

**Independent Expert's Report**

**Prepared for Leighton Holdings Limited  
in relation to the proposed transaction to acquire 20% of  
Leighton Asia Limited**

**11 September 2000**

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## 1 Introduction and purpose of our report

Leighton Holdings Limited (LHL) has been made an offer to acquire 20% of Leighton Asia Limited (LAL) from Hochtief AG (Hochtief) (the proposed transaction). Hochtief is the major shareholder in LHL with around 49% of the issued equity at the date of this report. LAL is a privately held company with two shareholders – LHL which owns 80% of the issued capital and Hochtief which owns the remaining 20%.

The ASX Listing Rule 10.1 requires an entity to obtain the approval of shareholders if it acquires a substantial asset from, or disposes of a substantial asset to, a related party. An asset is deemed substantial if its value, or the value of the consideration paid, is 5% or more of the equity interest of the entity. As Hochtief has a 49% equity holding in LHL they are related parties for the purpose of ASX Listing Rule 10.1. As at 30 June 2000, LHL had equity interests (as defined in the ASX Listing Rules) of AUD685 million. Given the assessed value of the consideration being offered is greater than 5% of the equity interests of LHL, the proposed acquisition is deemed to be substantial.

As required under the Australian Stock Exchange Limited (ASX) Listing Rule 10.1, the proposed transaction is subject to shareholder approval. Listing Rule 10.10 states that the shareholders' meeting notice required under Listing Rule 10.1 must include a report on the transaction from an independent expert.

The independent expert's report must state whether, in the expert's opinion, the transaction is fair and reasonable to the shareholders not associated with Hochtief (the non-associated shareholders). Accordingly, the directors of LHL have requested PricewaterhouseCoopers Securities Ltd to prepare a report which satisfies this requirement.

We understand this report will accompany an Explanatory Memorandum to be sent to shareholders of LHL, who will be asked to vote on the proposed transaction at the annual general meeting of LHL to be held on 2 November 2000 (the AGM). This report is not intended for, nor should it be used for any other purpose without our prior written consent.

### Limitation of scope

Users of this report should have regard to the qualifications, disclaimers and consents contained in Appendix A.

All amounts referred to in this report are in Hong Kong dollars unless otherwise marked.

Any Australian dollar amounts based on Hong Kong dollars have been converted at the rate of AUD1.00 = HKD 4.68.

## 2 Opinion summary

In forming our opinion as to whether the proposed transaction is fair and reasonable to the non-associated shareholders of LHL, we have had regard to the consideration being offered and the value of 20% of LAL.

*In our opinion the proposed transaction to acquire the 20% of the shares in LAL is fair and reasonable to the non-associated shareholders of LHL.*

### Quantitative assessment (fairness)

In forming our opinion as to the fairness of the proposed transaction, we have concluded that the value of the consideration being offered (inclusive of the proposed Hochtief dividend) of \$205.7 million (AUD44.0 million) falls within our range of values for 20% of LAL of \$197.0 million to \$209.0 million (AUD42.1 million to AUD44.7 million). Accordingly, in our opinion the transaction is fair.

### Qualitative assessment (reasonableness)

On a qualitative basis, the proposed transaction is considered reasonable, as it is our opinion, that the non-associated shareholders will benefit from the proposed transaction, due to:

- access to 100% of the cash flows from LAL
- full exposure to growth in the Asian region
- earnings per share in LHL
- simplified reporting
- the likely impact on LHL's share price after completion of the proposed transaction
- pre-emptive rights over shares in LAL.

### 3 Details of the proposed transaction

The details of the proposed transaction are set out more fully in the Explanatory Memorandum to which this report is attached.

In summary, under the proposed transaction, LHL has entered into a share sale agreement with Hochtief dated 21 September 2000 (the agreement) to acquire, conditional upon shareholder approval, the following:

- 60,001 ordinary shares in LAL, representing 20% of the issued capital of LAL.

