

25 October 2010

**ASX RELEASE: ROSS HUMAN DIRECTIONS LIMITED (ASX:RHD)**

**SUPPLEMENTARY INDEPENDENT EXPERT'S REPORT**

Ross Human Directions Limited (**RHD**) shareholders should by now have received the scheme booklet dated 5 October 2010 (**Scheme Booklet**) which relates to the proposal by Peoplebank Holdings Pty Limited (**Peoplebank**) to acquire all the issued shares in RHD for \$0.70 cash per share by way of a scheme of arrangement (**Scheme**).

**Supplementary independent expert's report**

The Scheme Booklet includes a report by Lonergan Edwards & Associates Limited (**LEA**), the independent expert appointed by the RHD board to opine on the Scheme, in which LEA assessed RHD as having a value on a controlling interest basis of between \$0.65 and \$0.74 per share and concluded that the Scheme is fair and reasonable and in the best interests of RHD shareholders, in the absence of a superior offer.

LEA has, at the request of the RHD board, reviewed its report following the release by RHD of a trading update on 19 October 2010. Following that review, LEA has issued a supplementary report, a copy of which is attached to this announcement. In its supplementary report, LEA has increased its value range for RHD from between \$0.65 and \$0.74 per share to between \$0.72 and \$0.83 per share. This means that the consideration of \$0.70 per RHD share payable by Peoplebank under the Scheme is no longer within LEA's value range for RHD. As a result, LEA has changed its conclusion in relation to the fairness of the Scheme. LEA is now of view that the Scheme is not fair, however continues to be of view that the Scheme is reasonable and in the best interests of RHD shareholders, in the absence of a superior proposal.

**RHD directors' unanimous recommendation**

After considering the advantages and disadvantages of the Scheme in light of LEA's supplementary report, the RHD directors are still unanimous in their belief that the Scheme is in the best interests of RHD shareholders. Accordingly, the RHD directors continue to unanimously recommend that RHD shareholders vote in favour of the Scheme, in the absence of a superior proposal.

**Supplementary booklet**

RHD is preparing a supplementary booklet for the consideration of RHD shareholders prior to the Scheme meeting scheduled to be held at 11.00am on 11 November 2010 at The Oak Room, Swissotel (68 Market Street, Sydney, NSW, 2000). The supplementary booklet will include details of RHD's trading update (as released by RHD on 19 October 2010), LEA's supplementary report and the RHD directors' unanimous recommendation of the Scheme (in the absence of a superior proposal) and the reasons for that recommendation. The supplementary booklet will also include a new proxy form should any RHD shareholder who has already completed and returned the proxy form enclosed with the Scheme Booklet wish to change his or her voting direction.

The supplementary booklet will be despatched to RHD shareholders as soon as possible following its review by ASIC and approval by the Federal Court. RHD does not presently foresee any delays to the timetable for the Scheme being caused as a result of the issue of the supplementary booklet. If it emerges that there will be any such delays, RHD will advise RHD shareholders accordingly.

### **Corom expression of interest**

By way of update, RHD notes in relation to the expression of interest of Corom Pty Ltd (**Corom**) (details of which were released by RHD on 9 and 13 September 2010) that Corom is continuing to conduct due diligence on RHD. As at the date of this announcement, no formal proposal by Corom to acquire RHD has emerged.

RHD will continue to update shareholders on any material developments in relation to the Corom expression of interest.

**Greg Coolahan**  
**Company Secretary**

For further information please contact:

Julia Ross  
+61 2 8267 4631  
jrosspa@rossjuliaross.com

David Marshall – Chief Financial Officer  
+61 2 8267 4549  
david.marshall@rossjuliaross.com

# LONERGAN EDWARDS & ASSOCIATES LIMITED

ABN 53 095 445 560  
AFS Licence No 246532  
Level 27, 363 George Street  
Sydney NSW 2000 Australia  
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500  
Facsimile: [61 2] 8235 7550  
www.lonerangedwards.com.au

The Directors  
Ross Human Directions Limited  
Level 11  
133 Castlereagh Street  
Sydney NSW 2000

24 October 2010

**Subject: Supplementary report on proposed acquisition by way of scheme**

Dear Directors

## Introduction

- 1 On 4 October 2010 we issued an independent expert's report (LEA First Report) on the proposed acquisition of Ross Human Directions Limited (RHD) by Peoplebank Holdings Pty Limited (Peoplebank) for a Scheme Consideration of \$0.70 cash per share by way of a scheme of arrangement (the Scheme).
- 2 Since that date, RHD has released a trading update to the ASX on 19 October 2010, which advised normalised<sup>1</sup> NPAT for the three months to 30 September 2010 of \$2.518 million. RHD also advised that "*based on current trading conditions, normalised NPAT for the six months to 31 December 2010 is expected to be between \$4.0 and \$5.0 million*". This rate of earnings is significantly higher than that achieved by RHD for the year ending 30 June 2010 (or any earlier full financial year)<sup>2</sup>.
- 3 Accordingly, we have reviewed our valuation of RHD and our assessment of the Scheme in light of the new evidence and this report sets out our amended opinion. This report should be read in conjunction with the LEA First Report.

