

# **RATTOON**

**H o l d i n g s L i m i t e d**

*A.B.N. 16 076 611 268*

## **Notice of Special Meeting and Notice of General Meeting**

### **Selective Capital Reduction**

#### **Shareholder Meetings for the proposed Selective Capital Reduction**

The Board has resolved to convene two shareholder meetings to consider, and if thought fit, to approve, the proposed selective capital reduction and related matters.

Special Meeting of Shareholders: 21 February 2011 - 11:00am.

General Meeting of Shareholders: 21 February 2011 – 11:30am (this meeting may be postponed or adjourned if the Special Meeting hasn't concluded by 11:30am).

#### **Notice of Meeting**

Attached are the Notices of Meeting for the Special Meeting and the Notice of Meeting for the General Meeting, together with an explanatory memorandum and a report from the independent expert. The Notice and accompanying materials are expected to be despatched to shareholders shortly.

If shareholders have any questions, in the first instance, please contact the Company Secretary, Martin Casey on (03) 9280 1717.

#### **Martin Casey**

Company Secretary  
Rattoon Holdings Ltd  
ACN 076 611 268

17 January 2011

# **RATTOON**

**H o l d i n g s   L i m i t e d**

*A.B.N. 16 076 611 268*

**NOTICE OF SPECIAL MEETING**

**AND**

**NOTICE OF GENERAL MEETING**

**AND**

**EXPLANATORY MEMORANDUM**

**TO SHAREHOLDERS**

These materials contain the Notice and accompanying materials for both shareholder meetings.

**Day, Date & Time of  
Special Meeting:**

21 February 2011 at 11:00am (Melbourne time)

**Day, Date & Time of  
General Meeting:**

21 February 2011 at 11:30am (except if the Special Meeting has not concluded by 11:30am then the start of this General Meeting may be postponed/adjourned until after the conclusion of the Special Meeting)

**Place of Special Meeting  
and General Meeting:**

Bell Potter Securities  
Level 29, 101 Collins Street  
Melbourne VIC 3000

**THIS IS AN IMPORTANT DOCUMENT**

If you are in any doubt about the information provided or the action you should take, you should consult your financial, taxation or other professional adviser.

# RATTOON

H o l d i n g s L i m i t e d

A.B.N. 16 076 611 268

## Proposed Selective Capital Reduction

### Notice of Special Meeting of Shareholders and Notice of General Meeting of Shareholders

Dear Shareholder,

Enclosed are important materials dealing with the proposed selective capital reduction which, if implemented, will result in the privatisation of the Company by its two major shareholders. If shareholders approve the relevant resolutions, then the selective capital reduction will be made in favour of all minority shareholders. Details are set out in the accompanying materials.

In order to implement the proposed Selective Capital Reduction, the relevant resolutions must be passed by shareholders at two different shareholder meetings. These meetings are:

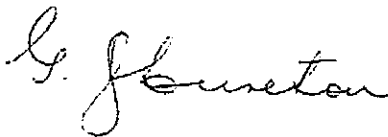
- A Special Meeting to be held on 21 February 2011, at 11:00am of all shareholders other than the Excluded Shareholders (the Excluded Shareholders are the major shareholders as defined in the accompanying materials). At this Special Meeting, the major shareholders cannot vote.
- A General Meeting to be held on 21 February 2011 at 11:30am (but the start of this meeting may be slightly postponed if the preceding Special Meeting isn't finished by 11:30am). At this General Meeting, the major shareholders can vote. Minority shareholders may vote against the relevant resolution concerning the selective capital reduction at this meeting, however votes cast by minority shareholders in favour of that resolution are to be disregarded).

Attached are the Notices of Meeting, relevant proxy forms, an Explanatory Memorandum (which includes a report from an independent expert). These are important materials and I recommend that all shareholders take their time to consider the materials and seek appropriate professional advice.

If shareholders have any questions, in the first instance, please contact the Company Secretary, Martin Casey on (03) 9280 1717.

I look forward to seeing you at the relevant shareholder meetings. If you can not attend in person, I encourage you to lodge a proxy.

Yours sincerely



Graeme Cureton  
Chairman  
Rattoon Holdings Ltd - ACN 076 611 268  
17 January 2011

# RATTOON

## H o l d i n g s L i m i t e d

A.B.N. 16 076 611 268

Level 10, 350 Collins Street  
Melbourne VIC 3000

Telephone: 61 3 9642 8822

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### NOTICE OF SPECIAL MEETING

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A Special Meeting of those shareholders of the Company ("**Minority Shareholders**") other than the "**Excluded Shareholders**" (being Guinness Peat Group plc and Thorney Investment Group Australia Pty Ltd and as otherwise defined in the Explanatory Memorandum) will be held at the offices of Bell Potter Securities Level 29, 101 Collins Street, Melbourne, Victoria, 3000 on 21 February 2011 at 11:00am (Melbourne time) ("**Special Meeting**").

This Notice of Special Meeting constitutes notice of the Special Meeting for the purpose of section Part 2G.2 of the Corporations Act.

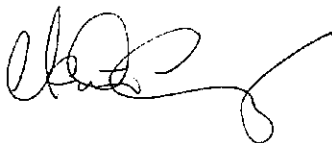
In this Notice of Special Meeting, the term related body corporate has the meaning given in the *Corporations Act 2001*(Cth) ("**Corporations Act**") and associate has the meaning given in Division 2 of Part 1.2 of the Corporations Act for the purposes of Part 2J.1 of the Corporations Act.

#### **Resolution — Selective capital reduction**

To consider, and if thought fit, to pass the following resolution as a **special resolution**:

*"That, subject to Resolution 1 being passed at the General Meeting and, unless waived by the Company, none of the Excluded Shareholders either disposing of or ceasing to hold a relevant interest in any of their ordinary shares in the Company prior to the Record Date (as defined below), for the purposes of section 256C(2) of the Corporations Act and for all other purposes, approval is given for the share capital of the Company to be selectively reduced by cancelling and extinguishing on 8 March 2011 or such other date as the Company determines, all ordinary shares in the Company on issue as at 7pm (Melbourne time) on 23 February 2011 ("**Record Date**") other than the ordinary shares in the Company which as of the Record Date are registered in the name of the Excluded Shareholders, such reduction to be effected by returning to the holders of the ordinary shares which are to be cancelled the sum of 6 cents per ordinary share held at 7.00pm on the Record Date."*

By Order of the Board



Martin Casey  
Company Secretary

17 January 2011

## **1 Material accompanying this Notice of Meeting**

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The following material accompanies this Notice of Meeting:

- (a) Explanatory Memorandum setting out details relevant to the business set out in this Notice of Meeting attached to which is the Independent Expert's Report;
- (b) Proxy Form; and
- (c) Appointment of Corporate Representative Form.

## **2 Voting and required majority**

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At the Special Meeting, the Resolution must be passed by at least 75% of all the votes cast by the Minority Shareholders entitled to vote on the Resolution (whether in person or by proxy, attorney or representative).

On a show of hands, subject to paragraph 3.4 below, every Minority Shareholder has one vote and, on a poll, every Minority Shareholder has one vote for each fully paid Ordinary Share held.

## **3 Notes**

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- 3.1 Each person whose name appears on the Company's share register at 7pm (Melbourne time) at 18 February 2011 (**Effective Time**) other than the Excluded Shareholders (being Guinness Peat Group plc and Thorney Investment Group Australia Pty Ltd and as otherwise defined in the Explanatory Memorandum), will be entitled to vote on the Resolution set out in this Notice of Meeting to be considered at the Special Meeting.
- 3.2 All Minority Shareholders as at the Effective Time entitled to attend and vote at the Special Meeting may appoint a proxy for that purpose. A proxy need not be a Shareholder of the Company.
- 3.3 The Proxy Form sent to you with this Notice of Meeting should be used for the Special Meeting.
- 3.4 If you are entitled to cast two or more votes at the Special Meeting you may appoint two proxies and you may specify the proportion or number of votes that each proxy is entitled to exercise. If you appoint two proxies and do not specify the proportion or number of votes each proxy may exercise, then each proxy will be entitled to exercise half of the votes. An additional Proxy Form will be supplied by the Company on request. If a shareholder appoints two proxies, neither proxy may vote on a show of hands.
- 3.5 To be valid, a Proxy Form must be received together with the power of attorney or other authority (if any) under which the form was signed, or a certified copy of that power or authority, by no later than 9:00am (Melbourne time) on 21 February 2011 (or if the Special Meeting is adjourned, at least 48 hours before the resumption of the Special Meeting or such later time as specified by the chairman at the time of adjournment):
  - (a) at Security Transfer Registrars Pty Ltd at 770 Canning Highway, Applecross, WA 6153; or

- (b) by facsimile to Security Transfer Registrars on (08) 9315 2233; or
- (c) by facsimile to the Company on (03) 9914 1717.

Any Proxy Form received after this time will not be valid for the scheduled meeting (unless otherwise allowed by the Company's chairman).

- 3.6 Any Minority Shareholder may, to the extent that Minority Shareholder is entitled to attend and vote at the Special Meeting, by power of attorney, appoint an attorney to act on that Minority Shareholder's behalf to attend and vote on behalf of the Minority Shareholder at the Special Meeting. The power of attorney, or certified copy, must be received by the Company as specified above by no later than 9:00am (Melbourne time) on 21 February 2011 (or if the Special Meeting is adjourned, at least 48 hours before the resumption of the Special Meeting or such later time as specified by the chairman at the time of adjournment).
- 3.7 Any corporation which is a Minority Shareholder and entitled to attend and vote at the Special Meeting may appoint a representative to act on its behalf. Appointments of representatives must be received by the Company as specified above at any time before the time of the Special Meeting, or adjourned Special Meeting, or handed in at the Special Meeting.

#### **4 Resolutions Interdependent**

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By operation of the Corporations Act, Resolution 1 to be considered at the General Meeting and the Resolution to be considered at the Special Meeting are interdependent. This means that each of those resolutions must be passed by the requisite majorities in order for the proposed selective capital reduction to be implemented.

# RATTOON

## H o l d i n g s L i m i t e d

A.B.N. 16 076 611 268

Level 10, 350 Collins Street  
Melbourne VIC 3000

Telephone: 61 3 9642 8822

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### NOTICE OF GENERAL MEETING

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A General Meeting of the shareholders of Rattoon Holdings Limited ("**the Company**") will be held at the offices of Bell Potter Securities Level 29, 101 Collins Street, Melbourne, Victoria, 3000 on 21 February 2011 at 11:30am (Melbourne time) except that this General Meeting may be postponed/adjourned if the preceding Special Meeting has not concluded by 11:30am ("**General Meeting**").

This Notice of General Meeting constitutes notice of the General Meeting for the purpose of section Part 2G.2 of the *Corporations Act 2001* (Cth) ("**Corporations Act**").

In this Notice of General Meeting, the term related body corporate has the meaning given in the Corporations Act and associate has the meaning given in Division 2 of Part 1-2 of the Corporations Act, for the purposes of Part 2J.1 of the Corporations Act.

#### **Resolution 1 — Selective capital reduction**

To consider, and if thought fit, to pass the following resolution as a **special resolution**:

*"That, subject to the resolution being passed at the Special Meeting and, unless waived by the Company, none of the Excluded Shareholders (being Guinness Peat Group plc and Thorney Investment Group Australia Pty Ltd and as otherwise defined in the Explanatory Memorandum) either disposing of or ceasing to hold a relevant interest in any of their ordinary shares in the Company prior to the Record Date (as defined below), for the purposes of section 256C(2) of the Corporations Act and for all other purposes, approval is given for the share capital of the Company to be selectively reduced by cancelling and extinguishing on 8 March 2011 or such other date as the Company determines, all ordinary shares in the Company on issue as at 7pm (Melbourne time) on 23 February 2011 ("**Record Date**") other than the ordinary shares in the Company which as of the Record Date are registered in the name of the Excluded Shareholders, such reduction to be effected by returning to the holders of such ordinary shares which are to be cancelled the sum of 6 cents per ordinary share held at 7.00pm on at the Record Date."*

#### **Voting exclusion statement**

Pursuant to section 256C(2)(a) of the Corporations Act, any votes cast in favour of Resolution 1 by:  
(a) any person who will receive consideration as part of the proposed selective capital reduction, or  
(b) any associate of any such person, will be disregarded for the purpose of determining whether Resolution 1 is passed at the General Meeting.



**Resolution 2 — Voluntary withdrawal of NSX listing**

To consider and if thought fit pass the following resolution as a **special resolution**:

*"That subject to the resolution being passed at the Special Meeting and resolution 1 at this General Meeting being passed, the Company voluntarily withdraw the listing of its ordinary shares on the National Stock Exchange of Australia."*

By Order of the Board

A handwritten signature in black ink, appearing to be 'Martin Casey', with a long horizontal flourish extending to the right.

Martin Casey  
Company Secretary

17 January 2011

## **1 Material accompanying this Notice of Meeting**

---

The following material accompanies this Notice of Meeting:

- (a) Explanatory Memorandum setting out details relevant to the business set out in this Notice of Meeting attached to which is the Independent Expert's Report;
- (b) Proxy Form; and
- (c) Appointment of Corporate Representative Form.

## **2 Voting and required majority**

---

At the General Meeting, Resolution 1 must be passed by at least 75% of all the votes cast by Shareholders (whether in person or by proxy, attorney or representative) whose votes in favour of Resolution 1 are not disregarded in accordance with the Voting Exclusion Statement above. Resolution 2 must be passed by at least 75% of all the votes cast by Shareholders entitled to vote on the Resolution (whether in person or by proxy, attorney or representative).

On a show of hands, subject to paragraph 3 below, every Shareholder has one vote and, on a poll, every Shareholder has one vote for each fully paid Ordinary Share held.

## **3 Notes**

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- 3.1 Each person whose name appears on the Company's share register at 7pm (Melbourne time) at 18 February 2011 (**Effective Time**) will be entitled to vote on the Resolutions to be considered at the General Meeting. Pursuant to section 256C(2)(a) of the Corporations Act, any votes cast in favour of Resolution 1 by: (a) any person who will receive consideration as part of the proposed selective capital reduction, or (b) any associate of any such person, will be disregarded for the purpose of determining whether Resolution 1 is passed at the General Meeting.
- 3.2 All Shareholders as at the Effective Time entitled to attend and vote at the General Meeting may appoint a proxy for that purpose. A proxy need not be a Shareholder of the Company.
- 3.3 The Proxy Form sent to you with this Notice should be used for the General Meeting.
- 3.4 If you are entitled to cast two or more votes at the General Meeting, you may appoint two proxies and you may specify the proportion or number of votes that each proxy is entitled to exercise. If you appoint two proxies and do not specify the proportion or number of votes each proxy may exercise, then each proxy will be entitled to exercise half of the votes. An additional Proxy Form will be supplied by the Company on request. If a Shareholder appoints two proxies, neither proxy may vote on a show of hands.
- 3.5 To be valid, a Proxy Form must be received together with the power of attorney or other authority (if any) under which the form was signed, or a certified copy of that power or authority, by no later than 9:00am (Melbourne time) on 21 February 2011 (or if the General Meeting is adjourned, at least 48 hours before the resumption of the General Meeting or such later time as specified by the chairman at the time of adjournment):
  - (a) at Security Transfer Registrars Pty Ltd at 770 Canning Highway, Applecross, WA 6153; or

- (b) by facsimile to Security Transfer Registrars on (08) 9315 2233; or
- (c) by facsimile to the Company on (03) 9914 1717.

