



**RIB LOC GROUP LIMITED**

ABN 59 008 100 365

12 August 2003

Company Announcements Office  
Australian Stock Exchange Limited  
Level 4, Stock Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sirs,

We enclose, in accordance with item 14 of section 633 of the Corporations Act 2001, a copy of our Target's Statement in relation to the off-market takeover bid by First Process Limited for all the shares in Rib Loc Group Limited made on 14 July 2003.

The Target's Statement is being sent to First Process Limited, the Australian Securities Commission and to Rib Loc shareholders today.

Yours faithfully  
RIB LOC GROUP LIMITED

A handwritten signature in black ink, appearing to read "M Rawson".

M Rawson  
**Company Secretary**

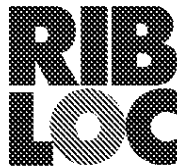
**This is an important document**

**If you have any doubt as to its contents, please consult your stockbroker,  
legal or other professional adviser**

## **TARGET'S STATEMENT**

**Dated 12 August 2003**

**by**



**RIB LOC GROUP LIMITED**

**ABN 59 008 100 365**

**in relation to an offer by**

**FIRST PROCESS LIMITED**

**Target's Statement of Rib Loc Group Limited ("Rib Loc") in response to the off-market  
takeover bid by First Process Limited ("FPL") for all of the shares in Rib Loc**

**Independent Experts  
Leadenhall Australia Limited**

**Legal Adviser  
Rankines Solicitors**



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## **IMPORTANT NOTICES**

This is the Target's Statement dated 12 August 2003 given by Rib Loc under Part 6.5 of the Corporations Act. This Target's Statement is given in response to the Bidder's Statement of FPL dated 14 July 2003 which was served on Rib Loc on that date and sent by FPL to Rib Loc Shareholders on 28 July 2003.

### **Key Dates**

Date of FPL Offer	28 July 2003
Date of this Target's Statement	12 August 2003
Close of offer period – 6:30pm Adelaide time (unless extended)	27 August 2003

### **Defined Terms**

A number of definitions are used in this Target's Statement. These terms are explained in the Glossary in section 5.1.

### **No account of personal circumstances**

This Target's Statement does not take into account the individual investment objectives, financial situation and particular need of each Rib Loc Shareholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the FPL Offer for your Shares.

### **Disclaimer regarding forward looking statements**

This Target's Statement contains various forward-looking statements. As a general rule, statements other than statements of historical fact may be forward-looking statements. Shareholders should note that those forward-looking statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and factors which could cause actual values or results, performance or achievements to differ materially from anticipated results, implied values, performance or achievements express or implied in those forward-looking statements. Some statements of historical fact, particularly asset valuations, may now, as a result of changes to market conditions or the condition of the assets since valuation, be materially different from the time at which the historical statement was prepared. Many of these risks are identified in this Target's Statement. Rib Loc does not give any assurance that the asset value or anticipated results, performance or achievement expressed or implied in those statements will be achieved.

### **ASIC and ASX disclaimer**

A copy of this Target's Statement was lodged with ASIC and sent to ASX on 12 August 2003. None of ASIC, ASX or any of their respective officers takes any responsibility for the contents of this Target's Statement or the Independent Expert's Report.

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## TABLE OF CONTENTS

<b>1.</b>	<b>LETTER FROM THE CHAIRMAN .....</b>	<b>1</b>
<b>2.</b>	<b>OVERVIEW AND INDEPENDENT DIRECTORS' RECOMMENDATION.....</b>	<b>3</b>
2.1	Key features of FPL's Offer.....	3
2.2	Independent Directors' Recommendation .....	3
<b>3.</b>	<b>DETAILED REASONS FOR INDEPENDENT DIRECTORS' RECOMMENDATION .....</b>	<b>4</b>
3.1	Assessment by the Independent Directors.....	4
3.2	Offer Consideration .....	4
3.3	Premium to the Market .....	4
3.4	New Platform Technologies.....	4
<b>4.</b>	<b>ADDITIONAL INFORMATION .....</b>	<b>5</b>
4.1	Continuous disclosure obligations.....	5
4.2	Change in financial position of Rib Loc since last financial report.....	5
4.3	Intention of Directors.....	5
4.4	Interests of Directors and their associates in Rib Loc .....	5
4.5	Interest in FPL or Chevalier Group .....	6
4.6	Dealings in Rib Loc Shares by Rib Loc Directors .....	6
4.7	Dealings in FPL Shares by Rib Loc Directors.....	6
4.8	Conditional agreements with Directors .....	6
4.9	Payments and benefits.....	6
4.10	Interests of Directors in any contract with FPL .....	7
4.11	Material contracts.....	7
4.12	Effect of change of control on Rib Loc banking facilities.....	7
4.13	Effect of acceptance .....	7
4.14	Taxation consequences.....	8
4.15	Other information reasonably required by Shareholders and their professional advisers to make an informed assessment.....	8
4.16	Consents .....	8
4.17	Approval of Target's Statement.....	9
<b>5.</b>	<b>GLOSSARY.....</b>	<b>10</b>
5.1	Definitions.....	10
5.2	Interpretation .....	12
	<b>ANNEXURE A – INDEPENDENT EXPERT'S REPORT .....</b>	<b>13</b>

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## 1. LETTER FROM THE CHAIRMAN



12 August 2003

Dear Rib Loc Shareholder,

You should have recently received a Bidder's Statement from FPL in relation to its Offer to acquire all your Shares in Rib Loc.

This Target's Statement sets out the recommendations of the Independent Directors of Rib Loc in relation to the Offer. I recommend that you read carefully all the information contained in this document.

### Recommendation

The Independent Directors recommend that you **REJECT** the FPL Offer.

The Non-independent Directors do not make a recommendation for the reasons set out in section 2.2 of this Statement.

### Reasons for the Independent Directors' recommendation

The key reasons for the recommendation to reject the Offer are the following:

- Your Independent Directors believe the offer is inadequate and undervalues your company;
- Rib Loc has new platform technologies in the preliminary stages of commercialisation, the value of which is not represented in FPL's Offer Consideration; and
- The historical financial performance does not reflect the current changes to the Board and executive management that have resulted in the first year performance hurdle being achieved in the three year strategic plan.

A full discussion of these issues and the reasons for our recommendation are set out in this Target's Statement, which you should read in full.

### Independent Expert's Report

Whilst an Independent Expert's Report is not required by the Corporations Act in this instance, the Directors have commissioned an Independent Expert's Report to assist them in their consideration of the FPL Offer. This Target's Statement includes the Independent Expert's Report from Leadenhall. The Independent Expert has concluded that the offer is **NOT FAIR** but **REASONABLE**. Leadenhall's reasons are detailed in the attached Independent Expert's Report.

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I take this opportunity to inform Shareholders that as a director of SWOM Pty Ltd and as a co-executor of the estate of the late SVO Menzel, I am in a position to influence the disposition of Rib Loc Shares held by SWOM Pty Ltd and that I intend to use that influence so that SWOM Pty Ltd rejects the FPL offer.

We will update Rib Loc Shareholders with any material developments in relation to the FPL Offer via announcements lodged for public release with the ASX.

Yours sincerely



Peter O Buttery  
Chairman  
Rib Loc Group Limited

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## **2. OVERVIEW AND INDEPENDENT DIRECTORS' RECOMMENDATION**

### **2.1 Key Features of FPL's Offer**

#### **The Offer**

FPL offers to acquire all of your Rib Loc Shares, subject to the terms and conditions set out in its Bidder's Statement.

The Offer is open to all holders of Rib Loc Shares and to those entitled to become registered Shareholders.

#### **Offer Consideration**

The consideration offered by FPL is \$0.70 cash for each Rib Loc Share.

#### **Conditions of the FPL Offer**

The FPL Offer is subject to a number of conditions which are set out in full in section 5.10 of FPL's Bidder's Statement. They involve:

- no material adverse change in relation to the Rib Loc Group; and
- no Prescribed Occurrences (as defined in section 9 of the Bidder's Statement) occurring in relation to Rib Loc.

#### **Offer Period**

Unless FPL's Offer is withdrawn or extended, it is open for acceptance until 6:30pm Adelaide time on 27 August 2003.

The circumstances in which FPL may extend or withdraw the FPL Offer are set out in section 5.4 of the Bidder's Statement.

### **2.2 Independent Directors' Recommendation**

The Directors of Rib Loc as at the date of this Target's Statement are:

- Peter O Buttery – Chairman and Non-executive Director
- Barry L Taylor – Chief Executive and Director
- Edmund L Luksch – Non-executive Director
- Neil Sarah – Non-executive Director
- Oscar V T Chow – Non-executive Director

Both Edmund Luksch and Oscar Chow are directors of Chevalier-PRS which is a subsidiary of Chevalier, the parent entity of FPL. Given their positions, both Edmund Luksch and Oscar Chow have declared their conflict of interest in relation to the Offer and have advised that it is not appropriate for them to make a recommendation on the FPL Offer.



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The remaining Directors are not associated with FPL and are, therefore, the Independent Directors. As such, they believe they are able to make a recommendation regarding the FPL Offer.

The Independent Directors, after having considered:

- (a) the terms of the FPL Offer;
- (b) the Independent Expert's Report; and
- (c) the other relevant matters referred to in this Statement,

recommend that you **REJECT** the FPL Offer. The reasons for this recommendation are set out in section 3 of this Statement.

### **3. DETAILED REASONS FOR INDEPENDENT DIRECTORS' RECOMMENDATION**

#### **3.1 Assessment by the Independent Directors**

In assessing the FPL Offer, the Independent Directors have had regard to a number of considerations, which are detailed below. The Independent Directors have also considered the matters set out in the Bidder's Statement and the Independent Expert's Report.

**Based on this assessment, the Independent Directors believe that the Offer Consideration is inadequate.**

The Independent Directors' recommendation to Rib Loc Shareholders is to **REJECT** the FPL Offer.

#### **3.2 Offer Consideration**

The FPL Offer Consideration of \$0.70 per Share is less than the Independent Expert's Report preferred valuation range of \$0.79 to \$1.22, fully diluted. Refer to section 10.3 of the Report.

#### **3.3 Premium to the Market**

For some time, the top twenty Shareholders have controlled over 80% of the Shares on issue. The remaining shares have been thinly traded and the Independent Directors do not believe the market prices represent a true indication of the value of the Rib Loc Shares.

A premium paid above the market price should reflect an amount for change in control. The Independent Directors do not believe the premium is adequate.

#### **3.4 New Platform Technologies**

Rib Loc has new platform technologies in the preliminary stages of commercialisation, the value of which is not represented in FPL's Offer Consideration. The Independent Expert's Report in section 3.3 refers to their future development.

The Independent Expert's Report base case scenario does not value the full growth potential of the new platform technologies. A Share valuation inclusive of the full value of these new platform technologies will be in excess of the low end of the Independent Expert's Report preferred valuation range of \$0.79 to \$1.22 per Share.

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## **4. ADDITIONAL INFORMATION**

### **4.1 Continuous disclosure obligations**

Rib Loc has continuous disclosure obligations under the Corporations Act and the ASX Listing Rules.

Rib Loc has disclosed to the ASX all information that a reasonable person would expect to have a material effect on the price or value of the Shares. These announcements are available from both Rib Loc ([www.ribloc.com.au](http://www.ribloc.com.au)) and ASX ([www.asx.com.au](http://www.asx.com.au)) websites.

### **4.2 Change in financial position of Rib Loc since last financial report**

Rib Loc's last published financial statements were for the financial year ended 31 March 2003 which were released to the ASX on 10 June 2003. An additional release to the ASX was made on 30 July 2003 regarding the current year earnings and expectations. Except as referred to elsewhere in this Target's Statement, the Directors are not aware of any material change to the financial position of Rib Loc since 31 March 2003.

### **4.3 Intention of Directors**

Each of the Independent Directors intends to reject the FPL Offer in respect of Rib Loc Shares held by him or his associates and families as set out in section 4.4 below.

### **4.4 Interests of Directors and their associates in Rib Loc**

At the date of this Target's Statement, the Directors (and their respective associated interests and families) have relevant interests in Rib Loc Shares as set out below.

<b>Director</b>	<b>Interests held by each Director, their associated interests and families</b>		
	<b>Fully Paid Ordinary Shares</b>	<b>Options</b>	<b>Convertible Notes</b>
Peter O Buttery	Nil	Nil	Nil
Barry L Taylor	41,000	300,000	Nil
Edmund L Luksch	Nil	Nil	Nil
Neil Sarah	Nil	Nil	Nil
Oscar V T Chow	Nil	Nil	Nil
<b>Total</b>	<b>41,000</b>	<b>300,000</b>	<b>Nil</b>

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#### 4.5 Interest in FPL or Chevalier Group

The relevant interests of the Directors in any securities of FPL or Chevalier Group are set out below.

Director	Relevant interest and nature
Peter O Buttery	Nil holding.
Barry L Taylor	Nil holding.
Edmund L Luksch	Holds an immaterial indirect interest in Chevalier-PRS . Edmund Luksch is a director of Chevalier-PRS.
Neil Sarah	Nil holding.
Oscar V T Chow	Nil holding. Oscar Chow is a director of Chevalier-PRS. He is also the son of Dr CHOW Yei Ching, the beneficial owner of 50.61% of the issued capital of Chevalier, Executive Director of FPL and Chairman and Managing Director of Chevalier.

#### 4.6 Dealings in Rib Loc Shares by Rib Loc Directors

To the knowledge of Rib Loc and any Director, there have been no acquisitions or disposals of Rib Loc Shares by any Director or any of their respective associates in the period of four months immediately preceding the date of this Target's Statement.

#### 4.7 Dealings in FPL Shares by Rib Loc Directors

There have been no acquisitions or disposals of shares in FPL by Rib Loc or, to the knowledge of Rib Loc and any Director, by any person associated with Rib Loc, in the period of four months immediately preceding the date of this Target's Statement (or at all).

#### 4.8 Conditional agreements with Directors

There is no agreement made between any Director and any other person in connection with or conditional on the outcome of the FPL Offer.

#### 4.9 Payments and benefits

As a result of the FPL Offer, no benefit (other than a benefit permitted by the Corporations Act) has been or will be given to a person:

- (1) in connection with the retirement of a person from the Board or managerial office in Rib Loc; or
- (2) who holds, or has held a Board or managerial office in Rib Loc or a related body corporate, or a spouse, relative or associate of such a person, in connection with the transfer of the whole or any part of the undertaking or property of Rib Loc.

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#### **4.10 Interests of Directors in any contract with FPL**

No Director has an interest in any contract entered into by FPL or its related bodies corporate, as at the date of this Target's Statement, except as detailed in section 4.11.

#### **4.11 Material contracts**

##### **Licence Agreement**

Rib Loc has entered into a ten year licence agreement with Chevalier-PRS, granting it the rights to pipe rehabilitation technology in various countries at current market terms and conditions. For further details, refer to Note 33 of Rib Loc's Annual Report for the year ended 31 March 2003 (mailed to Shareholders on 18 July 2003).

##### **Service Agreement**

A subsidiary of Rib Loc has entered into an agreement with Chevalier-PRS pursuant to which Chevalier-PRS agrees to provide the services of Edmund Luksch for the purposes of presenting and otherwise promoting and supporting Rib Loc's interests in Europe. These service fees are on normal commercial terms and conditions. Further details are included in Note 32(d)(ii) of the Rib Loc Annual Report.

##### **Start Grant**

A subsidiary of Rib Loc is currently the recipient of an R&D Start Grant. The Industry Research and Development Board have the right to review the Grant in the event that there is a change in the control of Rib Loc. If the Industry Research and Development Board believes the change in control adversely affects or may adversely affect the objectives of the R&D Start Program it may suspend the Grant and require that funds received under the Grant be repaid with interest.

#### **4.12 Effect of change of control on Rib Loc banking facilities**

Westpac has recently conducted a review of Rib Loc's banking facility. Under the terms of this facility, in the event that FPL gains control of Rib Loc, Westpac have the right to review the facility and have informally indicated that this review would not result in a decrease in facilities, providing Rib Loc continue to pursue current and planned business operations and operate within the Bank's existing performance requirements. FPL have outlined in section 4 of the Bidder's Statement that their intention is to continue the business of Rib Loc in the same manner as it has recently been conducted.

#### **4.13 Effect of acceptance**

The effect of the acceptance of the FPL Offer is set out in section 5.8 of the FPL Bidder's Statement. Rib Loc Shareholders should read these provisions in full and understand the effect which acceptance will have on their ability to exercise the Rights attaching to their Rib Loc Shares and the representations and warranties which they give by accepting the FPL Offer. In particular Rib Loc Shareholders should note the following:

- once a Rib Loc Shareholder accepts the FPL Offer, they will only be able to withdraw that acceptance in very limited circumstances including:
  - (i) if the FPL Offer remains conditional at the expiry of the time that it may be freed from conditions; or
  - (ii) if FPL varies the FPL Offer in such a way that postpones the time when FPL needs to satisfy its obligations by more than one month (this would occur if

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FPL extends the FPL Offer period by more than one month while the FPL Offer is subject to a defeating condition); and

- upon the FPL Offer becoming free of conditions or upon the fulfilment of those conditions, once a Rib Loc Shareholder accepts the FPL Offer the Rib Loc Shareholder is taken to have appointed the Directors of FPL to attend and vote on your behalf all the Shares in respect of which you have accepted the FPL Offer.