## Summary of revised opinion

- 4 LEA has concluded that the Scheme is not fair but is reasonable and is in the best interests of RHD shareholders in the absence of a superior proposal.
- 5 We have arrived at this conclusion for the reasons set out below.

## Valuation of RHD

- 6 LEA has valued 100% of the shares in RHD on a controlling interest basis at between \$0.72 to \$0.83 per share as summarised below:

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<sup>1</sup> By excluding the net of tax effect of the transaction costs incurred by RHD in relation to the Scheme.

<sup>2</sup> Though it has been matched or exceeded over shorter periods.

	Low \$m	High \$m
Enterprise value	61.9	71.3
Net debt <sup>(1)</sup>	(2.3)	(2.3)
Cost of dividend	(1.6)	(1.6)
Value of RHD	58.0	67.4
Effective shares on issue <sup>(2)</sup>	80.9	80.9
Value per share	\$0.72	\$0.83

**Note:**

- 1 Before cost of dividend paid on 8 October 2010
- 2 Excluding unallocated treasury shares.

- 7 This represents an increase of some 11% to 12% in our assessed value of RHD per share compared to the LEA First Report. The reasons for our revised valuation are set out in paragraphs 29 to 39 below, but in essence the increased value arises from a revised view of the earnings prospects for RHD (especially the recruitment business) in light of the continuing strong performance to 30 September 2010 and management's view that this performance is sustainable to 31 December 2010 if current conditions continue.

## Assessment of the Scheme

### Fairness

- 8 We have valued 100% of the shares in RHD on a controlling interest basis at between \$0.72 and \$0.83 per share. If RHD shareholders and the Court approve the Scheme then RHD shareholders will receive \$0.70 cash per share.
- 9 Accordingly, the Scheme Consideration is below our assessed range of values for RHD on a 100% controlling interest basis.
- 10 We therefore consider that the Scheme is not fair when assessed based on the guidelines set out in RG 111.

### Other qualitative factors

- 11 Pursuant to RG 111, a Scheme may be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should approve the Scheme in the absence of a superior proposal. Further, in our opinion, if the Scheme is "reasonable" it may also be "in the best interests" of shareholders.
- 12 In our opinion, the Scheme is "reasonable" and "in the best interests" of RHD shareholders.
- 13 In assessing whether the Scheme is reasonable and in the best interests of RHD shareholders LEA has considered, in particular:
  - (a) the extent to which a control premium is being paid to RHD shareholders

- (b) the extent to which RHD shareholders are being paid a share of any synergies likely to be generated pursuant to the potential transaction
  - (c) the listed market price of the shares in RHD, both prior to and subsequent to the announcement of the proposed Scheme
  - (d) the value of RHD to an alternative offeror and the likelihood of a higher alternative offer being made for RHD prior to the date of the Scheme meeting
  - (e) the likely market price of RHD securities if the proposed Scheme is not approved
  - (f) the advantages and disadvantages of the Scheme from the perspective of RHD shareholders
  - (g) other qualitative and strategic issues associated with the Scheme.
- 14 These issues are discussed below, though without details (included in the LEA First Report) where no relevant change has occurred.

**Extent to which a control premium is being paid**

- 15 As discussed in paragraphs 153 to 156 of the LEA First Report, the Scheme Consideration provides RHD shareholder with a substantial premium (being some 77% over the average traded share price during the month prior to the announcement of the Scheme). This exceeds the observed premiums generally paid in comparable circumstances (however share market trading prior to the announcement necessarily could not reflect RHD's improved financial results up to 30 September 2010).

**Share of synergies**

- 16 As discussed in paragraphs 157 to 159 of the LEA First Report, we do not consider that Scheme Consideration includes any share of specific synergy benefits that might be available to Peoplebank.

**Likelihood of an alternative offer**

- 17 As discussed in paragraphs 160 to 162 of the LEA First Report, RHD have received an expression of interest from Corom Pty Limited (Corom), which is currently conducting due diligence with a view to formulating a proposal. Accordingly, it is quite possible that an alternative offer may emerge.