Any Proxy Form received after this time will not be valid for the scheduled meeting (unless otherwise allowed by the Company's chairman).

- 3.6 Any Shareholder may, to the extent that Shareholder is entitled to attend and vote at the General Meeting, by power of attorney, appoint an attorney to act on that Shareholder's behalf to attend and vote on behalf of the Shareholder at the General Meeting. The power of attorney, or certified copy, must be received by the Company as specified no later than 9:00am (Melbourne time) on 21 February 2011 (or if the General Meeting is adjourned, at least 48 hours before the resumption of the General Meeting or such later time as specified by the chairman at the time of adjournment).
- 3.7 Any corporation which is a Shareholder of the Company and entitled to attend and vote at the General Meeting may appoint a representative to act on its behalf. Appointments of representatives must be received by the Company as specified above at any time before the time of the General Meeting, or adjourned General Meeting, or handed in at the General Meeting.

#### **4 Resolutions Interdependent**

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By operation of the Corporations Act, Resolution 1 to be considered at the General Meeting and the resolution to be considered at the Special Meeting are interdependent. This means that each of those resolutions must be passed by the requisite majorities in order for the proposed selective capital reduction to be implemented.

Resolution 2 to be considered at the General Meeting is dependent on both the resolution at the Special Meeting and Resolution 1 at the General Meeting being passed. If either or both of those resolutions are not passed then Resolution 2 will be withdrawn from consideration at the General Meeting and will not be put to a vote.

# RATTOON

## H o l d i n g s L i m i t e d

*A.B.N. 16 076 611 268*

### EXPLANATORY MEMORANDUM

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This document (**Explanatory Memorandum**) contains information relevant to the business referred to in the Notices of Meetings of Rattoon which it accompanies and should be read, (together with the accompanying Notices of Meetings), in its entirety and carefully by Shareholders prior to the Special Meeting and the General Meeting.

The purpose of this Explanatory Memorandum is to provide information which is known to Rattoon and that the Board believes to be material to Shareholders in deciding whether or not to pass the Resolutions contained in the Notices of Meetings. These Shareholder meetings have been convened for Shareholders to consider, and if thought fit, to approve the resolutions to implement the Capital Reduction and to de-list Rattoon from the NSX.

**These Resolutions are important and in the case of Shareholders other than the Major Shareholders will determine whether or not you continue to hold Shares or receive the proposed consideration for those Shares.**

If you are in doubt as to what you should do, please consult your financial, legal or other professional adviser.

Certain capitalised terms used in this Explanatory Memorandum are defined in the definitions section appearing at the end of this Explanatory Memorandum.

#### **Part 1: Background information for both meetings**

##### **Introduction to the proposed Resolutions and voting**

The Board has determined to submit to Shareholders a proposal for the effective privatisation of the Company by the Company's two Major Shareholders, GPG and Thorney.

The Board determined in conjunction with the Major Shareholders that the proposed privatisation would be submitted to Shareholders as a selective reduction of capital by Rattoon under part 2J.1 of the Corporations Act.

Under the proposal, if approved by Shareholders, each Minority Shareholder will receive A\$0.06 (6 cents) per Share and all Minority Shares will be cancelled. This will leave on issue only those Shares held by the Major Shareholders, GPG and Thorney, and, if approved by Shareholders, the Company will then apply to be de-listed from the NSX.

The proposed capital reduction of A\$0.06 per Share compares to the NTA of each ordinary share as at 30 June 2010 of A\$0.0444 (4.44 cents) per Share.

The proposed Capital Reduction will be submitted to Shareholders in two shareholder meetings which will be conducted one after the other, starting with the Special Meeting for the Minority Shareholders and finishing with the General Meeting for all Shareholders. The resolutions being put at each meeting are largely the same in relation to the Capital Reduction.

However, at the Special Meeting, only the Minority Shareholders will be entitled to vote for or against a Capital Reduction.

At the General Meeting, only the Major Shareholders will be entitled to vote in favour of a Capital Reduction. Whilst the Minority Shareholders are entitled to attend and vote at the General Meeting (as well as the Special Meeting), votes cast at the General Meeting by Minority Shareholders in favour of

the first resolution to approve the Capital Reduction will be disregarded in accordance with the Corporation Act. This means that at the General Meeting, a Minority Shareholder may vote against the Capital Reduction but any vote by a Minority Shareholder in favour of the Capital Reduction will be disregarded.

All Shareholders are eligible to vote for or against the second resolution at the General Meeting to de-list the Company.

The resolutions with respect to the Capital Reduction at each meeting are interdependent. The proposed Capital Reduction will not go ahead unless both of the resolutions relating to the Capital Reduction are passed at both meetings by at least a 75% majority of shareholders voting at the relevant meeting.

The resolution to delist the Company from the NSX will be conditional upon the resolutions relating to the proposed Capital Reduction being passed and this resolution also requires approval of at least a 75% majority to be passed. If the resolutions to approve the Capital Reduction are passed but the resolution to de-list is not passed, then following the implementation of the Capital Reduction, the NSX will most likely de-list the Company in any event as Rattoon would be left with two shareholders (being the Major Shareholders) and therefore would not be in compliance with the NSX Listing Rules in relation to maintaining a sufficient spread of shareholders.

## **Company background**

The Company's principal activity for a number of years has been investing in and managing investments in large private and listed Australian entities.

The Company made a capital return to Shareholders in July 2009 of approximately A\$68.7m and since that time it has retained a net asset base of approximately A\$2.1m. As has been previously communicated to Shareholders, the Board has reviewed a number of options for the Company, including for some time seeking to negotiate a privatisation proposal from one or both of the Major Shareholders.

The Company has discussed with the Major Shareholders (Thorney and GPG) submitting a proposal to all Shareholders for Shareholders to consider a Capital Reduction by Rattoon of all the Shares held by the Minority Shareholders. The terms on which Rattoon has agreed to submit the Capital Reduction to Shareholders are set out in the Implementation Deed, to which the Major Shareholders are parties.

Rattoon has for a number of years operated as an investment vehicle. A significant investment held in recent years by the Company was a substantial (but not controlling) stake in Tatts Group Ltd. During the 2008 financial year the price of Tatts shares fell significantly. This closing price was below the weighted average purchase price paid by Rattoon to acquire the Tatts shares and accordingly an impairment of approximately A\$72.0m was booked against this investment in Rattoon's June 30 2008 accounts. This impairment contributed significantly to Rattoon reporting a loss after tax of A\$62.6m for the 30 June 2008 year end.

Rattoon operated a margin loan facility that was secured in-part by the Tatts shares. The significant fall in the Tatts share price and the risk of ongoing volatility in Tatts' share price led the Board to make the decision to de-leverage the Company and to sell the Company's Tatts shares. Further the Board decided to return surplus cash from the sale of the Tatts shares to Shareholders as a capital return, rather than retain the cash for future investments. At the General Meeting held on 29 June 2009, Shareholders approved the capital return and in July 2009 approximately A\$68.7m was returned to Shareholders.

The Board's view since 2009 is that a net asset base of approximately A\$2.1m is insufficient to pursue a broad based investment strategy. The Board has considered a number of options for the Company including potentially winding-up Rattoon and returning any surplus assets to all shareholders. The

Directors believe, however, that the proposed Capital Reduction on the terms outlined in this Explanatory Memorandum is in the best interests of its Shareholders.

The Board has agreed to submit the Capital Reduction to Shareholders, subject to the terms of the Implementation Deed.

Under the terms of the Implementation Deed the Company has agreed to put a proposal to the Shareholders whereby:

- (a) the Minority Shareholders will receive A\$0.06 for each of their Minority Shares and as part of the Capital Reduction Rattoon will cancel and extinguish all of the Minority Shares (refer to Resolution 1 in the Notice of Special Meeting and the Notice of General Meeting); and
- (b) Rattoon will voluntarily apply to withdraw the listing of its ordinary shares from the NSX (refer to Resolution 2 in the Notice of General Meeting).

The Capital Reduction between Rattoon and its shareholders will be voted on at two separate interdependent meetings, the first called a Special Meeting and the second called the General Meeting. This will enable both the interests of the Minority Shareholders and Major Shareholders to be taken into account separately.

Notwithstanding the Implementation Deed, the Board remains open to entertaining an alternative approach from any third party in relation to disposing of Rattoon or its assets, but given the Major Shareholders together hold in excess of 80% of the Shares, the Board considers it unlikely that it will be either approached or able to negotiate a recommended proposal with a third party without the support of one or both of the Major Shareholders. Accordingly, the Board has not actively sought alternative proposals from third parties. The Board recognises that with Rattoon's assets comprising mainly cash, that any alternative proposal is likely to be bench-marked against Rattoon's NTA position and that the proposed Capital Reduction at a value of A\$0.06 per Share is at a 36% premium to the NTA of A\$0.044 for each Share in the Company (based on NTA calculated from the Company's Financial Statements for the year ended 30 June 2010). It is also at a significant premium of 200% to the closing price for Shares prior to this transaction being announced on 24 December 2010.

## **Independent Expert's Report**

To ensure that Shareholders (in particular the Minority Shareholders) are being dealt with fairly, the Independent Directors commissioned an Independent Expert, Ernst & Young Transaction Advisory Services Limited to prepare a report as to whether the proposed Capital Reduction was fair and reasonable to the Company's Shareholders as a whole. A copy of the Independent Expert's Report is attached as Annexure 1 to this Explanatory Memorandum. Shareholders are encouraged to read this report when considering how to vote on the Resolutions. The Independent Expert's Report concludes that: "the Proposed Capital Reduction is fair and reasonable to the company's shareholders as a whole". Accordingly, the Independent Directors have made their recommendations as set out below.

## **Directors' recommendation and interests**

The Directors unanimously recommend the Resolutions.

Each of the Board members has a relevant interest in Shares in the Company (as set out on page 13 below), and intend to have their Associates vote in favour of the Resolutions (subject to no new information being identified that is relevant to the Capital Reduction and subject to no alternative proposals emerging prior to the General Meeting and Special Meeting that are considered superior for Shareholders to the Capital Reduction).

## Statement of Financial Position – an extract from the Company's Financial Statements

	As at 30 June 2010 (A\$)
<b>Current assets</b>	
Cash and cash equivalents	1,890,990
Trade and other receivables	75,072
Available-for-sale financial assets	290,700
<b>Total current assets</b>	<b>2,256,762</b>
<b>Non-current assets</b>	
<b>Total non-current assets</b>	<b>-</b>
<b>Total assets</b>	<b>2,256,762</b>
<b>Current liabilities</b>	
Trade and other payables	32,169
<b>Total current liabilities</b>	<b>32,169</b>
<b>Non-Current liabilities</b>	
Deferred tax liabilities	1,201
<b>Total non-current liabilities</b>	<b>1,201</b>
<b>Total liabilities</b>	<b>33,370</b>
<b>Net assets</b>	<b>2,223,392</b>
<b>Shareholders' equity</b>	
Issued capital	90,706,450
Reserves	2,802
Accumulated losses	(88,485,860)
<b>Total shareholders' equity</b>	<b>2,223,392</b>

The above is an extract from the Company's Financial Statements for the year ended 30 June 2010. It should be considered in conjunction with the Notes to the Accounts as set out in the Company's Financial Statements.

As at 30 June 2010, the Company had net assets of A\$2,223,392. This equates to an NTA per Share of A\$0.0444 (4.44 cents per Share). As at 30 November 2010, the Company had net assets of A\$2,055,125 (based on unaudited management estimates). This equates to an NTA per Share of A\$0.0407 (4.07 cents per Share). The NTA as at 30 November 2010 takes into account various accrued expenses including expenses accrued as part of the process of submitting the Capital Reduction to shareholders. The Board is anticipating that expenses including administrative and operational expenses plus the expenses incurred by considering, and submitting the Capital Reduction to Shareholders will result in a loss for FY11.

It should be noted that as set out in the Company's Financial Statements for the year ended 30 June 2010:

- the Company's assets comprise a pre-payment of approximately A\$71,000 which represents a pre-payment of professional indemnity insurance which is not a realisable asset. Accordingly, if Rattoon was wound-up, it is unlikely that these funds would be realisable for the benefit of Shareholders;
- there were deferred tax assets that had not been brought to account in Rattoon's Financial Statements. These deferred tax assets relate to carried forward tax losses and are discussed in further detail below.

## **Part 2: Background information for the Special Meeting**

### **Resolution 1 – Selective Capital Reduction**

#### **Summary of the transaction**

The Minority Shareholders are being asked to consider a resolution authorising Rattoon to cancel all Minority Shares which are held or beneficially owned by the Minority Shareholders in return for payment of A\$0.06 cash per Minority Share. Note that Shares held or beneficially owned by the Major Shareholders would not be cancelled and will not participate in the Capital Reduction.

Under section 256C of the Corporations Act, because the Capital Reduction involves the cancellation of the Minority Shares, the Capital Reduction must be approved by a special resolution passed at a meeting of those Shareholders whose shares are being cancelled. Accordingly only the Minority Shareholders are eligible to attend and vote on the resolution to be put to the Special Meeting.

Under section 256B of the Corporations Act, a company is able to return capital to its shareholders if:

- (a) the proposal is fair and reasonable to the shareholders as a whole;
- (b) the proposal does not materially prejudice the company's ability to pay its creditors; and
- (c) the proposal is approved by shareholders under section 256C.

If the Capital Reduction is approved:

- (a) Rattoon will pay to each Minority Shareholder A\$0.06 for each of their Shares, in cash on 8 March 2011;
- (b) Rattoon will cancel all Minority Shares on or shortly after that date; and
- (c) The Major Shareholders will then hold 100% of the issued capital of Rattoon.

The Resolution to approve the Capital Reduction will also be put to all Shareholders at the General Meeting. However, in accordance with the requirements of the Corporations Act, at the General Meeting no votes may be cast in favour of the Capital Reduction Resolution by Minority Shareholders, or any Associate of Minority Shareholders, and accordingly any such votes will be disregarded for the purpose of determining whether the Capital Reduction Resolution is passed at the General Meeting.



