



28 October 2010

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

**RELEASE OF SUPPLEMENTARY BOOKLET**

Ross Human Directions Limited (**RHD**) announces that the Federal Court of Australia has today approved the form of a supplementary booklet to be sent to RHD shareholders in connection with the proposal by Peoplebank Holdings Pty Limited to acquire all the issued shares in RHD for \$0.70 cash per share by way of a scheme of arrangement (**Supplementary Booklet**).

The Supplementary Booklet is attached to this announcement. It includes a supplementary report prepared by Lonergan Edwards & Associates Limited (**LEA**) dated 28 October 2010 (**Supplementary IER**). The Supplementary IER supersedes LEA's supplementary report dated 24 October 2010, which was released by RHD on 25 October 2010. The Supplementary Booklet will be accompanied by a new proxy form should any RHD shareholder who has already completed and returned the proxy form enclosed with the scheme booklet dated 5 October 2010 wish to change his or her voting direction.

The Supplementary Booklet has today been registered by the Australian Securities and Investments Commission, as required by the Corporations Act 2001 (Cth). RHD expects to commence dispatch of the Supplementary Booklet to RHD shareholders tomorrow.

The scheme meeting remains scheduled to be held at 11.00am on 11 November 2010 at The Oak Room, Swissotel, 68 Market Street, Sydney, NSW, 2000.

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

For further shareholder information please contact:

Mr Allan McDonald  
Chairman  
Ross Human Directions Limited  
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This document (**Supplementary Booklet**) supplements the Scheme Booklet dated 5 October 2010 (**Scheme Booklet**).

This Supplementary Booklet is an important document and requires your immediate attention. It contains additional information relevant to the decision of RHD Shareholders on whether or not to vote in favour of the Scheme Resolution at the Scheme Meeting. The information in this Supplementary Booklet relates to matters which have arisen since dispatch of the Scheme Booklet on 8 October 2010.

This Supplementary Booklet is to be read together with the Scheme Booklet, each of which should be read in its entirety before a decision is made as to how to vote on the Scheme Resolution. If you are in any doubt as to what to do, you should consult your legal, investment or other professional adviser.

Unless the context requires otherwise, capitalised terms in this Supplementary Booklet have the same meaning as given to them in section 9 of the Scheme Booklet. This Supplementary Booklet prevails to the extent of any inconsistency with the Scheme Booklet.

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## **Supplementary Booklet**

For a recommended proposal for a scheme of arrangement which will result in the acquisition of all of the Ross Human Directions Limited (RHD) Shares by Peoplebank Holdings Pty Limited (ACN 127 554 410) and the payment of \$0.70 to RHD Shareholders for each RHD Share they hold on the Record Date.

**YOUR RHD DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU APPROVE THE SCHEME, BY VOTING IN FAVOUR OF IT, IN THE ABSENCE OF A SUPERIOR PROPOSAL.**

If, after reading this Supplementary Booklet together with the Scheme Booklet, you have any questions about the Scheme, please call the RHD transaction information line on +61 2 8267 4549 Monday to Friday between 9.00 am and 5.00 pm (Sydney time).

If you have questions regarding the number of RHD Shares you hold or how to vote, please contact the Registry on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) Monday to Friday between 8.30 am and 5.30 pm (Sydney time).

If you have recently sold all of your RHD Shares, please disregard this document.

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## Chairman's letter

28 October 2010

Dear RHD Shareholder

### Supplementary Booklet

I refer to the Scheme Booklet which you should have received in relation to the proposal under which Peoplebank will, pursuant to the Scheme, acquire all of your RHD Shares for \$0.70 cash per share. If, for some reason, you did not receive the Scheme Booklet (including because you became an RHD Shareholder after the booklet was dispatched on 8 October 2010), you may obtain a copy from the RHD website ([www.rosshumandirections.com](http://www.rosshumandirections.com)).

You have been sent this Supplementary Booklet because of an important development in relation to the Scheme.

As you may be aware, on 19 October 2010, RHD announced to ASX that, based on unaudited management results, normalised net profit after tax for the three month period ending 30 September 2010<sup>1</sup> was \$2.518 million from revenue of \$100.602 million.<sup>2</sup>

In light of RHD's positive first quarter results, the RHD board asked the Independent Expert to review its Independent Expert's Report. Following that review, the Independent Expert has issued a supplementary report in which it has increased its value range for RHD from between \$0.65 and \$0.74 to between \$0.72 and \$0.83 per share. As the Peoplebank offer price of \$0.70 per share is below the lower end of the revised value range, the Independent Expert has concluded that the Scheme is not fair. However, for the reasons outlined in its supplementary report, the Independent Expert considers that the Scheme is reasonable and in the best interests of RHD Shareholders, in the absence of a superior proposal.

