

# **Lombard Group Limited**

## **Independent Appraisal Report**

**As required by Listing Rule 9.1.1**

**On Proposed Transaction with**

**Australian Consolidated Insurance Limited**

**28 January 2010**

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28 January 2010

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The Independent Directors  
Lombard Group Limited  
Level 5, BDO House  
99 Customhouse Quay  
**WELLINGTON NEW ZEALAND 6140**

Dear Sirs,

**Independent Appraisal Report in relation to the proposed Acquisition of  
Australian Consolidated Insurance Limited**

The Directors of Lombard Group Limited propose to seek shareholder approval, by way of resolution passed at a Special General Meeting, for Lombard Group Limited to acquire 100% of the ordinary shares in Australian Consolidated Insurance Limited. Under the NZSX Listing Rules, an Independent Appraisal Report is required.

We have prepared the following Independent Appraisal Report for the Independent Directors of Lombard Group Limited for this purpose in accordance with our engagement letter dated 26 June 2009.

Yours faithfully  
**dVT Consulting Pty Limited**



**Suelen McCallum**  
Director

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# 1. Introduction

## 1.1. *Background of Proposed Transaction*

On 2 July 2009 Lombard Group Limited (“Lombard”) announced that it had entered into a conditional arrangement with Australian Consolidated Insurance Limited (“ACIL”) which, subject to shareholder and regulatory approval, would result in Lombard acquiring 100% of the shares in ACIL. The proposed transaction (“ACIL Transaction”) will effect a ‘reverse takeover’ with payment being made through the issue of new ordinary shares in Lombard.

If the ACIL transaction is completed then through the issue of new ordinary shares, ACIL shareholders will own approximately 98.5% of Lombard’s issued capital and will take control of Lombard.

Prior to the takeover being completed Lombard will reorganise its subsidiaries so that assets and selected liabilities unrelated to the ongoing business are consolidated under a special purpose subsidiary and existing Lombard shareholders will (for no consideration) receive shares in that company in the same proportion as they currently hold shares in Lombard.

The intention is to provide existing Lombard shareholders with the opportunity to participate in a share buy-back at a price per share which equals the value attributed to Lombard shares in the assessment of the number of shares to be offered to ACIL shareholders as consideration for their shares.

A detailed description of the proposed transaction is provided in Section 4 of this Report. However, in summary, the proposed transactions are as follows:

1. Lombard will transfer all assets currently held by it into a new company called First One Holdings Limited (“FOHL”), in exchange for shares in FOHL.
2. Lombard will make a distribution to current Lombard shareholders of 23,406,435 “bonus convertible shares” for no consideration, these shares converting at an agreed time in the future into shares in FOHL.
3. Lombard will acquire all the issued capital of ACIL. The consideration paid to ACIL shareholders will be 1,480,246,656 fully paid shares in Lombard, or 34.55752 Lombard Shares for each ACIL share currently held.
4. Lombard shareholders will then have the opportunity to enter into a buyback agreement for their shares, at a price based on the agreed value of Lombard of NZ\$0.01196 per share. This equals the value attributed to Lombard shares in the assessment of the number of shares to be offered to ACIL shareholders as consideration for their shares.

In accordance with NZSX Listing Rule 1.7.2, we confirm that in our opinion the information to be provided to shareholders is sufficient to enable them to make an informed decision on the proposed transactions.

## 1.2. *Implications of the NZSX Listing Rules for the Proposed Transaction*

In order to participate in a reverse or backdoor listing, a listed Issuer is required to obtain shareholder approval under NZSX Listing Rule 9.1.1, as the acquisition of the target company will result in either:

- a change in the essential nature of the business of the Listed Issuer; and/or
- a purchase of an asset of which the gross value is in excess of 50% of the Average Market Capitalisation of the Listed Issuer.

The notice of meeting containing the resolution to approve any transaction referred to in Rule 9.1.1 will need to be accompanied by an independent report in respect of the Target Company in accordance with Rule 9.1.2, in order for that notice of meeting to be approved by the NZX.

Listing Rule 1.7.1 requires that an independent appropriately qualified person, approved as such by the NZX, prepare such a report. dVT Consulting Pty Limited (“dVT”) has obtained the requisite approval from the NZX on the 21 September 2009.

Under Listing Rule 1.7.2, the report shall:

- i) be addressed to the Directors of the Company not associated with any relevant Associated Persons or if there are no such Directors, to the NZX;
- ii) be expressed to be for the benefit of shareholders of Lombard not associated with any relevant Associated Persons;
- iii) state, providing reasons, whether or not in the opinion of dVT the consideration and terms and conditions of the proposed transaction are fair to shareholders, other than those associated with the relevant Associated Persons;
- iv) state, providing reasons, whether or not in the opinion of dVT the information to be provided by Lombard to shareholders is sufficient for shareholders to understand all the relevant factors and reach an informed decision as to the fairness of the proposed transaction;
- v) state whether dVT, in preparing the Report, has obtained all information it believes desirable for the purposes of preparing the Report, including all material information which is known or should have been known to any Director of the Company and has been made available to the Directors;
- vi) state any material assumptions on which dVT’s opinion is based;
- vii) state any terms of reference that may have materially restricted the scope of the Report; and
- viii) if it contains a disclaimer of liability, not purport to absolve the reporter from liability for an opinion expressed recklessly or in bad faith.

### **1.3. Purpose of the Report**

The purpose of this Independent Appraisal Report (“the Report”) is to satisfy the requirements of the NZSX Listing Rules, and to assist the Non-Associated Shareholders of Lombard to evaluate the proposed transaction. For the purposes of the Report, the Non-Associated Shareholders relate to all shareholders of Lombard as we are advised that there are no related parties between ACIL and Lombard.