Consideration for the proposed transaction will comprise:

- a base amount of \$157 million, payable on 2 April 2001 (the base amount)
- interest on the base amount, calculated at the rate of 7% per annum, for the period 1 July 2000 to 31 March 2001 (the interest amount), payable on 2 April 2001
- a further amount comprising 20% of the LAL consolidated management report profit (less tax at 28%) for the period 1 July 2000 to 30 September 2000 (the additional purchase consideration), payable on 2 April 2001. The additional purchase consideration has been capped at \$10m

Further, pursuant to the agreement, it is proposed Hochtief will receive a dividend of \$42,538,424 in respect of the retained profits of LAL as at valuation date (the Hochtief dividend). The dividend is anticipated to be paid on 2 April 2001.

Under the terms of the agreement, the base amount and the interest amount will be calculated in Hong Kong dollars and converted to and payable in Australian dollars at the rate of AUD 1.00 = HKD 4.68. The additional purchase consideration will be converted to Australian dollars at the HKD/AUD selling rate quoted in the Australian Financial Review as at 3 October 2000.

Should approval be gained from shareholders, the shares in LAL will be transferred to LHL within 3 days of the AGM. LHL will consolidate the results of LAL effective from 1 July 2000.

## 4 Basis of our evaluation

As discussed in Section 1, the purpose of this report is to set out our opinion as to whether the proposed transaction is fair and reasonable to the non-associated shareholders of LHL.

The ASX Listing Rules and the Law do not provide any specific guidance as to the matters to be dealt with in an independent expert's report required under ASX Listing Rule 10.10. However, the Australian Securities and Investments Commission (ASIC) and its predecessor have issued guidance in respect of the matters to be dealt with in similar reports required under section 611 of the Law. Specifically, this guidance is provided in ASIC Policy Statement 74, and Practice Note 43.

In our opinion, this guidance is relevant to independent expert's reports required under ASX Listing Rule 10.10. Accordingly, we have referred to the guidance provided by ASIC as to what constitutes "fair and reasonable" for the purposes of evaluating the proposed transaction.

In undertaking our assessment, we have considered the likely impact of the proposed transaction on the shareholders on LHL as a whole. We have not considered how the proposed transaction may affect individual shareholders. Individual shareholders have different financial circumstances and it is not practicable or possible to consider the implications of the proposed transaction on individuals as their respective financial circumstances are not known to us. Individual shareholders should seek their own professional advice.

### **Fairness and reasonableness**

ASIC Policy Statement 74 requires, inter alia, that the expert consider all the circumstances surrounding the proposed transaction in determining whether it is fair and reasonable. It notes that comparison of the consideration offered with the value of the assets to be acquired or disposed is only one element of the assessment and further requires the expert to compare the advantages and disadvantages to non-associated shareholders should they approve or reject the proposed transaction.

Accordingly, while assessing the value impact of the proposed transaction on the non-associated shareholders (quantitative assessment) is an important element of this analysis it is not, of itself, the only determinant of our final opinion.

In addition to our quantitative assessment, we have also had regard to the following factors (qualitative assessment) set out in Section 2 of this report and discussed in more detail in the assessment discussion in Section 7.

## **Valuation of LAL**

In assessing the proposed transaction, and in particular the value of the shares in LAL being acquired, we have had access to and relied upon the valuation of LAL prepared by Deloitte and Touche Corporate Finance Ltd, Hong Kong (Deloitte) pursuant to instructions from LHL (the Deloitte valuation).

The Deloitte report was prepared for the directors of LHL and not for the minority shareholders. The basis upon which the Deloitte valuation was prepared is set out in the letter covering their report and included, together with a copy of that report, at Appendix C to this report. Deloitte were instructed by LHL to value the shares in LAL on an open market basis incorporating certain assumptions specified in the letter covering the report.

We have sought, and been granted, consent to refer to and rely upon the Deloitte valuation.

For the purposes of this report, we have made certain adjustments to the conclusions reached in the Deloitte report to reflect:

- an appropriate premium for control
- the lack of marketability of the LAL shares
- surplus assets of LAL at valuation date.

These adjustments are discussed further in Section 6 of this report.

## **Valuation of consideration**

As discussed above, the consideration for the proposed transaction will be cash. An assessment of the consideration is included in Section 7 of this report.