A copy of the supplementary report of the Independent Expert dated 24 October 2010 was released to ASX by RHD on 25 October 2010. Following the receipt of comments from ASIC, the Independent Expert has today issued a revised final version of its supplementary report. That report is Attachment C to this Supplementary Booklet. You should read it carefully and in its entirety.

The RHD Directors, having considered the Independent Expert's supplementary report, are still unanimous in their view that the Scheme is in the best interests of RHD Shareholders. Accordingly, your RHD Directors continue to unanimously recommend that, in the absence of a Superior Proposal, you approve the Scheme by voting in favour of the Scheme Resolution at the Scheme Meeting.

Furthermore, all RHD Directors who hold, or control the voting rights attaching to, RHD Shares continue to intend to vote in favour of the Scheme in respect of all of those RHD Shares, in the absence of a Superior Proposal.

The Scheme Meeting is still scheduled to be held at 11.00 am on 11 November 2010 at The Oak Room, Swissotel at 68 Market Street, Sydney, NSW, 2000. If you have already completed and

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<sup>1</sup> Whilst this period ended before the date of the Scheme Booklet, the financial results of RHD for the period were not finalised until after the Scheme Booklet was dispatched to RHD Shareholders, hence the reason why they were not referred to in the Scheme Booklet.

<sup>2</sup> Net profit after tax was normalised by excluding the tax effected transaction costs incurred by RHD in connection with the Scheme.

returned the proxy form enclosed with the Scheme Booklet and wish to change your voting direction (or any other information included on the form), you may do so by following the instructions set out in section 1.4 of this Supplementary Booklet.

You should read this Supplementary Booklet together with the Scheme Booklet, both of which should be read carefully and in their entirety. If, after doing so, you have any questions about the Scheme, please contact the RHD transaction information line on +61 2 8267 4549 Monday to Friday between 9.00 am and 5.00 pm (Sydney time). For information or advice in relation to your personal circumstances, please contact your legal, investment or other professional adviser.

Yours sincerely



F. Allan McDonald  
**Chairman**

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# 1 Supplementary disclosures

## 1.1 First Quarter Results

On 19 October 2010, RHD announced to ASX that, based on unaudited management results, normalised net profit after tax for the three month period ending 30 September 2010<sup>3</sup> was \$2.518 million from revenue of \$100.602 million (**First Quarter Results**).<sup>4</sup> A copy of that announcement is Attachment A to this Supplementary Booklet.

## 1.2 Supplementary Independent Expert's Report

Details of the First Quarter Results were provided to the Independent Expert for the purpose of it considering whether those results have any impact on the conclusions reached in the Independent Expert's Report which formed part of the Scheme Booklet.

In its report dated 4 October 2010, the Independent Expert concludes that the Scheme is both fair and reasonable and is in the best interests of RHD Shareholders, in the absence of a superior offer. However, in light of the First Quarter Results, the Independent Expert has issued a supplementary report in which it has increased its assessed range of values for RHD on a 100% controlling interest basis from between \$0.65 and \$0.74 per RHD Share to between \$0.72 and \$0.83.

As the Scheme Consideration of \$0.70 per RHD Share now falls below the bottom end of the revised valuation range, the Independent Expert no longer considers the Scheme to be fair. Despite this, the Independent Expert continues to consider the Scheme to be reasonable and in the best interests of RHD Shareholders, in the absence of a superior proposal, for the reasons set out in its supplementary report.

A copy of the supplementary report prepared by the Independent Expert dated 24 October 2010 was released to ASX by RHD on 25 October 2010. A copy of the announcement which accompanied its release (without attachment) is Attachment B to this Supplementary Booklet. Following the receipt of comments from ASIC, the Independent Expert has today issued a revised final version of its supplementary report. A copy of that report is Attachment C to this Supplementary Booklet.