Our Report considers whether or not the proposed transaction is fair to the Non-Associated Shareholders of Lombard. There is no statutory definition of “fair” in New Zealand law or in the Listing Rules. However, reference to guidelines issued by Australian and New Zealand authorities and accounting bodies give some guidance.

The New Zealand Institute of Chartered Accountants state in Guidance Note 10 “Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders” that:

*“the expression of an opinion as to fairness will generally involve an assessment as to whether a proposal is just, impartial and equitable”.*

The Institute of Chartered Accountants in Australia, through Professional Standards and Ethics Statement APES 225 “Valuation Services” uses the definition of fair as outlined in ASIC Regulatory Guide 111 which states:

*“an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”*

#### **1.4. Evaluation of the Fairness of the Transaction**

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the ACIL Transaction are fair to the shareholders of Lombard not associated with any relevant Associated Persons.

A detailed evaluation of the transaction and the reasons for our opinion are provided in Section 9 of this Report.

#### **1.5. Information Relied Upon**

In preparing this report, dVT has used various sources of information, including:

- Heads of Agreement dated 19 March 2009 between ACIL and Lombard;
- Audited financial statements for Lombard for the financial years ended 31 March 2009 and prior;
- Audited financial statements for ACIL for the financial years ended 30 June 2008 and prior;
- Audited financial statements for ACIL for the financial year ended 30 June 2009;
- Forecast financial statements for ACIL for the financial year ended 30 June 2010;
- Interim and unaudited financial statements for Lombard to 22 July 2009;
- Management of ACIL and Lombard;
- Media releases by Lombard and ACIL;
- Annual Reports for Lombard and ACIL;
- Shareholder data provided by Lombard and ACIL;
- Information Memorandum for ACIL Investors May 2009;
- ASIC Regulatory Guide 111 – “Content of expert report” ;
- ASIC Regulatory Guide 74 – “Acquisition agreed to by shareholders”;
- IBIS – “Insurance Broking in Australia: K7522”;
- ASX Listing Rules and Guidance Notes;
- NZSX Listing Rules and Guidance Notes.

#### **1.6. Report Restrictions**

This report has been prepared for the Non-Associated Shareholders of Lombard and is based on information that has been supplied to us by the directors and management of Lombard. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of dVT’s opinion as to whether the transaction is fair to Lombard shareholders.

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

dVT Consulting Pty Limited (“dVT”) has prepared this report on the basis of financial and other information provided by ACIL and Lombard, and publicly available information. dVT has considered and relied upon this information and has no reason to believe that any information supplied was false or that any material information has been withheld. dVT has evaluated the information provided to it by ACIL and Lombard and other experts through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that dVT has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of ACIL or Lombard.

We are of the opinion that the information provided to us by the directors of both ACIL and Lombard is sufficient for us to produce a report that enables shareholders to understand all relevant factors pertaining to the proposed transaction, and to make an informed decision in regard to the proposed transaction. We believe that we have obtained all information which we consider desirable for the purposes of preparing the report.

We reserve the right but not the obligation to amend our opinion should any further relevant information come to hand. Nothing in this opinion may be extracted or reprinted without our express prior written consent.

There are no other material assumptions used in the preparation of this report and on which our opinion is based, that are not otherwise specifically detailed in the body of this report.

We provided a draft copy of this report to the directors and management of Lombard for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of dVT alone. Changes made to this report, as a result of the review by the directors and management of Lombard, have not changed the methodology or conclusions reached by dVT.

### **1.7. *Qualifications, Declarations and Independence***

Detailed in Section 11 of this Report are our statements regarding qualifications, independence and declarations.

## **2. Profile of Australian Consolidated Insurance Limited**

Australian Consolidated Insurance Limited (ACIL) was incorporated in March 2005 by its current Chairman, Mr. Wayne Miller. ACIL is presently an Australian registered company under the Corporations Act and is an unlisted public company.

ACIL has offices in Perth, Sydney, Melbourne, Brisbane, Hamilton and Auckland. It currently manages in excess of \$80 million of insurance premiums and operates largely in the following four market segments - Insurance Broking, Underwriting Agency, Risk Management and Insurance Premium Funding.

ACIL is continuing to aggregate underwriting agencies with the purchase of the Hamilton based, Classic Cover Insurance Limited, on the 30 June 2009. It is also consolidating previous purchases into the group, continuing to minimize costs and improving upon already attained consistency across its product offering.

ACIL's current business model involves the aggregation and consolidation of specialist general insurance brokers and underwriting agencies. Through the economies of scale provided and the improved implementation of systems ACIL is able to increase the profit margins of the individual brokerage firm as it enters the group. The ACIL group currently has 16 subsidiary companies involved in the four market segments. The group deals with in excess of 1,000 individual insurance brokers and over 20,000 ACIL clients.

## **2.1. Corporate & Management Structure**

Current management including the Board of Directors consist of:

### **Wayne Miller, Executive Chairman**

**ANZIIF (FELLOW) Chartered Insurance Professional, Qualified Practicing Insurance Broker, Dip Fin Serv (Ins. Brok).**

Mr Miller is the founder of the group. Prior to this his other corporate experience was as co-founding executive director of Medepartner Ltd, where he was instrumental in raising seed and mezzanine capital, product development and implementation of an innovative "first to market" product. Medepartner Ltd achieved ASX listing through a reverse take over of Konekt Limited (ASX code: KKT). Specifically he has 28 years' experience in the insurance industry including executive positions for several major international insurance and insurance broking companies. Insurance company experience spanned from underwriting and claims practical experience culminating in senior national responsibilities for underwriting. Insurance broking and risk management experience included: development, design and implementation of risk management and insurance programs across a broad range of clients and industries; specialist corporate/mining insurance in Australia and internationally.