The Capital Reduction is conditional upon neither of the Major Shareholders disposing of, or ceasing to hold a relevant interest in, any of the Majority Shares prior to the Record Date.

The special Resolutions to approve a Capital Reduction to be considered at the Special Meeting and the General Meeting are interdependent. This means that each of those resolutions must be passed by majorities of at least 75% at both meetings in order for the proposed Capital Reduction to be implemented.

### **Entitlement to participate**

All Minority Shareholders who hold Shares on the Record Date will be entitled to participate in the Capital Reduction.

### **Amount of entitlement**

If the Capital Reduction is approved at both Shareholder meetings, Rattoon will pay to each Minority Shareholder A\$0.06 for each of their Shares held as at the Record Date, in cash on 8 March 2011.

### **Funding the Capital Reduction**

The payment of A\$0.06 for each Minority Share will be funded by Rattoon's cash reserves. Rattoon's cash holdings as at 30 November 2010 was A\$2,279,267. The total cash payments to Minority Shareholders in relation to the Capital Reduction will be A\$355,658. In addition to funding the Capital Reduction, Rattoon is also required to fund accrued and future expenses.

### **Reason for the Capital Reduction**

The Board unanimously supports the Capital Reduction for the following reasons:

#### **■ Minority Shareholders will receive fair and reasonable value for their Shares**

The proposed Capital Reduction will return A\$0.06 per Share to the Minority Shareholders. This represents a 36% premium to NTA per Share as at 30 June 2010.

The Independent Expert has concluded that "the Proposed Capital Reduction is fair and reasonable to the company's shareholders as a whole".

#### **■ Opportunity for Minority Shareholder to realise their investment**

88.27% of Rattoon's shares are owned by Thorney and GPG (as at 30 November 2010) with the Minority Shareholders holding the remaining 11.73%. The Shares have traded on low volumes, with 99,393 Shares traded over the 12 months to 24 December 2010 (which equates to approximately 0.2% of the total Shares currently on issue). The low volumes may make it challenging for Shareholders to sell their Shares if they wish to exit their investment. The Capital Reduction provides Minority Shareholders with an opportunity to realise their investment, and at a value in excess of Rattoon's NTA per Share.

#### **■ No brokerage costs associated with the proposed Capital Reduction**

As the Capital Reduction involves the cancellation of the Shares held by the Minority Shareholders (rather than the sale of those Shares), it will provide Minority Shareholders the opportunity to sell their Shares without incurring brokerage fees.

#### **■ No alternative transaction likely in respect of Minority Shareholders**

The Board considers it unlikely that a third party will make a higher offer for the Shares held by the Minority Shareholders given that Thorney and GPG have a combined controlling interest of 88.27% and

trading in the Shares is illiquid. The Major Shareholders have informed Rattoon that they have no intention of disposing of their respective holdings in Rattoon.

■ **More favorable than a winding-up**

The Board has considered the option of winding-up the Company. The proposed Capital Reduction, being at a price in excess of the NTA of the Company, will provide a greater return to Minority Shareholders than would be achieved by way of a winding-up.

## **Effect of the Capital Reduction**

■ **Effect on creditors**

The return of capital involves a reduction in Rattoon's paid-up share capital (issued capital). However, the Directors believe that this will not materially prejudice Rattoon's ability to pay its creditors, as following the Capital Reduction, Rattoon will still have sufficient existing cash reserves to pay its creditors.

■ **Effect on shareholders**

The Directors believe that the Capital Reduction as proposed is fair and reasonable to Shareholders for the reasons set out in this Explanatory Memorandum and in the Independent Expert's report. If the Resolutions are approved, then the Shares of all Minority Shareholders will participate in the Capital Reduction and all of the Shares of the Minority Shareholders will be subsequently cancelled. This applies to all Shares held by Minority Shareholders, even in respect of Minority Shareholders who did not vote, or voted against any of the Resolutions.

■ **Effect on Rattoon's capital structure**

The Directors believe it is appropriate that the Shares be cancelled in the circumstances. The number of Shares that Rattoon will have on issue will decrease from 50,545,380 to 44,617,752 following the cancellation of Shares as proposed under the Capital Reduction.

It is noted that the Company has on issue options to issue ordinary shares. In the Financial Statements for the year ended 30 June 2010, the Company disclosed that there were 730,000 options on issue. The Company's Financial Statements noted that the Board was seeking further information and advice on whether previous corporate actions that had occurred since 2001 had been properly applied to the options. Subsequent to 30 June 2010, the Board has formed the opinion that the correct number of options on issue is 6,200 with an exercise price of A\$348.64 and that the Company's option register has been updated accordingly. The relevant unexpired options are only exercisable if the Company's Share price exceeds, for a period of 30 consecutive days trading on the ASX (or equivalent market), a relevant barrier price (which is A\$498.64 in respect of 2,803 options and A\$748.64 in respect of 3,397 options). In the event of a privatisation and de-listing of the Company's securities, the options will no longer be exercisable as the Company's shares will not be able to trade on the ASX (or equivalent exchange). The options would only become exercisable at a future time should Rattoon be subsequently re-listed and trading of its shares on ASX (or an equivalent market) occurred at a price in excess of the relevant barrier price for at least 30 consecutive trading days.

## **Australian tax implications**

Rattoon has not sought a Class Ruling from the Australian Tax Office (ATO) as to the tax implications of the Capital Reduction for Shareholders. For specific taxation advice, Shareholders should consult their own taxation adviser so that their particular circumstances are taken into consideration. However, a general description of the likely Australian tax implications of a Capital Reduction for Shareholders is provided as a guide. Please note that the description below is only relevant to Shareholders who hold their shares on capital account at the Record Date and who are Australian tax residents.

As a general statement and without taking each Shareholder's specific circumstances into account, the Board is of the opinion that the Capital Reduction will be treated as a return of capital and that no part of the proceeds returned to Shareholders as part of the Capital Reduction and in exchange for their Shares in Rattoon will be treated as a taxable dividend. This is because the whole of the Capital Reduction will be debited to Rattoon's untainted share capital account.

Shareholders may be required to pay tax on any capital gains under CGT event C2. Proceeds received by Shareholders may result in a capital gain where the cost base for their Shares is less than A\$0.06 per Share. The capital gain will generally be calculated as the difference between A\$0.06 per Share and the cost base per Share. In determining the cost base of their shares in Rattoon, shareholders should take into account, amongst other things, the cost base reduction under CGT event G1 in relation to the capital return which occurred in July 2009.

Any capital gain may be eligible to be discounted (e.g. by 50% for individuals and trusts and 33<sup>1/3</sup>% for superannuation funds) where the shares satisfy the 12 month holding period and where the discount method is chosen.

Proceeds received by Shareholders may result in a capital loss where the cost base for their Shares is greater than A\$0.06 per Share giving rise to a capital loss. The capital loss will be calculated as the difference between the cost base per Share and A\$0.06 per Share without taking into account any indexation. Shareholders may be able to carry any capital loss forward into future years and apply the capital loss against future capital gains. Again, in determining the cost base of their shares in Rattoon, shareholders should take into account, amongst other things, the cost base reduction under CGT event G1 in relation to the capital return which occurred in July 2009.

The Company notes that there is a wide discretion under Australian taxation laws for the ATO to deem what may have been considered to be a capital return to be a dividend for Australian taxation purposes (eg refer sections 45, 45A and 45B of the Income Tax Assessment Act). Given that Rattoon does not have any profits with which to pay dividends, the directors are hopeful that these provisions would not be enacted by the ATO in relation to the Capital Reduction. Shareholders can request clarification of this from the ATO.

Shareholders who are tax resident of a country outside Australia should obtain independent tax advice regarding the tax effect of the return of capital in both Australia and their jurisdiction.

### **Other potential tax implication**

As detailed on page 2 of this Explanatory Memorandum, the share price of Rattoon's major investment, Tatts, fell during the 2008 financial year. Rattoon reported a loss after tax for the year ended 30 June 2008 of A\$62,611,697. As at 30 June 2009, the Company reported unused tax losses of A\$67,192,075 (for which no deferred tax asset had been identified).

The Board understands that the tax losses are likely to be treated as being on revenue account, and can be carried forward. In the alternative to being treated as being on revenue account, the losses would be treated as being on capital account.

The Company has not recognised the unused tax losses as an asset in the financial statements for the years ended 30 June 2009 and 30 June 2010, but has provided a note of the potential deferred tax asset in each of those financial statements. The main reason why the deferred tax asset has not been brought to account is that the Board did not believe that the unused tax losses had a sufficient likelihood of being utilised within a reasonable period of time.

The Company recognises that establishing whether a tax loss may be on revenue account or capital account is subject to interpretation and application of the relevant Australian taxation laws. The Board did seek preliminary advice from a taxation adviser, and that preliminary advice concluded that the relevant tax losses appeared to be on revenue account. However, this was not final or definitive advice and such interpretation remains subject to further analysis.

If the tax losses are on revenue account, Rattoon would be able to carry forward revenue losses into future years (subject to satisfying the 'continuity of ownership' or 'same business' tests). On the other hand, if the losses are on capital account, Rattoon would be able to carry forward capital losses (also subject to the 'continuity of ownership' or 'same business' tests).

As at 30 June 2010, Rattoon had approximately A\$67.5m in unused tax losses for which no deferred tax assets had been recognised.

#### **Potential benefit of revenue losses if the Capital Reduction does not proceed**

In order for Rattoon to derive value from the revenue losses (i.e. by offsetting operating profits against available revenue losses), Rattoon needs to generate operating profits. Based on Rattoon's current cash holding of approximately A\$2.3m, the Board believes it is unlikely that significant operating profits can be achieved without raising new funds. Whilst the Board has considered the merits of raising more funds, it believes that Rattoon's ability to attract significant additional funds at this time is limited and when informally approached by the Board, the Major Shareholders indicated that at that time, they would not support a general capital raising.

Rattoon's treatment of potential future tax benefits is in accordance with AIFRS guidelines.

Deferred tax asset not brought to account as at 30 June 2010 amount to:

	<b>As at 30 June 2010 (A\$)</b>
Unused tax losses for which no deferred tax asset has been recognised	<b>67,447,397</b>
Potential capital losses carried forward	<b>264,000</b>

#### **Potential benefit of revenue losses if the Capital Reduction proceeds**

The Board also sought preliminary advice on whether the substantial revenue losses could be used by one or both of the Major Shareholders in the event that the proposed Capital Reduction proceeds.

The Board understands that if the Capital Reduction proceeds, then it may be open for the Company to satisfy the continuity of ownership test for taxation law purposes, and carry forward its unused tax losses. Even if the continuity of ownership test was not satisfied, it may be that the same business test may be satisfied and allow another basis for the unused tax losses to be carried forward. The Board has not sought definitive advice in this regard.

In order for Shareholders to consider the proposed Capital Reduction, the Board recommends that Minority Shareholders assume that there is a likelihood that the unused tax losses will be available to be carried forward in the event that the proposed Capital Reduction is implemented (recognising that Thorney and GPG will be the only shareholders in the Company following the Capital Reduction if it is implemented).

The Board is not aware of the intended use for the Company by Thorney and GPG.

As would be the case at the present time, any unused tax losses will only be available to be utilised if assessable income is generated. If the Capital Reduction proceeds, it is expected that in order for the Company to generate sufficient assessable income to make use of the carried forward tax losses, that the Company would need to increase its capital or funding base.

During its negotiations with the Major Shareholders, the Independent Board Committee requested that the Major Shareholders increase the value of the proposed privatisation proposal above the NTA of the Company to recognise the potential future benefit of the unused tax losses. The Independent Board Committee negotiated an increase from the NTA amount to the A\$0.06 per Share being proposed.

The Board recommends that the Major Shareholders seek their own advice, and form their own view as to whether there will be any tax losses available to carry forward.

## Summary of the Agreement reached with the Major Shareholders

Rattoon has agreed with the Major Shareholders that the Company would submit the proposed Capital Reduction to its Shareholders on and subject to the terms of an Implementation Deed dated 24 December 2010 (**Implementation Deed**). Whilst the Implementation Deed sets out the terms and conditions on which Rattoon and the Major Shareholders will endeavour to implement a Capital Reduction, nothing in the Implementation Deed obliges either of the Major Shareholders or any of their Related Bodies Corporate or Associates to vote any Shares which they hold in any particular manner, or to deal (or refrain from dealing) with their Shares in any particular manner. Accordingly, it is open to either or both Major Shareholders to dispose some or all of its Shares, not to attend nor vote at the General Meeting, or to attend the General Meeting and vote against the resolutions.

As highlighted above, the implementation of the Capital Reduction, if it is approved by Shareholders remains conditional upon neither of the Major Shareholders disposing of, or ceasing to hold a relevant interest in, any of the Majority Shares prior to the Record Date. Whilst the Major Shareholders are free to dispose of a relevant interest in all or any of the shares they hold in the Company, if they do so before the Record Date, then the Capital Reduction will not go ahead. As mentioned in this section, even if the Major Shareholders continue to hold their shares, they are under no obligation to attend and vote in favour of the Capital Reduction at the General Meeting (in which case the Capital Reduction may not receive the relevant shareholder approvals).

## Committee of Independent Directors formed

Given that Mr Peter Landos is a director of both Rattoon and an executive of one of the Major Shareholders, Thorney, the committee of Independent Directors was established to consider the Capital Reduction proposal and conduct negotiations in this regard. The committee of Independent Directors is constituted by the Chairman, Mr Graeme Cureton, and Mr Hugh Robertson. Accordingly, Mr Peter Landos, the third director of the Company, did not participate on behalf of the Company in deliberations and negotiations on the key terms of the Implementation Deed. Once the Independent Directors were satisfied with the key terms of the Implementation Deed, and in particular, that the Capital Reduction would be proposed at A\$0.06 per Share, this was then submitted to the Board for its review. The Board, comprising all directors considered and unanimously recommended that the Capital Reduction be submitted to Shareholders with a recommendation that Shareholders vote in favour of the resolutions.

It should be noted that Mr Graeme Cureton is a former Executive Director of GPG and became a director of Rattoon at a time when he was an Executive Director of GPG. In 2008, Mr Cureton resigned from GPG as an Executive Director but continues as a consultant. Mr Robertson is an Adviser at Bell Potter Securities Ltd, and in this role has had dealings with both GPG and Thorney.

Whilst there is no formal requirement for the Company to appoint an Independent Expert for the purposes of submitting a Capital Reduction to a company's shareholders, the Board determined that to do so might assist Shareholders to assess the Resolutions and was prudent given the Directors' current and former relationships with the Major Shareholders.