The supplementary Independent Expert's Report sets out the reasons why the Independent Expert has revised its value range for RHD and the reasons for its conclusion that the Scheme, while not fair, is reasonable and in the best interests of RHD Shareholders, in the absence of a superior proposal. You should read the supplementary Independent Expert's Report carefully and in its entirety, and in particular should take into account the Independent Expert's revised conclusion that the Scheme is not fair when deciding how to vote at the Scheme Meeting. You may consider this a reason to vote against the Scheme.

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<sup>3</sup> Whilst this period ended before the date of the Scheme Booklet, the financial results of RHD for the period were not finalised until after the Scheme Booklet was dispatched to RHD Shareholders, hence the reason why they were not referred to in the Scheme Booklet.

<sup>4</sup> Net profit after tax was normalised by excluding the tax effected transaction costs incurred by RHD in connection with the Scheme.

### 1.3 Unchanged unanimous recommendation of the RHD Directors

In the Scheme Booklet the RHD Directors unanimously recommend that, in the absence of a Superior Proposal, RHD Shareholders approve the Scheme by voting in favour of the Scheme Resolution at the Scheme Meeting.

The RHD Directors have carefully considered this recommendation in light of the supplementary Independent Expert's Report.

After considering the advantages and disadvantages of the Scheme, the RHD Directors continue to consider that the Scheme is in the best interests of RHD Shareholders. Accordingly, the RHD Directors continue to unanimously recommend that, in the absence of a Superior Proposal, RHD Shareholders approve the Scheme by voting in favour of the Scheme Resolution at the Scheme Meeting. Furthermore, it remains the intention of all RHD Directors who hold, or control the voting rights attaching to, RHD Shares to vote those shares or procure that they be voted (as the case may be) in favour of the Scheme, in each case in the absence of a Superior Proposal.

In addition to the Independent Expert's conclusion that the Scheme, while not fair, is reasonable and in the best interests of RHD Shareholders (in the absence of a superior proposal), the matters which the RHD Directors have taken into account in continuing to recommend the Scheme include:

- the Scheme Consideration of \$0.70 per RHD Share represents an attractive premium to RHD's share price prior to the announcement of the proposal from Peoplebank, namely:
  - an 82% premium to the last closing price of RHD Shares on 19 July 2010 (the date on which the Peoplebank proposal was announced to ASX after the close of trading);
  - an 85% premium to the 3 month volume weighted average price of RHD Shares as at the close of trade on 19 July 2010; and
  - an 88% premium to the 6 month volume weighted average price of RHD Shares as at the close of trade on 19 July 2010;
- the Scheme provides a certain cash value to RHD Shareholders for their RHD Shares;
- the Scheme offers RHD Shareholders an opportunity to exit from a relatively illiquid stock for cash without brokerage;
- RHD's share price may fall if the Scheme is not implemented; and
- no Superior Proposal has emerged for RHD since the Peoplebank proposal was announced. As previously announced, Corom has lodged an expression of interest with RHD and is conducting due diligence. As at the date of this Supplementary Booklet, no formal proposal from Corom to acquire RHD has emerged.

These matters are fully set out in section 2.2 of the Scheme Booklet, which you should read carefully.

We also refer you to section 2.3 of the Scheme Booklet, which outlines various matters that may influence RHD Shareholders to vote against the Scheme. Those matters are:

- you may disagree with the recommendation of the RHD Board and the view of the Independent Expert and may believe that the Scheme is not in your best interests or the best interests of other RHD Shareholders;
- if the Scheme is implemented you will no longer be an RHD Shareholder and accordingly:
  - will not participate in any potential upside that may result from being such a shareholder, including any future dividends on RHD Shares; and
  - will cease to have the capacity to influence the future direction of RHD through your voting right as such a shareholder;
- implementation of the Scheme may trigger taxation consequences for you (in this regard, you should read the taxation consequences outlined in section 7 of the Scheme Booklet and, if necessary, seek professional advice in relation to your personal tax situation);
- you may wish to maintain an investment in RHD in order to have an investment in a publicly listed company with the specific characteristics of RHD such as industry, operational profile, size and geography; and
- you may believe that there is potential for a Superior Proposal to be made in the foreseeable future (in this regard, it is again noted that no Superior Proposal has emerged since the announcement of the Peoplebank proposal on 19 July 2010).

The above is merely a summary of the reasons more fully set out in section 2.3 of the Scheme Booklet, which should be read carefully. In addition to the reasons set out in that section of the Scheme Booklet, some RHD Shareholders may form the view that the fact that the Independent Expert considers the Scheme to be not fair is also a reason to vote against the Scheme.