Now into ACIL's 5th year Mr Miller has considerable experience in "start up" company development, acquisitions and management in the insurance industry sector.

### **Anne-Marie Syme, Non-Executive Director**

Ms Syme has extensive corporate management and business development experience within the banking and finance sectors and currently works in Director and Executive capacities with several companies and organisations throughout Australia. Ms Syme has extensive mortgage broking expertise having founded innovative company Loansafe and is a founding shareholder and Executive Chairman of FAST (Financial Systems and Technology) which is one of the largest mortgage aggregators in Australia.

### **Mark Shelton, Non-Executive Director**

**(B.Bus., ASCPA) registered Taxation Agent**

Mr Shelton has extensive experience in executive, financial management and company secretarial roles, including as founding non-executive director & company secretary of Medepartner Ltd listed later as Konekt Limited (ASX code: KKT).

He is presently the Chief Executive Officer of premier regional airline carrier Skywest Airlines. Prior to this he was Chief Financial Officer and Company Secretary of Community Newspaper Group Ltd, a role he has held since November 1990. Mr Shelton brings media industry and airline industry experience as well as strong leadership, people management and team building skills.

Mr Shelton has been instrumental in Community Newspaper Group Ltd's acquisitions of many community papers in Western Australia.

### **Trevor Jacobs, Chief Financial Officer and Company Secretary**

#### **Hons BCompt, Certified Practicing Accountant**

Mr Jacobs has been with ACIL since its inception and is its chief financial officer and company secretary. He is responsible for due diligence investigations on acquisitions, finance, compliance and information technology. He commenced his career with chartered accounting firm Deloitte in South Africa where he rose to audit manager before embarking on a career in commerce. He has performed the roles of Chief Financial Officer and Company Secretary for medium to large companies for the past 14 years, including 3 years as a partner and director of a large consulting firm in the construction and engineering industry. He also has experience with quality control systems and human resources.

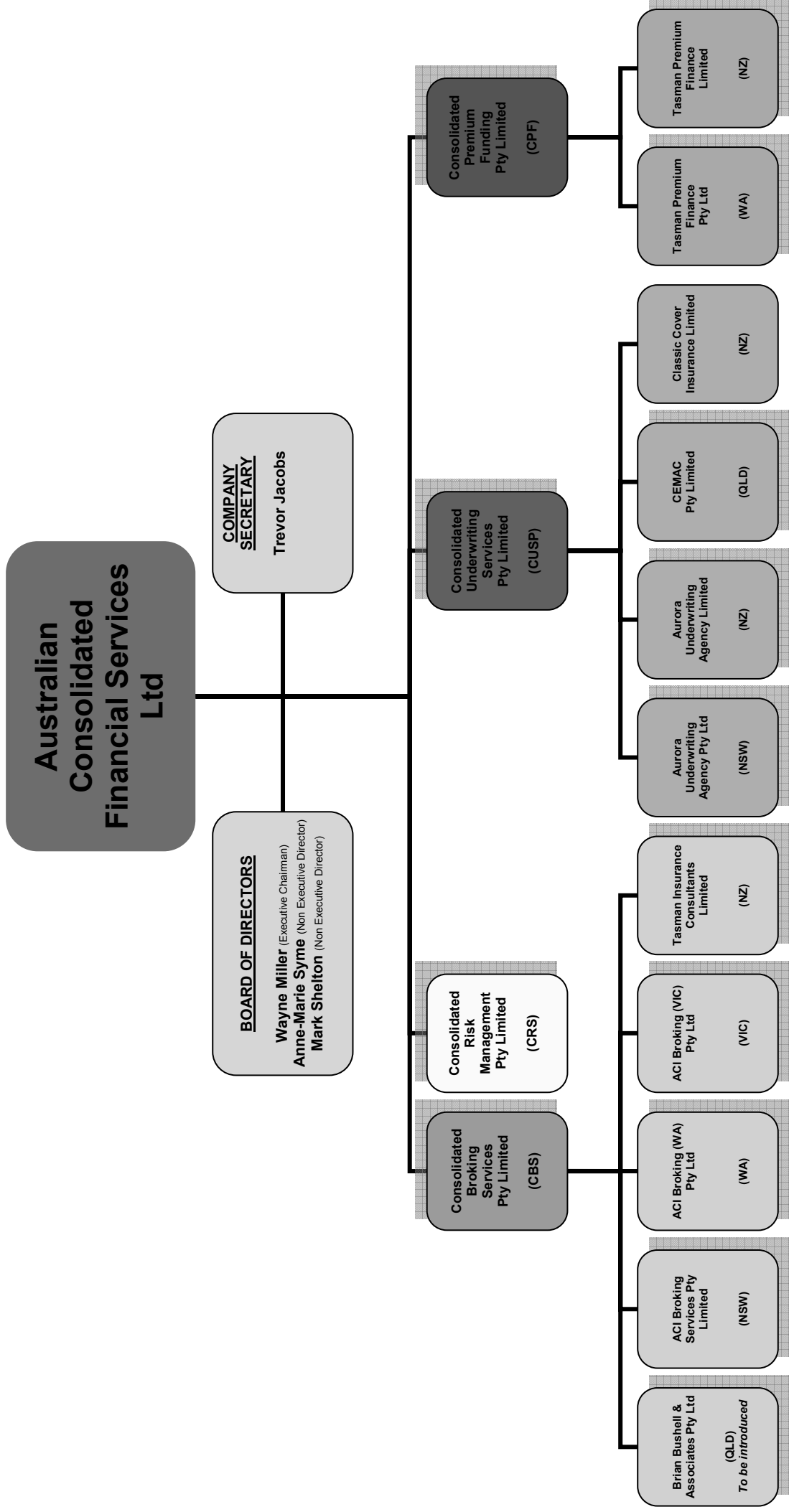
### **David Prestney, Group Manager Finance and Administration**

#### **Bachelor of Business ASCPA, Certified Practicing Accountant, Associate Member of Chartered Secretaries**

Mr Prestney has a strong audit background and has had a number of positions involving the management and co-ordination of teams performing audits of listed, public and private entities. Prior to joining ACIL his position at FAST (Financial Systems and Technology) was responsible for the management and oversight of Company Financial Management, Company Secretarial, Human Resources, Asset Management, Information Technology, Mergers & Acquisitions.