## 5 Overview of the Leighton group

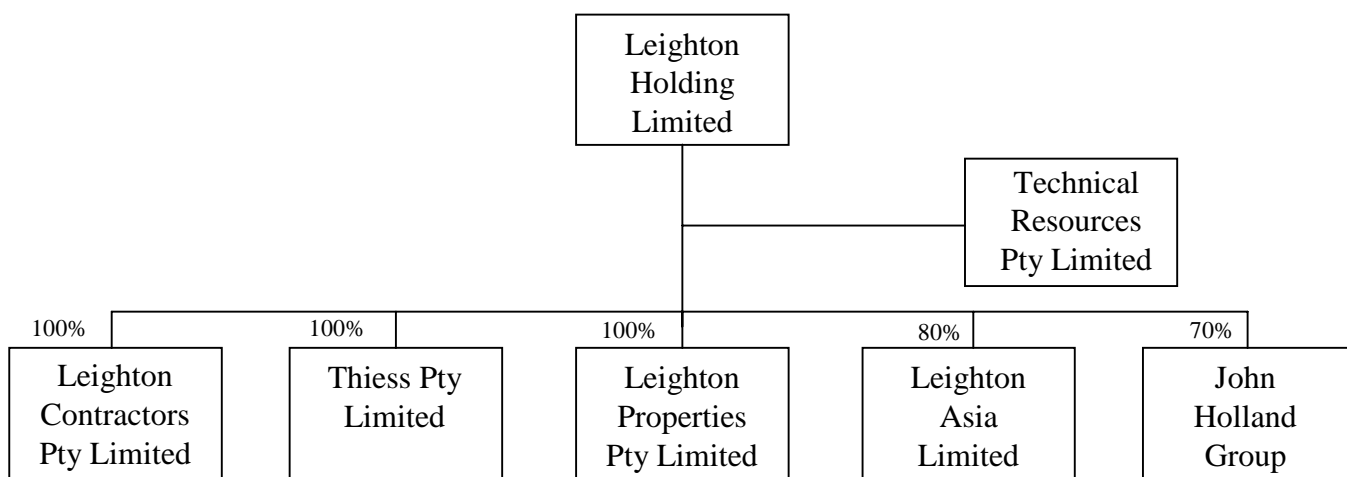
LHL was established in Australia some 50 years ago as a private civil engineering company in Melbourne. In 1962, LHL was listed on the Australian Stock Exchange Limited and in 1971 commenced to operate in the Asian region.

While remaining focused on its home market in Australia, the Leighton group has operations throughout the world, in areas such as Hong Kong, Indonesia, Thailand, Philippines, Malaysia, Vietnam, China, India, New Zealand, Papua New Guinea and South America.

The group employs approximately 12,000 people with a wide variety of skills and provides services to both public and private sector clients. The services offered include project development and community infrastructure, project management of construction and property, design management, civil engineering, construction, building, mining, process engineering, telecommunications, waste management, and infrastructure operation and maintenance.

The Leighton group operates through a number of companies which maintain individual identities in the marketplace and have their own advisory board, balance sheet and distinct corporate culture. Each company has a high level of autonomy and is encouraged to develop its own markets and client relationships.

LHL is the public company parent of the group and provides strategic direction and planning, financial management and market positioning, together with expertise in corporate and public affairs to the various group companies. The following diagram is a graphic representation of the group structure as at the date of this report.



## **LHL and Hochtief**

In 1983 Hochtief became the major shareholder in LHL and introduced financial strength to its operations. Hochtief, based in Germany, is one of the largest construction companies in Germany and throughout Europe. We understand Hochtief employs in excess of 37,000 staff and has operations and subsidiaries throughout the world.

At present Hochtief owns approximately 49.9% of LHL, with the balance held by a mix of institutional and private investors.

In May 1993 LHL announced its intention to sell a 20% shareholding in its wholly owned Asian subsidiary, LAL, to Hochtief. The offer made at that time consisted of two parts, an initial payment of \$110.8 million and a subsequent payment based on specified profit objectives over the following three year period. In 1994, the parties agreed to remove the profit based calculation of additional consideration and replace it with a one off payment of \$52 million from Hochtief to LHL.

LHL considered the sale of a minority interest in LAL to Hochtief as an opportunity to strengthen its financial and technical resources, and improve its ability to capitalise on opportunities in the rapidly growing Asian markets.

