



ASX Market Announcements

4th August 2014

Via e-lodgement

ACQUISITION OF CENTRAL SYSTEMS PTY LTD

- **RDG enters into conditional agreement to acquire leading diversified contractor Central Systems Pty Ltd**
- **Significant increase in revenue and profitability**
- **Expanded service offering to clients via EPC capability with scale**
- **Experienced management and senior executives to join the Group**
- **Fully funded via scrip transaction & subordinated shareholder loans**
- **Centrals FY14 unaudited revenue and EBITDA of \$195m & \$27m respectively**

Resource Development Group Limited (**RDG**) is pleased to announce it has entered into a conditional Share Sale Agreement (**SSA**) to acquire Perth based Central Systems Pty Ltd (**Centrals**), a multi-disciplined, self-performing construction contractor and provider of remedial and maintenance services to the mining, energy and infrastructure sectors in Australia. Contracting services include civil, SMP (structural, mechanical & piping), E&I (electrical & instrumentation) and maintenance, remedial and protective coatings services. Centrals' primary markets are the mining, oil & gas, defense and utilities sectors in Australia.

Centrals has a blue chip client base including Samsung, Fortescue Metals Group, BHP Billiton, Rio Tinto, Xstrata, Newcrest, CBH and BP for whom they complete both greenfields and brownfields projects. Major contracts currently being delivered by Centrals include a circa \$100 million contract with Samsung for the Roy Hill Bridges Project, underground concrete contracts for Newcrest's Cadia minesite, defense related protective coatings contracts for both NSM Australia and BAE plus multiple brownfields projects under a multi-year panel contract with BHP Billiton Iron Ore.

Centrals' business generated unaudited revenue of \$195 million in the financial year ending 30 June 2014 (unaudited \$101m pcp) making an unaudited \$22.2 million Net Profit Before Tax (unaudited \$14.8m pcp). Centrals' order book for FY15 stands at approximately \$136m.

Under the terms of the SSA, RDG will issue Centrals' 5 shareholders a total of 497,175,172 RDG shares for 100% of the issued capital of Centrals. On Completion of the transaction, RDG will have a total of 631,404,067 shares and 6,000,000 options on issue. Centrals' shareholders will (after the issuing of the shares) own in aggregate 78% of the fully diluted issued capital of RDG, with 4 shareholders each holding 16.58% and the other shareholder holding 11.7%.

The parties have agreed that 4 founding shareholders of Centrals will receive a dividend from Centrals before Completion. The amount of the dividend will be calculated based on the



unaudited net tangible assets (**NTA**) of Centrals and RDG as at 31 August 2014, and it will be funded by way of loans from the Centrals founding shareholders to Centrals. The net effect will be that no cash will be paid out of Centrals to the founding shareholders before Completion, however Centrals will have a liability post-Completion to repay loans to each relevant Centrals shareholder reflecting their respective proportion of the dividend. Formal loan agreements and a security deed in respect of these loans will be entered into between Centrals and the Centrals shareholders at Completion. These loan agreements will be on commercial terms and will be secured over the assets of Centrals on a subordinated basis behind Centrals' existing financiers. Interest will accrue at 7% p.a. on these loans and will be paid quarterly, however, the principal will only be repaid where the independent members of the RDG board are satisfied that RDG has sufficient working capital and cashflow.

The amount of the dividend will not be determined until 31 August 2014 when accounts for RDG and Centrals have been prepared in accordance with the SSA. However, for illustrative purposes, an amount of \$22.9m has been estimated based on a consolidated pro forma balance sheet reflecting how the merged RDG Group would look had the transaction completed on 30 June 2014 as shown in Annexure A.

The transaction under the SSA is subject to various conditions precedent, including all approvals required at law or under the ASX Listing Rules, consents from Centrals' financiers, release of encumbrances other than those permitted with Centrals' existing financiers, consents from counterparties to Centrals' key contracts, senior executives entering into employment contracts, and RDG shareholder approval of the transaction for the purposes of the ASX Listing Rules including Listing Rule 11.1.2. If the conditions are not satisfied on or before 29 September 2014, the SSA will automatically terminate (unless otherwise agreed between the parties).

In addition, the SSA can be terminated by either party before Completion if (amongst other things) a material adverse effect occurs in respect of the other party, the other party breaches its warranties or material obligations under the SSA or the other party breaches a material term of one of its key contracts. The SSA contains standard warranties and indemnities for transactions of this nature with a cap on the maximum liability being set at \$2m.