#### **4.14 Taxation consequences**

As a result of accepting the FPL Offer, Rib Loc Shareholders could incur a liability for taxation depending on their individual circumstances. The extent of that liability will depend on each Rib Loc Shareholder's individual circumstances. Rib Loc Shareholders are encouraged to seek professional advice on their specific circumstances if they are concerned about the tax implications of the FPL Offer.

#### **4.15 Other information reasonably required by Shareholders and their professional advisers to make an informed assessment**

This Target's Statement is required to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the FPL Offer but:

- only to the extent to which it is reasonable for investors and their professional advisers to find this information in this Target's Statement; and
- only if the information is known to any of the Directors.

The Directors are of the opinion that there is no other information material to the making of a decision by a Rib Loc Shareholder whether or not to accept the FPL Offer, being information that is known to any of the Directors and which has not been previously described as:

- the information contained in the Bidder's Statement;
- the information contained in Rib Loc's releases to ASX prior to the date of this Target's Statement; and
- the information contained in this Target's Statement (including the Independent Expert's Report).

#### **4.16 Consents**

Leadenhall has given and not withdrawn its consent before the date of this Target's Statement to being named in this Target's Statement as Independent Expert to Rib Loc and to the distribution of its Independent Expert's Report dated 1 August 2003 by Rib Loc with this Target's Statement. With the exception of its Report, Leadenhall does not make or purport to make any statement that is included in this Target's Statement and there is no other statement in this Target's Statement, which is based on any statement of Leadenhall. Leadenhall specifically disclaims responsibility for any other statement included in this Target's Statement.

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Rankines Solicitors has given and not withdrawn its consent before the date of this Target's Statement to being named in this Target's Statement as legal adviser to Rib Loc. Rankines Solicitors does not make or purport to make any statement that is included in this Target's Statement and there is no statement in this Target's Statement which is based on any statement of Rankines Solicitors. Rankines Solicitors specifically disclaims responsibility for any statement included in this Target's Statement.

Westpac has given and not withdrawn its consent before the date of this Target's Statement to being named in this Target's Statement as Rib Loc's banker. With the exception of section 4.12 Westpac does not make or purport to make any statement that is included in this Target's Statement and there is no other statement in this Target's Statement which is based on any statement of Westpac. Westpac specifically disclaims responsibility for any other statement included in this Target's Statement.

This Target's Statement contains statements made by, or statements based on statements made by Peter O Buttery, Barry L Taylor, Edmund L Luksch, Neil Sarah and Oscar V T Chow. Each of the Directors has consented to the inclusion of each statement they have made and each statement, which is based on a statement they have made, and in the form and context in which the statement appears. None of the Directors has withdrawn that consent prior to the date that this Target's Statement was lodged with ASIC. (This paragraph is to be read in conjunction with section 2.2 of this Statement.)

#### **4.17 Approval of Target's Statement**

This Target's Statement, has been approved by a resolution passed by the Directors on 1 August 2003.

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## 5. GLOSSARY

### 5.1 Definitions

In this Target's Statement, the following definitions apply, unless the contrary intention appears or the context requires otherwise:

<b>Announcement Date</b>	17 June 2003
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	Australian Stock Exchange (ABN 98 008 624 691)
<b>Bidder's Statement</b>	The bidder's statement in relation to the FPL Offer, prepared by FPL and dated 14 July 2003
<b>Board</b>	The board of directors of Rib Loc Group Limited
<b>Chevalier</b>	Chevalier International Holdings Limited a company incorporated in Bermuda and listed in Hong Kong
<b>Chevalier Group</b>	Chevalier and its Related Bodies Corporate, including Chevalier-PRS and FPL
<b>Chevalier-PRS</b>	Chevalier-PRS (Asia) Holdings Limited, a company incorporated in Hong Kong and a subsidiary of Chevalier
<b>Convertible Notes</b>	Any or all of the 1,000,000 convertible notes issued by Rib Loc , which convertible notes are on issue on 14 July 2003
<b>Corporations Act</b>	Corporations Act 2001
<b>Directors</b>	The current directors of Rib Loc
<b>FPL</b>	First Process Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of Chevalier
<b>FPL Offer</b>	The takeover offer by FPL for Rib Loc Shares under Chapter 6.5 of the Corporations Act as described in the Bidder's Statement
<b>Independent Directors</b>	Peter O Buttery, Barry L Taylor and Neil Sarah
<b>Independent Expert or Leadenhall</b>	Leadenhall Australia Limited (ABN 63 007 997 248)
<b>Independent Expert's Report or Report</b>	The report prepared by the Independent Expert as to whether the FPL Offer is fair and reasonable
<b>Listing Rules</b>	The official listing rules of the ASX
<b>Offer Consideration</b>	The consideration offered under the FPL offer, which, as at the date of this Target's Statement, is \$0.70 per Rib Loc Share
<b>Offer Period</b>	Has the same meaning as given in the Bidder's Statement

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<b>Options</b>	Any or all of the 1,470,000 options issued by Rib Loc to subscribe for Rib Loc Shares, which options are on issue on 14 July 2003
<b>Related Body Corporate</b>	Has the meaning given to that term in the Corporations Act
<b>Rib Loc</b>	Rib Loc Group Limited (ABN 59 008 100 365)
<b>Rib Loc Group</b>	Rib Loc and its Related Bodies Corporate
<b>Rib Loc Shares or Shares</b>	Fully paid ordinary shares in Rib Loc and all Rights attaching to them the subject of the Offer, in respect of which you are registered as holder as at 14 July 2003 and in respect of which you become registered as the holder in the register of Shareholders of Rib Loc in the period from 14 July 2003 until the end of the Offer Period by virtue of an issue to you of Rib Loc Shares due to the exercise of Options or the redemption of Convertible Notes (or either)
<b>Rib Loc Shareholder</b>	Registered holder of Rib Loc Shares
<b>Rights</b>	All accretions and rights attaching to or arising from Rib Loc Shares after the Announcement Date (including, without limiting the generality of the foregoing, all rights to receive dividends, bonuses or other share of Rib Loc's profits and assets as well as all rights to receive or subscribe for shares, stock, units, notes or options and all other distributions or entitlements declared, paid or issued by Rib Loc)
<b>Target's Statement</b>	This document including the Independent Expert's Report
<b>Westpac</b>	Westpac Banking Corporation Limited (ABN 33 007 457 141)



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## 5.2 Interpretation

In this Target's Statement, capitalised terms are defined in section 5.1.

Unless specified otherwise, or otherwise required by the context, all words and phrases in this Target's Statement have the meanings given to them in the Corporations Act.

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise:

- a reference to:
  - any legislation or legislative provision includes any statutory modification or re-enactment of, or legislative provision substituted for, and any statutory instrument issued under, that legislation or legislative provision;
  - any agreement or document is to that agreement or document (and, where applicable, any of its provisions) as amended, novated, supplemented or replaced from time to time;
  - any person referred to in this Target's Statement, or any other document or arrangement, includes that person's executors, administrators, substitutes, successors and permitted assigns;
  - a section is a reference to a section of this Target's Statement; and
  - 'dollars' or '\$' is to an amount in Australian currency;
- a word denoting:
  - the singular number includes the plural number and vice versa;
  - an individual or person includes a corporation, firm, authority, government or governmental authority and vice versa; and
  - a gender includes all genders;
- the provisions of any paragraph or sub-paragraph that contains any subordinate sub-paragraph shall be read distributively to that subordinate sub-paragraph and that subordinate sub-paragraph shall be construed accordingly; and
- where an expression is defined, another part of speech or grammatical form of that expression has a corresponding meaning.

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## **ANNEXURE A – INDEPENDENT EXPERT'S REPORT**

**LEADENHALL AUSTRALIA LIMITED**

A.C.N. 007 997 248

**CORPORATE ADVISERS**

Level 1, 121 Greenhill Road, Unley  
South Australia 5061

Telephone (08) 8373 4033

Facsimile (08) 8373 5033

Toll Free: 1800 355 778

E-Mail: [office@leadenhall.com.au](mailto:office@leadenhall.com.au)

# **Independent Expert's Report**

**for**

## **Rib Loc Group Limited**

**Prepared By**

## **Leadenhall Australia Limited**

**1 August 2003**



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**TABLE OF CONTENTS**

1.	EXECUTIVE SUMMARY .....	1
2.	PURPOSE OF THE REPORT .....	3
3.	RIB LOC BACKGROUND INFORMATION .....	4
3.1.	Overview .....	4
3.2.	The Company's Core Business .....	4
3.3.	Platform Technologies .....	6
3.4.	Air Conditioning .....	6
3.5.	Rib Loc Licensees .....	7
3.6.	Shareholder Structure and History .....	8
3.7.	Sharemarket Performance .....	12
4.	ECONOMIC OUTLOOK .....	14
5.	INDUSTRY OUTLOOK .....	16
5.1.	The Market in the USA .....	16
5.2.	The Australian Rehabilitation & Pipe Market .....	18
5.3.	The European Market .....	20
5.4.	The Rehabilitation Markets in Asian and Middle East .....	20
5.5.	Summary of Market Data .....	20
6.	RIB LOC'S OUTLOOK .....	22
6.1.	Historical Performance .....	22
6.2.	Dividends .....	23
6.3.	Growth Opportunities .....	23
6.4.	Targeted Earnings .....	24
7.	ASSESSMENT APPROACHES .....	26
7.1.	ASIC Policy Statement 75 - 'Fair and Reasonable' .....	26
7.2.	ASIC Practice Note 43 – "Valuation Methodologies" .....	27
7.3.	Valuation Approaches .....	28
7.4.	Valuation of Rib Loc .....	29
8.	ADJUSTMENTS TO EARNINGS AND OTHER ASSUMPTIONS .....	31
8.1.	Write Off of Capitalised R&D .....	31
8.2.	Sales Levels and Licence Income .....	31
8.3.	Gross Margins .....	32
8.4.	Interest .....	32
8.5.	Taxation .....	32
9.	NON CORE ASSETS AND LIABILITY CONSIDERATIONS .....	33
9.1.	Air Conditioning Division .....	33
9.2.	Excess Working Capital .....	33
9.3.	Tax Losses .....	34
9.4.	Foreign Exchange Cover .....	34
9.5.	Franking Credits/Special Dividend .....	34
9.6.	Exercise of Convertible Notes and Options .....	35
9.7.	Corporate Debt (Net of Cash) .....	35
9.8.	Potential Material Liabilities .....	35
10.	INCOME APPROACH VALUATION .....	36
10.1.	Model Assumptions .....	36
10.2.	Sensitivity Analyses .....	37
10.3.	Preferred Valuation Range .....	38
11.	VALUATION METRICS .....	39
11.1.	Overview .....	39
11.2.	Comparable (Guideline) Companies .....	39
11.3.	Implied Metrics .....	40
11.4.	Market Multiples .....	41
11.5.	Summary .....	41
12.	CONSIDERATIONS AS TO WHETHER TO ACCEPT .....	42
12.1.	Minority Issues .....	42
12.2.	Share Price .....	42



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12.3.	Tax.....	42
12.4.	Alternative Offerors.....	42
13.	CONCLUSION AND OPINION.....	43

**APPENDICES**

Appendix A	Group Financial Results (Reported)
Appendix B	Scenario Valuation Assumptions
Appendix C	Determination of Discount Rates
Appendix D	Comparable Company Data
Appendix E	Sources of Information
Appendix F	Qualifications, Declarations, Disclaimer and Consent



## 1. EXECUTIVE SUMMARY

This Independent Expert's Report ["IER" and/or "Report"] has been prepared to assist the Directors and shareholders of Rib Loc Group Limited ["Rib Loc"] in considering the offer made by Chevalier International Holdings Ltd ["Chevalier"] via its wholly owned subsidiary First Process Limited ["FPL"].

FPL has offered \$0.70 cash per Rib Loc share and this values Rib Loc at approximately \$21.6 million.

Leadenhall Australia Limited ["Leadenhall"] was appointed as the independent expert by Rib Loc's independent directors to prepare a Report as to whether the offer made by FPL is fair and reasonable.

The results of Rib Loc have been variable. Rib Loc's reported net profit before tax results are summarised in the following table.

Months Year Ended	12 31 March 2001 \$ million	12 31 March 2002 \$ million	12 31 March 2003 \$ million
Net Profit Before Tax	0.73	(6.54) <sup>(1)</sup>	1.45 <sup>(2)</sup>

Note: (1) After writing off research and development expenses of \$3.73 million.

(2) This result consisted of a loss for the half year ended 30 September 2002 of \$73,000 and a profit for the half year ended 31 March 2003 of \$1.51 million.

The Directors and management of Rib Loc expect the improvement in performance to be sustained and for there to be significant growth potential based upon the commercialisation of new products, technology and the engagement of additional licensees. The Directors have recently announced that despite the half year results to 30 September 2003 being less than budgeted, they expect to achieve the full year net profit before tax forecast results of \$1.92 million for the year ending 31 March 2004. The Directors also announced the net profit before tax projections to be incorporated into the employee share option schemes of \$3.26 million for the year ended 31 March 2005 and \$4.27 million for the year ended 31 March 2006.

Accordingly, the past performance of Rib Loc should be viewed in the context of recent improvement in performance and expectations for the future.

### Preferred Range

As discussed in Section 10, Leadenhall has used an Income Approach (specifically a discounted cash flow methodology) to calculate our preferred valuation range for Rib Loc of between \$24.4 million and \$37.8 million.

The Strategic Plan Scenario (which was used to calculate the preferred valuation range) implies a 2005 PE ratio for Rib Loc of 9.4, which is reasonable in comparison with the PE Ratios for other small listed companies but indicates that the valuation is very dependent on the achievement of the Strategic Plan (and particularly the 2004 results).

However, until there is demonstrated achievement of the targeted results, in our opinion, the market is unlikely to accord a full value rating to the shares of Rib Loc.

As a result of the uncertainty and potential for growth in the future, our assessed valuation range is wider than would normally be the case and shareholders should pay particular attention to the issues affecting the expected future results.



### **Conclusion as to whether FPL's Offer is Fair and Reasonable**

The range of values of an ordinary share in Rib Loc has been assessed by Leadenhall to be between \$0.79 and \$1.22 (on a diluted basis), as set out in Section 10.3.

The offer from FPL is \$0.70 cash per share.

Accordingly, in our opinion the offer is not fair as the offer price of \$0.70 per share is below Leadenhall's preferred valuation range for Rib Loc's shares.

However, in the absence of any higher bid, in our opinion, the offer is reasonable because of:

- the variable past results;
- the under-performance year to date;
- the forward high multiples implied by the valuation;
- the past prices at which Rib Loc shares have been traded and at which they could be expected to trade in the absence of the offer;
- the low trading volume and hence liquidity of Rib Loc's shares on the ASX;
- the uncertainty regarding the achievability of the future growth and corresponding increase in profitability;
- the current non dividend paying status of Rib Loc;
- the existing shareholding position of Chevalier; and
- the fact that the full benefit of the expected growth is yet to be achieved and proven on a sustained basis.

The offer provides for a known cash receipt compared with the uncertainty of the future growth and profitability of Rib Loc.

### **Other Considerations**

The attention of shareholders is drawn to the issues set out in Section 12, Considerations as to Whether to Accept and Section 13, Conclusion and Opinion.

Before taking any action, shareholders should consider the whole of this IER. Acceptance or rejection of the offer is a matter for individual shareholders based on their own views as to value, future market conditions, risk profile, liquidity preference, portfolio strategy and tax position. Shareholders' decisions as to whether to accept the offer may be influenced by their particular circumstances and, if shareholders are in doubt, they should consult an independent adviser.



## **2. PURPOSE OF THE REPORT**

On 17 June 2003, Chevalier announced to the Australian Stock Exchange ["ASX"] that it, or one of its subsidiaries, intended to make an offer to acquire all of the shares in Rib Loc that it did not already own.

Prior to this bid, Chevalier's interest (via two subsidiary companies) in Rib Loc totalled 6,242,970 of the issued shares or 22.74%. Chevalier incorporated a new subsidiary, FPL, for the purpose of making the take-over bid.

FPL's Bidder's Statement was lodged with the Australian Securities and Investments Commission ["ASIC"] on 14 July 2003 and on 28 July 2003, FPL sent a Bidder's Statement to Rib Loc's shareholders offering to purchase all of the outstanding shares in Rib Loc for a cash consideration of \$0.70 per share.