**Likely price of RHD shares if the Scheme is not approved**

- 18 If the Scheme is not approved by RHD shareholders and the Court and no higher offer or alternative proposal emerges, we would expect that, at least in the short-term, RHD shares would trade at a significant discount to our valuation (consistent with the difference between the value of RHD on a portfolio basis and the value on a 100% controlling interest basis). Because the Scheme Consideration is only some 3% below the low end of our valuation range, we would therefore also expect that, at least in the short term, RHD shares would also trade at a significant discount to the Scheme Consideration.

- 19 In addition, the presence of Julia Ross, with a shareholding of some 46%<sup>3</sup> and who has demonstrated a willingness to exit the business (at a sufficient price), may create a perception of stock overhang, depressing the traded share price.
- 20 If the Scheme is not implemented (and in the absence of a higher or alternative proposal) those RHD shareholders who wish to sell their RHD shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Scheme.

#### **Summary of opinion on the Scheme**

- 21 We summarise below the likely advantages and disadvantages for RHD shareholders if the Scheme is agreed to.

#### **Advantages**

- 22 The Scheme has the following benefits for RHD shareholders:
- (a) if the Scheme is implemented RHD shareholders will receive a cash consideration of \$0.70 per share and will no longer be exposed to any risk associated with the future performance of RHD nor to market volatility generally
  - (b) the value of the consideration significantly exceeds the average price at which RHD shares traded before the Scheme was announced (being \$0.395 over the 30 days prior to announcement) and, in our opinion, is likely to exceed the price at which RHD shares will trade over the short term if the Scheme is rejected (unless there is an alternative offer)
  - (c) shareholders will not incur the brokerage costs that would arise from a sale on the share market.

#### **Disadvantages**

- 23 The price offered is some 3% below the low end of our valuation range for RHD, which is \$0.72 to \$0.83 per share. Accordingly, in our opinion there is a reasonable prospect that shareholders would eventually receive higher value from retaining their shares than from the current offer. However, this may require holding for an extended period and may never eventuate.
- 24 RHD shareholders should note that if the Scheme is approved they will no longer hold an interest in RHD. RHD shareholders will therefore not participate in any future value created by the company as a result of on-going operations over and above that reflected in the Scheme Consideration.

#### **Conclusion**

- 25 On balance, given the above analysis, we consider the acquisition of RHD shares by Peoplebank under the Scheme is not fair, but is reasonable and is in the best interests of RHD shareholders in the absence of a superior proposal.

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<sup>3</sup> Of the effective issued shares.

## General

- 26 In preparing this report we have considered the interests of RHD shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 27 The impact of approving the Scheme on the tax position of RHD shareholders depends on the individual circumstances of each investor. RHD shareholders should read section 7 of the Scheme Booklet (Taxation Implications for RHD Shareholders) and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.
- 28 The ultimate decision whether to approve the acquisition of shares by Peoplebank under the Scheme should be based on each RHD shareholders' assessment of their own circumstances. If RHD shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

Yours faithfully



Craig Edwards  
Authorised Representative



Martin Hall  
Authorised Representative

## I Valuation of RHD

### Overview

- 29 Our valuation methodology is unchanged from the LEA First Report, being based on a multiple of EBITDA less net debt (as set out in Section V of the LEA First Report).
- 30 We have, however, revised our parameters in light of the new information in relation to RHD's earnings.

### Revised earnings

- 31 RHD released a trading update to the ASX on 19 October 2010, which advised unaudited normalised<sup>4</sup> NPAT for the three months to 30 September 2010 of \$2.518 million. RHD also advised that *"based on current trading conditions, normalised NPAT for the six months to 31 December 2010 is expected to be between \$4.0 and \$5.0 million"*. We have also been provided with unaudited management accounts that show the EBITDA for the three months to 30 September 2010 was some \$4.2 million and that the EBITDA for the 12 months ending 30 September 2010 was some \$13.7 million. It should be noted that these earnings reflect the fact that (as discussed in paragraphs 112 to 114 of the LEA First Report) Julia Ross is not paid any salary for her role as CEO, which we estimated to require an earnings adjustment in the range of \$600,000 to \$800,000 per annum.
- 32 If the rate of earnings for the September quarter of 2010 were continued for a full year, it would correspond to an annual EBITDA of some \$16.8 million. By comparison, RHD's EBITDA (before significant items) for the last three financial years has been:

	FY2008	FY2009	FY2010
	\$000	\$000	\$000
EBITDA before significant items	11,499	11,924	12,930

- 33 The increase in earnings has come almost entirely from the recruitment segment. It is also noticeable that the variable costs (which management have indicated are primarily consultants supporting the recruitment business) are a much lower proportion of gross profit in the September 2010 quarter than in earlier periods (including FY2009 and FY2008, which had similar or higher gross profit contributions from recruiting compared with those implied by the September quarter earnings, but had much lower EBITDA contributions). RHD management have expressed the view that this situation has arisen because they took out costs during the GFC and have been more disciplined in adding back costs as the business has recovered. However, there is clearly a risk that the current short-term earnings history is not sustainable over the longer term.