#### 1.4 Voting at the Scheme Meeting by proxy

The Scheme Meeting is scheduled to be held at 11.00 am on 11 November 2010 at The Oak Room, Swissotel at 68 Market Street, Sydney, NSW, 2000. Information about the Scheme Meeting and voting at that meeting is set out on pages 12 and 13 of the Scheme Booklet and in the Notice of Scheme Meeting attached to the Scheme Booklet as Attachment A.

If you have already completed and returned the proxy form sent to you with the Scheme Booklet and you do not wish to alter your voting direction (or any other information included on the form), then you do not have to take any further action in this regard. If, however, you have completed and returned the proxy form and you wish to alter your voting direction (or any other information included on the form), then you must complete and return the proxy form accompanying this Supplementary Booklet.

You may submit your proxy form by completing it in accordance with the instructions on the form and then returning it to the Registry by no later than 11.00 am on 9 November 2010. You may return your completed proxy to the Registry by:

- posting the form in the reply paid envelope provided;
- delivering the form to Level 4, 60 Carrington Street, Sydney, NSW, 2000;
- faxing the form to 1800 783 447 (within Australia) or + 61 3 9473 2555 (outside Australia);
- posting the form to C/- Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, VIC, 3001; or
- lodging the form online at Computershare's website ([www.investorvote.com.au](http://www.investorvote.com.au)) in accordance with the instructions given there.

Intermediary Online Subscribers only (custodians) may submit their voting intentions via [www.intermediaryonline.com](http://www.intermediaryonline.com).

If you have already completed and returned the proxy form sent to you with the Scheme Booklet and then complete and return the proxy form accompanying this Supplementary Booklet, the first proxy form will be invalid for the purpose of your vote at the Scheme Meeting; the second proxy form will be the only valid form for that purpose.

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## 2 Additional information

### 2.1 This Supplementary Booklet

This Supplementary Booklet and the Scheme Booklet are together the explanatory statement required to be sent to RHD Shareholders in relation to the Scheme under Part 5.1 of the Corporations Act (**Explanatory Statement**).

### 2.2 Responsibility for information

- (a) Except for the information contained in the supplementary Independent Expert's Report, the information in this Supplementary Booklet has been provided by, and is the responsibility of, RHD.
- (b) The Independent Expert has provided and is responsible for the information contained in the supplementary Independent Expert's Report. RHD and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of the information contained in the supplementary Independent Expert's Report. The Independent Expert does not assume any responsibility for the accuracy or completeness of any information contained in this Supplementary Booklet other than that contained in the supplementary Independent Expert's Report.
- (c) Peoplebank and its directors, officers and advisers do not assume any responsibility for the accuracy or completeness of any information in this Supplementary Booklet (including the information contained in the supplementary Independent Expert's Report).

### 2.3 Investment decisions

This Supplementary Booklet, like the Scheme Booklet, has been prepared without reference to the individual objectives, circumstances or needs of RHD Shareholders or any other person. This Supplementary Booklet (either alone or together with the Scheme Booklet) should not be relied on as the sole basis for any investment decision.

## 2.4 Consents

The following parties have given, and have not withdrawn before the date of this Supplementary Booklet, their consent to be named in this Supplementary Booklet in the form and context in which they are named:

- (a) Computershare; and
- (b) the Independent Expert, including consenting to the inclusion of the supplementary Independent Expert's Report as Attachment B to this Supplementary Booklet,

and each of those parties:

- (c) has not authorised or caused the issue of this Supplementary Booklet;
- (d) does not make, or purport to make, any statement in this Supplementary Booklet or any statement on which a statement in this Supplementary Booklet is based, other than a statement included in this Supplementary Booklet with the consent of that party; and
- (e) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Supplementary Booklet, other than a reference to its name and the statements (if any) included in this Supplementary Booklet with the consent of that party.

## 2.5 Role of ASIC and ASX

A copy of this Supplementary Booklet (including the supplementary Independent Expert's Report) has been lodged with, and registered for the purposes of section 412(6) of the Corporations Act by, ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of this Supplementary Booklet.

A copy of this Supplementary Booklet will be lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Supplementary Booklet.