As discussed in Section 5.10 of the Bidder's Statement, the Offer is subject to there being:

- no material adverse change in relation to Rib Loc's financial position; and
- no Prescribed Occurrences occurring in relation to Rib Loc.

The Offer is not subject to any minimum acceptance conditions and is open to option holders and convertible note holders, who become the registered holders of Rib Loc Shares prior to the end of the Offer Period.

For compliance with the Corporations Act 2001 of Australia ["Corporations Act"], Rib Loc is required to lodge a Target's Statement with the ASIC for the purpose of informing shareholders of all the information considered necessary to assess the bid.

As two of Rib Loc's Directors are employees of Chevalier, and because Rib Loc's future prospects differ significantly from its historical results, the Independent Directors of Rib Loc commissioned an IER to assist the Directors and shareholders in their consideration of FPL's Offer.

The two Directors currently employed by Chevalier are:

- Mr E L Luksch who is an Executive Director of the Hong Kong based Chevalier-PRS (Asia) Holdings Ltd, a subsidiary of Chevalier and a sister company of FPL; and
- Mr O V T Chow who is an Executive Director of Chevalier-PRS (Asia) Holdings Ltd, a subsidiary of Chevalier and a sister company of FPL.

Both of these Directors declared a conflict of interest as a result of the Offer being made by FPL and were excluded from any further discussions.

Leadenhall has been appointed by the independent directors of Rib Loc to prepare an IER in relation to the bid. The Report must state whether, in the Expert's opinion, the take-over offer is fair and reasonable and give the reasons for forming that opinion.





### **3. RIB LOC BACKGROUND INFORMATION**

#### **3.1. Overview**

Mr S W O [Bill] Menzel, OBE AO was one of the early pioneers in the plastic industry in Australia and developed the concept of spirally wound plastic pipes.

Mr Menzel became the Chairman of Rib Loc on its incorporation in May 1986, oversaw its float on the ASX in January 1987 and remained Chairman until he passed away in January 2001. He played an active role in the company's research and development activity.

Rib Loc is the world leader in spirally wound plastic pipe technology, a unique process of manufacturing pipes and tubes by spirally winding an extruded plastic strip to make pipes. The technology provides users with the advantages of lower manufacturing, handling, transportation and installation costs over traditional products.

Rib Loc products are used throughout the world for many activities, including storm drains, culverts, sewers, subsoil drainage, irrigation pipes and to create concrete column forms for the construction of buildings. Rib Loc has also developed an innovative process for rehabilitating drainage pipes, especially sewers, without excavation. This latter technology has been awarded two prestigious "No-Dig" awards by the Society for Trenchless Technology.

The company's products are discussed in more detail in the following section.

#### **3.2. The Company's Core Business**

The company's core business is based on the development of a unique process for producing plastic pipes and tubes. First patented in 1978, the Rib Loc system comprises a special plastic profile or strip.

The profile is manufactured by extruding rigid unplasticised polyvinyl chloride ["uPVC"] or high density polyethylene ["HDPE"]. This profile has a T-ribbed outer surface, smooth inner-face and interlocking edges. The extruded profile is stored on large capacity spools, which allow easy and cost effective transportation.

After being extruded, the profile is spirally wound using patented machinery into a continuous pipe with an exceptionally high strength to weight ratio. This conversion to a pipe can either occur in the factory or, if required, on the worksite, or inside an existing pipe that requires rehabilitation.

Internationally registered patents protect the core technology and pipe winding equipment, as well as major improvements.

Rib Loc's 2003 Annual Report provides a summary of both rehabilitation and new pipe products and how they are installed.

Applications of Rib Loc's pipe systems include:

- **Pipeline Rehabilitation**

For the rehabilitation of deteriorated buried pipes, the profile is sent to the work site and a structural liner is wound inside the host pipes by patented machinery directly into the deteriorating pipe, in one of two ways:



- a liner is installed at a fixed diameter slightly smaller than the inside of the diameter of the host pipe; or
- a liner is installed at a reduced diameter but then “released” and radially expanded until it is intimate with the wall of the host pipe.

Using these methods, pipes of 150 mm diameter to 2,700 mm diameter have been rehabilitated. The company produces a rehabilitation solution with steel inserted into the T shape of the profile to provide greater strength capability. The company is currently developing a profile which incorporates the steel, providing the additional strength of the steel enhanced product without requiring the additional process of inserting steel during installation.

Rehabilitation products include:

- Expanda®;
- Ribsteel®; and
- Rotaloc®.

Rotaloc is one of Rib Loc’s platform technologies and is described further in Section 3.3 below.

- **New Plastic Pipe**

Lightweight HDPE pipes manufactured in a factory are used for the installation and construction of new stormwater, culverts, subsoil drainage and irrigation infrastructure.

For new pipe applications, the profile (which contains a steel reinforced rib) is wound into pipe in the factory through welding of the edges of the profile. Manufactured in discrete lengths, generally six metres or less, these pipes are then sent to sites for installation and are connected using a joiner. These pipes provide advantages to the end user in the form of lower manufacturing, handling and installation costs over traditional products.

In addition, the concept of making pipes on site has been developed. The means and method for producing this pipe on site have been developed and is in the early stages of commercialisation.

A machine has been designed which will be capable of producing long lengths of pipe of a fixed diameter in a variety of situations. The machine and the required profiles will be transported on a truck to the desired location. This will result in significant savings in transporting pipes to the location where installation is required.

The first commercial job for the onsite manufacture of pipes is expected to be in the Ukraine.

Products include:

- Series 2000; and
- Steel Reinforced Profile [“SRP”].

SRP is one of Rib Loc’s platform technologies and is described further in Section 3.3 below.



### **3.3. Platform Technologies**

The technology developments of Rib Loc can currently be viewed under two platform technology headings:

- Rotaloc; and
- Steel Reinforced Profile ["SRP"]

The developments of these platform technologies are expected to provide the company with ongoing competitive advantages and patent protection on its products.

#### **3.3.1. Rotaloc**

The Rotaloc system involves a machine travelling along inside a pipe and winding profile onto the inside of the pipe to line the pipe. To date, this system has been used on a restricted range of pipe sizes. Patents have been established for the Rotaloc process and equipment in Australia. Patent letters and provisional applications have been made in a number of other countries. Improvements currently being developed are to:

- increase the range of pipe sizes which can be serviced by this technology; and
- undertake rehabilitation work which involves other than linear (straight) runs.

Future developments of the Rotaloc system are expected to be able to also use SRP.

#### **3.3.2. Steel Reinforced Profile ["SRP"]**

Provisional patents for SRP were recently filed in Australia and a number of other countries<sup>1</sup> and patents were granted on 5 April 2003. Rib Loc sees the manufacture of polyethylene pipes with a steel rib encased within the pipe as a significant development. This provides a pipe which is both lightweight and high strength. The cost savings over conventional concrete pipes are significant, both in terms of manufacturing and installation costs. At present, a limited range of diameters are produced in SRP, but Rib Loc plans, over the next 12 months, to increase the diameter range. Currently, all the SRP is produced within the company's manufacturing facility at Gepps Cross. However, Rib Loc plans to build mobile SRP winding machinery which will enable Australian extruded profile to be taken on site and pipes formed on site. This will provide additional cost savings in delivering the end product to the point of installation.

The development of the SRP technology, under the Federal Government's Start Grant scheme, will extend the use of the technology from new pipe applications to enable its use as a rehabilitation product, further improving the competitive position of the current rehabilitation products

### **3.4. Air Conditioning**

In addition to the plastic pipe business, Rib Loc owns a business which specialises in the production and marketing of air conditioning ducts and accessories for commercial and domestic heating and cooling, mainly in South Australia, under the brand names Ductair and Heatshield. This business is considered to be non-core and has been valued separately from the core operations.

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<sup>1</sup> An Australian Patent Application provides protection in over 100 Patent Co-operation Treaty countries. In addition, patent applications have been filed in Taiwan, Panama, Iran, Gulf Co-operative Council (Saudi Arabia, Kuwait, Bahrain, Oman, Qatar and UAE), Egypt, Argentina, Nicaragua, Peru, Bolivia, Malaysia, Venezuela and Chile.



### **3.5. Rib Loc Licensees**

Rib Loc has patents registered in over 40 countries and the technology is licensed for use in over 40 countries.

Rib Loc derives income from these licensees, through the sale of machinery and profile and also a royalty on the sales made by the licensees. The majority of the licence agreements include clauses which specify a minimum annual payment.

Rib Loc does not carry out rehabilitation services itself but supplies profile, machines and know-how to its licensees. More than half of the licence fees are derived at present, and expected to be in the future, from licensees relating to rehabilitation products. As the performance of its licensees is a critical element to the overall success of Rib Loc, a brief review of the significant licensees is set out below.

#### **3.5.1. Chevalier – PRS (Asia) Holdings Ltd**

Rib Loc has entered into a ten year licence agreement from May 2002 with Chevalier – PRS (Asia) Holdings Ltd, granting it various rights in India and various Asian countries to pipe rehabilitation technology. The Chevalier group owns a significant interest in Preussag Pipe Rehabilitation Emirates LLC “PPRE”, through which major rehabilitation contracts have been executed in Abu Dhabi using the Rib Loc system.

Chevalier – PRS (Asia) Holdings Ltd was incorporated in October 2001 and is a joint venture pipe rehabilitation engineering company formed in Hong Kong between Chevalier and PRS Rohrsanierung GmbH. It engages in pipe rehabilitation business in Asia, including China, Abu Dhabi and Dubai. To cater for the various needs of its customers, Chevalier – PRS (Asia) Holdings Ltd has adopted various kinds of trenchless pipe rehabilitation technologies from PRS Rohrsanierung GmbH, Rib Loc Australia Pty Ltd and NordiTube Technologies AB.

Chevalier – PRS (Asia) Holdings Ltd provides a full service in pipe rehabilitation, including consultation, design, production, rehabilitation and technical support.

The Chevalier Group has contracting and marketing infrastructure located in Hong Kong, Singapore and China and purchased \$1 million of Rib Loc Expanda® and Rib Steel® machines during 2002. There are now three sets of Expanda® equipment in Hong Kong and one set of Rib Steel equipment in each of Singapore and Hong Kong. In Singapore, the first contract installing Rib Steel® commenced during March 2002.

Chevalier is investing a significant effort in the marketing of Rib Loc’s products and technologies in the Asian markets, including China and India. In addition, Taiwan has awarded significant rehabilitation projects utilising Rib Loc technology and systems.

#### **3.5.2. rePipe Inc.**

Rib Loc has had a licensee in the USA for the last three years. This company has recently been acquired by rePipe, a significant player in the USA pipe rehabilitation market.

rePipe Inc was formed in May 1999 to become a leading provider of rehabilitation services to governmental, commercial and industrial operators of underground pipelines covering wastewater, potable water and gas throughout North America.

rePipe has entered a licence agreement with Rib Loc for California, Texas and Florida. As a result, Rib Loc anticipates commencing sales to rePipe subsidiaries based in Florida and Texas within the current financial year.



Ten year licence agreements have been entered into, commencing July 2002 and January 2003 for California, Texas and Florida and with the option to extend these exclusive rights to other states.

### **3.5.3. Interflow Pty Ltd**

Interflow Pty Ltd ["Interflow"] is the exclusive licensee for Rib Loc rehabilitation products in Australia and New Zealand. It has been a licensee for a number of years and has rights until 2015.

Interflow is an Australian owned company with more than 60 years experience in the pipeline construction and related industries.

Interflow is Australia's leading sewer rehabilitation contractor and is widely respected for providing cost effective, innovative solutions and a reputation for quality of workmanship, reliability and honesty in every project undertaken.

Central to Interflow's success has been the development of the unique range of Rib Loc sewer lining systems.

Interflow have lined over 400 kilometres of deteriorated sewer and stormwater drains in diameters from 150 mm to 1,800 mm with Rib Loc Expanda Pipe, Ribsteel and Rotaloc.

Interflow has offices in Sydney, Melbourne and Brisbane, and has a workforce which includes some 120 confined-space trained pipe rehabilitation specialists. Interflow is quality assured to AS/NZS ISO 9001:2000 and has completed pipeline rehabilitation contracts for all major Australian Water Authorities.

### **3.5.4. Potential New European Licensee**

Rib Loc has negotiated and agreed the terms of new licence and marketing agreements with a number of companies, covering some countries within Europe. These include:

- A new marketing agreement with Hanover based PRS Rohrsanierung. This non-exclusive agreement provides rights to market Rib Loc systems in Germany, Italy, Poland and Russia.
- A new Rehabilitation licence with Phoenix Services S.A. of Saverne, France. This ten year agreement will provide A\$900,000 in associated license income.
- A one year trial period agreements have been entered with each of the Austrian based Rabmer Holding GmbH and the German based Hans Brochier GmbH & Co. Both Rabmer and Brochier are seeking full licences in 2004.

## **3.6. Shareholder Structure and History**

### **3.6.1. Ordinary Share Capital**

As at the date of this Report there are 27,449,832 fully paid ordinary shares on issue.

Details of Rib Loc's Top 20 shareholders as at 30 June 2003 are as follows:



	Fully Paid Ordinary Shares	
	Number	Percentage
SWOM Pty Ltd <sup>(1)</sup>	6,200,000	22.6
Sandhurst Trustees Pty Ltd	4,791,340	17.5
Chevalier-PRS (Asia) Holdings Ltd	4,596,970 <sup>2</sup>	16.8
Firstland Company Ltd (wholly owned by Chevalier International Holdings Ltd)	1,646,000 <sup>2</sup>	6.0
Holy Faith Ltd	1,170,300	4.3
Mr P B Menzel <sup>(1)</sup>	1,062,900	3.9
Mrs H D Grubb <sup>(1)</sup>	1,019,000	3.7
Mr F S R Sullivan	460,000	1.7
Milanda Pty Ltd	277,005	1.0
Mr G W Tiller	270,000	1.0
M D M Investments Pty Ltd	252,200	0.9
Benfield Investments Pty Ltd	240,000	0.9
J H & A F Raz <sup>(1)</sup>	202,000	0.7
Mrs G Menzel <sup>(1)</sup>	200,000	0.7
Mr R Morgan	188,748	0.7
Pris-Matic Pty Ltd	160,000	0.6
Mrs R D Sullivan	105,000	0.4
Fairtime Holdings Pty Ltd	100,000	0.3
Yan's Investment Pty Ltd	100,000	0.3
Mrs M S Luestner	82,500	0.3
<b>Sub-Total Top 20 Shareholders</b>	<b>23,123,963</b>	<b>84.3</b>
Other	4,325,889	15.7
<b>Total</b>	<b>27,449,832</b>	<b>100.0</b>

Note (1): Mr PB Menzel, Mrs HD Grubb, JH & AF Raz and Mrs G Menzel are associates of SWOM Pty Ltd

### 3.6.2. Convertible Notes

The company has issued 1,000,000 convertible notes each having a nominal value of one dollar and with a coupon rate of 7.3%. The convertible notes are held by six note holders and do not carry any voting rights. The convertible notes can be redeemed for cash when they mature on 14 August 2005 or can be converted into two fully paid ordinary shares prior to maturity.

Details of Rib Loc's Convertible Note holders as at 30 June 2003 are as follows:

	Convertible Notes
SWOM Pty Ltd	400,000
Sandhurst Trustees Pty Ltd	150,000 <sup>3</sup>
Mr P B Menzel	125,000
Mrs H D Grubb	125,000
J H & A F Raz	100,000
Otira Nominees Pty Ltd	100,000

The conditions of issue of the convertible notes do not contain any clauses which automatically require the repayment or conversion of these convertible notes in the event of a take-over offer or if there is a change of control.

<sup>2</sup> Both companies are related to the bidder.

<sup>3</sup> It has been agreed that the convertible notes issued to Sandhurst will be amended by extending their term to 14 August 2005. All other convertible notes are currently redeemable on 14 August 2005.



However, the conditions of issue state that each convertible note holder may redeem any or all of their convertible notes at any time before the maturity date, as long as the principal is applied to the issue of ordinary shares.

As discussed in Section 2 of this Report, FPL's Offer is open to convertible note holders who become the registered holders of Rib Loc Shares prior to the end of the Offer Period.

### 3.6.3. Options

As at the date of this Report, 1,470,000 options were held by 22 option holders. These were issued under the Executive Share Options Schemes. Options do not carry a right to vote.

Of these options 1,370,000 are part of Executive Share Option Scheme I and were issued during the year ended 31 March 2003. The remaining 100,000 are part of Executive Share Option Scheme II and were issued in May 2003. The options are issued for zero consideration with an exercise price of 48 cents.

The options issued as part of Scheme I are exercisable in tranches, depending on the achievement of performance hurdles for the core business (i.e. excluding the air-conditioning business).

50% of the 1,370,000 options issued as part of Scheme I are exercisable after 16 April 2003 with 25% exercisable after each of 16 April 2004 and 16 April 2005. The final 25% of the options can only be exercised if a dividend has been paid in at least one of the three financial years ending 31 March 2005. The options issued as part of Scheme I expire on 15 April 2007.