## Future of the Company in the event that the Capital Reduction does not proceed

In the event that Shareholders do not approve the Capital Reduction then the Board will assess the Company's options. The main options identified by the Board are:

### **■ Continue to operate the Company**

However, the administrative costs of operating the Company are expected to exceed the current earnings of the Company from interest earned on the cash on deposit. The Board does not consider that the current capital base of approximately A\$2.1m is a sufficient base to make meaningful investments as a listed investment company.

■ **Seek to raise more funds**

The Board has not currently identified any particular investment opportunity for the Company. Accordingly, if the Board was to seek further funds, it would need to do so without a particular investment opportunity in mind. The Board considers that it would be challenging to raise sufficient funds without a particular investment opportunity in mind. Further, the Company does not have any full-time employees, but operates through the efforts of the Board. The Board expects that if the Company was to pursue investment opportunities then it may be necessary to increase the expenditure base of the Company. The Board did informally approach the Major Shareholders in the last 12 months to ascertain whether they would support a potential fund-raising for the Company. The Board was informed that the Major Shareholders would not support a recapitalisation of the Company as they each had their own investment opportunities which they could action directly, without the need to support, in a meaningful way, an investment vehicle such as Rattoon.

It is also noted that after the capital return in July 2009, the Company now has a large number of shareholders who hold non-marketable parcels of securities. The Board is of the view that if a significant capital raising was pursued, it would be likely, in the current environment, to require support from the Major Shareholders and potentially from new shareholders.

■ **Wind-up the Company**

The Board could submit a proposal for shareholders to approve the winding-up of the Company. The Board is of the view that a winding-up would realise an amount per Share which is less than Rattoon's NTA of A\$0.0407 per Share (based on unaudited management estimates as at 30 November 2010).

■ **Seek to encourage another party to make an approach to capitalise or take over the Company**

The Board does not consider it would be likely to attract an approach at a price in excess of the proposed A\$0.06 per Share. Whilst the effect of the Capital Reduction is that an amount of A\$0.06 per Share will be payable for each Minority Share if the Resolutions are approved, this amount is not payable in respect of those Shares held by the Major Shareholders as they will not participate in the Capital Reduction. The Board considers it unlikely that a third party would offer an amount per share to all Shareholders, including the Major Shareholders above A\$0.06 per Share.

It is noted that there have been several market disclosures where the Company has disclosed that the Board is seeking to consider options for the Company. Further, the Company disclosed in an NSX announcement on 23 June 2010 that the Board had held discussions with one of the Major Shareholders concerning an indicative privatisation proposal at A\$0.06 per Share. No third party has emerged with a credible proposal involving the Company and the Board is of the view that such an alternative proposal at the current time is unlikely.

The Independent Board Committee considered different ways of giving effect to a privatisation involving the Major Shareholders, and in discussions with the Major Shareholders, the Independent Board Committee formed the view that a Capital Reduction was an appropriate method to submit to Shareholders.

## **Summary of reasons to vote in favour of the proposed Capital Reduction**

This Explanatory Memorandum sets out reasons why the Company has submitted the Resolutions to Shareholders. In Summary, the Board considers that the Capital Reduction is fair and reasonable for reasons that include:

- Minority Shareholders will receive an amount per Share in excess of the net asset value per Share of the Company and in excess of what could be achieved in a winding-up;
- It provides an opportunity for Minority Shareholders to realise their investment for Australian tax purposes without incurring brokerage costs;
- It provides an opportunity for Major Shareholders to increase their current collective ownership in Rattoon from 88.27% to 100%;

- The Company's ongoing expenses are likely to exceed the Company's revenue, at least in the short-term and accordingly the short-term prospects for the Company increasing its NTA and value for the Shareholders is limited;
- The Independent Expert's Report supports the Board's view that the transaction is fair and reasonable to the Shareholders as a whole.

### Summary of reasons to vote against the proposed Capital Reduction

The Board unanimously recommends that Shareholders vote in favour of the Resolutions, and the Directors intend to vote any Shares held by them, or cause their Associates who hold Shares in which the Directors hold a relevant interest to vote in favour of the Resolutions (in the absence of new information being identified and in the absence of a superior proposal emerging before the Shareholder Meetings). However, the Board submits the following reasons for Shareholders to consider voting against the proposed Capital Reduction, as including:

- Minority Shareholders will no longer participate as a shareholder in the Company following the Capital Reduction. Accordingly, there will be no opportunity to participate in any future benefits that could flow as a shareholder of the Company. It remains possible that the Company continues as an investment vehicle and derives future benefits from such investments;
- There is the possibility that an alternative privatisation proposal may emerge which is more favorable than the proposed Capital Reduction. Whilst the Independent Directors negotiated a share price of A\$0.06 per Share under the Implementation Deed, it remains possible that the Major Shareholders might have been willing now, or may be willing in the future, to support a privatisation at a higher price. However, it should be noted that the Independent Directors recommended to propose a price of A\$0.06 per Share after a considerable period of time had elapsed where the Board endeavored to seek a higher price per Share. The Board considers it unlikely that another party would emerge in the short term with an offer superior to A\$0.06 per Share;
- The Company did not recognise the carried forward tax losses as an asset of the Company in the Company's financial Statements for the year ended 30 June 2010 (nor for the year ended 30 June 2009). The Board's opinion is that the Company is not in a position with its limited assets and revenue to obtain any meaningful benefit from the carried forward tax losses and therefore, such tax losses are of nominal current value to the Company;
- It remains possible that effective legal action might emerge against parties relating to the diminution in the value of the shares in Tatts following the Victorian State Government's decision to not renew Tatts' licence to operate poker machines after its current license to do so expires. At the time that the Victorian Government announced the non-renewal of the Tatts licence, Rattoon held a large stake in Tatts, and it is arguable that such stake suffered a significant decrease in value due to the announced non-renewal of the Victorian poker machines' licence. Should any legal remedies or potential compensation emerge, then Rattoon may potentially be in a position to benefit from such an outcome at a future time and accordingly if the Capital Reduction is approved, Minority Shareholders would not participate in any such benefit. It is noted that the Board is not currently aware of any legal remedy being available to Rattoon. Nor has the Board wanted the Company to fund a legal review and analysis of this issue.
- In addition, the Capital Reduction, if implemented, will reduce Rattoon's NTA, which may be a reason for the Major Shareholders to vote against the Capital Reduction. Further, as stated elsewhere, there is no certainty that any accumulated tax losses will be available to the Company at a future time.

## Summary of the Independent Expert's opinion

An Independent Expert's Report to Shareholders is provided, together with the Notices of Meetings and this Explanatory Memorandum. The Independent Expert has concluded in its Independent Expert's Report that the Capital Reduction is fair and reasonable to Shareholders. Shareholders are encouraged to read the full text of the Independent Expert's Report.

## Directors interests

None of the Directors have a material personal interest in Rattoon.

Peter Landos is Director of Rattoon and an executive of Thorney. Graeme Cureton is a Director of Rattoon and a consultant to GPG. Neither GPG nor Thorney is considered to be a "related party" of Rattoon for the purposes of the Corporations Act or the NSX Listing Rules.

Set out below is a table which indicates the relevant interest of each Director in Shares of Rattoon or Related Bodies Corporate held prior to the implementation of the Capital Reduction and the amount they are likely to receive if the Capital Reduction is implemented (provided they do not acquire or dispose of any Shares prior to the Record Date):

Director	Number of Shares	Nature of interest	Amount likely to be received if the Capital Reduction implemented
Graeme Cureton	207,468	Beneficial interest held in 130,396 Shares. Non-beneficial interest held in 77,072 Shares.	A\$12,448.08
Hugh Robertson	100,000	Beneficial interest held in 100,000 Shares.	A\$6,000.00
Peter Landos	16,563	Non-beneficial interest held in 16,563 Shares.	A\$993.78

Each Director who is entitled to participate in the return of capital intends to vote Shares held by him in accordance with his voting recommendation to Shareholders.

## Directors' recommendation

On 17 January 2011, the Board (following a recommendation from the Independent Directors) resolved to put the Capital Reduction to the Shareholders. The Board also resolved to issue this Explanatory Memorandum to Shareholders, together with the Notice of General Meeting and the Independent Expert's Report.

## Other information

There is no further information known to Rattoon that is material to the decision of Shareholders on how to vote on this resolution. If any Shareholder is in doubt as to how to vote on the resolutions or as to how the resolution may affect the Shareholder, he or she should seek advice from his or her accountant, solicitor or other professional adviser as soon as possible.



## **Part 3: Background information for the General Meeting**

The General Meeting will be open to all Shareholders to attend and vote. However no votes in favour of Resolution 1 (the Capital Reduction) may be cast by the Minority Shareholders. This means in effect that Minority Shareholders may vote against Resolution 1, but only the Majority Shareholders may vote in favour of Resolution 1 (at this meeting, being the General Meeting, noting that Minority Shareholders must approve a similar resolution at the Special Meeting).

### **Resolution 1 - Capital Reduction**

This resolution to approve the Capital Reduction is a special resolution which, if it is to be passed, must be approved by at least a 75% majority of Shareholders. The Directors have provided all of the relevant information relating to Resolution 1, including the Independent Expert's Report which expresses the opinion that the Capital Reduction is fair and reasonable to Shareholders as a whole. Whilst part 2 of this Explanatory Memorandum sets out information relevant to the Special Meeting, such information is also relevant to the General Meeting. All Shareholders should consider the information set out in part 2 of this Explanatory Memorandum as being relevant to how they may vote at the General Meeting.

In order for the Capital Reduction to be approved by Shareholders:

- Minority Shareholders must approve the Capital Reduction at the Special Meeting (and the Majority Shareholders can not vote on the relevant resolution at the Special Meeting); and
- Majority Shareholders must approve the Capital Reduction at the General Meeting (noting that Minority Shareholders may cast a vote against the relevant resolution at the General Meeting).

For the reasons set out on pages 11 and 12 of this Explanatory Memorandum and having regard to the Independent Expert's Report, the Directors unanimously recommend that, subject to there being no superior proposal, you vote in favour of Resolution 1 either in person or by proxy.

Specifically in respect of the Major Shareholders, and issues relevant to how they may vote:

- The Major Shareholders should consider the information in this Explanatory Memorandum in its entirety;
- The Company provides no representation in respect of the availability of any tax losses;
- As outlined elsewhere, the Capital Reduction of A\$0.06 per Minority Share is in excess of the current NTA per ordinary share in the Company; and
- The effect of the Capital Reduction, if it is implemented, will result in the Majority Shareholders collectively owning 100% of the issued shares in the Company. Following the Company's de-listing from the NSX (if it is approved and implemented or instigated by NSX itself), then the Company will be a private non-listed entity controlled by the Major Shareholders. The Major Shareholders have advised that they wish to be in a position to remain as shareholders whilst the shares of all of the current Minority Shareholders are cancelled. The Board is not aware of the specific plans that the Majority Shareholders may have for the Company, if indeed any such plans have been developed, but the Majority Shareholders have expressed a desire for the Capital Reduction to be submitted to shareholders.

As stated in the Notice of General Meeting, in accordance with Section 256C(2)(a) of the Corporations Act, any votes cast in favour of Resolution 1 by: (a) any person who will receive consideration as part of the proposed Capital Reduction, or (b) any Associate of any such person, will be disregarded for the purpose of determining whether Resolution 1 is passed at the General Meeting.

In order to be passed this resolution must be passed as a special resolution (i.e. with at least a 75% majority) by those Shareholders eligible to vote.

## **Resolution 2 - Voluntary withdrawal of NSX listing**

In the event that the resolutions dealing with the Capital Reduction are approved and implemented, then the Company's shareholders that are left will be the Major Shareholders. The Company will no longer satisfy the listing requirements of the NSX, and the Company will request that its shares be de-listed from the NSX. Resolution 2 is submitted to all Shareholders in order for Shareholders to approve the application for the Company's shares to be de-listed from the NSX. Resolution 2 is conditional upon the resolutions relating to the proposed Capital Reduction being passed. If the resolutions to approve the Capital Reduction are passed but the resolution to de-list is not passed, then following the implementation of Capital Reduction the NSX will most likely move to de-list the Company in any event. At that point Rattoon would only have two shareholders (being the Major Shareholders) and therefore would not be in compliance with the NSX Listing Rules in relation to maintaining a sufficient spread of shareholders.

The Directors have considered all of the relevant information relating to Resolution 2, and for the reasons set out above, the Independent Directors unanimously recommend that, subject to there being no superior proposal to Shareholders, you vote in favour of Resolution 2.

## **Other information**

There is no further information known to Rattoon that is material to the decision of Shareholders on how to vote on this resolution. If any Shareholder is in doubt as to how to vote on the resolution or as to how the resolution may affect the Shareholder, he or she should seek advice from his or her accountant, solicitor or other professional adviser as soon as possible.

## **Enquiries**

Shareholders may contact the Company Secretary, Martin Casey, on +61 3 9280 1717 if they have any queries in respect of the matters set out in this Explanatory Memorandum or the Notices of Meeting.

## Key dates

Event	Expected date
Cut-off date for determining eligibility to vote at the General and Special Meetings	18 February 2011
Deadline for lodgement of General and Special Meeting Proxy Forms	9:00am (Melbourne time) on 21 February 2011
Special Meeting of Minority Shareholders	21 February 2011
General Meeting of all Shareholders	21 February 2011
Record Date	23 February 2011
Effective Date (anticipated date of distribution of funds)	8 March 2011
Withdrawal of NSX listing	As soon as practicable following the Effective Date

## Definitions

**AIFRS** means the Australian equivalents of International Financial Reporting Standards;

**Associate** has the meaning given in Division 2 of Part 1.2 of the Corporations Act as if section 12(1) of the Corporations Act included a reference to this Explanatory Memorandum;

**Capital Reduction** means the proposed selective capital reduction that will be implemented if the Resolutions are approved;

**Company** means Rattoon;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**Excluded Shareholder** means:

- (a) the Major Shareholders;
- (b) a Related Body Corporate of a Major Shareholder;
- (c) any Associate of a Major Shareholder; and
- (d) any nominee or custodian that holds any Majority Shares and is acting on behalf of a party referred to in paragraphs (a) to (c) above. Such nominees or custodians will be treated as an Excluded Shareholder only in respect of such Majority Shares;

**FY11** means the financial year ending on 30 June 2011;

**General Meeting** means the meeting of the Rattoon Shareholders to be held at 11:30am on 21 February 2011 (except if the Special Meeting has not concluded by 11:30am in which case the start of the General Meeting may be adjourned / delayed until after the conclusion of the Special Meeting) to consider, and if thought fit, approve the Capital Reduction and de-listing of the Company from the NSX;

**GPG** means Guinness Peat Group plc Company Number 00103548 and its subsidiaries that hold a relevant interest in Shares in the Company;

**Implementation Deed** means the deed dated 24 December 2010 under which the Company agreed to submit the Resolutions to Shareholders;

**Independent Directors** means Mr Graeme Cureton and Mr Hugh Robertson;

**Independent Expert** means Ernst & Young Transaction Advisory Services Limited, being the expert, independent of the parties, engaged by Rattoon to opine on whether the Capital Reduction is fair and reasonable to Rattoon Shareholders as a whole;

**Independent Expert's Report** means the report prepared by the Independent Expert and stating whether the Capital Reduction is fair and reasonable to Rattoon Shareholders as a whole;

**Major Shareholders** means GPG and Thorney;

**Majority Shares** means those Shares in which any Excluded Shareholder has a relevant interest being:

- (a) in the case of GPG, 22,424,048 Shares; and
- (b) in the case of Thorney, 22,193,704 Shares.