## 2.6 Important notice associated with the Court's involvement

The fact that the Court has approved this Supplementary Booklet (which forms part of the Explanatory Statement) does not mean that the Court:

- (a) has formed any view as to the merits of the Scheme or as to how RHD Shareholders should vote at the Scheme Meeting (on this matter RHD Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for, this Supplementary Booklet or the Explanatory Statement.

## 2.7 Currency

The financial amounts in this Supplementary Booklet are expressed in Australian currency unless otherwise stated. A reference to \$ is to Australian currency, unless otherwise stated.

## **2.8 Disclosure regarding forward looking statements**

This Supplementary Booklet contains both historical and forward-looking statements in connection with RHD.

The forward-looking statements in this Supplementary Booklet are not based on historical facts, but rather reflect the current views of RHD held only as at the date of this Supplementary Booklet concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as "believe", "aim", "expect", "anticipated", "intending", "foreseeing", "likely", "should", "planned", "may", "estimated", "potential", or other similar words and phrases. Similarly, statements that describe RHD's objectives, plans, goals or expectations are or may be forward-looking statements.

Any forward-looking statements included in this Supplementary Booklet have been made on reasonable grounds. Although RHD believes that the views reflected in any forward-looking statements in this Supplementary Booklet have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause RHD's actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements. Deviations as to future results, performance and achievements are both normal and to be expected. RHD Shareholders should review carefully all of the information, including the financial information, included in this Supplementary Booklet. The forward-looking statements included in this Supplementary Booklet are made only as of the date of this Supplementary Booklet or the date the statement was actually made, as the case may be. RHD and its directors, officers and advisers give no representation, assurance or guarantee to RHD Shareholders that any forward looking statements will actually occur or be achieved. RHD Shareholders are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under law or the ASX Listing Rules, RHD does not give any undertaking to update or revise any forward-looking statements after the date of this Supplementary Booklet to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

## **2.9 Date**

This Supplementary Booklet is dated 28 October 2010.

Attachment A —  
RHD announcement released to ASX on 19 October  
2010



19 October 2010

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

**TRADING UPDATE**

Ross Human Directions Limited (RHD) today announces a trading update.

Based on unaudited management results, normalised net profit after tax (NPAT) for the three months to the end of September 2010 was \$2.518 million from revenue of \$100.602 mil. This compares with:

	1HFY10	2HFY10	1QFY11
	6 months ended 31 December 2009	6 months ended 30 June 2010	3 months ended 30 September 2010
	Audited	Audited	Unaudited
Revenue	\$184.377 mil	\$189.482 mil	\$100.602 mil
NPAT	\$ 2.813 mil	\$4.093 mil	\$2.518 mil *

\* Normalised

Normalised NPAT for the three months to 30 September 2010 represents 90% of the NPAT for the six months to 31 December 2009. The RHD directors advise that, based on current trading conditions, normalised NPAT for the six months to 31 December 2010 is expected to be between \$4.0 mil and \$5.0 mil.

The NPAT for the three months to 30 September 2010 has been normalised by excluding the tax effect of the transaction costs incurred by RHD in connection with Peoplebank Holdings Pty Limited's proposal to acquire all of the shares in RHD.

Commenting on the first quarter results, RHD Managing Director, Ms Julia Ross, said: "Whereas the growth in the 6 months to 30 June 2010 was largely driven by the non-recruitment business, the growth for the financial year to date is largely attributable to the recruitment business, with permanent placement fees and temporary contract labour revenue and profitability showing improved results."

Greg Coolahan  
Company Secretary

For further shareholder information please contact:

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**Attachment B —  
RHD announcement released to ASX on 25 October 2010  
(without attachment)**



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:

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Attachment C —  
Supplementary Independent Expert's Report

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The Directors  
Ross Human Directions Limited  
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133 Castlereagh Street  
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28 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.

<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.

### 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:

	Low Sm	High Sm
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 (and it is reasonable to expect that RHD's improved recent performance has increased the chance of this happening).

**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.
- 25 The offer price is currently below the bid price for RHD shares in the share market. Accordingly, some shareholders may be able to realise more than the offer price by selling their RHD shares on the ASX (subject to considering market liquidity and brokerage costs).

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

**Conclusion**

- 26 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.

**General**

- 27 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.
- 28 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.
- 29 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

- 30 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).
- 31 We have, however, revised our parameters in light of the new information in relation to RHD's earnings.

### Revised earnings

- 32 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.
- 33 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

- 34 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.