The terms of the options issued as part of the Executive Share Option Scheme II are similar to the Executive Share Option Scheme I however, Scheme II options are exercisable in tranches of 50% from 1 April 2004, 25% from 1 April 2005 and 25% from 1 April 2006. These options expire on 1 April 2008 and can only be exercised on the achievement of agreed performance hurdles and the declaration of a dividend.

The terms of the Executive Share Option Schemes provide the following Earnings before Interest, Tax, Depreciation and Amortisation ["EBITDA"] targets (which excludes results from the air conditioning business):

Financial Year Ended	EBITDA Performance Hurdle <sup>4</sup> \$000's	EBITDA Hurdle Achieved \$000's	Option Exercise Date <sup>5</sup>	Options Exercisable Scheme I	Options Exercisable Scheme II
March 2003	2,624	2,631	April 2003	685,000	
March 2004	3,244		April 2004	342,500	50,000
March 2005	4,611		April 2005	342,500	25,000
March 2006	5,629		April 2006		25,000

If a performance hurdle is not met, the tranche of options exercisable related to that performance hurdle are rolled forward and included in the next tranche.

Clause 20 of Schedule 2 of the Rib Loc Executive Share Option Agreement states that where a change in ownership occurs, the option exercise period is deemed to commence immediately and all performance hurdles are deemed to be satisfied.

<sup>4</sup> Rib Loc announced the March 2006 performance hurdle to the ASX on 30 July 2003.

<sup>5</sup> Scheme I Options are exercisable on the 16<sup>th</sup> of the month, while Scheme II Options are exercisable on the 1<sup>st</sup> of the month.



Change of Ownership is defined in clause 3 of Schedule 2 as:

*“Change in Ownership shall occur if a person, or two or more persons who are acting in concert:*

- (a) becomes or become the beneficial owner of shares in Rib Loc, having more than 50% of the total votes that may be cast at a general meeting;*
- or*
- (b) through the acquisition of shares in Rib Loc, becomes or become able to determine the majority composition of the Board.”*

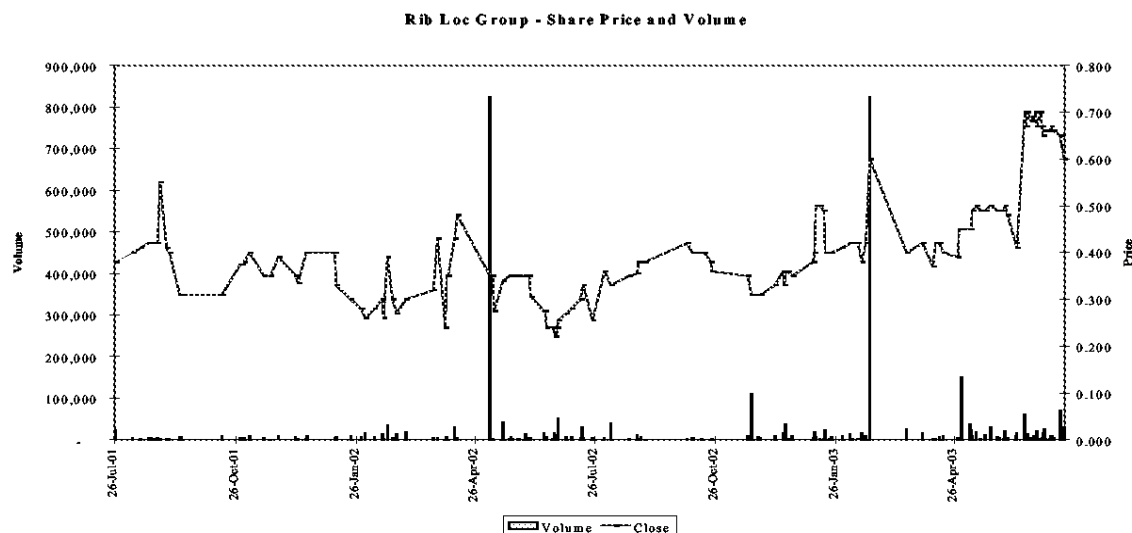
As discussed in Section 2 of this Report, FPL’s Offer is open to option holders who become the registered holders of Rib Loc Shares prior to the end of the Offer Period. Even if there is no change of control, as the performance target for the first tranche of options under Scheme I has been met, it is possible for at least 685,000 options to be exercised, converted into shares and be eligible to participate in the take-over offer.

As at the date of this Report the Directors have not received notification from any option holders seeking to exercise their options and take up shares.



### 3.7. Sharemarket Performance

Trading in Rib Loc's stock is very thin. The following table summarises Rib Loc closing share price and trading volumes for the last two years.



Below is a tabulated summary of the prior period share transactions:

<b>Rib Loc Group Limited - Share Price History</b>				
	<b>Share Price (\$)</b>			<b>Average Weekly</b>
	<b>Close</b>	<b>Low</b>	<b>High</b>	<b>Volume (000's)</b>
<b>Quarter ending</b>				
December/01	0.400	0.310	0.400	5
March/02	0.430	0.260	0.430	12
June/02	0.255	0.220	0.480	81
September/02	0.380	0.255	0.380	9
December/02	0.350	0.310	0.420	18
<b>Month ending</b>				
Jan-03	0.410	0.380	0.500	17
Feb-03	0.600	0.380	0.600	216
Mar-03	0.400	0.400	0.460	6
April/03	0.450	0.370	0.450	10
May/03	0.490	0.450	0.500	67
<b>Week ending</b>				
6-Jun-03	0.480	0.480	0.500	27
13-Jun-03	0.410	0.400	0.480	25
20-Jun-03	0.700	0.670	0.710	79
27-Jun-03	0.670	0.670	0.700	37
4-Jul-03	0.660	0.650	0.690	48
11-Jul-03	0.660	0.660	0.680	27
18-Jul-03	0.600	0.600	0.670	101

Source: derived from data from [www.comsec.com.au](http://www.comsec.com.au)



Our discussions with the Directors and management of Rib Loc provides the following explanation of recent major share transactions:

Date	PRS <sup>6</sup>	Chevalier		HFL <sup>7</sup>	Sandhurst <sup>8</sup>
		Chev PRS <sup>9</sup>	FCL <sup>10</sup>		
21 June 01 New Issue					1,538,462 @ \$0.65
27 July 01 New Issue		754,000 @ \$0.65			
7 May 2002			823,000 @ \$0.60		
20 Aug 2002 Off Market	(5,013,270)	3,842,970 @ \$0.11 <sup>11</sup>		1,170,000 @ \$0.11 <sup>12</sup>	
20 Feb 2003			823,000 @ \$0.60		

<sup>6</sup> PRS Rohrsanierung GmbH (previously Rib Loc's European Licensee)

<sup>7</sup> Holy Faith Ltd

<sup>8</sup> Sandhurst Trustees Pty Ltd

<sup>9</sup> Chevalier-PRS (Asia) Holdings Ltd

<sup>10</sup> Firstland Company Ltd (wholly owned by Chevalier International Holdings Ltd)

<sup>11</sup> Transaction price was EU 230,000 or approximately A\$0.11 per share.

<sup>12</sup> Transaction price was EU 70,000 or approximately A\$0.11 per share.



#### **4. ECONOMIC OUTLOOK**

In the year ended 31 March 2003 Rib Loc received approximately 55% of its revenue (including air conditioning) from Australia, 21% from Asia and the Middle East and 12% from the United States.

Over the next few years, it is anticipated that greater proportions of revenue will come from overseas, particularly the USA, Europe, Asia and the Middle East.

As the ultimate purchasers of the end product (service) tend to be Government municipalities, it is important to understand the world economy and the domestic economies in each of the markets into which Rib Loc is expanding. Accordingly, below, we have endeavoured to summarise the outlook for a number of the world's economies.

##### **Global Economic Outlook**

Commencing in the second half of 2002 and continuing into early 2003, the global economy continued its slow rate of growth. The Iraq conflict initially amplified concerns about a loss of global momentum, but prompt resolution to the conflict removed this major risk factor for worldwide growth.

Due to the slow growth in early 2003, the IMF reduced forecast growth for the G7 countries in their April report by around half a percentage point to 1.7% for 2003. This is broadly in line with 2002 and reflects an anticipated improvement for the remainder of 2003. There are now early signs that the global economy is regaining pace. Continued modest recovery in the global economy is anticipated over the medium term. However, there is considerable downside risk as a result of the US economy possibly not regaining momentum.

##### **US Economy**

The US economy, which slowed towards the end of 2002, has maintained its slower pace into the early part of 2003. GDP increased in the March quarter by 0.4%, an increase of 2.1% over the year. Spending was constrained in the early part of 2003, largely due to sentiment associated with the Iraq war and business investment declined in the March quarter. The US economy has yet to show signs of a sustained improvement. The economy is receiving considerable stimulus from monetary and fiscal policies however the unemployment rate has recently increased back to 6%.

Providing that the US economy continues to grow, this will be supportive of ongoing world growth. In addition, the stimulus package provided additional funding for highway development which is expected to assist Rib Loc's USA licensee to expand.

##### **Australian Economy**

The Australian economy has generally performed relatively well in relation to other countries around the world. Real GDP rose by 0.4% in the December quarter, representing an increase of 3% over the year. The drought of 2002 reduced overall growth, but GDP growth in the non-farm sector remained fairly strong at about 4% for much of the year.

Housing investment spending contributed strongly to growth in the previous year. Although, forward indicators of building activity are weakening, the downturn is expected to be gradual due to a backlog of unfinished work.

Australian business profitability has remained high and businesses are generally well placed to expand their investment spending from a relatively low base. Business investment rose by 10% in the December quarter, an increase of around 20% over the year. Business surveys suggest further growth in business investment over the next year or two. Capital expenditure intentions and the backlog of work suggest growth in spending of around 5.5% in 2003/4, with particular emphasis on a backlog of medium density construction work, renovation activity and infrastructure projects,



including preparations for the 2006 Commonwealth Games. Over the next year or so, a more sustainable growth rate in domestic demand is anticipated, balanced by an improved export sector arising from an improving international economy.

The Australian dollar has strengthened over the previous few months from its unusually low levels in 2001. The exchange rate against the US dollar has increased from around 51 cents in 2001 to over 68 cents by July 2003. Export volumes have remained weak due to subdued global conditions, although this is expected to improve.

In summary, conditions in the Australian economy including the Federal Government's expected fiscal surplus are expected to be generally supportive of projects that may result in growth of Rib Loc's business. The higher Australian dollar will result in lower margins from export receipts. The impact of exchange rates is discussed further in Sections 8.2 and 9.4.

### **Asia and the Middle East**

The non-Japanese Asian region has performed relatively strongly over the early part of 2003 despite the SARS ["Severe Acute Respiratory Syndrome"] epidemic. China has recorded a particularly strong rate of growth of 9.9% in the year to March 2003, with demand in China supporting other East Asian countries via its demand for imports. Hong Kong and Singapore have been the main countries affected by SARS and these countries have responded with fiscal measures. In the year to December 2002, Hong Kong achieved GDP growth of 5.0% and Singapore attained 3.0% GDP growth.

With the Chinese economy expected to continue growing strongly and Hong Kong now expected to recover from the impact of SARS, market conditions are expected to improve and assist the expansion of Rib Loc's licensee in the greater Asia area.

SARS has had a short term effect on the pricing of PVC resin, as demand has significantly reduced (as a result of the decreased economic activity).

### **Europe**

Overall, Europe has suffered from low growth since mid 2002. GDP grew only marginally in the December quarter and industrial production remained flat against a background of reduced business confidence. Industrial confidence was weakest in Germany, where construction activity continued its downward trend. Despite slowed growth in the early part of 2003, conditions in the UK were more favourable than the rest of Europe. The conditions in Europe, are to some extent, dependent upon the expected outlook for the USA. However, any recovery in confidence in Europe is anticipated to lag the recovery in the USA.

Overall, in the longer term, the economic conditions in Europe are expected to be supportive of Rib Loc's expansion (via licensees) in the European market.



## 5. INDUSTRY OUTLOOK

There are two types of pipes – non-pressure and pressure. Non-pressure pipes are predominantly used for sewer and stormwater, whilst pressure pipes are used for water, some irrigation channels and other purposes where the liquid needs to be pumped under pressure.

Currently Rib Loc's products are only suitable for non-pressure applications. However, a patent application has been lodged for the use of a pressure liner within a Rib Loc pipe, which will allow Rib Loc pipes to be used for pressure applications.

As discussed in the previous section, over the next few years, in addition to Rib Loc's revenue from Australia, it is anticipated that greater proportions of Rib Loc's revenue will come from overseas, particularly the USA, Europe and Asia.

The USA market has been considered first as there is more information available regarding this market and it is where the majority of additional sales are expected to come from in the short term.

### 5.1. The Market in the USA

#### The Rehabilitation Market in the USA

As reported on the web site "Rehabilitation Technologies"<sup>13</sup>, the majority of the USA's pipe infrastructure was installed after World War II and part of this infrastructure is now reaching the end of its useful life.

The American Society of Civil Engineers (ASCE) estimates that there are approximately 600,000 miles of sewer pipe in the United States and an estimated 1.5 million miles of water pipe in the United States. Of this, 450,000 miles are estimated to be in near-term need of renovation.

In the USA, the need to rehabilitate sewer systems is much higher than for water because of the generally older, more deteriorated condition of sewer systems. In addition in some situations, the sewers were built as combined systems to accommodate storm water run-off.

The findings of Clean Water Needs and Sanitary Sewer Evaluation surveys performed during the last 14 years have brought most municipalities to the realisation of the extent, impact and financial significance of sewer deterioration in their jurisdictions.

The US Congressional Budget Office estimates that cities will need to spend between \$24.6 billion and \$41.0 billion per year for the next 20 years to maintain satisfactory services and meet clean water standards. The Water Infrastructure Network sides with the high end-estimate; the US Environmental Agency leans towards the lower end.

According to Underground Construction:

*"Underground Construction magazine's 5<sup>th</sup> Annual Construction/Rehabilitation Technology Municipal Sewer & Water Survey reports that \$1.9 billion was spent on sewer pipe renovation labour and materials in 2002 with almost 50 percent of sewer pipe renovation expenditures being used for trenchless pipe renovation..."*

*The Underground Construction Survey estimates that 2002 sewer renovation expenditure will reach \$2.6 billion"*

and

<sup>13</sup> [www.undergroundconstructiononline.com](http://www.undergroundconstructiononline.com)



*“The data indicates that pipe renovation will be likely to grow to become an industry with a budget of \$11.5 billion, with the trenchless pipe renovation sector likely to reach at least \$5 billion annually. This rate of expenditure must be sustained for up to 50 years.*

A recent survey by Underground Construction concluded that:

*“As many States struggled to cope with their well publicised budget shortfalls, municipal managers are understandably concerned about the possible impact on their local budgets. With this in mind, and despite urgent infrastructure needs, municipalities are approaching 2003 cautiously, trying to maintain their 2002 spending levels and hopefully having the revenue stream to increase spending in critical areas.*

*Also, many municipalities, both large and small, have no choice but to continue with aggressive spending programs in order to meet consent decrees negotiated with the EPA, including cities such as Atlanta, Birmingham (AL).”*

In addition the web site concludes that:

*“Pipe renovation expenditures are expected to increase dramatically over the next five years as utility rate structures are gradually adjusted to meet recently identified local needs.”*

However one player, Insituform Technologies Inc, has historically been the market leader in North American for sewer rehabilitation, with approximately 80% of its revenues coming from pipe rehabilitation.

According to Insituform’s 2002 Annual Report:

- they are a world-wide company specialising in the construction and rehabilitation of water, sewer and other difficult to access pipes using technologies that minimise or avoid digging and disruption;
- their revenues have grown from US\$301 million in 1998 to US\$480 million in 2002 (however, the growth in revenues in each of the last two years was less than 10%) and during this same period, gross margins have fallen from 33% of sales to 26% of sales, while net profit has reduced from 6% of sales to 4.7% of sales;
- this performance was attributed to “a period of slower growth and aggressive competition” and expectations of growth which did not materialise during 2002;
- sewer rehabilitation accounts for approximately 83% of their total revenues;
- rehabilitation revenues only increased by 2% in 2002; and
- rehabilitation is expected to continue revenue growth at slightly higher rates in 2003, compared with 2002, with the potential for some erosion of gross margin.

The Underground Construction survey indicates that the trenchless pipe renovation market is already exhibiting a compounding annual growth rate of 29% since 2000 and that even in these difficult financial times is expecting to grow 4.3%. It is expected that this growth rate will increase again as more of America’s leading cities launch large capital programs to modernise their sewer/wastewater systems.

Finally the survey states that acceptance of trenchless methods for both new construction and rehabilitation continues to increase, with 55.8% of respondents having used various trenchless



methods, an additional 28.2% planning to try trenchless techniques during 2003 and 44.8% saying that they would try trenchless within five years.