Current management and subsidiary structure is summarised in the following organisational chart.

**AUSTRALIAN CONSOLIDATED INSURANCE LIMITED**  
**CORPORATE ORGANISATIONAL CHART OF SUBSIDIARIES**



## **2.2. Previous Acquisitions**

Since incorporation ACIL has followed a planned path of acquisitions in the industry sector, with the following companies now subsidiaries and part of the ACIL Group:

<b>Date</b>	<b>Company Acquired</b>	<b>Company of Operation</b>
September 2005	City Pacific Insurance Services Pty Limited	Australia
May 2006	Jascad Australia Pty Ltd	Australia
July 2006	Clarendon Insurance Brokers Pty Ltd	Australia
October 2006	Tasman Insurance Brokers Limited	New Zealand
February 2007	Hammond Insurance Broking Pty Limited	Australia
May 2007	Brian Bushell & Associates Pty Limited	Australia
January 2008	Cemac Pty Limited	Australia
June 2008	Insurance Consultants Ltd	New Zealand
May 2008	John Allen Insurance Brokers	Australia
July 2008	MDB Insurance Solutions	Australia
June 2009	Classic Cover Insurance Limited	New Zealand

## **2.3. Future Operations and Rationale for Listing**

ACIL management have intended for some time to move to being publicly listed. The proposed transaction with Lombard will trigger a reverse takeover transaction and provide ACIL with a soft entry into being a publicly listed company, and also into the realm of highly transparent concentrated governance and as a better platform for capitalisation. The listing of ACIL on the main board of the NZX will further enhance the status of the group, credibility, transparency, and will further improve governance and quality of information. ACIL has secured an innovative brand to coincide with listing, Insured Group Limited.

It is intended, within a relatively short period of time, to migrate Lombard, the present NZX listed entity, to become an incorporated company in Australia. Management has assessed possible acquisition targets in both Australia and New Zealand over the next three years in order to achieve the targeted growth.

## 2.4. Financial Information - ACIL

### 2.4.1. Trading Results

#### Consolidated Statement of Financial Performance

For the Year ended 30 June 2009

	Notes	FY2009	FY2008
		Audited	Audited
<b>Net Revenue from Ordinary Activities</b>		\$	\$
Commission, brokerage and fee income		10,103,356	7,882,732
Interest Income		586,336	524,676
<b>Total Net Revenue</b>		<b>10,689,692</b>	<b>8,407,408</b>
Commissions Paid		(793,158)	(500,987)
Other Expenses from Ordinary Activities		(8,293,540)	(6,624,189)
<b>Earnings before Interest, Tax, Depreciation, Abnormal &amp; non-recurring expenses (EBITDA)</b>		<b>1,602,994</b>	<b>1,282,232</b>
Other Income		728,435	11,247
Finance Expenses		(1,155,249)	(546,502)
Depreciation and Amortisation Expenses		(150,517)	(109,966)
Abnormal and Non-Recurring Expenses		(692,001)	(442,443)
<b>Net income/(loss) before taxation</b>		<b>333,662</b>	<b>194,568</b>
Taxation		(43,742)	(153,265)
<b>Net profit after taxation (NPAT)</b>		<b>289,920</b>	<b>41,303</b>
Less: Net Profit/(Loss) attributable to Minority Interest		56,935	(45,070)
<b>Profit Attributable to Members of ACIL</b>		<b>232,985</b>	<b>86,373</b>

#### NOTES:

The actual performance figures above do not display a full 12 months of results for entities acquired during that year. In line with accounting standards for business combinations they display only the results pertaining to the period during which they were owned and controlled by the parent entity.

The operations over the last few years reflect a proportionately high level of abnormal and non-recurring expenses, particularly in relation to the ongoing acquisition of subsidiaries. These expenses will continue into the future as ACIL continues to develop its business model of growth by acquisition but it is expected that the proportion to revenue will follow a downward trend as further efficiencies develop.

The audited results for 2009 include adjustments made for all acquisitions up to 30 June 2009, but are not normalised to reflect the earnings after adjustments for recent acquisitions. Normalised net profit after tax for both 2008 and 2009 is estimated to be in excess of \$1 million.

## 2.4.2. Assets and Liabilities

An audited balance sheet as at 30 June 2009 has been provided to us by ACIL:

AUSTRALIAN CONSOLIDATED INSURANCE LIMITED				
A.B.N. 94 113 206 554				
AND CONTROLLED ENTITIES				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
AS AT 30 JUNE 2009				
	ECONOMIC ENTITY		PARENT ENTITY	
	2009	2008	2009	2008
	Audited	Audited	Audited	Audited
	\$	\$	\$	\$
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	7,446,524	7,533,784	-	-
Trade and other receivables	14,998,923	15,451,102	32,323	17,750
<b>TOTAL CURRENT ASSETS</b>	<b>22,445,447</b>	<b>22,984,886</b>	<b>32,323</b>	<b>17,750</b>
<b>NON-CURRENT ASSETS</b>				
Investments	-	-	17,466,394	16,799,586
Loans	-	-	184,529	2,098,409
Property, plant and equipment	355,791	408,339	249,713	249,089
Deferred tax assets	338,843	277,576	130,257	71,633
Intangible assets	20,334,501	18,139,254	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>21,029,135</b>	<b>18,825,169</b>	<b>18,030,893</b>	<b>19,218,717</b>
<b>TOTAL ASSETS</b>	<b>43,474,582</b>	<b>41,810,055</b>	<b>18,063,216</b>	<b>19,236,467</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	20,109,205	20,497,947	745,838	661,225
Provisions	301,692	182,260	75,369	54,712
Deferred Consideration	6,681,605	4,786,486	4,188,660	4,119,450
Financial Liabilities	2,429,198	991,380	-	-
Current tax liabilities	91,910	50,299	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>29,613,610</b>	<b>26,508,372</b>	<b>5,009,867</b>	<b>4,835,387</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred Consideration	352,694	1,982,036	-	1,315,000
Financial Liabilities	9,373,332	9,682,604	9,322,267	9,328,598
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>9,726,026</b>	<b>11,664,640</b>	<b>9,322,267</b>	<b>10,643,598</b>
<b>TOTAL LIABILITIES</b>	<b>39,211,287</b>	<b>38,112,956</b>	<b>14,203,783</b>	<b>15,418,929</b>
<b>NET ASSETS</b>	<b>4,134,947</b>	<b>3,637,043</b>	<b>3,731,082</b>	<b>3,757,482</b>
<b>EQUITY</b>				
Contributed equity	4,275,868	4,071,859	4,275,868	4,071,859
Retained losses	(30,030)	(263,015)	(544,786)	(314,377)
<b>PARENT INTEREST</b>	<b>4,245,838</b>	<b>3,808,844</b>	<b>3,731,082</b>	<b>3,757,482</b>
<b>MINORITY EQUITY INTEREST</b>	<b>(110,891)</b>	<b>(171,801)</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY</b>	<b>4,134,947</b>	<b>3,637,043</b>	<b>3,731,082</b>	<b>3,757,482</b>

## 2.5. Capital Position

	<u>Top 20 Shareholders</u>	<u>Shares</u>	<u>% Held</u>
1	Wayne Robert Miller	7,877,924	18.39%
2	Miller Family Trust	3,073,964	7.18%
3	Mark Shelton	2,816,429	6.58%
4	Sunset Cocktail Super Fund	2,207,572	5.15%
5	Bresland Consultants Pty Ltd	2,000,000	4.67%
6	Steve Syme Superannuation Fund	1,959,762	4.58%
7	Neil Watson	1,401,429	3.27%
8	William Green	1,042,857	2.43%
9	The Cellar Door Superannuation Fund	1,014,286	2.37%
10	Rising Enterprises Pty Ltd	1,000,000	2.33%
11	The Brede Family Trust	943,714	2.20%
12	The Ian Sharp Superannuation Fund	804,430	1.88%
13	Margaret Swinton	760,714	1.78%
14	Stephen Greener	617,143	1.44%
15	Chardonay (Vic) Pty Limited	531,429	1.24%
16	Nazer Superannuation Fund	521,429	1.22%
17	Christopher Nazer	521,429	1.22%
18	Platinum Insurance Services Pty Limited	521,429	1.22%
19	Tania Watson	521,429	1.22%
20	Lisa Browne Superannuation Fund	507,143	1.18%
		<u>30,644,512</u>	<u>71.54%</u>
	Other Shareholders	<u>12,189,775</u>	<u>28.46%</u>
		<u>42,834,287</u>	<u>100.00%</u>

The percentages held by the top 20 shareholders as listed above may not necessarily reflect the actual control that may be held by related parties when shareholdings are combined.

We have been provided with confirmation that at least 90% of ACIL shareholders have agreed to vote in favour of the transaction, subject to due diligence which has now been successfully completed.

## 3. Profile of Lombard Group NZ

### 3.1. Products & Services

The Lombard Group NZ was listed in December 2005 (LOM). On the 10 April 2008 the major asset of The Lombard Group, Lombard Finance & Investment Limited was placed into receivership. As of 31 March 2009 the business has a number of other minor investments, and its net asset value was NZ\$364,000.

## 3.2. Operations

As the major business previously owned by the group is now in receivership, there is only one minor operation to manage, United Home Loans. The board is focusing on adding value through the restructure of the business, with the limited resources available.

## 3.3. Financial Information - Lombard

### 3.3.1. Trading Results

The figures below are in thousands of dollars and conversion to Australian dollar was achieved using an annual average rate.

<b>Income Statement</b>				
<b>For the Year ended 31 March 2009</b>				
	<b>2009</b>		<b>2008</b>	
<i>(in thousands of dollars )</i>	<b>NZ\$</b>	<b>AU\$</b>	<b>NZ\$</b>	<b>AU\$</b>
	<b>Audited</b>		<b>Audited</b>	
Revenue from ordinary Activities	1,774	1,460	12,258	10,732
Finance income	9	7	21,439	18,770
Finance expense	(30)	(25)	(14,603)	(12,785)
Net finance income	(21)	(17)	6,836	5,985
Total revenue from ordinary activities	1,753	1,443	19,094	16,717
Operating expenses and staff costs	(2,414)	(1,987)	(13,952)	(12,215)
	(661)	(544)	5,142	4,502
Goodwill impairment	(1,425)	(1,173)	(5,707)	(4,997)
Other impairment losses	(17,090)	(14,068)	(229)	(200)
Profit/(loss) from operations for the year	(19,176)	(15,786)	(794)	(695)
Income tax expense	(115)	(95)	(2,464)	(2,157)
Net profit/(loss) from operations for the year	(19,291)	(15,880)	(3,258)	(2,852)
Attributed to:				
Equity holders of the parent	(19,286)	(15,876)	(3,223)	(2,822)
Minority interest	(5)	(4)	(35)	(31)
	(19,291)	(15,880)	(3,258)	(2,852)

The trading results reflect the write off of a number of non-performing investments as at 31 March 2009. Further adjustments will be made pending the completion of the transaction.