**Minority Share** means a Rattoon Share on issue as at the Record Date, other than any Shares then held by an Excluded Shareholder;

**Minority Shareholder** means a person who holds one or more Minority Shares;

**Notices of Meetings** means the notices of meetings to call a general meeting and a special meeting of Rattoon shareholders to consider, and if thought fit approve, the Resolutions and the resolution to approve the voluntary withdrawal of Rattoon from listing on NSX, substantially in the form set out in

schedule 1 and incorporating any other terms in relation to the Capital Reduction agreed between the parties;“

**NSX** means NSX Limited ABN 33 089 447 058;

**NTA** means net tangible assets;

**Rattoon** means Rattoon Holdings Limited ABN 16 076 611 268;

**Rattoon Shareholder** or **Shareholder** means a person who is registered in the Register as a holder of Shares;

**Record Date** means 7pm (Melbourne time) on 23 February 2011;

**Register** means the register of members of Rattoon maintained under and in accordance with section 169 of the Corporations Act;

**Related Body Corporate** has the meaning given in section 50 of the Corporations Act;

**Resolutions** means the resolutions set out in the Notices of Meetings to approve the Capital Reduction;

**Share** means an issued fully paid ordinary share in the capital of Rattoon;

**Special Meeting** means the meeting of the Rattoon Shareholders to be held at 11:00am on 21 February 2011 to consider, and if thought fit, approve the Capital Reduction;

**Tatts** means Tatts Group Ltd ABN 19 108 686 040;

**Thorney** means Thorney Investment Group Australia Pty Ltd ABN 37 117 488 892 and its Associates which together hold a relevant interest in Shares in the Company.

## **ANNEXURE 1 – INDEPENDENT EXPERT’S REPORT**

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## Independent Expert's Report

Rattoon Holdings Limited

14 January 2011

 **ERNST & YOUNG**



**INDEPENDENT EXPERT'S REPORT and FINANCIAL SERVICES GUIDE**

**PART 1 - INDEPENDENT EXPERT'S REPORT**

The Independent Directors  
Rattoon Holdings Limited  
Level 10  
350 Collins Street  
Melbourne, VIC 3000

14 January 2011

Dear Independent Directors

**Independent Expert's Report  
Proposed Capital Reduction**

**Introduction and purpose of the report**

We understand that the directors of Rattoon Holdings Limited ("Rattoon") are seeking to restructure Rattoon by way of a selective capital return ("Proposed Capital Reduction").

The directors of Rattoon have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an independent expert's report in relation to the Proposed Capital Reduction.

This report relates to the Proposed Capital Reduction in accordance with Section 256B of the Corporations Act (2001) ("S256B"), under which the minority shareholders of Rattoon ("Minority Rattoon Shareholders") will be offered 6 cents for every share they hold in Rattoon.

The directors of Rattoon have requested Ernst & Young Transaction Advisory Services to prepare an independent expert's report ("Independent Expert's Report") setting out whether, in Ernst & Young Transaction Advisory Services' opinion, the Proposed Capital Reduction is "fair and reasonable" to the shareholders under the requirements of S256B.

Our results are subject to limitations and qualifications outlined in Appendix A of our Independent Expert's Report.

Our Independent Expert's Report is provided to you for the above purposes only, and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party (except relevant statutory authorities or your professional advisors acting in that capacity provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) without our prior written consent.

We appreciate the opportunity to provide valuation services to Rattoon. Please do not hesitate to contact me if you have any questions about this engagement or if we may be of any further assistance.

This letter should be read in conjunction with our detailed Independent Expert's Report, which is attached.





## **Summary of opinion**

In Section 6.2, we set out our valuation conclusion. This indicates that the value of the consideration being offered to Minority Rattoon Shareholders (being 6 cents for every share they hold) is greater than the value per share of Rattoon.

In Section 6.3, we set out some other qualitative factors which should be taken into consideration.

In Sections 6.4 and 6.5 we considered the likelihood of a superior proposal being made to shareholders and the other alternatives available to shareholders.

Taking into consideration the matters detailed in the attached Independent Expert's Report, in the opinion of Ernst & Young Transaction Advisory Services, the Proposed Capital Reduction is fair and reasonable to the company's shareholders as a whole.

## **Other matters**

This Independent Expert's Report has been prepared specifically for the shareholders of Rattoon ("Rattoon Shareholders"). Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any member or employee thereof undertakes any responsibility to any person, other than Rattoon Shareholders, in respect of this Independent Expert's Report, including any errors or omissions howsoever caused.

This Independent Expert's Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Rattoon Shareholders. The decision as to whether to vote in favour or against the Proposed Capital Reduction is a matter for individual shareholders. Rattoon Shareholders should have regard to the explanatory memorandum ("Explanatory Memorandum") prepared by the directors and management of Rattoon in relation to the Proposed Capital Reduction. Rattoon Shareholders should also consider the taxation implications in relation to the Proposed Capital Reduction. The Explanatory Memorandum contains general information in relation to the taxation implications of the Proposed Capital Reduction. Rattoon Shareholders who are in doubt as to the action they should take in relation to the Proposed Capital Reduction should consult their own professional advisers.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full Independent Expert's Report as attached.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

John Selak  
Director and Representative

John E Gibson  
Director and Representative

Attachment

# Contents

## PART ONE - INDEPENDENT EXPERT'S REPORT

<b>1. Introduction.....</b>	<b>1</b>
1.1 Background and Terms of the Proposed Capital Reduction.....	1
1.2 Conditions precedent .....	1
<b>2. Scope of the Independent Expert's Report .....</b>	<b>3</b>
2.1 Purpose of the Independent Expert's Report .....	3
2.2 Definition of "fair and reasonable" .....	4
2.3 Basis for evaluation .....	4
2.4 Shareholders' decisions .....	5
2.5 Limitations and reliance .....	5
<b>3. Overview of Rattoon .....</b>	<b>7</b>
3.1 History.....	7
3.2 Directors and senior management.....	7
3.3 Capital structure and shareholders.....	8
3.4 Share price performance .....	9
3.5 Significant events .....	10
3.6 Financial Position .....	11
3.7 Financial Performance.....	13
3.8 Business outlook .....	14
<b>4. Valuation methodology and approach .....</b>	<b>15</b>
4.1 Definition of value .....	15
4.2 Common valuation methodologies .....	15
4.3 Valuation methodology selected .....	16
4.4 Cross checks adopted.....	17
<b>5. Valuation of Rattoon.....</b>	<b>18</b>
5.1 Approach .....	18
5.2 Net tangible assets .....	18
5.3 Options .....	19
5.4 Tax losses .....	19
5.5 Summary of valuation analysis .....	20
5.6 Valuation Cross-check .....	20
5.7 Valuation conclusion .....	20
<b>6. Evaluation of the Proposed Capital Reduction .....</b>	<b>21</b>
6.1 Approach .....	21
6.2 Valuation conclusion .....	21
6.3 Commercial and qualitative factors .....	22
6.4 Alternatives .....	24
6.5 If the Proposed Capital Reduction does not proceed .....	24
6.6 Ability to pay creditors .....	24
6.7 Other considerations .....	24
6.8 Conclusion on the Proposed Capital Reduction .....	25
<b>Appendix A Statement of qualifications and declarations.....</b>	<b>26</b>
<b>Appendix B Sources of information .....</b>	<b>28</b>
<b>Appendix C Glossary.....</b>	<b>29</b>

## PART TWO - FINANCIAL SERVICES GUIDE

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# 1. Introduction

## 1.1 Background and Terms of the Proposed Capital Reduction

The board of Rattoon (the "Rattoon Board") has been reviewing a number of options for Rattoon Holdings Limited ("Rattoon"), including trying to negotiate a privatisation proposal from one or both of the major shareholders of Rattoon, Guinness Peat Group plc ("GPG") and Thorney Investment Group Australia Pty Ltd ("Thorney") (including any related body corporate or any associates or nominees of these shareholders) ("the Major Shareholders" or "the Continuing Shareholders"). The Rattoon Board's view is that since 2009 the net asset base of Rattoon of approximately \$2.1 million is insufficient to pursue a broad based investment strategy. The Rattoon Board has considered the merits of raising more funds in order to recapitalise Rattoon and make further investments but believes that Rattoon's ability to attract additional funds at this time is limited.

Rattoon has now reached agreement with the Major Shareholders to submit a proposal to all Shareholders for a capital reduction ("Proposed Capital Reduction") of all the shares held by the minority shareholders ("the Minority Rattoon Shareholders").

Rattoon Shareholders are being asked to consider a resolution authorising Rattoon to cancel all minority shares which are held or beneficially owned by the Minority Rattoon Shareholders in return for payment of \$0.06 cash per share. Shares held or beneficially owned by the Major Shareholders would not be cancelled and will not participate in the Capital Reduction.

If the Proposed Capital Reduction is approved:

- ▶ Rattoon will pay to each Minority Shareholder \$0.06 for each of their shares, in cash;
- ▶ Rattoon will cancel all minority shares after that date; and
- ▶ The Major Shareholders will hold 100% of the issued capital of Rattoon.

The payment of \$0.06 for each minority share will be funded by Rattoon's cash reserves. Rattoon's cash holdings as at 30 November 2010 were \$2,279,267. The total cash payments to Minority Rattoon Shareholders in relation to the Proposed Capital Reduction will be \$355,658.

The independent directors of Rattoon have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an independent expert report ("Independent Expert's Report") in relation to the Proposed Capital Reduction.

## 1.2 Conditions precedent

Under Section 256B of the *Corporations Act 2001* ("Corporations Act"), a company is able to return capital to its shareholders if:

- (a) the proposal is fair and reasonable to the shareholders as a whole;
- (b) the proposal does not materially prejudice the company's ability to pay its creditors; and
- (c) the proposal is approved by shareholders under section 256C.

Full details of all conditions precedent to the Proposed Capital Reduction are included in the explanatory memorandum ("Explanatory Memorandum") to which this Independent Expert's Report forms part.

## 2. Scope of the Independent Expert's Report

### 2.1 Purpose of the Independent Expert's Report

Section 256B of the Corporations Act permits a company to reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- ▶ is fair and reasonable to the company's shareholders as a whole;
- ▶ does not materially prejudice the company's ability to pay its creditors; and
- ▶ is approved by its shareholders in accordance with the requirements of the Corporations Act.

These rules are designed to protect the interests of shareholders and creditors by:

- ▶ addressing the risk of such transactions leading to the company's insolvency;
- ▶ seeking to ensure fairness between all of the company's shareholders; and
- ▶ requiring the company to disclose all material information.

A reduction of capital may be either an "equal reduction" or a "selective reduction". The reduction is an equal reduction if:

- ▶ it relates only to ordinary shares;
- ▶ it applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold; and
- ▶ the terms of the reduction are the same for each holder of ordinary shares.

Whilst there may be no regulatory requirement for an Independent Expert's Report to be prepared on the Proposed Capital Reduction, the directors have requested an opinion as to whether the Proposed Capital Reduction:

- ▶ is fair and reasonable to shareholders as a whole; and
- ▶ does not materially prejudice ability to pay its creditors.

This Independent Expert's Report considers the interests of Shareholders as a whole and not individually. Individual shareholders may have issues that affect them in particular ways that are not general to the shareholders as a whole and this report cannot, and does not, consider such issues.

Ernst & Young Transaction Advisory Services' opinion should not be construed as a recommendation as to whether or not to vote in favour of the Proposed Capital Reduction. Approval or rejection of the Proposed Capital Reduction is a matter for individual shareholders based on their own circumstances including their appetite for risk, investment objectives, investment portfolio and tax positions. Shareholders should consult their own financial advisors.

## 2.2 Definition of “fair and reasonable”

In preparing the independent expert's report we will have had regard to ASIC Regulatory Guides, particularly ASIC Regulatory Guide 111 *Content of Expert Reports* (“RG 111”).

RG 111 provides guidelines for experts when opining on change of control transactions (such as takeovers) and selective capital reductions. Under RG 111 a proposal is:

- ▶ fair if the value of the consideration under the proposal exceeds or is equal to the value of the securities the subject of the proposal; and
- ▶ reasonable if it is fair or if there are other reasons why shareholders should approve the proposal in the absence of a superior alternative.

We have followed the guidance of the Regulatory Guides issued by ASIC in the preparation of our report.

## 2.3 Basis for evaluation

In forming our opinion, we have considered the advantages and disadvantages to the Shareholders if the Proposed Capital Reduction proceeds.

In particular, we have considered:

- ▶ Whether the value of a Rattoon share is higher or lower than the value of the consideration being offered by Rattoon;
- ▶ Other qualitative factors which we believe represent either advantages or disadvantages to Rattoon Shareholders;
- ▶ The existence of any premium for control;
- ▶ The likelihood of an alternative superior offer being made to Rattoon Shareholders; and
- ▶ The alternatives available to Rattoon Shareholders.

As required by Section 256B of the Corporations Act, we have also considered whether the Proposed Capital Reduction materially prejudices the company's ability to pay its creditors.

## 2.4 Shareholders' decisions

This Independent Expert's Report has been prepared specifically for the independent directors and shareholders of Rattoon. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than Rattoon Shareholders, in respect of this Independent Expert's Report, including any errors or omissions howsoever caused.

This Independent Expert's Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Rattoon Shareholders. The decision to accept or reject the Proposed Capital Reduction is a matter for individual Shareholders. Rattoon Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Rattoon Shareholders should have regard to the Explanatory Memorandum prepared by the directors and management of Rattoon in relation to the Proposed Capital Reduction.

Shareholders should also consider the taxation implications in relation to the Proposed Capital Reduction. The Explanatory Memorandum contains general information in relation to the taxation implications of the Proposed Capital Reduction.

Shareholders who are in doubt as to the action they should take in relation to the Proposed Capital Reduction should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this Independent Expert's Report.