Based on the above and other information available to them, Rib Loc management has estimated the market size for the rehabilitation of pipes is approximately A\$2,800 million in the USA.

#### **The New Pipe Market in the USA**

According to an industry web site<sup>14</sup> US pipe demand is expected to increase 2.4% per year to 2005 to over 16 billion feet with the growth in sales of plastic pipe expected to be higher.

#### **PIPE SHIPMENTS (MILLION FEET)**

<b>Item</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>% Annual Change 00/95</b>
Total Pipe Demand	11.496	14.374	16.145	4.6
Plastic Pipe Demand	4.52	5.596	6.401	6.7

According to their 2002 Annual Report, James Hardie has a new facility for manufacturing fibre reinforced concrete plants in Florida and they are targeting the large USA civil engineering and construction products which are benefiting from the USA Government's transport infrastructure program.

They note that the approval of standards is much more political than anticipated and that they do not believe that the current market price in Florida is sustainable.

According to their Annual Report, highway construction declined slightly but remained at historically high levels, with stormwater drainage accounting for 47% of the USA large diameter pipe market and drainage and irrigation (non-pressurised) accounting for a further 13%.

In a recent presentation (available from their web site) James Hardie estimated that the US market for large diameter pipes that could be addressed by fibre reinforced concrete is approximately 165 million linear feet, worth around US\$2 billion annually and is growing at just over 2% per year.

#### **5.2. The Australian Rehabilitation & Pipe Market**

There are approximately 80,000 kilometres of sewer mains in Australia and the situation is similar to that in the USA, with the "Report Card on the Nation's Infrastructure" prepared by the Australian Institute of Engineers and GHD reporting that:

*"The need for planned renewals and maintenance of these assets is self-evident as the age of assets will soon, with a ten year planning horizon, average 50 years".*

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<sup>14</sup> Concreteproductsbusiness.com



Rib Loc's management has estimated that within Australia, approximately \$200 million per annum is spent on construction of new sewer systems and \$100 million per annum is spent on the rehabilitation of sewer systems. Rehabilitation expenditure on water systems in Australia is estimated to be approximately \$170 million per annum.

These estimates are consistent with the results of a survey published in December 1999 by the Institute of Engineers and GHD which determined:

- *"Water systems annual maintenance expenditure is estimated to be \$170 million Australia wide";*
- *"Sewage system annual maintenance expenditure is estimated to be \$100 million"; and*
- *"Expenditure by the 19 largest water businesses in Australia on renewal, replacement and upgrade of infrastructure is approximately \$250 million per annum."*

The 2002 Infrastructure Report Card also highlighted the need for addition rehabilitation expenditure on water, wastewater and stormwater infrastructure.

In addition, the Crane Group Ltd reported<sup>15</sup>, in a recent presentation, that their subsidiary, the Iplex Pipeline Group, had increased its sales revenue by 17% over the corresponding prior year period. However, the Milnes Holding's Target's Statement<sup>16</sup> claimed that a price war had existed in the Australian non-pressure PVC pipe and fittings market for the last ten months and that the Milnes independent directors considered this price war unsustainable, even in the short term.

An assessment of Milnes Holdings by Lodge Partners, dated 26 February 2003, concluded that revenue growth has exceeded 7.9% for the last two years and is expected to be approximately 10% in the 2003 financial year, dropping to a 2% growth rate in the 2004 financial year.

Rib Loc's management has estimated the Australian pipe market totalling \$870 million per annum.

This was comprised of the following segments:

Segment	Segment Size	% of Total Market
Sewer	\$185 million	21.3%
Drainage	\$265 million	30.5%
Irrigation	\$20 million	2.3%
Water	\$250 million	28.7%
Other	\$150 million	17.2%
<b>Total</b>	<b>\$870 million</b>	<b>100.0%</b>

In addition to the normal water and sewer markets, proposals have been put forward in Australia to replace open irrigation channels and earth drains with pipes to reduce evaporation. There are 16,860 kilometres of irrigation channels in Australia and Mr R Pratt (of Visy Industries) has been quoted as saying that the cost of converting these open channels to plastic pipes is estimated at \$10,000 per kilometre. This translates to a total cost of converting these irrigation channels to plastic pipes of \$169 million. Rib Loc's management expects the costs to be significantly higher.

A feasibility study evaluating investment options for saving water is being conducted in the Murrumbidgee Valley by a project team led by Pratt Water with Commonwealth and New South Wales Government funding of \$5.3 million.

<sup>15</sup>Slide Presentation of Half year results to December 31 2002 dated 3 February 2003

<http://www.crane.com.au/CraneGroup/Pages/Results.html#>

<sup>16</sup> Milnes Holdings – response to Iplex take-over bid dated 27 June 2003.





### **5.3. The European Market**

#### **The Rehabilitation Market in Europe**

In Western Europe, rehabilitation expenditure on both water and sewer systems is approximately US\$1 billion per annum.

The web site Concreteproductsbusiness.com reports that the total pipe market in Europe totals €8 billion. Out of this, the plastic piping systems have about 50%, i.e. €4 billion.

### **5.4. The Rehabilitation Markets in Asian and Middle East**

There is very limited information available on the size of the markets in this region.

Rib Loc's Management has estimated the market sizes for rehabilitation of pipes in Asia as approximately A\$200 million.

### **5.5. Summary of Market Data**

The table on the following page summarises the above data, which indicates growth in all markets for which information has been obtained and that use of trenchless technologies is in a growth phase.



	Australia	USA	Western Europe
	ASM	US\$M	US\$M
<b>SEWER SYSTEMS</b>			
New construction expenditure	200 <sup>1</sup>	4,200 <sup>2</sup>	
Growth		Up 4.3% <sup>2</sup>	
Trenchless methods growth		29% <sup>6</sup>	
Rehabilitation expenditure	100 <sup>1</sup>	2,000 <sup>2</sup>	1,000 <sup>4</sup>
Growth		Up 3.3% <sup>2</sup>	
Trenchless methods growth		7%-12% <sup>3</sup>	
Total non-pressurised large diameter pipes		1,200 <sup>5</sup>	
<b>WATER SYSTEMS</b>			
New construction expenditure		4,300 <sup>2</sup>	
Growth		Up 3.9% <sup>2</sup>	
Trenchless methods growth		up 10.1% <sup>2</sup>	
Rehabilitation expenditure	170 <sup>1</sup>	1,400 <sup>2</sup>	1,000 <sup>4</sup>
Growth		up 12.2% <sup>2</sup>	
Trenchless methods growth		up 2.6% <sup>2</sup>	

## Notes

(1) Australasian Society for Trenchless Technology

(2) Underground Construction's 6th Annual Municipal Sewer &amp; Water Infrastructure Survey

(3) Stifel, Nicolaus &amp; Company, Incorporated, Equity Research, Insituform Technologies, Inc., 12 April 2002

(4) Includes water and sewer - Stifel, Nicolaus &amp; Company, Incorporated, Equity Research, Insituform Technologies, Inc., 12 April 2002

(5) Calculated from James Hardie background information paper for investors 13/9/2000

(6) Underground Construction's 5th Annual Construction/Rehabilitation Technology Municipal Sewer &amp; Water Survey



## 6. RIB LOC'S OUTLOOK

### 6.1. Historical Performance

The reported financial performance of Rib Loc is included in Appendix A.

Below we have summarised the financial performance of Rib Loc's Core Operations on a consolidated basis (i.e. excluding the results of the air conditioning business).

#### Statement of Financial Performance (Normalised)<sup>(1)</sup> Core Operations Only

Months Year Ended	12 31 March 2001 <sup>(2)</sup> (\$'000s)	12 31 March 2002 <sup>(2)</sup> (\$'000s)	12 31 March 2003 <sup>(2)</sup> (\$'000s)
Sales Revenue	17,669	13,895	19,261
Gross Profit	7,366 41.7%	4,265 30.7%	8,826 45.8%
EBITDA	2,383	(690)	2,626
Depreciation & Amortisation	2,260	1,960	1,100
EBIT	123	(2,650)	1,526
Interest Expense	362	226	260
Profit Before Tax	(239)	(2,876)	1,266
Income Tax	10	10	7
Operating Profit After Tax	(249)	(2,886)	1,259
Earnings per Share (Undiluted) <sup>(3)</sup>	(\$0.01)	(\$0.11)	\$0.05

- (1) Normalisation Adjustments include:
- removing results of air conditioning business.
  - removing net effect of the insurance payout and partially offsetting payment to the widow of the late Mr SWO Menzel.
  - removing the effect of the write off of capitalised R&D.
  - adjusting for additional rent and overheads that will be incurred by the core business if the air conditioning business is sold

- (2) Source: Statutory financial statements and Management Accounts.

- (3) Based on ordinary shares on issue at year end.



**Statement of Financial Position  
Core and Non Core Operations**

Months Year Ended	12 31 March 2001 <sup>(1)</sup> (\$'000s)	12 31 March 2002 <sup>(1)</sup> (\$'000s)	12 31 March 2003 <sup>(1)</sup> (\$'000s)
Current Assets	10,285	8,554	11,151
Non-Current Assets	9,870	5,041	4,965
<b>Total Assets</b>	<b>20,155</b>	<b>13,595</b>	<b>16,116</b>
Current Liabilities	6,657	5,530	7,077
Non-Current Liabilities	2,578	2,239	1,774
<b>Total Liabilities</b>	<b>9,235</b>	<b>7,769</b>	<b>8,851</b>
<b>Net Assets</b>	<b>10,920</b>	<b>5,826</b>	<b>7,265</b>
Issued Capital	12,999	14,459	14,459
Reserves	76	76	76
Retained Profit	(2,155)	(8,709)	(7,270)
<b>Total Equity</b>	<b>10,920</b>	<b>5,826</b>	<b>7,265</b>
Number of Shares on Issue (Undiluted)	25,157	27,450	27,450
Net Assets per Share (Undiluted)	0.43	0.21	0.26
Net Tangible Assets per Share (Undiluted)	0.26	0.19	0.24

(1) Source: Statutory financial statements.

## 6.2. Dividends

Rib Loc has not paid or declared a dividend since incorporation and there has been no dividend paid or declared in respect of the year to 31 March 2003.

Although Rib Loc's Directors have not declared a dividend in respect of the year to 31 March 2003, it is noted that one of the terms that must be satisfied for the third tranche of the executive share options to be exercised, is that a dividend must be paid in at least one of the three years for which performance hurdles have been set (i.e. in the years ended March 2003, March 2004 or March 2005).

## 6.3. Growth Opportunities

Following discussions with directors and management, the following sources of growth in earnings are considered available to Rib Loc:



#### **6.3.1. Rehabilitation Division**

Management anticipates doubling revenue in the Rehabilitation Division within the next four years. This is expected to eventuate as a result of significant growth by Rib Loc's USA licensee rePipe and from Rib Loc's Asian franchisee Chevalier.

In addition, management anticipates locating additional licensees in Europe and has anticipated income commencing from these new licensees in the year ending March 2005.

#### **6.3.2. Pipe Division**

The development of the new steel reinforced profile ["SRP"] is anticipated to result in significantly increased sales in the Australian market. Sales growth is anticipated as a result of establishing a distribution network throughout Australia.

In addition, it is anticipated that new alliance partners will be located to commercialise this technology in overseas markets.

#### **6.4. Targeted Earnings**

Below we have summarised the target financial performance of Rib Loc's Core Operations on a consolidated basis (i.e. excluding the results of the air conditioning business). These targets were prepared as part of the Rib Loc's Strategic planning process and the EBITDA results are approximately consistent with the performance hurdles set for the exercising of the Executive Share Scheme options (Refer section 3.6.3).



**Statement of Financial Performance (Normalised)<sup>(1)</sup>**  
**Core Operations Only**

Year Ended	12 Mths to 31 March 2001 <sup>(2)</sup> Actual (\$'000s)	12 Mths to 31 March 2002 <sup>(2)</sup> Actual (\$'000s)	12 Mths to 31 March 2003 <sup>(2)</sup> Actual (\$'000s)	12 Mths to 31 March 2004 <sup>(4)</sup> Budget (\$'000s)	12 Mths to 31 March 2005 <sup>(4)</sup> S/Plan (\$'000s)	12 Mths to 31 March 2006 <sup>(4)</sup> S/Plan (\$'000s)
Sales Revenue	17,669	13,895	19,261	21,180	28,533	32,813
Gross Profit	7,366 41.7%	4,265 30.7%	8,826 45.8%			
EBITDA	2,383	(690)	2,626	3,275 <sup>(3)</sup>	4,629 <sup>(3)</sup>	5,641 <sup>(3)</sup>
Depreciation & Amortisation	2,260	1,960	1,100	1,106	1,097	1,097
EBIT	123	(2,650)	1,526	2,170	3,522	4,544
Interest Expense	362	226	260	245	260	260
Profit Before Tax	(239)	(2,876)	1,266	1,925	3,272	4,284
Income Tax						
- Overseas Taxes	10	10	7	0	11	11
- Australian Tax <sup>(5)</sup>					147	1,285
Operating Profit After Tax	(249)	(2,886)	1,259	1,925	3,103	2,988

- (1) Normalisation Adjustments include:
- removing results of air conditioning business.
  - removing net effect of the insurance payout and partially offsetting payment to the widow of the late Mr SWO Menzel.
  - removing the effect of the write off of capitalised R&D.
  - adjusting for additional rent and overheads that will be incurred by the core business if the air conditioning business is sold.
- (2) Source: Statutory financial statements and Management Accounts.
- (3) Source: Management's Strategic Plan. Target Hurdle EBITDA has previously been disclosed to ASX as part of Conditions of Issuing Executive Options as 2004: \$3,244 and 2005: \$4,611 and 2006: \$5,629.
- (4) Source: Management's Budget and Strategic Plan.
- (5) Accumulated tax losses utilised in the years ending 31 March 2004 and 2005.



## 7. ASSESSMENT APPROACHES

The Corporations Act requires the report by an expert to state whether, in the expert's opinion, the take-over offer is fair and reasonable and to give the reasons for forming that opinion.

The term "*fair and reasonable*" is not further defined by the Corporations Act, however, over time, a commonly accepted meaning has developed partly as a result of the ASIC issuing Policy Statement 75.

In addition Practice Note 43 is relevant when reporting on offers for which an IER is required.

### 7.1. ASIC Policy Statement 75 - 'Fair and Reasonable'

ASIC Policy Statement 75 attempts to provide a precise definition of "fair and reasonable" and creates a distinction between "fair" and "reasonable".

In relation to the term 'fair and reasonable', ASIC Policy Statement 75 states:

#### ***"Fair"***

*An offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.*

*This comparison must be made assuming 100% ownership of the target company. In his or her opinion on the fairness of the offer, the expert should not consider the percentage holding of the offeror or its associates in the target company.*

*In assessing the comparative values of the consideration and the securities which are the subject of the offer, the expert should not take into consideration the percentage holding of the offeror or its associates in the target company.*

#### ***Reasonable***

*An offer is "reasonable" if it is fair. It may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.*

*The expert should always include a statement that the offeree's decision whether to accept an offer may be influenced by his or her particular circumstances (for example taxation) and if an offeree is in doubt he or she should consult an independent adviser.*

*An expert might consider when deciding whether offerees should accept the offer:*

- (a) the offeror's pre-existing entitlement to shares in the target company;*
- (b) other significant shareholding blocks in the target company;*
- (c) the liquidity of the market in the target company's shares or the probability that an alternative offer might be made;*
- (d) taxation losses, cash flow or other benefits through achieving 100% ownership of the target company;*



- (e) *any special value of the company to the offeror such as particular technology, the potential to write off outstanding loans from the target etc; and*
- (f) *the value to an alternative offeror."*

Fairness involves a comparison of the offer price with the value that may be attributed to the securities which are the subject of the offer based on the value of the underlying businesses and assets. In determining fairness, any existing entitlement to shares by the offeror is to be ignored.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting a take-over offer.

In accordance with the guidance from Policy Statement 75, Leadenhall has treated "fair" and "reasonable" as separate concepts.

Fairness is a more demanding criterion. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A take-over offer could be considered "reasonable" if there were valid reasons to accept the offer, notwithstanding that it was not "fair".

Leadenhall has determined whether the FPL offer is fair by comparing the underlying value of Rib Loc with the offer price (refer Section 13). In considering whether the FPL offer is reasonable, the additional factors that have been considered are included in Section 12 of this Report.