RDG proposes that, at Completion of the transaction, it will invite Centrals Directors, being Mr. Richard Eden and Mr. Andrew Ellison, to join the RDG board. In addition, up to 2 directors of RDG may resign from the Board of RDG. Both Mr. Eden and Mr. Ellison have distinguished careers in construction, having both previously been Directors of Cimeco Pty Ltd, a subsidiary construction company of Forge Group Ltd (**Forge**), before joining Centrals in 2010 and 2012 respectively.

Mr. Eden has an extensive track record in managing business growth with a strong focus on solid contract and financial management. As the Director of Centrals responsible for



corporate and commercial functions, his responsibilities include leading Centrals' HSEQ, financial, administration, commercial, tendering and estimating functions. Mr. Eden has over 24 years' experience in maintenance and construction contracting throughout Australia. Throughout his career he has held both senior management roles and directorships in private companies.

Mr. Ellison is a very experienced contractor with a successful track record in delivering business growth. He is currently the Director of Centrals responsible for strategic business development, development of new capabilities and services, identification of new territories and markets and key client relationship management. Mr. Ellison has over 30 years' experience in maintenance and construction contracting across Australia and West Africa, including civil & concrete, commercial building, structural mechanical and piping, tanks and electrical services. His working career has been defined by the building of businesses in the maintenance and construction sectors, including a combination of organic and acquisitive growth and the integration of these businesses.

"We are delighted to be able to announce the acquisition of such a capable construction company who is performing strongly in these difficult market conditions. RDG and Centrals share many common clients and the combined entity will be able to provide a credible design & construct offering to the market which we are confident will be of great interest to both our existing and new clients alike. With the addition of Centrals, the RDG Group will be able to offer whole of project lifecycle services spanning environmental, studies, engineering design, construction, maintenance and remedial services" said Jeff Brill, RDG's Managing Director.

"In addition, we intend to welcome two experienced Directors to the RDG board. Senior management of RDG will be further supplemented by other Centrals Directors and shareholders including founding shareholder Ivan Ruefli and senior construction directors Gary Reid and Steve Batchelor. The RDG directors believe that with this increase in scale and capability, the enlarged Group should now be capable of targeting revenues in excess of \$200 million annually subject to prevailing market conditions, and will provide RDG with a great base from which to continue its growth. It's no secret that the market is tough and we expect these conditions to persist for some time, but the value in the increase in scale and breadth of RDG's operations that Centrals brings is immense and gives us a greatly expanded future", he added.



Timetable

The key dates for the transaction are set out below. These dates are indicative only and are subject to change.

RDG shareholder meeting	24 September 2014
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Satisfaction of conditions	24 September 2014
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Completion of transaction	26 September 2014
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Further details of the acquisition will be provided in the Notice of Meeting and Explanatory Memorandum which is expected to be dispatched in mid August.

Yours faithfully

Jeff Brill

Managing Director

For further information, please contact Jeff Brill on (08) 6460 0300 or at jeff.brill@resdevgroup.com.au