### 3.3.2. Assets and Liabilities

The figures below are in thousands of dollars and conversion to Australian dollars was achieved using the rate at balance date.

<b>Balance Sheet</b>				
<b>As at 31 March 2009</b>				
<i>(in thousands of dollars)</i>	<b>2009</b>		<b>2008</b>	
	<b>NZ\$</b>	<b>AU\$</b>	<b>NZ\$</b>	<b>AU\$</b>
	<b>Audited</b>		<b>Audited</b>	
<b>Assets</b>				
Cash and cash equivalents	106	88	231	201
Trade and other receivables	141	116	995	865
Investments	340	281	-	-
Loans receivable	-	-	138,541	120,503
Property, plant & equipment	33	27	1,136	988
Investment property	-	-	2,850	2,479
Intangible assets	1	1	1,950	1,696
Deferred tax asset	-	-	314	273
<b>Total Assets</b>	<b>621</b>	<b>513</b>	<b>146,017</b>	<b>127,006</b>
<b>Liabilities</b>				
Trade and other payables	172	142	653	568
Current tax liability	85	70	480	418
Deferred revenue	-	-	64	56
Deferred settlement	-	-	150	130
Debenture stock	-	-	110,369	95,999
Subordinated notes	-	-	3,718	3,234
Capital notes	-	-	1,023	890
Deferred tax liability	-	-	482	419
<b>Total Liabilities</b>	<b>257</b>	<b>212</b>	<b>116,939</b>	<b>101,714</b>
<b>Net Assets</b>	<b>364</b>	<b>301</b>	<b>29,078</b>	<b>25,292</b>
<b>Equity</b>				
Issued capital	5,122	4,229	10,280	8,488
Capital notes	-	-	9,423	7,781
Retained earnings	(4,718)	(3,896)	9,410	7,770
Total equity attributed to equity holders	404	334	29,113	24,039
Minority interests	(40)	(33)	(35)	(29)
<b>Total Equity</b>	<b>364</b>	<b>301</b>	<b>29,078</b>	<b>25,292</b>

Once Lombard has completed its restructure as part of the transaction, it is expected that it will have no tangible assets but NZ\$220,000 in current liabilities and goodwill of NZ\$500,000, or net assets of NZ\$280,000. We note that the value of goodwill of NZ\$500,000 has arisen from an assumed value for the company as a listed shell. We have compared this value with market transactions in Australia and elsewhere, and are of the opinion that it is a reasonable estimate of the market value.

### 3.4. Capital Position

Top 20 Shareholders		No. of	% of
As at 31 May 2009		Ordinary	Ordinary
		Shares	Capital
1	Athena Securities Limited	14,280,000	61.01%
2	Maurice Clifron Kennedy and Alan Singh	1,800,000	7.69%
3	Lambhill Holdings Limited	1,000,000	4.27%
4	Lawrence Roland Valpy Bryant	800,000	3.42%
5	William Patrick Jeffries	800,000	3.42%
6	Bowen Management No.9 Limited	720,000	3.08%
7	H & N Templeton Family Trust	576,500	2.46%
8	Forsyth Barr Custodians Limited	500,000	2.14%
9	Wellington Audio Visual Limited	400,000	1.71%
10	Solomon Capital Limited	222,085	0.95%
11	Searle Shares Limited	220,000	0.94%
12	Eske Nominees Limited	99,606	0.43%
13	James Nelson Allison	72,381	0.31%
14	Hugh Lachlan McPharlin	59,915	0.26%
15	Frederick George White	50,000	0.21%
16	Douglass Wakely Cahill	40,837	0.17%
17	Nicholas C V Bryant, Belinda C Bryant and John P C Bryant	40,000	0.17%
18	Paul James Besoff and Deborah Ann Besoff	32,117	0.14%
19	Karen Zane Lewis	29,972	0.13%
20	FNZ Custodians Limited	25,912	0.11%
		<hr/> <hr/>	
		21,769,325	93.01%
		<hr/> <hr/>	
Other Shareholders		1,637,110	6.99%
		<hr/> <hr/>	
		23,406,435	100.00%
		<hr/> <hr/>	

The percentages held by the top 20 shareholders as listed above may not necessarily reflect the actual control that may be held by related parties when shareholdings are combined.

### 3.5. Share Price Information

As can be seen from the following graph, the level of share transactions has declined significantly since the business of Lombard was placed into receivership. There have been less than 35,000 shares or \$2,000 worth of shares traded in the 12 months prior to this report, and none since October 2008. The 52-week prices range from a high of NZ\$0.061 to a low of NZ\$0.030 per share. This would indicate that there has not been a true market for the shares and the current price does not reflect the true value of the shares as they are not liquid.



### **3.6. Implications of Transaction not being Approved**

In the event that Lombard Shareholders do not approve the ACIL Transaction, the Independent Directors may need to determine other options available to the Company. As Lombard has divested itself of the majority of its assets, the options available to directors if the transaction is not approved are limited. There is ongoing trading in United Home Loans and the Lombard Finance debenture. However, as stated by the Directors in announcements to shareholders, the values of the assets of Lombard Group including these investments are relatively unknown and uncertain at this point in time. At the present time, these investments are valued at less than \$250,000 and it is unlikely that cash flows of any material amount will be derived from these investments and most likely not sufficient to repay the balance of the company's liabilities as well as any ongoing expenses. As part of the proposed transaction with ACIL, current outstanding liabilities of \$220,000 will be met from the funds paid for the listed shell of \$500,000.