## **7.2. ASIC Practice Note 43 – "Valuation Methodologies"**

Practice Note 43, states:

*"It is not the ASC's role or intention to limit the expert's exercise of skill and judgement in selecting the most appropriate method or methods of valuation. However, it is appropriate for the expert to consider:*

- (a) *the discounted cash flow method; 2 (2)*
- (b) *the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets, on the basis that a controlling shareholder would seek to maximise the value of its investment;*
- (c) *the amount which an alternative acquirer might be willing to offer if all the securities in the target company were available for purchase;*
- (d) *the amount that would be distributed to shareholders on an orderly realisation of assets;*
- (e) *the most recent quoted price of listed securities; or*
- (f) *the current market value of the asset, securities or company.*

*The ASC does not suggest that this list is exhaustive or that the expert should use all of the methods of valuation listed above."*





### **7.3. Valuation Approaches**

There are three main valuation approaches which can be applied to a business, asset or other form of investment. These three valuation approaches are the asset approach, market approach and income approach. A basic understanding of the assumptions which underlie these methodologies will confirm that they comply with the above recommendations put forward by ASIC.

#### **7.3.1. Asset Approach**

The asset approach is primarily used for companies that are making less than an economic rate of return on assets employed. In such a scenario, winding up of the company may be the best way to maximise shareholder value, in which case the assets of the business will be sold separately.

In the case of Rib Loc where the assets employed are earning an economic rate of return, the individual sale of assets is not the desired method of maximising shareholder value. As such, this valuation approach is not suitable for the purpose of valuing Rib Loc as FPL has stated the businesses of Rib Loc will be carried on as a going concern.

In the case of Rib Loc, there is a significant difference between the stated net asset backing per share, as set out in Section 6.1, compared with the assessed value on a going concern basis as determined by either an income approach or a market approach, as set out in Sections 10 and 11.

#### **7.3.2. Market Approach**

The market approach to value is based on the principle of substitution. In other words, substitute companies, assets or investments should sell at the same price. This approach to value involves comparing key valuation indicators of companies comparable to the company being valued, or analysing past transactions which are comparable with the transaction at hand.

It is appropriate to use the market approach method when:

- there is an adequate number of comparable companies or market transactions; and
- reliable data is available for both the subject company and the comparable companies, both as to their financial position and as to the basis of market values.

There are no companies which could be considered directly comparable with Rib Loc.

However, in the valuation of Rib Loc, comparable information can be sourced in respect of companies of a similar size or industry to derive metrics which will lend support to the valuation undertaken using an income approach.

#### **7.3.3. Income Approach**

The income approach to value is to calculate the present value of the company's estimated future stream of earnings or cashflows.

Income approach methodologies include discounted cashflows and capitalisation of earnings, cashflow, or dividends. (Capitalisation techniques are a short form calculation of discounted cashflow calculations.)



Although the discounted cashflow approach relies on the availability of long term earnings and cashflow projections, it is particularly suited to situations where cashflows (and/or earnings) are not stable in the short term, or where significant cash outflows will be incurred prior to cash inflows being earned. In our view, there can be as much error in using capitalisation methods with single point estimates when changes are known to be occurring as there can be in using the discounted cashflow approach with uncertain data.

An equity investment by its very nature has risk and thus uncertainty attached to it. As the results of Rib Loc have been variable in recent years and the business is in an expansionary phase, we believe that it is appropriate to assess the value of Rib Loc under alternative scenarios.

#### **7.3.4. Preferred Methodology**

The discounted cashflow methodology (an income approach) is Leadenhall's normal preferred valuation method where it can be applied.

Rib Loc's earnings and resultant cashflows have been projected for ten years, taking into account specific growth opportunities, capital expenditure requirements and operational consolidations. After this period, revenue growth and earnings are expected to remain relatively stable.

The key variables of the discounted cashflow analysis are described in Section 10.

#### **7.3.5. Valuation Metrics**

Details of valuation metrics and cross checks undertaken to test the value derived from Leadenhall's preferred methodology are set out in Section 11. These complementary valuation metrics involve a capitalisation of earnings methodology.

The capitalisation of earnings methodology derives a value by multiplying the ongoing maintainable earnings figure by a multiple. This multiple can be calculated using fundamental data such as the growth rate in earnings and rates of return based on the underlying risk of the company.

Alternatively, these multiples can be based on multiples of comparable companies witnessed in the market place. Comparable multiples form the basis of the valuation metrics review, with specific adjustments made to reflect the unique characteristics of Rib Loc.

#### **7.3.6. Alternative Acquirer**

Issues relevant to this consideration are discussed in Section 12.4, Alternative Offerors.

### **7.4. Valuation of Rib Loc**

A valuation of 100% of the equity of Rib Loc is required assuming that all of its securities were available for purchase.

In defining value, we have used a fair market value definition, viz.:

*"The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."*



This normally assumes:

- a reasonable timeframe to complete the transaction, and
- neither party having any special circumstances.

In assessing fair market value, we have not taken into account any specific investment value that the securities in Rib Loc might have to a particular purchaser (e.g. the achievement of synergies or other strategic benefits).



## **8. ADJUSTMENTS TO EARNINGS AND OTHER ASSUMPTIONS**

In assessing the potential cashflows and earnings of Rib Loc, we have reviewed the trading results for the years ended March 2001 to March 2003 and also the results for the three months to June 2003.

After adjusting for items which were expected to not reoccur, excluding the results of the non-core air conditioning business and including in the results any items which are expected to occur but which are not included in those results, we derived normalised and maintainable earnings figures. Some of those adjustments are significant and they are discussed below.

### **8.1. Write Off of Capitalised R&D**

In the year ended March 2002, there was a change in accounting policy whereby:

- R&D costs which had previously been capitalised were written off; and
- R&D costs incurred in that year were expensed as incurred.

This resulted in the March 2002 R&D expenditure being expensed in that year and expenditure from prior years being written off in that year.

The results for the year ended 31 March 2002 were normalised by eliminating the research and development amount that had previously been capitalised.

### **8.2. Sales Levels and Licence Income**

Due to the high gross margin and the high fixed expense nature of the business operated by Rib Loc, a key value driver is the level of sales and income from each licensee.

We have reviewed with Rib Loc management their expectations of the past and expected sales and performance of the licensees. Sales levels per the strategic plan have been adopted. Licence income was reviewed and this resulted in the derivation of:

- contracted minimum levels of expected licence income; and
- target licence income (consistent with strategic plan targets and included in the Sales Revenue amounts set out in Section 6.4).

Rib Loc's management based their forecast licence income on an exchange rate of A\$1.00=US\$0.70 for all years.

Leadenhall has calculated theoretical future spot exchange rates based on the US and Australian yield curves. The calculated interest rate differential inferred an expected Australian currency depreciation over the period of this valuation. Leadenhall has used the following exchange rates for US\$ denominated licence income for the years ending:

- 31 March 2004, A\$1.00 = US\$0.665;
- 31 March 2005, A\$1.00 = US\$0.643;
- 31 March 2006, A\$1.00 = US\$0.628;
- 31 March 2007, A\$1.00 = US\$0.618 and thereafter declining to US\$0.601 in the long term.



### **8.3. Gross Margins**

Overall the core business's gross margins have improved significantly in the year ended March 2003. The gross margin for the prior year was 30.7% while for 2003 it was 45.8%.

Gross margins by business segment are confidential and commercially sensitive however we have examined these for past years and expected future years. We have discussed the improvements in gross margin with management and reviewed their supporting information. The improvement in gross margin is primarily a result of increased volumes and as a result of a reduction in scrap material.

Management expects the improvements in gross margin to be at least maintained.

### **8.4. Interest**

The valuation has been prepared on an invested capital basis (i.e. before interest expense). Accordingly no interest expense has been included in the calculations and debt has been deducted from the resulting enterprise valuation.

### **8.5. Taxation**

As accumulated tax losses are being valued separately, the projected earnings have had tax applied at the statutory rate of 30%.

Leadenhall, in association with Rib Loc's management has reviewed previous and future adjustments between accounting profit and taxable income and determined that there is unlikely to be any significant ongoing difference (ignoring tax losses). Accordingly an effective tax rate of 30% has been used.



## **9. NON CORE ASSETS AND LIABILITY CONSIDERATIONS**

In addition to the value of the underlying business, it is necessary to consider other assets and liabilities. The value of the company is the value of its businesses, plus surplus assets, less corporate debt.

Surplus assets are those assets which could be realised separately and have no effect on the ongoing financial performances of the businesses evaluated. In this instance the air conditioning business is being treated as a surplus or non core business - that is to say, no earnings from the air conditioning business have been taken into account in evaluating future income but that the expected net realisable value of the air conditioning business has been included as part of the non-core assets.

Similarly, corporate debt is not taken into account in assessing the performance of the businesses.

As part of this consideration, it is also important to determine whether any assets or liabilities might realise materially more or less than their book values.

### **9.1. Air Conditioning Division**

Rib Loc has identified the air conditioning business as non-core.

The summary financial information included in Section 6 and the detail valuations in Sections 10 exclude the potential net cashflow generated by the air conditioning business and assumes the core operations absorb the rent and overhead expenses currently allocated to the air conditioning business.

Accordingly, it is appropriate to treat the air conditioning business as a non-core asset and value it separately. However, we have been requested not to disclose separately the valuation of this business.

The Segment Analysis in the 2003 Annual Report indicates that at 31 March 2003 the net assets of the air conditioning business totalled \$950,000 and management expect the recoverable amount to be more than this amount.

Leadenhall have valued the air conditioning business at greater than the net assets employed in the division of \$950,000.

### **9.2. Excess Working Capital**

We understand from our discussions with management that as at the year ended 31 March 2003, a number of events had occurred which resulted in Rib Loc's working capital being in excess of that required for the ongoing operations of the business.

Our enquiries of management indicated that there were plans for this surplus working capital to be realised in the months following the year-end. To be conservative, we have included approximately half of the surplus working capital identified by management in our calculation of Surplus Assets.

In addition, as at 31 March 2003, Rib Loc trade receivables contained an amount of \$699,000 for contract retention on a Middle East project. This amount has been included in our calculation of Surplus Assets.

We understand that management expects this amount to be paid prior to the end of the 2003 calendar year, in accordance with the signed agreement with the customer.



### **9.3. Tax Losses**

As at 31 March 2003, Rib Loc's accumulated tax losses (excluding timing differences) totalled \$4.7 million with a nominal future income tax benefit not brought to account of \$1.4 million.

Based on the expected profitability of Rib Loc, it is anticipated that these losses will be utilised over the next two years.

The tax saved as a result of utilising these accumulated tax losses, when discounted back to their present value, have a value of approximately \$1.2 million. This is subject to restrictions on the claiming/transferability of tax losses.

### **9.4. Foreign Exchange Cover**

Rib Loc has significant income generated in US dollar amounts and has a policy of taking out foreign exchange cover for each confirmed order. In addition, for minimum contracted licence fees, foreign exchange cover is taken to the end of the current financial year.

In addition, as the raw materials used by Rib Loc are worldwide commodities, they are impacted by movements in the US dollar. Although Rib Loc does not have a direct exposure as a result of these commodity imports, in the medium term, the \$A pricing of these commodities changes to reflect the movements in the \$US. This provides Rib Loc with a partial natural hedge to its exposure to the US dollar,

As at 30 June 2003 the aggregate amount of unrealised gains under forward exchange contracts relating to anticipated future transactions was \$642,256.

This amount has not been considered as a surplus asset as it is a normal part of Rib Loc's business and has been incorporated in the expected profitability for the year ending 30 March 2004.

### **9.5. Franking Credits/Special Dividend**

As at 31 March 2003, Rib Loc had a franking credit account of \$355,000.

In accordance with the *New Business Tax System (Imputation) Act 2002*, the adjusted franking account balance was stated on a tax paid basis, i.e. the company could pay dividends with a gross value of \$828,000, carrying tax credits of \$355,000.

The value of franking credits varies according to the nature of the tax position of the recipient of the dividends. For example, they have more value to a shareholder which is a superannuation fund than to an individual shareholder paying tax at the highest marginal rate.

The value of franking credits also depends upon the ability of the company to liberate the credits and pass them on to shareholders via dividends and the timing of the payment. The Board of Rib Loc has considered the payment of the dividend and has determined that they do not recommend the payment of the dividend in respect of the year ended 31 March 2003. However, as discussed in section 3.6.3, one of the terms that must be satisfied for the executive share options to be exercised is that a dividend must be paid in either of the years ended March 2004 or March 2005.



The value of franking credits is the value of some debate. However, the limited amount of the franking credits, when combined with the expectation that the company will not pay a substantial dividend in the immediate future, has resulted in Leadenhall concluding that the value of the surplus franking credits is not material.

#### **9.6. Exercise of Convertible Notes and Options**

As discussed in Section 3.6.2, the company has issued 1,000,000 fully paid convertible notes and, in addition, as discussed in Section 3.6.3, the company has issued 1,470,000 options.

The impact of the convertible notes and options on the valuation of Rib Loc is to increase the value of the company by approximately \$1.7 million (as a result of additional of \$0.7 million cash from the exercising of the options and \$1.0 million from the reduction of liabilities on the conversion of the notes).

However, the impact of the conversion of the notes and the exercising of the options is also to increase the number of issued shares by 3,470,000.

This has the impact of diluting the value attributable to the ordinary shareholders.

#### **9.7. Corporate Debt (Net of Cash)**

As the valuation we have undertaken has been on an invested capital basis, i.e. before interest expense, it is important to treat all debt as corporate debt and deduct it from the value derived.

As at 31 March 2003, Rib Loc's balance sheet recorded interest bearing liabilities (including convertible notes) of \$3,280,000 and cash at hand of \$383,000. Accordingly, the value of the enterprise has been reduced by \$2,897,000 to account for this net liability when arriving at the value of the entity Rib Loc.

#### **9.8. Potential Material Liabilities**

Note 38 of the March 2003 financial statements states that as at 31 March 2003, the consolidated entity had performance guarantees and product warranties with respect to Middle East pipe rehabilitation contracts. Provision has been made in the financial statements for any known and possible claims that may be made with respect to these contracts.

The directors of Rib Loc are not aware of any contingent liabilities which have the potential to have a material effect on the financial position of Rib Loc.





## 10. INCOME APPROACH VALUATION

Leadenhall's primary approach to the valuation of Rib Loc is that of discounted cashflows.

The methodology underlying discounted cashflows is to project the future earnings of the company, calculate yearly cashflow figures and convert these cashflows into a present day value (known as 'discounting').

Earnings figures are projected forward by determining reasonable assumptions with regards to the company's perceived future performance. These assumptions are driven from the latest results, having regard to trends and known factors affecting performance.

Earnings projections for the year ended March 2004 have been based on the budgets approved by Rib Loc's Directors. Earnings projections for the years ended March 2005 and March 2006 have been based on the strategic plan approved by the Directors and used to establish the hurdle rates for the conversion of options.

Earnings projections from April 2006 onwards have been extrapolated from historic and strategic plan forecast earnings, normalised to account for items as discussed in Section 8, Adjustments To Earnings And Other Assumptions.

### 10.1. Model Assumptions

A financial model has been constructed (in accordance with the strategic plan) using nominal (including inflation) dollars for projections. The financial model has been run using a set of assumptions regarding earnings projections that are consistent with the budgets and strategic plan approved by the Board for the three years ending March 2006.

The key growth assumptions used in the point estimate model are:

	Compounding Annual Sales Growth (in Nominal Terms)		
	Years 1 – 5	Years 6 – 10	Ongoing
Rehabilitation	17.5%	4.4%	3.0%
Pipe	17.7%	3.8%	3.0%
Licence Income	7.5%	3.0%	2.3%
<b>Total</b>	<b>15.7 %</b>	<b>4.1%</b>	<b>2.9%</b>

The projections were prepared on an annual basis. They show a continuing strong growth for the next few years.

Other key assumptions include:

- No change in accounting policies.
- The results of the air conditioning business being excluded from the analysis.
- No significant change in business activities and competitive situation.
- The improvement in gross margin achieved in the year ended 31 March 2003 is sustained.
- Technology and administration expenses generally increasing in line with inflation.
- Depreciation and replacement capital expenditure equate to each other, with plant expansion capital expenditure accounted for separately based on the forecast growth.
- Working capital funded out of free cashflow and projected to increase in line with sales increases.



- Tax at a rate of 30% for all years.
- Contracted minimum licence income has been discounted using a lower discount rate of 11.1% than that used of 14.7% for the core businesses. This is to reflect the lower risk of the contracted minimum licence income. The determination of discount rates is set out in Appendix C.

In order to present shareholders with an understanding of the basis and variability of the modelling, we have set out above the key assumptions used in the model. [It should be appreciated that due to the detailed nature and complexity of the model there are some re-iterations and routines which are not as simple as the application of a simple percentage. However we believe that the table provides a fair representation of the effects of the model.]

The model values the Rib Loc business enterprise at approximately \$24.7 million.