<sup>4</sup> By excluding the net of tax effect of the transaction costs incurred by RHD in relation to the Scheme.



- 34 In our opinion, it is appropriate to recognise that the higher recent earnings for the September 2010 quarter enhance the value of RHD. However, the relatively short period of higher earnings, their unaudited nature and the uncertainty about whether these earnings will be continued over the full year, as well as the even greater uncertainty about whether they are sustainable over the longer term, means that full weight should not be given to these higher earnings.
- 35 In our opinion, a reasonable annual earnings range for valuation purposes would be some \$13.75 million to \$14.25 million. This represents about half of the increase between the normalised earnings for FY2010 and the normalised earnings from pro-rata extrapolation of the September quarter earnings (net of adjustment for CEO remuneration).

### **Earnings multiple**

- 36 We have retained the same earnings multiple range of 4.5 to 5 times EBITDA adopted in the LEA First Report. This reflects a combination of:
- (a) lower base multiple due to incorporation of an element of FY2011 earnings
  - (b) increase in growth outlook for recruiting segment (though mainly reflected in higher earnings base)
  - (c) decrease in growth outlook for non-recruitment segment (which had flat outcomes for September quarter)
  - (d) shift in weighting towards recruitment segment compared to non-recruitment segment
  - (e) an increase in risk associated with the recruitment segment income (since the higher earnings amount is based partly on extrapolating earnings from a short period).

### **Net debt**

- 37 Based on the unaudited management accounts at 30 September 2010, RHD had net debt (being interest bearing liabilities less cash) of \$2.3 million. We have reviewed the working capital level at 30 September 2010 and note that both payments outstanding and receivables were relatively low (in proportion to revenue and expenses respectively), but the overall net position was broadly consistent with the typical level of working capital as a proportion of revenue for RHD. In our opinion, it is reasonable to expect that increased volumes of business would have a corresponding increased requirement for working capital for RHD. Accordingly, we have adopted the \$2.3 million net debt position as at 30 September 2010 for the purposes of our valuation.
- 38 Since 30 September 2010, RHD has paid a dividend of 2 cents per share (paid on 8 October 2010) with a cost of some \$1.6 million. As the RHD management accounts for 30 September 2010 did not provide for this amount, it needs to be deducted from the value of RHD, as this payment would have increased RHD's net debt position.

**Value of RHD**

39 Our revised value of 100% of the shares in RHD on a controlling interest basis is as follows:

	<b>Low</b>	<b>High</b>
	<b>\$m</b>	<b>\$m</b>
Normalised EBITDA	13.75	14.25
EBITDA multiple	4.5	5.0
Enterprise value	61.9	71.3
Net debt (at 30/9/2010)	(2.3)	(2.3)
Cost of dividend (paid 8/10/2010)	(1.6)	(1.6)
Value of RHD equity	58.0	67.4
Effective shares on issue	80.9	80.9
Value per share	\$0.72	\$0.83

## Financial Services Guide

### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

### Financial Services Guide

- 3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to assist RHD shareholders in considering whether or not to approve the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this supplementary report and the LEA First Report. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this supplementary report and the LEA First Report, LEA is entitled to receive a fee estimated at \$125,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27  
363 George Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Qualifications, declarations and consents

### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Hall, who are each authorised representatives of LEA. Mr Edwards and Mr Hall have over 16 years and 20 years experience respectively in the provision of valuation advice.

### Declarations

- 3 This supplementary report has been prepared to assist RHD shareholders in considering whether or not to approve the Scheme. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and in the best interests of RHD shareholders.

### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Hall have any interest in the outcome of the Scheme. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this supplementary report and the LEA First Report.
- 5 LEA has had no prior business or professional relationship with RHD or Peoplebank prior to the preparation of this supplementary report and the LEA First Report.

### Indemnification

- 6 As a condition of LEA's agreement to prepare this supplementary report and the LEA First Report, RHD agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of RHD which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

### Consents

- 7 LEA consents to the inclusion of this supplementary report in the material provided to shareholders for the meeting to consider approval of the Scheme.