## 2.5 Limitations and reliance

In the preparation of this Independent Expert's Report, Ernst & Young Transaction Advisory Services was provided with information in respect of Rattoon and obtained additional information from public sources, as set out in Appendix B.

We have had discussions with management of Rattoon in relation to the Proposed Capital Reduction, operations, financial position, operating results and outlook of Rattoon.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This Independent Expert's Report is also based upon financial and other information provided by Rattoon in relation to the Proposed Capital Reduction. Ernst & Young Transaction Advisory Services has considered and relied upon this information.

The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Capital Reduction is fair and reasonable to the Rattoon Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that Ernst & Young Transaction Advisory Services has, in any way, audited the accounts or records of Rattoon. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles, including Australian equivalents to International Financial Reporting Standards ("AIFRS") as applicable.

In forming its opinions Ernst & Young Transaction Advisory Services has also assumed that:

- ▶ Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ The information set out in the Explanatory Memorandum and accompanying documents sent by Rattoon to Rattoon Shareholders is complete, accurate and fairly presented in all material respects;
- ▶ The publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading; and
- ▶ To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, Ernst & Young Transaction Advisory Services assumes no responsibility and offers no legal opinion or interpretation on any issue.

The statements and opinions given in this Independent Expert's Report are given in good faith and in the belief that such statements and opinions are not false or misleading. Ernst & Young Transaction Advisory Services provided draft copies of this Independent Expert's Report to the directors and management of Rattoon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this Independent Expert's Report as a result of this review by the directors and management of Rattoon have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this Independent Expert's Report.

Our Independent Expert's Report has been prepared in accordance with APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board Limited in July 2008. As required under the Standard we confirm that we are independent of Rattoon.

All amounts in this report are expressed in Australian dollars (\$) unless otherwise stated.



## 3. Overview of Rattoon

### 3.1 History

Rattoon, formerly known as Phoneware Limited ("Phoneware"), was listed on the Australian Securities Exchange ("ASX") in October 1997 and invested in companies providing software solutions for voice and data billing and management of business telephone operations. In April 2002, Phoneware and its subsidiaries were placed into voluntary administration and its assets were realised and distributed to creditors.

In July 2003, Phoneware was renamed Rattoon Holdings Limited and the company's focus was changed to invest in unlisted Australian entities.

Rattoon was removed from the ASX official list in June 2004 and was listed on the National Stock Exchange of Australia ("NSXA") on 21 June 2004. The directors of Rattoon believed that Rattoon's size and structure was better suited to a listing on the NSXA.

The most significant investment made by Rattoon was in The Estate of the Late George Adams ("ELGA") which owned the shares in Tattersall's Holdings Pty Ltd ("Tattersall's"). Tattersall's subsequently listed on the ASX and became Tatts Group ("Tatts").

During FY08, the price of Tatts shares fell well below the weighted average purchase price paid by Rattoon to acquire the Tatts shares. Rattoon operated a margin loan facility that was secured in-part by the Tatts shares. The significant fall in Tatts share price and the risk of ongoing volatility in Tatts' share price led the Rattoon Board to make the decision to de-leverage and sell the Tatts investment. The Board decided to return surplus cash from the sale of the Tatts shares to Shareholders as a capital return, rather than retain the cash for future investment.

Rattoon had also invested in NSX Limited ("NSX"), which is the ultimate parent company of NSXA and Bendigo Stock Exchange Limited, which are Australian Markets Licensees allowing the operation of markets in the trading of securities.

In July and August 2010, Rattoon sold its investment in NSX and has no current investments in listed entities.

### 3.2 Directors and senior management

Information about the current directors of Rattoon is set out below:

- ▶ **Graeme Cureton - Chairman**
  - ▶ Graeme Cureton joined Rattoon as a Non-Executive Director on 4 April 2005. He is a consultant to and former Executive Director of Guinness Peat Group Plc.
- ▶ **Hugh Robertson - Non-Executive Director**
  - ▶ Hugh Robertson was appointed to the Board on 1 July 2003. He is an Adviser with Bell Potter Securities Limited. Hugh is also a Director of Wentworth Holdings Limited.
- ▶ **Peter Landos- Non-Executive Director**
  - ▶ Peter Landos is a qualified Accountant and is an Investment Manager with Thorney Investment Group. Peter is also a Director of Adacel Technologies Limited and McPherson's Limited.
- ▶ **Martin Casey - Company Secretary**
  - ▶ Martin is an employee of Credit Suisse.

### 3.3 Capital structure and shareholders

As at November 2010 (the most recently available information), Rattoon had on issue 50,545,380 ordinary shares held by approximately 572 shareholders and 6,200 unquoted options.

#### 3.3.1 Top 10 shareholders

The table below sets out the top 10 shareholders of Rattoon as at November 2010 (the most recently available):

Shareholder Name	Number of Shares	% of Shares Issued
Guinness Peat Group plc	22,424,048	44.4%
Thorney Investment Group	22,193,704	43.9%
RBC Dexia Investor Services	1,627,486	3.2%
River Cap Pty Ltd	610,024	1.2%
Rubi Holdings Pty Ltd	552,925	1.1%
National Nominees	543,441	1.1%
JP Morgan Nominees	363,945	0.7%
Buduva Pty Ltd	130,395	0.3%
Bungeeltap Pty Ltd	100,000	0.2%
Ingot Capital Investment Pty Ltd	81,002	0.2%
Other	1,917,587	3.8%
Total	50,545,380	100.0%

Source: Rattoon Management

We note that Rattoon has two substantial shareholders, GPG and Thorney with 44.4% and 43.9% of the ordinary shares of Rattoon respectively. We note that all other ordinary shareholders hold interests of less than 4% each.

#### 3.3.2 Unquoted options

In the Financial Statements for the year ended 30 June 2010, Rattoon disclosed that there were 730,000 options on issue. The options were issued on 19 June 2001 and have an exercise price of \$348.64. At the time, the Rattoon Board was seeking further information and advice on whether previous corporate actions that had occurred since 2001 had been properly applied to the options. Subsequent to 30 June 2010, the Rattoon Board has formed the opinion that the correct number of options on issue is 6,200 with an exercise price of \$348.64. Rattoon's option register has been updated accordingly.

The relevant unexpired options are only exercisable if Rattoon's share price exceeds, for a period of 30 consecutive days trading on the ASX (or equivalent market), a relevant barrier price (which is \$498.64 in respect of 2,803 options and \$748.64 in respect of 3,397 options). In the event of a privatisation and de-listing of Rattoon's securities, the options will no longer be exercisable as the Rattoon's shares will not be able to trade on the ASX (or equivalent exchange). The options would only become exercisable at a future time should Rattoon be subsequently re-listed and trading of its shares on the ASX (or an equivalent market) occurred at a price in excess of the relevant barrier price for at least 30 consecutive trading days.

Please refer to the Explanatory Memorandum for more information in relation to the unquoted options.

### 3.4 Share price performance

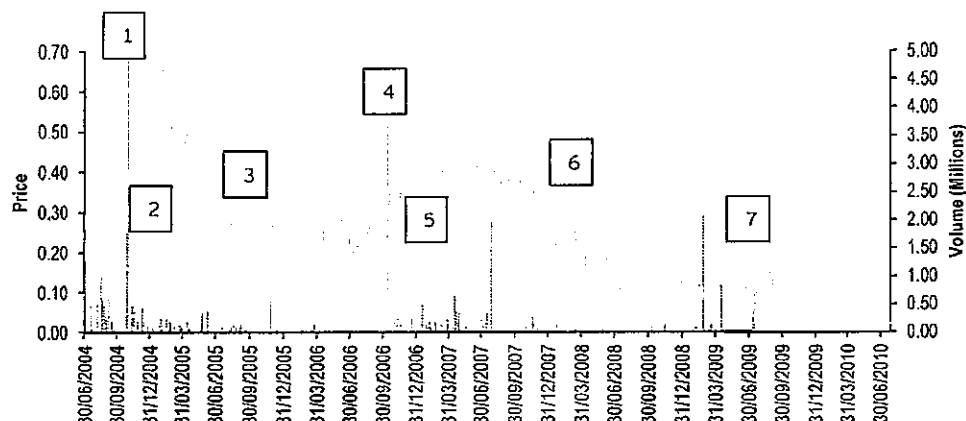
The table below sets out Rattoon's monthly share price performance since January 2008. As at the date of this Independent Expert's Report, Rattoon's shares are trading at \$0.02. We note that there has been a very small volume of shares traded over the past 12 months.

Month	Last price (\$)	High (\$)	Low (\$)	Volume (Units)
December 2010	-	-	-	-
November 2010	0.02	-	-	-
October 2010	0.02	0.02	0.02	11,147
September-2010	0.02	-	-	-
August-2010	0.02	-	-	-
July-2010	0.04	0.05	0.02	3,000
June-2010	0.15	0.15	0.05	21,025
May-2010	0.15	-	-	-
April-2010	0.15	-	-	-
March-2010	0.15	-	-	-
February-2010	0.04	0.15	0.04	61,158
January-2010	0.08	0.08	0.04	3,063
December-2009	0.08	-	-	-
November-2009	0.08	0.08	0.08	2,813
October-2009	0.08	0.08	0.08	250
September-2009	0.20	0.20	0.08	20,937
August-2009	0.20	0.20	0.05	6,500
July-2009	0.11	0.11	0.05	458,825
June-2009	0.11	0.11	0.105	18,325
May-2009	0.105	0.12	0.105	100
April-2009	0.12	0.12	0.10	835,625
March-2009	0.09	0.10	0.09	164,500
February-2009	0.13	0.135	0.09	2,206,100
January-2009	0.12	-	-	-
December-2008	0.12	-	-	-
November-2008	0.11	0.12	0.11	250,000
October-2008	0.12	0.12	0.11	210,238
September-2008	0.12	0.12	0.12	40,000
August-2008	0.11	0.12	0.11	260,000
July-2008	0.10	0.12	0.10	98,004
June-2008	0.20	0.20	0.08	79,821
May-2008	0.20	0.20	0.16	3,773,339
April-2008	0.23	0.23	0.16	202,113
March-2008	0.24	0.26	0.225	269,000
February-2008	0.28	0.28	0.25	113,053
January-2008	0.32	0.32	0.20	218,593

Source: NSXA website

### 3.5 Significant events

The graph below sets out Rattoon's share price performance and timing of significant events since its listing on the NSXA in June 2004:



Source: NSXA website

The following table summarises the key significant events which have occurred since Rattoon's listing on the NSXA in 2004:

Date	Note	Event
Jun-04		Listed on NSXA on 21 June 2004.
Aug-04	1	GPG purchases 2 million ordinary shares to become substantial shareholder.
Oct-04	1	GPG increased interest to 12% and Charmoff Nominees acquires 5% interest in Rattoon.
Dec-04	2	Market speculation around Tattersalls float and beneficiaries (including Rattoon) receiving one-off payment.
Jan-05		Rattoon invests in NSX Limited, initially holding 2.54% of the issued capital of NSX Limited.
Jun-05		Rattoon acquired 3 million shares in Tattersall's Limited for a total amount of approximately \$10.3 million. The acquisitions were funded by a debt facility provided by NAB.
Jul-05	3	Rattoon announces Rattoon Shareholders offered 1 Tattersalls share for every 12 Rattoon shares held.
Oct-06	4	New shares are issued to shareholders following a private placement.
Jan-07	5	Rattoon announces share purchase plan at a price of 32 cents.
Apr-07		Rattoon issues 4.4 million shares under Share Purchase Plan. Rattoon did not reach threshold to list on ASX and puts plans to list on ASX on hold.
Apr-08	6	Tatts Group share price drops.
Aug-08		Rattoon ceased being Tatts major shareholder.
Jul-09	7	Rattoon made a capital return to shareholders of \$68.7 million.
Jul-09	7	Rattoon undertakes a consolidation of shares on a 10:1 basis.
Jul-09		Rattoon sells its remaining Tatts Group shares.
Jul-10		Rattoon sells its remaining NSX shares.

Source: NSXA announcements

### 3.6 Financial Position

The table below sets out Rattoon's statement of financial position as at 30 June 2009, 30 June 2010, and the unaudited financial position as at 30 November 2010:

Currency: \$	Jun09A	Jun10A	Nov10A
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	70,441,498	1,890,990	2,279,267
Trade and other receivables, net	5,020	75,072	-
Prepayments	-	-	81,265
Available for sale financial assets	804,690	290,700	-
<b>Total current assets</b>	<b>71,251,208</b>	<b>2,256,762</b>	<b>2,360,533</b>
<b>Non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>71,251,208</b>	<b>2,256,762</b>	<b>2,360,533</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	68,890,017	32,169	138,022
Capital return	-	-	148,059
Provision for income tax	-	-	1
Unpresented cheques	-	-	19,326
<b>Total current liabilities</b>	<b>68,890,017</b>	<b>32,169</b>	<b>305,407</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	24,735	1,201	-
<b>Total non-current liabilities</b>	<b>24,735</b>	<b>1,201</b>	<b>-</b>
<b>Total liabilities</b>	<b>68,914,752</b>	<b>33,370</b>	<b>305,407</b>
<b>Total net assets</b>	<b>2,336,456</b>	<b>2,223,392</b>	<b>2,055,125</b>
<b>EQUITY</b>			
Issued capital	90,706,450	90,706,450	90,706,450
Share application account	-	-	20,139
Reserves	57,715	2,802	1
Accumulated losses	(88,427,709)	(88,485,860)	(88,490,935)
Current earnings	-	-	(180,530)
<b>Total equity</b>	<b>2,336,456</b>	<b>2,223,392</b>	<b>2,055,125</b>

Source: Annual Reports and unaudited 30 November 2010 balance sheet

We note the following in relation to the financial position of Rattoon:

- ▶ During FY10, Rattoon sold its remaining shareholding in Tatts, selling 252,240 shares. As such, as at 30 June 2010, Rattoon's remaining assets comprised cash of \$1.9 million and a shareholding in NSX Limited of \$290,700.
- ▶ Rattoon subsequently sold its shareholding in NSX Limited in July and August 2010 and now holds no investments.
- ▶ The prepayments of \$81,265 as at 30 November 2010 related to the balance of prepaid professional indemnity insurance.