The results and the value per share assessment can be summarised as follows:

	<b>Report Ref.</b>	<b>Strategic Plan (\$ million)</b>
Valuation using Income Approach	10.1	24.7
Plus: Non Core Assets & Surplus Working Capital	9.1 & 9.2	2.4
Tax Losses	9.3	1.2
Less: Corporate Debt (Net of Cash)	9.7	(2.9)
<b>Adjusted Valuation</b>		<b>25.4</b>
<b>Number of Shares on Issue</b>	<b>3.5</b>	<b>27,449,832</b>
<b>Value of Ordinary Shares Pre-Dilution</b>		<b>\$0.93 per share</b>
		<b>Strategic Plan (\$ million)</b>
Value as Above		25.4
Amount Receivable by Rib Loc		
- on conversion of Notes	9.6	1.0
- on exercise of Options		0.7
<b>Revised Valuation</b>		<b>27.1</b>
Impact on Number of shares of:		
- conversion of Notes	9.6	2,000,000
- exercise of Options		1,470,000
<b>Revised Number of Shares on Issue</b>		<b>30,919,832</b>
<b>Value of Ordinary Shares Post-Dilution</b>		<b>\$0.88 per share</b>

## 10.2. Sensitivity Analyses

In addition to the “Strategic Plan” scenario described above, sensitivity analyses has been undertaken for:

- a “Lower Growth Scenario” (which assumes 10% less growth than the Strategic Plan);
- a “Low Growth Scenario” (which assumes 5% less growth than the Strategic Plan);
- a “Mid Growth Scenario” (assuming half the additional sales of the High Growth Target are achieved); and



- a “High Growth Target Scenario” (established in discussions with management).

These scenarios and the various assumptions are described further in Appendix B.

The resulting values per share can be summarised as follows:

	<b>Lower Growth</b>	<b>Low Growth</b>	<b>Base Case</b>	<b>Mid Growth</b>	<b>High Growth</b>
<b>Value per Share (Diluted)</b>	<b>\$0.65 per share</b>	<b>\$0.79 per share</b>	<b>\$0.88 per share</b>	<b>\$1.22 per share</b>	<b>\$1.60 per share</b>

The valuation is particularly sensitive to the assumptions made about growth in the first five years.

Despite Rib Loc’s below budget performance in the first quarter ended 30 June 2003 the Directors and management of Rib Loc have confirmed their expectation of the achievement of the Strategic Plan as a minimum for the year ending 31 March 2004.

### **10.3. Preferred Valuation Range**

Having considered the information provided by Rib Loc’s management (incorporated in the various scenarios) and the year to date financial performance of Rib Loc, as well as directors representations regarding the achievability of the current full year budget, Leadenhall’s preferred valuation range of Rib Loc is \$0.79 to \$1.22 per share.



## 11. VALUATION METRICS

### 11.1. Overview

When undertaking a valuation, it is usual to apply other methodologies as a cross check of the valuation conclusion reached using the primary methodology.

For the purposes of this valuation it would be usual to cross check the valuation conclusion using comparable transactions and/or a capitalisation of earnings using market derived EBIT multiples or PE ratios.

However, as the Rib Loc business and its technology are so specialised, it has been difficult to identify comparable companies and transactions. This issue is discussed further in Section 11.2.

Due to the lack of comparable companies it has been necessary to calculate the implied valuation metrics derived from the income approach. This has been undertaken in Section 11.3.

In Section 11.4 these derived or implied valuation metrics are then compared with EBIT multiples and PE ratios obtained from the market as a whole, the sector and small companies in general.

### 11.2. Comparable (Guideline) Companies

As discussed above, due to the specific nature of the Rib Loc business and its technology, it has been difficult to identify comparable companies and transactions.

In Appendix D we have summarised the companies identified and the reasons for excluding those companies from further analysis.

Milnes Holdings Ltd was considered to be the only relevant comparable company within the construction materials sector. Crane Group Ltd was considered to be the only relevant comparable competitor.

Price Earnings Ratios and EBIT Multiples of the two companies were calculated by Leadenhall as at 30 June 2003, as shown below:

	Milnes Holdings	Crane Group Ltd
Price Earnings Ratio	25.6	11.2
EBIT Multiple	16.0	8.3

Note that these numbers do not take into account potential adjustments for risk and control for closer comparability to Rib Loc. However, due to the small sample size of comparable companies, this approach was not considered further.

Milnes Holdings Ltd ["Milnes"] is also currently subject to a take-over offer from Iplex Pipelines Australia. In the Milnes Target's Statement, it is stated that:

*"...the Independent Directors consider an appropriate range of capitalisation multiples to be applied to the Pro-forma 2003 NPAT of the Company excluding Icon to be 9.5 to 11.5 times."*

As the result of a bidding war, Iplex Pipelines increased its offer to \$1.50 per share. This equates to an imputed PE ratio of 10.5.



### 11.3. Implied Metrics

In this Section, we calculate the derived or implied EBIT multiples and PE ratios for the years ending 31 March 2004 and 31 March 2005 using the data from Section 10 – Income Approach and Leadenhall's preferred valuation range.

Where data is available, it is preferable to use EBIT (earnings before interest and tax) multiples, or a variant thereof, applied to EBIT results. This method removes the gearing differences between companies and enables comparisons to be made on a like for like basis for the value of the underlying business, irrespective of the way the business is financed. The value of the business is calculated using an EBIT multiple and, then in assessing the value of the company, the amount of debt carried by the company is deducted. However, due to the limited comparable data available a PE ratio has also been applied.

The initial stage of a market capitalisation valuation is to analyse the reported net profit after tax for prior and current periods. In this instance due to the expected increase in profitability of Rib Loc, we have used the targeted results for the year ending 31 March 2004 and for the year ending 31 March 2005.

The following table details the calculations for Rib Loc's implied EBIT multiple and PE ratios:

Year Ended	Strategic Plan Scenario	
	2004 \$ million	2005 \$ million
Indicative Enterprise Valuation	24.7	
Strategic Plan EBIT	2.17	3.52
<b>Implied EBIT Multiple</b>	<b>11.4</b>	<b>7.0</b>
Indicative Enterprise Valuation	24.7	
Less Corporate Debt (Net of Cash)	2.9	
<b>Indicative Entity Value (excluding Surplus Assets)</b>	<b>21.8</b>	
Net Profit after Interest and Tax <sup>(1)</sup>	1.4	2.3
<b>Implied PE ratio</b>	<b>15.6</b>	<b>9.4</b>

Note 1: After deducting interest and applying a tax charge, as tax losses are valued separately.

Based on the valuation derived using a discounted cashflow approach, the 2004 EBIT multiple implied by the valuation is 11.4 for the Strategic Plan Scenario. This is a high EBIT multiple.

However, the implied 2005 EBIT multiple is 7.0 for the Strategic Plan Scenario. This is a more normal EBIT multiple for a business of this size although still on the high side.

The impact on PE ratios is similar, with the derived 2004 PE ratio being 15.6 for the Strategic Plan Scenario. This is a high PE ratio.

However the implied 2005 PE ratio is 9.4 for the Strategic Plan Scenario. This is a more normal PE ratio for a business of this size.



These calculations underscore the importance of achieving the Strategic Plan and providing confidence that the company can achieve above average growth in order to justify high market multiples.

In setting out the estimates of earnings in order to derive a value, it should be noted that the figures for the years ending March 2004 and 2005 have been normalised (by removing the expected earnings of the air conditioning business, along with other adjustments) for the purposes of these calculations only and that the actual reported results will not reflect the above normalisation adjustments.

#### **11.4. Market Multiples**

In this section, the EBIT multiples and PE ratios derived or implied from the income valuation approach are compared with metrics obtained from the market as a whole, the sector and small companies in general.

The data in Appendix D sets out market multiples for the Australian industrials market and, in addition, it contains a study of a comparison of PE ratios for small companies compared with large companies.

The table below sets out the resultant multiples, including the premium for control factor.

	<b>High Base Earnings Assumptions</b>	<b>Low Base Earnings Assumptions</b>
<b>Selected PE ratio for this evaluation</b>	<b>11</b>	<b>13</b>

These market derived PE ratios are lower than Rib Loc's PE ratio implied from the income valuation approach for the 2004 year but acceptable when considering the 2005 year.

#### **11.5. Summary**

The limited comparable (guideline) companies data available provided EBIT Multiples of 8.3 to 16.0 and PE ratios of 9.5 to 25.6, a significantly greater variation than those implied for Rib Loc from the income valuation approach.

Leadenhall's study of PE ratios derived from the small companies listed on the ASX provides a range of between 11 and 13.

The implied 2005 PE ratio for Rib Loc of 9.4 for the Strategic Plan Scenario is reasonable in comparison with the above ranges but indicates that the valuation is very dependent on the Strategic Plan (and particularly the 2004 results) being achieved. If the Strategic Plan were achieved, the multiples implied by the discounted cashflow valuation would be realistic for a company of Rib Loc's size.

However, until there is demonstrated achievement of the targeted results, in our opinion, the market is unlikely to accord a full value rating to the shares of Rib Loc.



## **12. CONSIDERATIONS AS TO WHETHER TO ACCEPT**

### **12.1. Minority Issues**

In the absence of any higher bid before the close of the FPL offer, there are a number of significant issues which individual shareholders should consider, namely:

- (i) Chevalier, at the time FPL made its offer, was entitled to 22.74% of the issued shares of Rib Loc.
- (ii) The next two largest shareholders and their associates<sup>17</sup> are entitled to 35.51% and 17.45%. We understand that these shareholders are not associated with each other (refer Section 3.6, Shareholder Structure and History).
- (iii) If the Convertible Note holders elect to convert their notes into fully paid ordinary shares, the next two largest shareholders and their associates will become entitled to 37.10% and 18.55% respectively.
- (iv) We are not aware of any other shareholders being associated who collectively are entitled to more than 5%.
- (v) The offer is not subject to a minimum acceptance condition and relatively few acceptances will result in decreased liquidity in the trading volume of the shares on the ASX.

Chevalier has the largest shareholding entitlement in Rib Loc and thus should only a relatively few shareholders accept their offer, Chevalier will be in a position to influence the composition of the Board of Directors and hence the operations of Rib Loc and/or to prevent another party from exercising control. Should that occur, shareholders who do not accept could be locked into an effective minority position and could face a restraint on the market price of their shares as it would be anticipated trading in Rib Loc's shares will become even more illiquid.

### **12.2. Share Price**

The value of a minority shareholding in a company is largely a reflection of its dividend earning capacity. Rib Loc has not paid a dividend in the last few years and the directors have not recommended one in respect of the year ended March 2003.

### **12.3. Tax**

The acceptance of the offer made by FPL may crystallise a tax liability for individual shareholders and any offeree in doubt about their particular circumstances should consult their independent adviser.

### **12.4. Alternative Offerors**

As at the date of this IER, there has been no other offer made in respect of Rib Loc or its securities.

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<sup>17</sup> As discussed in section 3.6.1, a number of shareholders are associates of SWOM Pty Ltd.



### 13. CONCLUSION AND OPINION

The results of Rib Loc have been variable with profit dropping from the year ended March 2001 to a loss in the year ended March 2002 and a recovery in the year ended March 2003.

Results for the first quarter to 30 June 2003 were worse than budgeted primarily due to the timing of expected overseas sales, however the results show the continued growth of the company. The directors and management of Rib Loc anticipate that the full year budget to 31 March 2004 will be achieved.

Rib Loc's Directors and management have confirmed the reasonableness and expected achievability of the three-year strategic plan and of the High Growth Scenario as a target.

Results in succeeding years are expected to show a further improvement from new and existing overseas licensees and the impact of the SRP Technology. There may be the possibility of gains to be made from the plan to cover irrigation channels in Australia but as there is currently no funding to undertake a project of this size the potential income is not capable of assessment and has not been included

The new pipe and pipe rehabilitation industries are expected to exhibit consistent growth levels in the next few years, however increasing price competition may impinge on the anticipated profitability.

Rib Loc's interest bearing debt to equity ratio was approximately 12% as at 31 March 2003. It is believed that the company has the capacity to fund its additional working capital and plant expansion requirements.

Accordingly, in assessing the value of Rib Loc and the offer made by FPL, consideration must be given to both past results and the potential for the future.

#### **Preferred Range**

In selecting a lower end of the value range, we believe that it is prudent to consider the possible under achievement of the target results for the year ending 31 March 2004. Accordingly, we prefer to use a valuation based on the base case with 5% less growth than that targeted.

In selecting an upper end of the range, whilst we accept that the high growth target is possible, the forward growth rates are high. The high growth valuation also produces EBIT multiples and PE ratios which are at the upper end of what may be achievable in the marketplace. Accordingly, we prefer to use a mid-growth rate as an upper end range of valuation. In time, if and when Rib Loc achieves the higher growth rate, then a reassessment could be made of its potential higher value.

Given the under performance for the three months to 30 June 2003 compared with budget and the expected performance by management of bringing results back into line with budget by 31 March 2004, our preferred range of values uses:

Lower end	Low Growth Scenario - Base case less 5% volume growth
Upper end	Mid Growth Scenario - i.e. halfway between the growth rates of the base case and the high growth target range.

#### **Conclusion as to whether FPL's Offer is Fair and Reasonable**

Our preferred value range of Rib Loc is \$0.79 to \$1.22 per share.

As a result of the uncertainty and potential for growth in the future, our assessed valuation range is wider than would normally be the case and shareholders should pay particular attention to the issues affecting the expected future results.

The offer from FPL is \$0.70 cash per share.





Accordingly, in our opinion the offer is not fair as the offer price does not fall within Leadenhall's preferred valuation range for Rib Loc's shares.

However, in our opinion, in the absence of any higher bid, the offer is reasonable because of:

- the variable past results;
- the under-performance year to date;
- the forward high multiples implied by the valuation;
- the past prices at which Rib Loc shares have been traded and at which they could be expected to trade in the absence of the offer;
- the low trading volume and hence liquidity of Rib Loc's shares on the ASX;
- the uncertainty regarding the achievability of the future growth and corresponding increase in profitability;
- the current non dividend paying status of Rib Loc;
- the existing shareholding position of Chevalier; and
- the fact that the full benefit of the expected growth is yet to be achieved.

There are significant considerations that shareholders should bear in mind in assessing this offer and they are set out in the preceding section, Considerations as to Whether to Accept.

The advantage to shareholders of accepting the offer is the receipt of a cash sum which is certain. The disadvantages are that they may be foregoing either a better offer, or, retaining shares in a company which improves its earnings according to management's expectations with a resultant value greater than that offered by FPL.

The cash offer made by FPL is higher than the share prices in trading before the offer was announced and it is likely that, in the absence of another offer or in the absence of improved reported results, the share price of Rib Loc will fall back below the offer price after the expiry of the offer period.

Before taking any action, shareholders should consider the whole of this IER. Acceptance or rejection of the offer is a matter for individual shareholders based on their own views as to value, future market conditions, risk profile, liquidity preference, portfolio strategy and tax position. Shareholders' decisions as to whether to accept the offer may be influenced by their particular circumstances and if shareholders are in doubt, they should consult an independent adviser.

For and on behalf of Leadenhall Australia Limited:

T O Lebbon  
EXECUTIVE DIRECTOR

Holder of a proper authority from Leadenhall Australia Limited under Licensed Securities Dealer Number 10789.



## **APPENDICES**

Appendix A	Rib Loc's Financial Results
Appendix B	Scenario Valuation Assumptions
Appendix C	Determination of Discount Rates
Appendix D	Comparable Company Data
Appendix E	Sources of Information
Appendix F	Qualifications, Fees, Disclaimer and Consent



## Appendix A

### Rib Loc's Financial Results

The reported financial performance of Rib Loc on a consolidated basis is summarised below.

#### Statement of Financial Performance

Months Year Ended	12 31 March 2001 <sup>(1)</sup> (\$'000s)	12 31 March 2002 <sup>(1)</sup> (\$'000s)	12 31 March 2003 <sup>(1)</sup> (\$'000s)
Sales Revenue	23,114	19,661	23,842
EBITDA (pre Abnormal Items)	4,061	(3,843)	2,872
Depreciation & Amortisation	2,458	2,475	1,166
Abnormal Items	510	-	-
EBIT	1,093	(6,318)	1,706
Interest Expense	362	226	260
Profit Before Tax	731	(6,544)	1,446
Income Tax	10	10	7
Operating Profit After Tax	721	(6,554)	1,439
Earnings per Share	2.87	(24.42)	5.24

(1) Source: Statutory financial statements.



## Appendix B

### Scenario Valuation Assumptions

The valuation results summarised in section 10.1 of this Report are based Rib Loc's three year Strategic Plan, which has been approved by the Directors and forms the basis of the performance hurdles used in the Executive Share Option Schemes as discussed in section 3.6.3.

As discussed in section 10.2, in addition to the "Strategic Plan" scenario, sensitivity analyses have been undertaken for:

- a "Lower Growth Scenario" (which assumes 10% less growth than the Strategic Plan);
- a "Low Growth Scenario" (which assumes 5% less growth than the Strategic Plan);
- a "Mid Growth Scenario" (assuming half the additional sales of the High Growth Target are achieved); and
- a "High Growth Target Scenario" (established in discussions with management).