## **Leighton Asia Limited**

LAL has over 25 years experience in the Asian region in the key business areas of civil engineering, foundation and marine engineering, building and contract mining. LAL is headquartered in Hong Kong with branch offices and operations in Hong Kong, the Philippines, Thailand, Malaysia and Vietnam. LAL also operates on a project basis in other parts of Asia including China and India.

In May 2000, LAL acquired the operations of PT John Holland Construction Indonesia, together with a 50% interest in the SRT Rail Project in Thailand.

An overview of LAL, its current operations and outlook for the future, appears in the Deloitte valuation, a copy of which is attached at Appendix C.

## 6 Valuation of Leighton Asia Limited

In forming our opinion as to the proposed transaction to acquire 20% of LAL, we have had regard to the historical and forecast performance of LAL together with the valuation of LAL prepared by Deloitte.

The valuation method used by Deloitte was the capitalisation of after tax earnings of LAL by price earning ratios derived from observing the trading multiples of comparable companies. The Deloitte valuation concluded that the value of 20% of LAL on a marketable, minority basis was in the range \$146 million to \$157 million, derived as follows :

|  | Low<br>\$ million | High<br>\$ million |
|--|-------------------|--------------------|
| Estimated future maintainable earnings | 155               | 155                |
| Less: tax (calculated @ 28%)           | (43)              | (43)               |
|  | <hr/> 112         | <hr/> 112          |
| P/E multiple                           | 6.5               | 7.0                |
| Value of all issued capital            | <hr/> 728         | <hr/> 784          |
| Value of 20% share                     | <hr/> <hr/> 146   | <hr/> <hr/> 157    |

The Deloitte valuation was not prepared for the purposes of forming an opinion pursuant to ASIC Policy Statement 74. Accordingly, their valuation is not appropriate to assess the specifics of the proposed transaction with LHL for the purposes of forming an opinion pursuant to ASIC Policy Statement 74. Accordingly, we consider that in light of the nature of the proposed transaction, the following additional valuation issues must be considered prior to forming an opinion on the proposed transaction:

- *Premium for control* – In accordance with ASIC Policy Statement 74, when considering the fairness of a transaction, the expert must consider whether a control premium is being paid, and whether it is an appropriate premium in the circumstances.

The size of the control premium applicable to valuing 100% of a company will vary from case to case depending upon the circumstances of the company and the industry in which it operates. Studies have shown that the bids for target companies have historically been, on average 25% to 40% above the pre-bid share price of the target.

Due to the pre-existing holding of LHL in LAL, we consider a control premium at the lower end of this range as appropriate in the circumstances. Accordingly, we have applied a control premium of 25% to the marketable, minority value determined in the Deloitte valuation.

- *Discount for lack of marketability* – it is normal valuation practice to apply a discount to the market value of shares which are not listed or readily traded. This discount represents the lack of marketability or liquidity of the shares being valued, when compared to a listed investment which can be readily converted to cash at the owners discretion.

We note that Deloitte have specifically excluded such a discount, based on instructions from LHL. For the purposes of assessing the proposed transaction, however, we consider it appropriate to include a discount for non-marketability. We consider a discount of 15% to be appropriate for the purpose of our evaluation.

- *Surplus assets* - surplus cash of around \$210 million has been identified by Deloitte. Our discussions with LHL management have confirmed that this level of cash is surplus to the ongoing cash requirements of LAL. Accordingly we have added this surplus asset to our assessed value of the equity (arising from the business) to arrive at a fair market value of LAL.

In light of the above, we consider an appropriate value of 20% of the issued equity in LAL for the purposes of assessing the proposed transaction can be estimated as follows:

|   | <b>Low<br/>\$ million</b> | <b>High<br/>\$ million</b> |
|---|---------------------------|----------------------------|
| Value of marketable minority shares per Deloitte  | 728.0                     | 784.0                      |
| Add: Premium for control (25%)                    | 182.0                     | 196.0                      |
| Value of 100% controlling interest                | 910.0                     | 980.0                      |
| Less: Discount for non marketability (15%)        | (136.5)                   | (147.0)                    |
| Value of 100% non marketable controlling interest | 773.5                     | 833.0                      |
| Add Surplus assets (cash)                         | 210.0                     | 210.0                      |
| Value of all equity                               | 983.5                     | 1,043.0                    |
| Value of 20% interest                             | 196.7                     | 208.6                      |

Accordingly, we have valued the 20% share of LAL on a controlling, non-marketable basis in the range \$197 million to \$209 million (AUD42.1 million to AUD44.7 million).