Cash restrictions place a time restraint on the operations of the business continuing if the transaction is not approved. Raising further capital to fund the business is not feasible without a viable business plan.

The only asset currently available for sale and which will resolve the cash flow issues of the underlying Lombard assets is the NZX listed shell. However the liquidity of such an item is dependent on there being a willing and able buyer. There is a market for corporate shells listed on the New Zealand Stock Exchange, and we would expect the value of Lombard in that regard to be in the vicinity of \$250,000 to \$300,000 after payment of liabilities.

Accordingly, in our opinion the shareholders are more likely to gain a higher value per share from the sale of the listed shell than from continued trading with current investments.

## 4. Post Transaction profile

### 4.1. Synergistic benefits

The transaction will not offer any direct synergies through the combination of the two businesses. However this transaction will enable ACIL to facilitate the move from an unlisted public company to a listed public company as has been the stated intention of management, in the most cost effective manner currently available.

The listing will enable ACIL to access funds at a reduced cost. This reduced cost of capital will facilitate ACIL's current business model, by reducing the cost of acquisitions and allowing it to continue to aggregate businesses through the tapping of additional sources of capital.

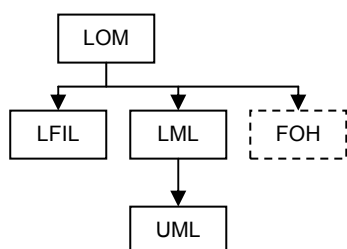
### 4.2. Capital Structure

The acquisition will result in a significant change in the structure of the organization. The following steps will be taken to facilitate the transaction:

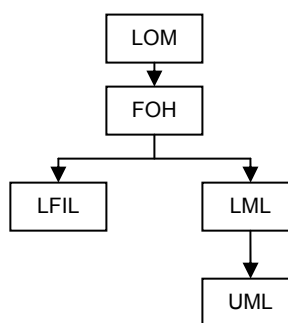
#### Step 1

Lombard will create a new company called First One Holdings Limited ("FOHL"), and will transfer all assets currently held into this company in exchange for shares in FOHL. As consideration for the transfer of assets, FOHL will indemnify Lombard in respect of any residual liability that might arise in respect of the previous operations of Lombard, up to a maximum of NZ\$600,000 for a period of 12 months.

#### Existing Position



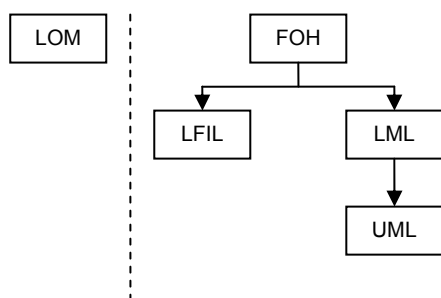
#### Resulting Position



#### Step 2

Lombard will make a distribution to current Lombard shareholders of 23,406,435 "bonus convertible shares" for no consideration. These shares will convert at an agreed time in the future into shares in the unlisted FOHL - this effectively transfers ownership of the original assets of Lombard away from the Lombard holding company and transfers these assets to the current shareholders of Lombard. This will result in Lombard having no remaining tangible assets.

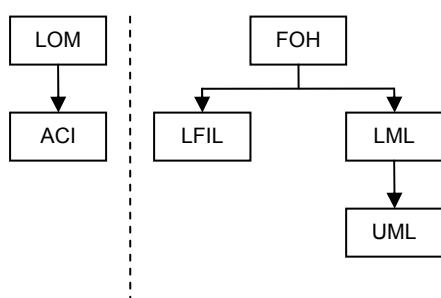
## Resulting Position



## Step 3

Lombard will acquire all the issued capital of ACIL in accordance with the Corporations Act 2001, and no cash consideration will be given to ACIL shareholders. Instead 1,480,246,656 fully paid shares will be issued in Lombard and provided as consideration. This will result in ACIL shareholders receiving 34.55752 Lombard Shares for each ACIL share currently held. It will result in ACIL shareholders holding approximately 98.5% of the 1,503,653,091 Lombard shares issued after the transaction has been executed.

## Resulting Position



## 5. Transaction costs

### 5.1. Fees Paid in Relation to Transaction

Management of ACIL have advised that total costs for the proposed transaction will be within NZ\$220,000 and NZ\$260,000. That includes professional advisors as well as restructuring costs for Lombard and migration of the company to Australia.

### 5.2. Residual Liabilities in Lombard

The residual liabilities of Lombard will be minimised through the transfer of all its current assets and liabilities to FOHL. However there will be a number of liabilities which are currently on its balance sheet which will need to be paid out of future cash flows of the ACIL business. These

current liabilities stand at an estimated NZ\$220,000 and are a further cost of the transaction. ACIL will also be responsible for organizing a replacement bond for NZSX listing requirements.

### **5.3. *Costs of Transaction to LOM Shareholders***

There will be no major costs or disadvantages for Lombard shareholders in relation to the proposed transaction as ACIL will be paying the costs of the proposed transaction. Further, existing liabilities will be met from the NZ\$500,000 paid into LOM by ACIL.

The shareholding of existing Lombard shareholders will be diluted to 1.56% and that is a cost to those shareholders. However, the value of that shareholding is not materially diminished and is offset by other financial and non-financial gains achieved by those shareholders.

### **5.4. *Effect on valuations***

These costs identified above, do not have a direct affect on the valuation provided below and were not taken into account during the valuation process. However they have been taken into account as an overall cost of the transaction and were reviewed to ensure that they are reasonable.

## **6. Valuation Methodology**

### **6.1. *Available Methodologies***

The Australian Securities and Investments Commission (ASIC) publishes a number of regulatory guides to be followed, including ASIC Regulatory Guide 111 (RG 111) which outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- the discounted cash flow method;
- the capitalisation of earnings method;
- multiple of revenue method;
- orderly realisation of assets;
- the quoted price of listed securities; and
- comparable market transactions.