- ▶ Trade and other payables of \$138,022 includes auditors fees, legal fees, security transfer registry fees, accounting fees, consulting fees and directors fees.
- ▶ The capital return liability of \$148,090 represents the unpresented cheques on the capital return made by Rattoon on 17 July 2009.
- ▶ The unpresented cheques balance of \$19,326 relates to dividends paid since 2007.
- ▶ The deferred tax liabilities as at 30 June 2009 and 30 June 2010 relate to timing differences on the unrealised gain on the investments held.
- ▶ As at 30 June 2010, Rattoon had net assets of \$2.22 million and as at 30 November 2010, Rattoon has net assets of \$2.1 million.
- ▶ The share application amount of \$20,139 represents the balance of unpresented cheques relating to the share purchase plan undertaken by Rattoon a number of years ago.
- ▶ We note that Rattoon had accumulated losses of \$88.5 million as at 30 November 2010 as a result of previous losses. However, we note that Rattoon has not recognised the unused tax losses as an asset in the financial statements for the years ended 30 June 2009 and 30 June 2010.
- ▶ As at 30 June 2010, Rattoon had unrealised tax losses of \$67.4 million and unused capital losses of \$264,000. The potential tax benefit at 30% of these losses is \$20.2 million and \$79,200 respectively. Rattoon has not brought the deferred tax asset to account because the Rattoon Board does not believe that the unused tax losses have a sufficient likelihood of being utilised within a reasonable period of time. These will be discussed further below.
- ▶ The Rattoon Board has advised that there are no contingent assets or liabilities or other assets or liabilities not otherwise recorded on the balance sheet, other than those above.

### 3.7 Financial Performance

The table below summarises the financial performance of Rattoon for the years ended 30 June 2009 ("FY09") and 30 June 2010 ("FY10"), as well as the summarised unaudited performance for the 5 months to 30 November 2010 ("YTD FY11"):

Currency: \$	FY09A	FY10A	YTD FY11
Revenue	5,415,527	171,052	37,794
Other income	14,590,351	25,707	9,194
<b>Total income</b>	<b>20,005,878</b>	<b>196,759</b>	<b>46,988</b>
Loss in movements of interest rate swaps	(649,727)	-	-
Employee and subcontractor costs	(320,467)	(93,646)	(120,750)
Professional fees	(44,429)	(3,058)	(19,933)
Accounting fees	(127,887)	(5,723)	(6,354)
Auditors remuneration	(39,127)	(27,277)	(24,251)
Insurance	(34,049)	(24,221)	(9,860)
Other expenses	(59,279)	(33,387)	(42,403)
<b>Total expenses</b>	<b>(1,274,965)</b>	<b>(187,312)</b>	<b>(223,552)</b>
Finance costs	(4,035,075)	(67,598)	(3,969)
<b>Profit/(Loss) before income tax</b>	<b>14,695,838</b>	<b>(58,151)</b>	<b>(180,532)</b>
Income tax expense	-	-	-
<b>Profit/(Loss) after tax</b>	<b>14,695,838</b>	<b>(58,151)</b>	<b>(180,532)</b>

Source: Annual Reports and unaudited 30 November 2010 profit and loss

We note that following in relation to Rattoon's historical financial performance:

- ▶ Revenue in FY09 comprised \$3.7 million in dividends and \$1.7 million in interest. Rattoon did not receive any dividends in FY10, and received \$171,052 in interest from cash deposits. For the 5 months to 30 November 2010, Rattoon received interest of \$37,794.
- ▶ Other income in FY09 comprised \$13.8 million of profit on the sale of available for sale investments and \$834,548 of fair value gains from the sale of call options on Tatts shares. Other income of \$25,707 in FY10 and \$9,194 in the 5 months to 30 November 2010 relates to profit on the sale of available for sale investments, NSX shares.
- ▶ Employee and subcontractor costs decreased from \$320,467 in FY09 to \$93,646 in FY10. This is as a result of director's fees reducing in line with the company's net asset reduction.
- ▶ Other expenses comprise share registry costs, printing and postage, filing fees and other expenses.

### **3.8 Business outlook**

Rattoon will continue to seek investments in other private and listed entities that are likely to provide a stable income stream and opportunities for long term capital growth.

Given Rattoon's financial position, the potential for further investments are likely to be limited without changes to the current capital structure.



## 4. Valuation methodology and approach

### 4.1 Definition of value

In forming our opinion as to whether the Proposed Capital Reduction is fair and reasonable to the Rattoon Shareholders, we have determined the value of the issued shares of Rattoon on a fair market value basis. Business valuers typically define fair market value as:

*"The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser and is unique to each such purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

### 4.2 Common valuation methodologies

There are a number of commonly used valuation methodologies available to value a business. The four primary methodologies used for valuing a business are:

- ▶ Capitalisation of earnings
- ▶ Discounted cash flow
- ▶ Net realisable value of assets
- ▶ Market based assessments

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the business being valued, the methodology most commonly adopted in valuing such businesses and the availability of appropriate information.

#### 4.2.1 Capitalisation of earnings

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- ▶ Estimation of future maintainable earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. Future maintainable earnings are generally based on net profit after tax, EBIT, EBITA or EBITDA
- ▶ Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors
- ▶ Earnings multiples applied to net profit after tax are known as price earnings multiple and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing

- ▶ An adjustment for financial debt, in the event maintainable earnings are based on EBIT, EBITA or EBITDA
- ▶ An assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings

This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

#### **4.2.2 Discounted cash flow**

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas fields). The utilisation of this methodology generally requires management to be able to provide long term cash flows for the subject company, asset or business.

#### **4.2.3 Net realisable value of assets**

The net realisable value of assets methodology involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets.

#### **4.2.4 Market based assessments**

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

### **4.3 Valuation methodology selected**

In determining the appropriate methodology with which to value Rattoon, we have considered the methodologies available to value a business, the nature of the operations of Rattoon, and the lack of forecast financial information available. We have had regard to the actual financial performance of Rattoon for the years ended 30 June 2009 and 30 June 2010 and the unaudited financial performance for the 5 months to 30 November 2010.

We note that:

- ▶ It was not possible to utilise the discounted cash flow methodology in view of the lack of suitable forecast financial information.

- It was not possible to utilise the capitalisation of earnings methodology in the view that Rattoon has no ongoing operating business and the historic earnings of Rattoon do not provide a basis to determine a future maintainable level of earnings for the business.

The selection of the net realisable value of assets methodology was determined to be most appropriate in light of the current lack of trading in the Rattoon business and the fact that the majority of Rattoon's assets are held in cash.

Based on the above considerations and using our experience, we have selected the net realisable value of assets methodology to value Rattoon. We consider this approach to be the most appropriate in the circumstances.

#### **4.4 Cross checks adopted**

We have cross checked our value per share calculation based on net tangible assets with the current trading price of a Rattoon share on the NSXA. We note that there has been very low volumes of Rattoon shares traded in the past 12 months making the shares illiquid.

## 5. Valuation of Rattoo

### 5.1 Approach

In valuing Rattoo, we have selected the net realisable value of assets methodology as our primary valuation methodology.

### 5.2 Net tangible assets

The table below sets out the net tangible asset position of Rattoo as at 30 November 2010.

Currency: \$	Nov10A
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	2,279,267
Trade and other receivables, net	-
Prepayments	81,265
Available for sale financial assets	-
<b>Total current assets</b>	<b>2,360,533</b>
<b>Non-current assets</b>	<b>-</b>
<b>Total assets</b>	<b>2,360,533</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Trade and other payables	138,022
Capital Return	148,059
Provision for income tax	1
Unpresented cheques	19,326
<b>Total current liabilities</b>	<b>305,407</b>
<b>Non-current liabilities</b>	
Deferred tax liabilities	-
<b>Total non current liabilities</b>	<b>-</b>
<b>Total liabilities</b>	<b>305,407</b>
<b>Total net assets</b>	<b>2,055,125</b>

Source: Unaudited 30 November 2010 balance sheet

We note the following in relation to each item:

- Cash and cash equivalents - The cash and cash equivalents of \$2,279,267 represent cash at bank and deposits at call. We have assumed that this is at market value.
- Prepayments - The prepayments balance of \$81,265 represents prepaid professional indemnity insurance. Rattoo has advised that the insurance is not refundable and covers the Rattoo directors for a period of 7 years. We have assumed that this is at market value as Rattoo will continue to derive benefit from this asset.

- ▶ The trade and other payables balance of \$138,022 includes auditors fees, legal fees, security transfer registry fees, accounting fees and directors fees. We have assumed the book value of the payables is equal to the market value.
- ▶ The capital return liability of \$148,059 relates to the unrepresented cheques on the capital return made by Rattoon on 17 July 2009. The unrepresented cheques balance of \$19,326 relates to dividends paid since 2007. We have assumed that both sets of unrepresented cheques will be presented and therefore the book value of these liabilities are equal to market value.

### 5.3 Options

We note that we have not considered the dilutionary effect of the unquoted options on issue due to the fact that they are significantly out of the money, and based on the current trading position of Rattoon, are likely to have immaterial value.

### 5.4 Tax losses

As discussed in Section 3.6 above, as at 30 June 2010, Rattoon had unrealised tax losses of \$67.4 million and unused capital losses of \$264,000. The potential tax benefit at 30% of these losses is \$20.2 million and \$79,200 respectively.

We note that Rattoon has not brought the deferred tax assets associated with these losses to account because the Rattoon Board does not believe that the unused tax losses had a sufficient likelihood of being utilised within a reasonable period of time. Rattoon has advised that it has preliminary advice that the losses are on revenue account, but this advice is only preliminary.

We note the following in relation to the value of the unrealised tax losses:

- ▶ The value of the tax losses are a function of the ability of the business to utilise them.
- ▶ Rattoon's historical financial performance and current financial position suggests that, in the short term, insufficient earnings are likely to be generated to enable Rattoon to utilise the tax losses. The Rattoon Board has advised that it believes Rattoon is unlikely to generate future operating profits without raising additional funds and that Rattoon's ability to attract funding at this time is limited.
- ▶ Whilst in the long term shareholders may be able to utilise the tax losses if Rattoon had the ability to generate operating profits at some point in the future, all shareholders are currently unable to directly utilise the tax losses. Further, there is no certainty that any accumulated tax losses will be available to Rattoon at a future time.
- ▶ Any ability of the GPG and/or Thorney to utilise the tax losses in the future could be considered 'special value'. Special value is value which will accrue to the acquirer and is unique to the acquirer.

ASIC Regulatory Guide 111 specifically excludes including special value when determining whether the Proposed Capital Reduction is fair and reasonable. As such, fair value is to be considered in the context of what Rattoon can do within its own resources. As such, any value the two major shareholders may be able to derive from the tax losses subsequent to privatisation, would not be considered as part of the fair value and instead forms part of the special value.

On this basis, we have not attributed any value to the unrealised tax losses. We note that the existence of the tax losses and availability of GPG and Thorney to use them in the event that the Proposed Capital Reduction goes ahead, is considered further in Section 6.

## 5.5 Summary of valuation analysis

On the basis of the above analysis, we summarise below our calculation of the underlying value of Rattoon:

Currency: \$	Nov10A
Net tangible assets	2,055,125
Number of ordinary shares on issue	50,545,380
<b>Value per ordinary share</b>	<b>0.0407</b>
Source: EY Calculation	

## 5.6 Valuation Cross-check

As a cross check, we have compared our value per ordinary share with the current Rattoon share price of \$0.02 cents. The table below sets out this comparison:

Currency: \$	Nov10A
Most recent Rattoon share price	0.0200
Value per ordinary share calculated	0.0407
Difference	0.0207
<b>Premium/(discount)</b>	<b>103%</b>
Source: EY Calculation	

We note the following regarding the recent share trading price of Rattoon:

- ▶ The calculated value per share of Rattoon represents a premium of 103% over the current trading price.
- ▶ The market of Rattoon Shares is illiquid with low volumes of trades made in the past 12 months.
- ▶ Approximately 88% of the issued shares of Rattoon are held by the top 2 shareholders, GPG and Thorney, which indicates that the size of the 'free float' of the shares is small. This suggests that the trading price of the shares is not a reasonable reflection of their market value.
- ▶ Share prices are for minority parcels of shares and do not include a control premium.

Based on the above factors, it is therefore not unexpected that the market value derived using the net tangible assets methodology is higher than the recent share trading price of Rattoon. We, therefore, do not consider our valuation to be unreasonable.

## 5.7 Valuation conclusion

Based on the foregoing, we conclude that the value per share of Rattoon is \$0.0407 cents.

## 6. Evaluation of the Proposed Capital Reduction

### 6.1 Approach

In forming our opinion as to whether the Proposed Capital Reduction is fair and reasonable to Rattoon Shareholders, we have considered:

- ▶ Whether the value of Rattoon is higher or lower than the value of the consideration being offered to Rattoon Shareholders;
- ▶ Other qualitative factors which we believe represent either advantages or disadvantages to Rattoon Shareholders;
- ▶ The likelihood of an alternative superior offer being made to Rattoon Shareholders; and
- ▶ The alternatives available to Rattoon Shareholders.

As required by Section 256B of the Corporations Act, we have also considered whether the Proposed Capital Reduction materially prejudices the company's ability to pay its creditors.

### 6.2 Valuation conclusion

In determining whether the Proposed Capital Reduction is fair, we have compared the value per share of Rattoon with the value of the consideration being offered by Rattoon of 6 cents per share.

The following table summarises our valuation conclusions:

<i>Currency: \$</i>	Nov10A
<b>Value per ordinary share</b>	<b>0.0407</b>
<b>Consideration per share</b>	<b>0.0600</b>
<b>Premium/(discount)</b>	<b>0.0193</b>
<b>Premium/(discount) (%)</b>	<b>47%</b>
Source: EY	

On the basis of the above analysis, the Proposed Capital Reduction is fair as the consideration being offered of 6 cents per share is greater than the value per share of 4.07 cents.

## 6.3 Commercial and qualitative factors

In assessing the reasonableness of the Proposed Capital Reduction, we have considered the potential advantages and disadvantages to the Rattoon Shareholders and considered whether the advantages outweigh the disadvantages only in the context of the Proposed Capital Reduction.

Ernst & Young Transaction Advisory Services has assessed that the advantages and disadvantages of rejecting the Proposed Capital Reduction are in the inverse of accepting the Proposed Capital Reduction.

In considering the commercial and qualitative factors relating to the Proposed Capital Reduction, Ernst & Young Transaction Advisory Services considered factors relating to the Proposed Capital Reduction. These factors are summarised below. We note that individual Shareholders may interpret these factors differently depending on their individual circumstances.

As Section 256 of the Corporations Act requires the Proposed Capital Reduction to be fair and reasonable to the shareholders as a whole, we have considered the advantages and disadvantages to both the Minority Rattoon Shareholders participating in the Proposed Capital Reduction, as well as to the majority shareholders (GPG and Thorney), the Continuing Rattoon Shareholders.