## 7 Assessment of the transaction

We have assessed the transaction on the basis of a comparison of the cash offered to the value of the 20% equity held by Hochtief in LAL. Our assessment of the transaction is for the purchase of these shares solely by LHL and no other purchaser.

### Calculation of consideration

Details of the consideration to be paid are included in the share sale/purchase agreement and summarised in Section 3. In evaluating the proposed transaction we have assessed the consideration as follows:

|   | <b>\$ million</b> |
|---|-------------------|
| Base amount                               | 157.0             |
| Additional purchase consideration         | 6.2               |
| Dividend payable to Hochtief              | <u>42.5</u>       |
| Total consideration due as at 1 July 2000 | <u>205.7</u>      |

The additional purchase consideration has been estimated by allocating 20% of the forecast after tax operating profit of LAL for the period 1 July 2000 to 30 September 2000 on a pro-rata basis. Tax has been estimated at 28% and applied to management's forecast operating profit of \$173 million for the year ended 30 June 2001. For the protection of shareholders, LHL and Hochtief have agreed that the additional purchase consideration will be capped at \$10 million.

The value of the Hochtief dividend is set out in the share sale agreement, and noted in section 3 above.

We note the agreement determines that payment of all consideration will be deferred from the effective date of 1 July 2000 until 2 April 2001. Interest at the rate of 7% will accrue on the base amount for this period and be payable to Hochtief as consideration for allowing the delayed payment. In our opinion, this arrangement has been set at market rates of interest and does not affect the consideration payable to Hochtief for the purpose of our analysis as at 1 July 2000.

**Quantitative assessment (fairness)**

On the basis of the foregoing discussion, we have assessed the fairness of the proposed transaction on the follow basis:

|                         | <b>Low</b><br><b>\$ million</b> | <b>High</b><br><b>\$ million</b> |
|-------------------------|---------------------------------|----------------------------------|
| Valuation of 20% of LAL | 197.0                           | 209.0                            |
| Consideration           | 205.7                           | 205.7                            |

***The consideration being offered is within our valuation range for 20% of LAL, hence in our opinion the proposed transaction is fair.***

**Qualitative assessment (reasonableness)**

In performing our quantitative assessment (reasonableness) of the proposed transaction, we have considered the following factors:

- *Access to 100% of the cash flows from LAL* – Should the proposed transaction be completed LHL will gain 100% control over LAL. Accordingly, LHL directors and management will control the operations and cash flows of LAL to the benefit of LHL shareholders without the need for consideration of a minority shareholder.
- *Full exposure to growth in the Asian region* – The Asian region is one of the fastest growing areas of LHL’s operation and completion of the proposed transaction will give LHL shareholders undiluted exposure to the opportunities in the region.
- *Earnings per share(EPS) in LHL* – LHL management have estimated that completion of the proposed transaction will be EPS neutral.
- *Simplified reporting* – As a wholly owned subsidiary of LHL, reporting and decision making in relation to the LAL operations should be simplified, the benefit of which should flow to LHL shareholders. We note that LHL shareholders will continue to benefit from the resources of Hochtief through its significant shareholding in LHL.
- *Potential impact on LHL’s share price upon completion of the proposed transaction* – Details of the proposed transaction were released to the market on 18 August 2000. Should the transaction be completed under the terms of the agreement, we would not expect to see any significant movement in the share price of LHL. We note the LHL share price increased around 5% at the time of the announcement that LHL was considering moving to 100% ownership of LAL, however, due to the contemporaneous preliminary announcement of LHL’s results

together with details of a number of other initiatives, we are unable to determine the effect of the proposed transaction on LHL's share price.

- *Pre-emptive rights over shares in LAL* - Pursuant to the LAL shareholders agreement between Hochtief and LHL each party has the pre-emptive right to purchase the holding in LAL of the other at a price no less than an arms length offer received from a third party. While we are not aware of any such offer for the shares in LAL held by Hochtief, a subsequent higher offer from a third party for the shares could result in LHL paying consideration in excess of that contemplated under the proposed transaction to gain 100% of LAL.