Annexure A: Pro Forma Balance Sheet of Resource Development Group

RESOURCE DEVELOPMENT GROUP LTD PROFORMA STATEMENT OF FINANCIAL POSITION - 30 JUNE 2014 (UNAUDITED)					
	30/06/2014	Centrals Pre completion	Sub-total - at Completion	30/06/2014	Proforma
	Centrals	Dividend payable	Centrals	RDG	New Group
ASSETS					
Current Assets					
Cash and cash equivalents	15,675,752	-	15,675,752	2,657,176	18,332,928
Trade and other receivables	31,677,108	-	31,677,108	6,235,322	37,912,430
Inventories	11,731,882	-	11,731,882	-	11,731,882
Other Current Assets	918,540	-	918,540	-	918,540
Total	60,003,282	-	60,003,282	8,892,498	68,895,780
Non-Current Assets					
Other financial assets	2,828,890	-	2,828,890	1	2,828,891
Property, plant and equipment	23,797,262	-	23,797,262	1,111,360	24,908,622
Deferred tax assets	792,447	-	792,447	689,107	1,481,554
Intangible assets (Note 3)	-	-	-	8,380,505	8,380,505
Total	27,418,599	-	27,418,599	10,180,973	37,599,572
TOTAL ASSETS	87,421,881	-	87,421,881	19,073,471	106,495,352
LIABILITIES					
Current Liabilities					
Trade and other payables	36,832,186	-	36,832,186	2,087,691	38,919,877
Dividends Payable	-	-	-	2,000,000	2,000,000
Borrowings	5,654,592	-	5,654,592	2,075,353	7,729,945
Current tax liabilities	1,434,450	-	1,434,450	-	1,413,578
Provisions	5,761,316	-	5,761,316	807,649	6,568,965
Total	49,682,544	-	49,682,544	6,949,821	56,632,365
Non-Current Liabilities					
Shareholder loans (Note 1)	-	22,906,392	22,906,392	-	22,906,392
Deferred Tax Liabilities	-	-	-	164,089	164,089
Provisions	-	-	-	231,848	231,848
Borrowings	2,965,571	-	2,965,571	-	2,965,571
Total	2,965,571	22,906,392	25,871,963	395,937	26,267,900
TOTAL LIABILITIES	52,648,115	22,906,392	75,554,507	7,345,758	82,900,265
NET ASSETS	34,773,766	- 22,906,392	11,867,374	11,727,713	23,595,087
EQUITY					
Issued capital (Note 2)	100	-	100	11,727,713	11,727,813
Retained Earnings	34,773,666	- 22,906,392	11,867,274	-	11,867,274
TOTAL EQUITY	34,773,766	- 22,906,392	11,867,374	11,727,713	23,595,087



Note 1:

The parties have agreed that Centrals will declare and pay a fully franked pre-Completion dividend to all Centrals' shareholders holding ordinary shares in Centrals. This dividend will represent the difference between the actual NTA of Centrals (**Actual NTA (Centrals)**) as at 31 August 2014 and an amount representing 78% of the NTA of the merged RDG Group (including Centrals) (**Adjusted NTA (Centrals)**) as at 31 August 2014. As a condition of the transaction, the Centrals shareholders who receive this dividend will, at Completion, enter into a loan agreement with Centrals such that the dividend amount is lent back to Centrals via a secured subordinated (to Centrals' existing financiers) loan on commercial terms. While the final amount of this dividend is yet to be determined (given 31 August 2014 accounts have not been prepared), for illustrative purposes an amount of \$22.9m has been estimated based on the pro forma Balance Sheet as at 30 June 2014 (**pro Forma Balance Sheet**) calculated as follows:

Dividend = Actual NTA (Centrals) – Adjusted NTA (Centrals)

where: Actual NTA (Centrals) is \$34,773,766 as shown in the pro Forma Balance Sheet

Adjusted NTA (Centrals) is \$11,867,374 calculated using the following formula:

$$\text{Adjusted NTA (Centrals)} = \text{NTA (RDG)} \times 78/22$$

(where NTA (RDG) is the NTA of RDG calculated using the net assets of RDG (\$11,727,713) less intangible assets (\$8,380,505)) as shown in the pro forma Balance Sheet)

so that the Adjusted NTA (Centrals) will be \$11,867,374 (ie. \$3,347,208 x 78/22).

Therefore, the estimated \$22.9m dividend based on the pro forma Balance Sheet as at 30 June 2014 is calculated as follows: \$34,773,766 - \$11,867,374



Note 2:

After Completion, RDG will have 631,404,067 shares on issue and 6,000,000 options at an exercise price of \$0.04 and an expiry date of 3 years from the date of Completion.

Note 3:

The proposed transaction involving RDG acquiring all the issued shares of Centrals will be accounted for under the principles of Reverse Acquisitions included in Australian Accounting Standard AASB 3 *Business Combinations*. The legal structure of the RDG Group subsequent to the proposed acquisition of Centrals will be that RDG will be the parent entity. However, the principles of reverse acquisition accounting will apply to the preparation of financial statements where the owners of the acquired entity (in this case, Centrals) obtain control of the acquiring entity (in this case, RDG) as a result of the businesses' combination. Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (RDG) but are a continuation of the financial statements of the legal subsidiary (Centrals), with the assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values

As a consequence, the above Proforma Statement of Financial Position is based on:

- i) the historical cost of Centrals' assets and liabilities; and
- ii) the assessed current market value of RDG's assets and liabilities

As a result of the above accounting process, the intangible assets shown in the Proforma Statement of Financial Position of \$8,380,505 represents the following:

- i) the goodwill of Centrals' business operations recorded at the historical cost to Centrals of nil (rather than current market value); and
- ii) RDG's directors' assessment of the current market value of the goodwill of RDG's business operations of \$8,380,505.