerville totalling \$1.45 million
Relevant Interest	As defined in the Corporations Act
Report	The IER prepared by CHCF
RG 111	ASIC's Regulatory Guide 111
RTO	Registered Training Organisation
S&P/ASX All Ordinaries Index	An index which provides a performance benchmark that represents the 500 largest companies listed on the ASX
S&P/ASX Emerging Companies Index	An index which provides a performance benchmark for companies listed on the ASX that rank between 350 and 600 by total capitalisation, capped at 200 constituents
Site	Site International Group Limited ACN 003 201 910
Site Group	Site
Site Shareholders	The non-associated shareholders of Site
TAFE	Technical and Further Education
Transaction Documents	The Notice of Meeting and Explanatory Memorandum containing the resolution to be put to shareholders on whether to approve the Proposed Transaction
VET	Vocational education and training
VWAP	Volume Weighted Average Price
Mr Wills	Mr Vernon Wills and his associates
YTD	Year to date

## Appendix B – Sources of Information

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## Appendix C – Valuation Methodologies

Method	Description	When method is used	Applied (Yes/No)	Explanation
<b>Discounted Cash Flow (DCF)</b>	<p>The Discounted Cash Flow (DCF) method derives the value of a business on a controlling basis based on the future cash flows of the business discounted back to a present value at an appropriate discount rate (cost of capital). The discount rate used will reflect the time value of money and the risks associated with the cash flows.</p> <p>The DCF method requires:</p> <ul style="list-style-type: none"> <li>forecasting cash flows over a sufficiently long period (at least 5 years and usually 10 years)</li> <li>assessing an appropriate discount rate (typically derived using judgement and aids such as the Capital Asset Pricing Model (CAPM)), and</li> <li>estimation of the terminal value (value of the business into perpetuity) at the end of the period (typically derived using the capitalisation of earnings method).</li> </ul>	<ul style="list-style-type: none"> <li>Reasonably accurate forecast cash flows (minimum 5 years).</li> <li>Earnings or cash flows expected to fluctuate from year to year.</li> <li>Business is in start-up or turn around phase.</li> <li>Specific projects that have a finite or infinite life, e.g. mining projects.</li> </ul>	No	<ul style="list-style-type: none"> <li>Cash flow forecasts were not available for a sufficient period to apply the DCF method to value Site.</li> </ul>
<b>Capitalisation of Earnings</b>	<p>The Capitalisation of Earnings (CE) method is the most commonly used valuation method. It involves the application of a capitalisation multiple to an estimate of the Future Maintainable Earnings (FME) of the business. The FME must be maintainable by the business and must not include one-off gains or losses. The capitalisation multiple will reflect the risk, time value of money and future growth prospects of the business.</p> <p>The appropriate capitalisation multiple is determined with reference to the observed multiples of entities whose businesses are comparable to that of the business being considered and/or comparable transactions.</p>	<ul style="list-style-type: none"> <li>The business has a history of profits with a reasonably consistent trend and that trend is expected to continue.</li> <li>The business has an indefinite life.</li> <li>Cash flow forecasts are not available.</li> </ul>	No	<ul style="list-style-type: none"> <li>Site has made losses in the last two years and no forecasts were available, therefore this method is not applicable.</li> </ul>
<b>Capitalisation of Dividends</b>	<p>This method involves the capitalisation of forecast future maintainable dividends. The maintainable level of dividends is estimated by assessing the expected level of future maintainable earnings and the dividend policy of the entity. The appropriate capitalisation rate reflects the investor's required rate of return.</p>	<ul style="list-style-type: none"> <li>Valuation is for a minority interest.</li> <li>Stable business.</li> <li>High payout ratios.</li> </ul>	No	<ul style="list-style-type: none"> <li>Site has not paid dividends nor is forecasting payment of dividends in the immediate future.</li> </ul>
<b>Yield Based</b>	<p>This method is primarily used for property assets and involves capitalising forecast distributions by an estimated future maintainable yield. The yield or rate is determined based on analysis of comparable entities.</p>	<ul style="list-style-type: none"> <li>Commercial or investment properties including retail, industrial and commercial.</li> </ul>	No	<ul style="list-style-type: none"> <li>Site is not predominantly a property business.</li> </ul>

Method	Description	When method is used	Applied (Yes/No)	Explanation
<b>Market Based</b>	This method values a company based on the traded prices of its equity on a public market/exchange. The approach can adopt the prevailing spot rate of the company's securities at valuation date or the Volume Weighted Average Price (VWAP) over a set trading period i.e. the preceding 30, 60 or 90 trading days to the valuation date.	<ul style="list-style-type: none"> <li>Company's equity is listed on public market/exchange, e.g. ASX</li> <li>Securities in the company are actively traded on the market/exchange.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Site has a history of transactions together with listed trading of shares.</li> </ul>
<b>Asset Based</b>	<p>Asset based valuations involve separating the business into components that can be readily sold, such as individual business units or items of plant and equipment, and ascribing a value to each component based on the amount that could be obtained if sold.</p> <p>The asset value can be determined on the basis of:</p> <ul style="list-style-type: none"> <li>Orderly realisation</li> <li>Liquidation</li> <li>Going Concern</li> </ul>	<ul style="list-style-type: none"> <li>The business has been incurring losses for a number of consecutive financial years.</li> <li>The specific assets being considered are surplus to the business operations of the business.</li> </ul>	No	<ul style="list-style-type: none"> <li>Site is predominantly a service based business which would imply a large intangible value that would not be reflected in an asset based approach.</li> </ul>

Source: CHCF analysis



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