### **Conclusion**

*On the basis of the above matters, we are of the opinion that the proposed transaction is fair and reasonable to the non associated shareholders of LHL.*

Yours faithfully



Ian Armstrong  
Authorised Representative

## **Qualifications, disclaimers and consents**

### **Qualifications**

PricewaterhouseCoopers Securities Ltd is a member of PricewaterhouseCoopers, a large international firm of Chartered Accountants which has had extensive experience in providing corporate financial advice and in the preparation of independent expert reports. PricewaterhouseCoopers Securities Ltd is a licensed Dealer (No 11203) under the Corporations Law. Mr IA Armstrong is a Fellow of The Institute of Chartered Accountants in Australia. He has been a partner of PricewaterhouseCoopers and, the legacy firm Price Waterhouse for 23 years, and has been the head of PricewaterhouseCoopers Corporate Value Consulting in Sydney. He is a director of PricewaterhouseCoopers Securities Ltd.

### **Declarations**

Neither PricewaterhouseCoopers Securities Ltd nor PricewaterhouseCoopers has any interest in the outcome of the Offer to be put to shareholders. PricewaterhouseCoopers Securities Ltd is entitled to receive a fixed fee for the preparation of this report based on time spent at our normal hourly rates for this type of work and will be reimbursed for out of pocket expenses incurred. The fee payable to PricewaterhouseCoopers Securities Ltd is payable regardless of the outcome of the Offer. In addition, PricewaterhouseCoopers Securities Ltd has been indemnified by Leighton Holdings Limited in relation to any claim arising from or in connection with its reliance on information provided by Leighton Holdings Limited. None of PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers or Mr Armstrong hold shares in Leighton Holdings Limited and has not held any such beneficial interest in the previous two years.

A draft of this report dated 8 September 2000 was presented to the Directors of Leighton Holdings Limited for review of factual information contained in the report. No significant changes were made to this report as a result of that review.

We disclose the following relationship with Hochtief AG. Hochtief AG is audited by PricewaterhouseCoopers in Germany.

### **Purpose of report**

This report has been prepared at the request of the directors of Leighton Holdings Limited in order to assist the shareholders in Leighton Holdings Limited in assessing the proposed transaction. This report was not prepared for any other reason and is intended to accompany the Explanatory Memorandum to be sent to the shareholders. Accordingly, this report is included for those entitled to receive a copy of the Explanatory Memorandum by virtue of their shareholding in Leighton Holdings Limited only.

**Disclaimer and consents**

Neither the whole or any part of this report, nor any reference thereto may be included in, or with or attached to any document, circular, resolution, letter or statement (other than the Explanatory Memorandum mentioned above) without the prior written consent of PricewaterhouseCoopers Securities Ltd as to the form and context in which it appears.

PricewaterhouseCoopers has consented to the inclusion of this report, in the format and context in which it is included, as an annexure to the Explanatory Memorandum of Leighton Holdings Limited.

## Sources of information

In preparing our report we have had access to and relied upon the following sources of information:

- Audited accounts of Leighton Holdings Limited for the three years ended 30 June 1999
- Half year accounts for Leighton Holdings Limited for the six months ended 31 December 1999
- Leighton Asia Share Sale Agreement between Hochtief AG and Leighton Holdings Limited dated May 1993
- Leighton Asia Shareholders Agreement between Hochtief AG and Leighton Holdings Limited dated May 1993
- Valuation report entitled 'Leighton Asia Limited – Business Valuation' prepared to value the issued equity of Leighton Asia Limited by Deloitte & Touche Corporate Finance Limited, Hong Kong and dated 11 August 2000
- Draft Share Sale Agreement between Hochtief AG and Leighton Holdings Limited prepared August 2000
- Discussions with Mr Richard Winter, Mr Eric Leung and Mr Tony Kwong of Deloitte in relation to their report.

We have also had the benefit of discussions with the Mr Travis Young of Leighton Holdings Limited in relation to the historical and prospective operating and financial performance of the Leighton Asia Limited and the Leighton Group.

**Valuation of Leighton Asia Limited dated  
11 August 2000 – prepared by  
Deloitte & Touche Corporate Finance Limited,  
Hong Kong**