The High Growth Target Scenario provides for the upside possibilities on the Strategic Plan Scenario set of assumptions. The higher sales levels were derived from discussions with and have been reviewed and confirmed by the directors as a reasonable but achievable stretch target. It is to be recognised that these assumptions are not part of the company's strategic plan, nor the basis of hurdle rates for the exercise of executive options. These assumptions have been reviewed by Leadenhall and are believed to be reasonable for the purposes of analysing a potential upside case, assuming that the benefits from the development of the platform technologies described in Section 3.3 are derived and deliver commercial benefits.

The "Low Growth Scenario" and "Lower Growth Scenario" were developed as more conservative estimates, partially in response to Rib Loc's performance being lower than budgeted for the quarter ended 30 June 2003. We note Rib Loc's management has provided analysis and commentary supporting their expectation that the full year results, and the strategic plan, will still be achieved. Rib Loc's management believe the poor performance to date is a result of timing differences and that sufficient orders are now in hand, or will be received later in the year, to allow the poor performance to date to be recouped by year end. However, due to the relatively large impact on value of a small change in earnings, these additional scenarios were developed and considered.

	Scenarios				
	Lower Growth	Low Growth	Strategic Plan	Mid Growth	High Growth
Total Compounding Annual Sales Growth					
- Years 1 to 5	13.7%	14.7%	15.7 %	21.0%	25.9%
- Years 6 to 10	4.0%	4.1%	4.1 %	5.1%	6.0%
- Ongoing	2.9%	2.9%	2.9 %	2.9%	2.9%
EBITDA	\$'000	\$'000	\$'000 <sup>(1)</sup>	\$'000	\$'000
- Y/ending 31 March 2004	2,493	2,764	3,627	3,637	3,648
- Y/ending 31 March 2005	3,946	4,186	4,812	5,565	6,489
- Y/ending 31 March 2006	4,867	5,162	5,851	7,973	10,265
Average Discount Rate (including minimum licence income)	13.9%	14.1%	14.1%	15.5%	16.9%

Note (1): EBITDA results do not agree with the results disclosed in Section 6.4 of this report, due to different assumptions regarding exchange rates as discussed in Section 8.2 of this report.

Other assumptions include:



- Increased capital expenditure for plant expansion to accommodate the increased growth.

The results and the value per share assessment are summarised below:

	<b>Lower Growth \$ million</b>	<b>Low Growth \$ million</b>	<b>Base Case \$ million</b>	<b>Mid Growth \$ million</b>	<b>High Growth \$ million</b>
<b>Valuation – Core Operations</b>	<b>17.7</b>	<b>22.0</b>	<b>24.7</b>	<b>35.4</b>	<b>46.9</b>
Net Adjustments (Surplus Assets, Working Capital, tax Losses and Net Corporate Debt. Sections 9)	0.7	0.7	0.7	0.7	0.7
<b>Total Company Value</b>	<b>18.4</b>	<b>22.7</b>	<b>25.4</b>	<b>36.1</b>	<b>47.6</b>
Number of Shares on Issue (Refer Section 3.6)	27,449,832				
<b>Value Range Of Ordinary Shares Pre-Dilution</b>	<b>\$0.67 per share</b>	<b>\$0.83 per share</b>	<b>\$0.93 per share</b>	<b>\$1.31 per share</b>	<b>\$1.73 per share</b>
Revised Valuation Range post dilution	20.1	24.4	27.1	37.8	49.3
Revised Number of Shares on Issue (Refer section 9.6)	30,919,832				
<b>Value Range Of Ordinary Shares Post-Dilution</b>	<b>\$0.65 per share</b>	<b>\$0.79 per share</b>	<b>\$0.88 per share</b>	<b>\$1.22 per share</b>	<b>\$1.60 per share</b>



## Appendix C

### Determination of Discount Rates

The selection of a discount rate (or rate of return) takes into account not only the time value of money but also the risk of projected earnings not being achieved and alternative investments available from a shareholder's perspective.

A benchmark rate of return often referred to is that of the S&P/ASX 200 Accumulation Index.

The compounded annual rate of return for the S&P/ASX 200 Accumulation Index over the past twenty years has been 12.89% per annum. Over this period, inflation has averaged 4.24% per annum. (For the past ten-year period, these figures are a 9.85% nominal S&P/ASX 200 Accumulation Index return and a 2.64% inflation rate.)

An alternative calculation can be undertaken to cross check the above 20-year period real rate of return. Finance theory posits that an investment's rate of return is a function of the risk free rate of return (that available on Government debt) and the market risk premium (returns in excess of the risk free rate which compensate for the additional risk of the investment being analysed, relative to the risk free investment).

The 10 year Commonwealth Bond rate is commonly used as a surrogate for the risk free rate. This rate was 5.01% as at 30 June 2003.

Numerous studies have been undertaken into the size of the market risk premium for Australian equities. The Securities Institute of Australia's *Applied Valuation* subject of 2000 refers to such studies as:

- |                |                              |
|----------------|------------------------------|
| • 6.0%         | Irving (1991)                |
| • 6.0%         | Department of Finance (1991) |
| • 8.0%         | Bowers and Ball (1988)       |
| • 7.0% to 8.0% | Department of Finance (1987) |
| • 7.9%         | Officer (1985)               |

*A report<sup>18</sup> prepared for the ACCC in June 2000 reviewed a number of methods for calculating the market risk premium and concluded "that the ACCC's currently employed estimate of .06 is reasonable, and no change is recommended."*

Accordingly Leadenhall has applied a market risk premium of 6.0% for the purpose of this calculation.

Using the above inputs, the prospective rate of return of a diversified portfolio of Australian equities can be calculated by applying a derivative of the Capital Asset Pricing Model:

$$K_e = R_f + \text{Market Risk Premium}$$

which yields a nominal rate of return of 11.01%.

The Accumulation Index returns calculated above are representative of a diversified portfolio of equities. A single investment in Rib Loc, however, lacks this diversity. A premium must therefore be applied to the real market rate of return to compensate for the additional business and geographic risk of Rib Loc.

In addition, a further premium must be applied to compensate for the growth assumptions incorporated in Rib Loc's earnings projections. A higher discount rate will reflect the uncertainty of Rib Loc achieving these projections.

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<sup>18</sup> The Cost Of Capital Under Dividend Imputation, Martin Lally, Associate Professor School of Economics and Finance, Victoria University of Wellington



Taking the above risk factors into consideration, we have applied post tax nominal discount rates of 11.1% to the contracted minimum licence income and 14.7% to the Strategic Plan Scenario, increasing to 17.4% for the High Growth scenario.

Throughout this discussion, it is important to note that the use of nominal discount rates includes inflation effects. In addition, when comparing discount rates to capitalisation multiples it should be noted that capitalisation multiples are increased for the expected growth rate in earnings. The formula to convert a discount rate to a capitalisation multiple is:

$$\frac{1}{(r - g)} = \text{Capitalisation Multiple}$$

Where:

r = the discount rate per the above calculations

g = growth rate of earnings

For consistency in calculations, r and g must either both be in nominal terms or both in real terms. Our analyses have been undertaken on a nominal basis.



## Appendix D

### Comparable Company Data

#### Comparable (Guideline) Companies

Leadenhall have considered various companies for the purpose of compiling comparable PE ratios and EBIT Multiples. The companies considered were mainly companies within GICS class 3 (construction materials), of which Rib Loc is a part, as well as any listed competitors of Rib Loc.

Many of the companies were considered to be too large or diversified to form a reasonable comparison with Rib Loc (e.g. CSR, Boral and James Hardie). Other companies in GICS class 3 were not considered further because their activities were dissimilar to those of Rib Loc (e.g. Globe Securities Ltd, Armourglass Ltd and Suntech Environmental Group Ltd).

Milnes Holdings Ltd was considered to be the only relevant comparable company within the construction materials sector. Crane Group Ltd was considered to be the only relevant comparable competitor.

Price Earnings Ratios and EBIT Multiples of the two companies were calculated by Leadenhall as at 30 June 2003, as shown below:

	Milnes Holdings	Crane Group Ltd
Price Earnings Ratio	25.6	11.2
EBIT Multiple	16.0	8.3

Note that these numbers do not take into account potential adjustments for risk and a premium for control for closer comparability to Rib Loc. However, due to the small sample size of comparable companies, this approach was not considered further.

#### Comparable Transactions

Milnes Holdings Ltd ["Milnes"] is also currently subject to a take-over offer from Iplex Pipelines Australia and a second company, Etex Holdings BV, has stated its intention to make a higher offer for Milnes. In the Milnes Target's Statement, it is stated that:

*"The Independent Directors consider an appropriate range of capitalisation multiples to be applied to the Pro-forma 2003 NPAT of the Company excluding Icon to be 9.5 to 11.5 times."*

#### Small Listed Company Multiples

Due to the relative paucity of comparable companies from an industry viewpoint, we have sourced market data for a range of smaller companies traded on the Australian Stock Exchange. This data was taken from the Australian Stock Exchange Market Comparables Report as at 30 June 2003.

All companies chosen displayed the following characteristics:

- positive earnings;
- trading operations (i.e. resource and investment companies were eliminated);
- price earnings multiples between 0 and 30; and
- market capitalisations between \$10 million and \$40 million.

Small companies do not enjoy the same high rating as large companies for capitalisation multiples. There is a well documented small company effect in the US market and some evidence can be drawn in the





Australian context. An alternative way of approaching this is to review multiples for small companies rather than for the market as a whole. The table below shows the market capitalisation weighted average multiples for a selection of companies. We have based our estimate of a reasonable multiple on a sample of small companies. No two companies are exactly the same, neither from a growth viewpoint nor from a risk viewpoint, be it financial risk or business risk. The individual companies selected are not directly comparable, but the sample overall is relevant as a comparable surrogate for multiples to be applied to smaller companies.

The sample size has been selected based on a range encompassing the potential values which might apply to Rib Loc.

Sub-samples were then constructed based on various combinations of market capitalisation and price earnings multiples. A table of comparative data follows:

Sample Market Capitalisation (\$m)	Sample Price Earnings Ratio Ranges			
	0-25	0-30	5-25	5-30
	Resultant Weighted Average Price Earnings Ratios			
10-30	10.4	10.6	11.1	11.4
10-35	10.7	10.9	11.6	11.9
10-45	11.1	11.3	12.0	12.2

The All Ordinaries PE ratio averaged 15.4 as at June 2003.

A premium for control of between 20% and 30% is required to be added to the PE ratio selected for the valuation of 100% of a business. This factor recognises that a premium for controlling 100% of the shares in an entity (rather than a minority shareholding) does exist. In this valuation we have used a premium for control of 25%.

The PE ratios drawn from the market are those as at 30 June 2003. They are current prices based on historic earnings. To the extent that one could expect earnings to be increasing overall, these multiples are higher than today's market capitalisation of companies compared with current or projected earnings. The difference typically is a reciprocal of the earnings growth. We have allowed for this in assessing a reasonable market multiple for capitalising Rib Loc's earnings.

A summary of the process applied to determine the high and low PE ratios used in this valuation is detailed in the following table:



	<b>P E Ratios</b>	
	<b>Small Capitalisation Stocks (Market Average, Historic Earnings)</b>	
	<b>Range</b>	
Range: <u>Plus</u> 25% Control Premium	10.4	12.2
<b>Mid-Point PE ratio</b>	<u>2.6</u> 13.0	<u>3.0</u> 15.2
	<b>14.1</b>	
	<b>Adjustments</b>	
<u>Less</u> Adjustments for other considerations including:		
Industry prospects	Yes	Yes
Variable past profits	Yes	Yes
Prospective versus historic earnings	Yes	Yes
Higher earnings	No	Yes
	<b>Preferred Range to use for Rib Loc</b>	
	<b>Base Case Earnings Assumptions</b>	<b>High Growth Earnings Assumptions</b>
<b>Selected PE ratio for this evaluation<sup>(1)</sup></b>	<b>11</b>	<b>13</b>

Notes

(1) Lower value obtained due to discounts applied.



## **Appendix E**

### **Sources of Information**

In preparing this IER, we have had access to:

- Discussions with the Chairman, Chief Executive and senior members of management of Rib Loc.
- Financial statements for the years ended 31 March 2001, 2002 and 2003.
- Management Accounts for the three months ended 30 June 2003.
- Internal management budgets and strategic plan for the years ending 31 March 2004, 2005 and 2006.
- Board papers of Rib Loc.

We have not undertaken an audit of the data provided to us and have relied upon that data.



## **Appendix F**

### **Qualifications, Declarations, Disclaimer and Consent**

#### **Qualifications**

Leadenhall is an Adelaide based corporate advisory firm. Leadenhall is a licensed securities dealer (number 10789) under the Corporations Act.

Mr Tim Lebbon is the Executive Director of Leadenhall and the holder of a proper authority from Leadenhall. He has over thirty years' experience in accounting and consulting. Mr Lebbon is co-author of the major reference work, *Australian Valuation Handbook*. Professional memberships include: Fellow of the Securities Institute of Australia, Fellow of the Institute of Chartered Accountants in England and Wales, Fellow of the Australian Society of CPAs and he is a Certified Valuation Analyst (USA).

Other staff of Leadenhall, Mr Simon Dalgarno, Mr Philip Mann and Mr Peter Snaith assisted with the preparation of this Report.

#### **Declarations**

Leadenhall does not have any interest in the outcome of the take-over offer made by FPL. Leadenhall is entitled to a fee for services rendered, estimated to be \$60,000, and based on time spent at normal hourly rates. The fee payable to Leadenhall is in no way dependent upon the outcome of the take-over offer. Neither Leadenhall nor any of the persons involved in the preparation of this report have held shares in Rib Loc.

An early draft of Sections 2 through 12 was submitted to management on 8 July 2003. A draft of this IER (Sections 2 through 12) dated 28 July 2003 was submitted to the directors of Rib Loc for review of correctness with regards to factual information contained in the report. No changes have been made to the valuation or our opinions as a result of that review.

As part of its terms of engagement, Rib Loc has provided Leadenhall with a representation letter and an indemnity.



### **Disclaimer**

Leadenhall's opinion is based on economic, share market, business trading and other conditions and expectations prevailing at the date of this Report. These conditions can change significantly over relatively short periods of time. If they do change materially, Leadenhall's valuation and opinion could be different in these changed circumstances.

This Report is based on financial and other information provided by Rib Loc. Leadenhall has considered and relied upon this information and has no reason to believe that any material facts have been withheld. The information provided has been evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the FPL offer is fair and reasonable. However, in preparing reports such as this, time is limited and Leadenhall does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to fairness and reasonableness is more in the nature of an overall review rather than a detailed audit or investigation.

An important part of the information used in forming an opinion of the kind expressed in this Report is comprised of the opinions and judgments of management. This type of information was also evaluated through analysis, enquiry and review to the extent practicable. However, such information is often not capable of external verification or validation.

Rib Loc is responsible for the forward looking statements. Leadenhall has used and relied on those forward looking statements for the purposes of its analysis and has assumed that these forward looking statements were prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such estimates. Leadenhall has assumed that these forecasts do not reflect any material bias, either positive or negative, and has no reason to believe otherwise. The major assumptions underlying these forward looking statements were reviewed by Leadenhall in the context of current economic, financial and other conditions.

Compilation and preparation of this document involved making judgments which may be affected by unforeseen future events including wars, economic disruption, dislocations, business cycles, industrial relations, labour difficulties, political action, changes of government and other factors, the effects of which are not capable of precise assessment. In many cases, value judgments must be made based on material compiled by government agencies, scientific organisations, research organisations, industrial, commercial and professional organisations and others.

Leadenhall will not be liable for any loss or damage caused to its client, or any other third party as a result of any errors in data which is either supplied by the client, supplied by a third party to Leadenhall, or which Leadenhall is required to estimate.

This Independent Expert's Report contains various forward looking statements. All statements other than statements of historical fact are forward looking statements. Forward looking statements are inherently uncertain in that they may be affected by a variety of known and unknown risks and other factors which could cause actual values or results, performance or achievements to differ materially from those expressed or implied in those forward looking statements.

Leadenhall makes no representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law.

All surveys, forecasts, projections and recommendations contained or made in relation to or associated with this document are made in good faith and on the basis of information supplied to Leadenhall at the date of preparation. Achievement of the projections and budgets set out in this document will depend, among other things, on the actions of others over which Leadenhall has no control.

Leadenhall is not an expert in the field of taxation or law. Leadenhall shall not be liable for any loss, damages or penalties which may result from any failure to obtain independent taxation or legal advice.



This IER has not been prepared for any purpose other than to accompany the Target's Statement of Rib Loc in response to the Bidder's Statement issued by FPL. This IER should not be used for any other purpose.

**Consent**

Neither the whole nor any parts of this document may be appended or referenced to in any documents without the prior written consent of Leadenhall.

Leadenhall consents to the inclusion of this report, in the form and context in which it is included, as an annexure to the Target's Statement, and for the statements in Sections 3.2, 3.4 and 4.16 of the Target Statement to be included in the Target Statement in the form and context in which those statements have been included.