### 6.3.1 Advantages for Minority Rattoon Shareholders

In making our assessment of the reasonableness of the Proposed Capital Reduction, we have taken account of the following advantages to the Minority Shareholders if the Proposed Capital Reduction is accepted:

- ▶ Rattoon Shares have been thinly traded on the NSXA, demonstrating an illiquid market for this stock which may hinder shareholder's attempts to sell Rattoon Shares. The Proposed Capital Reduction allows for an immediate realisation of value for their shares which would otherwise take time and involve a greater level of risk.
- ▶ The consideration payable under the Proposed Capital Reduction represents a premium of 47% over the value of the Rattoon Shares as calculated by Ernst & Young Transaction Advisory Services.
- ▶ The consideration payable represents a premium of 103% to the current share price of Rattoon.
- ▶ The consideration payable represents a premium to current NTA and therefore results in a more favourable outcome than what would be achieved by way of a winding up.
- ▶ It is unlikely an alternative third party would offer a higher price for the shares held by Minority Rattoon Shareholders.
- ▶ The Proposed Capital Reduction would enable Rattoon Shareholders to invest their money in more liquid, dividend paying stocks which generally have a higher return than Rattoon.
- ▶ The Proposed Capital Reduction may enable Minority Rattoon Shareholders to cease holding their shares without incurring any brokerage/transaction costs.
- ▶ The Proposed Capital Return provides a simple exit opportunity for those Rattoon Shareholders who hold less than a marketable parcel of Rattoon shares.



We note that the Rattoon Board has unanimously recommended the Proposed Capital Reduction to Rattoon Shareholders in the absence of a superior proposal. The support of the Rattoon Board should provide additional comfort to Rattoon Shareholders.

### 6.3.2 Disadvantages for Minority Rattoon Shareholders

In making our assessment of the reasonableness of the Proposed Capital Reduction, we have taken account of the following disadvantages to the Minority Rattoon Shareholders if the Proposed Capital Reduction is accepted:

- ▶ Minority Rattoon Shareholders will cease to have any exposure to any potential future increase in the share price of Rattoon. We note however that given Rattoon now holds no current investments and a large proportion of its net assets are held in cash, the potential for future increases in share price appear limited.
- ▶ Minority Rattoon Shareholders will cease to have any exposure to any potential benefits generated by the unrealised tax losses of Rattoon. As noted in Section 5.4, the Rattoon Board has advised that it believes Rattoon is unlikely to generate future operating profits to utilise the tax losses without raising new funds and that Rattoon's ability to attract additional funds at this time is limited.
- ▶ Minority Rattoon Shareholders will cease to enjoy their rights as existing shareholders and will no longer be able to attend and vote at general meetings, receive copies of annual reports, or participate in any future dividend payments.
- ▶ Rattoon has advised that it remains possible that effective legal action might emerge against parties relating to the diminution in the value of the shares in Tatts due to changes in the Victorian State Government's decision to not renew Tatts' licence to operate poker machines after its current licence to do so expires. Should any legal remedies or potential compensation emerge, then Rattoon may stand to benefit from such an outcome at a future time and accordingly if the Capital Reduction is approved, Minority Rattoon Shareholders would not participate in any such benefit. It is noted that the Rattoon Board is not currently aware of any legal remedy being available to Rattoon.
- ▶ The specific tax consequences of the Proposed Capital Reduction will vary depending on the circumstances of each individual Rattoon Shareholder. These specific tax consequences need to be borne in mind by each Rattoon Shareholder in weighing up the merits of the Proposed Capital Reduction.

### 6.3.3 Advantages for Continuing Rattoon Shareholders

In making our assessment of the reasonableness of the Proposed Capital Reduction, we have taken account of the following advantages to the Continuing Rattoon Shareholders if the Proposed Capital Reduction is accepted:

- ▶ The Continuing Rattoon Shareholders would have control of Rattoon and the ability to control the direction of the company, including possibly privatising Rattoon.
- ▶ The Continuing Rattoon Shareholders may be able to realise some value from the unused tax losses. However, as would be the case at the present time, any unused tax losses will only be available to be utilised if sufficient assessable income is generated. It is expected that in order for Rattoon to generate sufficient assessable income to make use of the carried forward tax losses Rattoon would need to increase its capital or funding base.

- ▶ Further, we note that the unrealised tax losses will only be available if either the “same business test” or the “continuity of ownership test” are satisfied for taxation law purposes. The Rattoon Board has not sought definitive advice about this but recommends that Minority Rattoon Shareholders assume that there is a strong likelihood that the unused tax losses will be available.

#### **6.3.4 Disadvantages for Continuing Rattoon Shareholders**

In making our assessment of the reasonableness of the Proposed Capital Reduction, we have taken account of the following disadvantages to the Continuing Rattoon Shareholders if the Proposed Capital Reduction is accepted:

- ▶ The consideration proposed is at a premium to the current net tangible asset value of Rattoon and the current trading price of Rattoon shares.
- ▶ As discussed in the Advantages for Continuing Rattoon Shareholders section above, there is a risk that the unrealised tax losses will not be available to the Continuing Rattoon Shareholders after the Proposed Capital Reduction is implemented if either the “same business test” or the “continuity of ownership test” are not satisfied for taxation law purposes.

### **6.4 Alternatives**

We are not aware of any alternative offers that may be forthcoming. The Rattoon Board has advised that it believes it is unlikely that a third party will make a higher offer given that Thorney and GPG have a controlling interest in Rattoon and the illiquidity of the shares.

### **6.5 If the Proposed Capital Reduction does not proceed**

If the Proposed Capital Reduction does not proceed, Rattoon would continue to operate. However, Rattoon has advised that the administrative costs of operating Rattoon are expected to exceed the current earnings from interest earned on deposit and that the Rattoon Board do not consider that the current net asset base of approximately \$2.1 million is a sufficient base to make investments.

As such, Rattoon's options may include winding up, undertaking a capital raising or waiting for a superior proposal.

### **6.6 Ability to pay creditors**

As set out in Section 3.6, Rattoon had minimal creditors as at 30 November 2010, and a net tangible assets position of approximately \$2.1 million. We note that the Proposed Capital Reduction will not materially prejudice Rattoon's ability to pay its creditors.

### **6.7 Other considerations**

This Independent Expert's Report only provides general information. It does not take into account a shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by Rattoon Shareholders. Rattoon Shareholders should consider whether this Independent Expert's Report is appropriate for the shareholders' circumstances, having regard to the Shareholders' situation, objectives and needs before relying on or taking action based on this report. Shareholders should seek their own professional advice.

This Independent Expert's Report has been prepared to assist Rattoon Shareholders in assessing the merits of the Proposed Capital Reduction.

Whether or not individual Rattoon Shareholders should vote to implement or not implement the Proposed Capital Reduction depends upon an investor's situation, objectives and needs, as well as each Shareholders' views as to the reasonableness factors associated with either implementing or not implementing the Proposed Capital Reduction.

## **6.8 Conclusion on the Proposed Capital Reduction**

Ernst & Young Transaction Advisory Services considers the Proposed Capital Reduction to be fair and reasonable to the Rattoon Shareholders as a whole.

As a part of assessing whether or not the Proposed Capital Reduction is fair and reasonable to the Rattoon Shareholders, Ernst & Young Transaction Advisory Services has assessed the value of Rattoon and compared it to the value of the consideration assuming the Proposed Capital Reduction proceeds.

The alternative to the Proposed Capital Reduction for the Rattoon Shareholders is to vote against the Proposed Capital Reduction and continue to hold Rattoon Shares. As discussed above, given the current financial position of Rattoon, if the Proposed Capital Reduction does not proceed, the Rattoon Board may need to consider winding up, a new capital raising or engaging with a third party buyer, as the Rattoon Board believe that the current capital base is insufficient to make investments.

## Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its Representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Rattoon.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Rattoon with reference to ASIC Regulatory Guide 112 Independence of Experts. In Ernst & Young Transaction Advisory Services' opinion it is independent of Rattoon.

This report has been prepared specifically for Rattoon Shareholders. Neither Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than the Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Rattoon as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information we have had regard to in the preparation of this Independent Expert's Report is set out in Appendix B.

Rattoon has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this Independent Expert's Report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Rattoon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this Independent Expert's Report as a result of this review by the directors and management of Rattoon have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this Independent Expert's Report, estimated at approximately \$25,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

In the preparation of the Independent Expert's Report, Ernst & Young Transaction Advisory Services has had regard to relevant Regulatory Guides issued by ASIC. It is not intended that the Independent Expert's Report should be used for any other purpose other than to be sent to Rattoon Shareholders. In particular, it is not intended that this Independent Expert's Report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Capital Reduction is fair and reasonable to the Rattoon Shareholders.

Ernst & Young Transaction Advisory Services consents to the inclusion of this Independent Expert's Report in the Explanatory Memorandum to be sent to Rattoon Shareholders.

#### **Declaration in relation to APES 225 (Valuation Services)**

This Independent Expert's Report has been prepared by John Selak ("John") whose experience directly relevant to this assignment includes:

- ▶ John was first admitted as a Partner with what became Ernst & Whinney in 1983.
- ▶ John spent three years in industry and ten years establishing Ferrier Hodgson's Corporate Finance practice before rejoining Ernst & Young as a Partner in their Corporate Finance Division in June 2000.
- ▶ During his thirty years in practice, John has consulted to an extensive range of clients spanning a broad range of industry sectors.
- ▶ John is the service line leader for Valuation & Business Modelling for the Asia Pacific Region.
- ▶ John is an Associate of the Institute of Chartered Accountants of Australia and an Associate Member of the Institute of Chartered Accountants in New Zealand. He holds a Diploma in Accounting, Auckland Technical Institute.

In preparing this Independent Expert's Report:

- ▶ John has acted independently.
- ▶ Ernst & Young has been remunerated on the basis of time spent at the usual hourly rates of staff engaged to assist in the valuation, and no part of the fee is contingent on the conclusions reached, the content or the future use of this Report.

John Gibson acted as review partner for this engagement. John Gibson is a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young. He has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

## Appendix B Sources of information

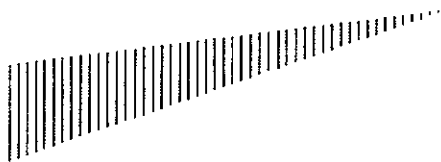
In preparing this Independent Expert's Report, Ernst & Young Transaction Advisory Services has had regard to the following sources of information:

- ▶ ASX website, [www.asx.com.au](http://www.asx.com.au)
- ▶ National Stock Exchange of Australia website, [www.nsx.com.au](http://www.nsx.com.au)
- ▶ ASIC Regulatory Guides
- ▶ Bloomberg
- ▶ Capital IQ
- ▶ DatAnalysis
- ▶ Explanatory Memorandum dated 23 December 2010
- ▶ Factiva
- ▶ Unaudited management accounts as at 31 July 2010 and 30 November 2010
- ▶ Annual Reports of Rattoon as at 30 June 2008, 30 June 2009 and 30 June 2010
- ▶ IBISWorld Pty Ltd
- ▶ Thompson Research
- ▶ Other publicly available information

In addition, we have held discussions Rattoon and its advisers.

## Appendix C      Glossary

Term	Meaning
\$	Australian dollars
AFSL	Australian Financial Services Licence
AIFRS	Australian International Financial Reporting Standards
ASIC	The Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
Continuing Rattoon Shareholders or Majority Rattoon Shareholders	The majority shareholders of Rattoon, Guinness Peat Group plc and Thorney Investment Group (including any related body corporate or any associates of these shareholders)
Corporations Act	Corporations Act 2001 (Cth) as amended from time to time
CPI	Consumer Price Index
DCF	Discounted Cash Flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELGA	The Estate of the Late George Adams
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
Explanatory Memorandum	The explanatory memorandum dated 21 December 2010
FME	Future maintainable earnings
FSG	Financial Services Guide
FYXX	Financial year ending 30 June 20XX
GPG	Guinness Peat Group plc
GST	Goods and services tax
Independent Expert's Report	This report, dated 23 December 2010
Listing Rules	The Official Listing Rules of ASX, as amended and waived by ASX from time to time
Minority Rattoon Shareholders	The minority shareholders of Rattoon
NPAT	Net profit after tax
NSXA	National Stock Exchange of Australia Limited
NSX	NSX Limited
NTA	Net tangible assets
PBT	Profit before tax
PE multiple	Price earnings multiple
Phoneware	Phoneware Limited
Proposed Capital Reduction	The capital reduction proposed by Rattoon as set out in Section 1.1 of this Independent Expert's Report
Rattoon Board	The board of Rattoon Holdings Limited
Rattoon	Rattoon Holdings Limited
Rattoon Shareholders	Rattoon Holdings Limited shareholders
RG	ASIC Regulatory Guide
RG 111	ASIC Regulatory Guide 111 - Content of experts reports
Tatts	Tatts Group Limited
Tattersall's	Tattersall's Limited
Thorney	Thorney Investment Group
WACC	Weighted average cost of capital



**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE  
INDEPENDENT EXPERT'S REPORT**

14 January 2010

**PART 2 - FINANCIAL SERVICES GUIDE**

**1. Ernst & Young Transaction Advisory Services**

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

**2. Financial Services Guide**

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

**3. Financial services we offer**

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

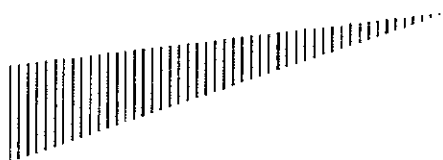
**4. General financial product advice**

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.





**5. Remuneration for our services**

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$27,500 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

**6. Associations with product issuers**

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

**7. Responsibility**

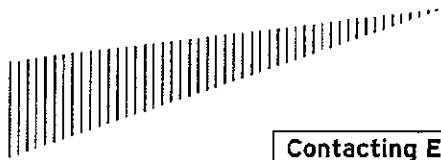
The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

**8. Complaints process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

**9. Compensation Arrangements**

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.



<b>Contacting Ernst &amp; Young Transaction Advisory Services</b> AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000  Telephone: (02) 9248 5555	<b>Contacting the Independent Dispute Resolution Scheme:</b> Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

## Ernst & Young

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### About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit [www.ey.com/au](http://www.ey.com/au)

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844  
Australian Financial Services Licence No. 240585

#### Adelaide

Ernst & Young Building  
121 King William Street  
Adelaide SA 5000  
Tel: +61 8 8417 1600  
Fax: +61 8 8417 1775

#### Gold Coast

12-14 Marine Parade  
Southport QLD 4215  
Tel: +61 7 5571 3000  
Fax: +61 7 5571 3033

#### Perth

Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000  
Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436

#### Brisbane

1 Eagle Street  
Brisbane QLD 4000  
Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100

#### Melbourne

Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000  
Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777

#### Sydney

Ernst & Young Centre  
680 George Street  
Sydney NSW 2000  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959

#### Canberra

Ernst & Young House  
51 Allara Street  
Canberra ACT 2600  
Tel: +61 2 6267 3888  
Fax: +61 2 6246 1500

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