- 35 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
- 36 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**

- 37 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**

- 38 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.
- 39 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

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

	Low	High
	\$m	\$m
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

### Implied EBIT and PE multiples

41 The EBIT and PE multiples implied by our assessed value range are shown below:

Implied multiples		
	Low	High
<b>EBIT multiple</b>		
Enterprise value (\$m)	61.9	71.3
2010 EBIT (normalised) (\$m)	9.6	9.8
EBIT multiple	6.5	7.3
<b>PE ratio</b>		
Value per share (\$)	0.72	0.83
2010 EPS <sup>(1)</sup> (\$)	0.078	0.080
PE ratio	9.2	10.4

**Note:**

1 Earnings per share (normalised for CEO remuneration after tax).

42 Based on our review of the EBIT multiples and PE ratios for the listed comparables and the EBIT multiples for the comparable transactions, together with our assessment of the characteristics of RHD's businesses (including the recent performance to 30 September 2010), we consider these cross-check multiples to be reasonable.

### Implied perpetuity growth rate

43 In assessing the reasonableness of our valuation range we have also considered the reasonableness of the perpetuity growth rate in future earnings implied by the PE multiple range, having regard to the cost of equity capital appropriate for RHD.

- 44 For the purposes of our cross-check we have adopted a cost of equity for RHD of 17.0% per annum (after tax). This reflects:
- (a) a risk-free rate of 5.2% per annum, equivalent to the average yield to maturity prevailing on 10 year Australian government bonds at 25 October 2010
  - (b) a market risk premium (MRP) of 6.5% per annum, reflecting our view on the additional return above the risk-free rate sought by equity investors in the current market conditions<sup>5</sup>
  - (c) a beta of 1.25, consistent with average and median betas for RHD since 30 June 2008<sup>6</sup>
  - (d) a specific company risk premium of some 4%, having regard to the small size of RHD, key person risks and the high customer concentration risks discussed earlier in the report
- 45 On this basis the growth rate in future earnings (from the FY2010 results) implied by the PE multiple range of 9.2 to 10.4 is 5.5% to 6.7% per annum in perpetuity<sup>7</sup>. While the compound average growth in net profit after tax in the 3 years ended 30 June 2010 has exceeded these implied growth rates, we note that a significant proportion of this growth has resulted from lower interest payments due to the debt reductions rather than growth in the profitability of the underlying business operations. This overall average growth rate is a combination of more rapid growth in the short term (consistent with our enhanced base EBITDA for valuation) and slower growth over the longer term. Excluding the step up associated with our shift to a higher EBITDA base (a 14% to 16% increase), the residual implied long term growth rate is essentially the 4.4% to 5.6% range outlined in the LEA First Report. As noted previously, over the long term growth rates in excess of overall nominal GDP growth (i.e. real GDP growth plus inflation)<sup>8</sup> are not sustainable. Accordingly, we consider these implied growth rates (and hence the overall valuation range) to be reasonable<sup>9</sup>.

<sup>5</sup> This MRP is consistent with the MRP currently adopted by regulatory authorities in Australia, such as the Australian Energy Regulator.

<sup>6</sup> From and including 30 June 2008 the quarterly beta estimates for RHD (as calculated by the Australian School of Business at Sydney University) have ranged from 0.89 to 1.59, with an average and median beta estimate of 1.27 and 1.22 respectively.

<sup>7</sup> For instance, a PE multiple of 9.2 corresponds to a capitalisation rate of some 10.9% per annum (being 1/9.2). Since our discount rate would be 17% per annum as discussed in paragraph 142, this implies that the earnings have to be growing at an annual average rate of some 5.5%, so that the net effect is equivalent to capitalising at 10.9% (mathematically  $1.17/1.055 = 1.109$ ).

<sup>8</sup> We note that the 2010 Intergenerational Report by Treasury states that real GDP growth of the next 40 years is expected to be some 2.7% per annum. The RBA targets an inflation rate of 2% to 3%, on average, over the cycle. Accordingly, it is reasonable to expect nominal GDP growth will have a long term average around 5.2% (being 2.7% real growth plus mid-range inflation of 2.5%).

<sup>9</sup> We note that the range of implied growth rates (excluding the jump associated with re-rating for recent experience) is centred just slightly below expected long term nominal GDP growth with a variation range that is reasonable given the possibilities of short term growth being higher or lower than the long term rate and/or long term growth being below nominal GDP growth.

## 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 \$130,000 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.

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