We have outlined these methodologies in Appendix A to this report.

### **6.2. *Selected Methodology***

#### **6.2.1. Approach**

In our opinion, the implementation of the ACIL Transaction is a reverse takeover as the control of Lombard will be passed on to the current shareholders of ACIL, who will then

hold 98.44% of the shares in Lombard. Based on the guidelines as set out in RG 111 in relation to assessing the fairness of non-cash consideration in control transactions, we have compared:

- the value of Lombard Shares based on Lombard's existing structure (before the implementation of the ACIL Transaction) and on a 100% basis (inclusive of a premium for control); with
- the value of Lombard Shares as if the ACIL Transaction is implemented on a minority parcel basis, as the existing Lombard Shareholders will become minority shareholders after the ACIL Transaction is implemented.

The underlying value of the entities has been derived on a fair market value basis, which is typically defined 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. 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.

The following sections discuss the valuation methodologies adopted for each of the entities.

## **6.2.2. Lombard Group Limited**

When considering the approach valuation methodology for Lombard, we note that:

- historically Lombard has incurred extensive losses from investments in subsidiaries;
- there has been minimal trading in the shares on the market;
- the company's trading activities are minimal.

As per the heads of agreement dated 19 March 2009, Lombard will have no assets at the date of the transaction, other than NZD\$500,000 for intangible assets being assumed goodwill, and expected liabilities of NZD\$220,000.

Having divested to current shareholders all other assets currently held, as outlined in Section 5.2 Capital Structure, Lombard will have net tangible liabilities of NZD\$220,000 which will be paid from ACIL's future cash flow.

It is also noted that although FOHL will indemnify Lombard in respect of any residual liabilities that might arise in respect of the previous operations of Lombard, any liabilities of greater than NZD\$600,000 or not occurring within the first twelve months will continue to be Lombard's responsibility.

As the Company is currently incurring losses from trading, it would not be appropriate to use an earnings-based methodology such as discounted cash flow or capitalisation of earnings.

For the purposes of this report, we have selected the Net Asset Backing method to value Lombard, and compared the valuation results to the recent share price of Lombard.

### **6.2.3. Australian Consolidated Insurance Limited**

When considering the approach valuation methodology for ACIL, we note that:

- the ACIL business is not capital intensive;
- the business of ACIL is a combination of insurance broking, underwriting, risk management and insurance premium funding;
- a financial forecast of ACIL has not been made available to us for inclusion in this report, other than forecast gross revenues;
- ACIL has been actively involved in the acquisition of other companies in the market;
- ACIL has recorded significant changes in growth over the past few years;
- past reported earnings do not reflect the expected contribution by subsidiaries for full years;
- the planned branding of ACIL and subsidiaries to Insured Group Limited is expected to firm the company's position in the market.

Whilst the DCF methodology is arguable the most appropriate approach to value companies or businesses with limited earnings history, the application of the DCF methodology requires long term reliable cash flow forecasts, which are not available.

The application of the capitalisation of earnings approach generally requires the business to demonstrate consistent earnings both historically and forecast. This method is not appropriate because ACIL earnings are not consistent due to the acquisitions over the past few years.

The company has been able to forecast with more consistency expected revenues and written premiums for the 2010 financial year, based on its current structure.

The most common method of sale of general insurance brokers is a multiple of revenue inclusive of interest, fees and brokerage. Sometimes that can also be a percentage of gross written premiums but this is uncommon. The most common method of sale of underwriting agencies is a multiple of gross written premiums.

## **7. Valuation of ACIL**

As discussed in Section 8.2.3 we have adopted the multiple of revenue methodology to value ACIL.

### **7.1. *Multiple of Gross Earnings***

When considering the maintainable revenues of ACIL, we have considered the financial performance of the consolidated group on an annualised/normalised basis, and note that:

- Expected gross written premiums have increased over the last 3 financial years by more than 200%;
- Underwriting has increased to represent approximately 25% of gross written premiums;
- Forecast gross written premiums for 2010 are expected to increase again by 40% to 50% due to acquisitions made in the 2009 year;

- Net revenue has doubled from 2007 to 2009;
- A further growth in net revenue of 25% is expected for the 2010 financial year, again due to a number of acquisitions made previously;
- Profit margins are expected to increase as a result of the combination of operations with subsidiaries and subsequent cost savings.

Based on the above, dVT has adopted the expected gross written premiums and expected net revenues for 2010 as the gross earnings for valuation purposes.

The valuation is based on forecast gross revenue, not results achieved to date due to:

- actual results to date show only the performance of subsidiaries since acquisition – e.g. the current results only contain one month of recent acquisition Classic Cover Insurance Ltd;
- during the 2009 financial year the underwriting agency group established several facilities which are now implemented and which transition group business into the underwriting agency; and
- the inflationary and market accepted estimated growth factors.

On examination of the estimates we would consider that the forecasts of future gross premiums are not unreasonable given the group's track record of growth. We will however state there is always an inherent difficulty in calculating values based on a forecast cash flow stream where the company being valued has not had a track history of achieving those levels of income in either gross written premiums or in net revenue, so there is a risk factor attached to that calculation. In normal market sale transactions this is accounted for in industry based "rise and fall" adjustment clauses.

## **7.2. Revenue Multiple**

There are no comparable revenue multiples associated with publicly listed companies that we can use as a comparison or basis. However, we are aware of the multiples used in a number of transactions in Australia in the past few years, involving similar companies and in the same industry. From our knowledge of those transactions, our research into the market and from discussions with valuers specialising in these transactions, we have arrived at a range of suitable multiples to use on forecast revenues.

The transactions all involve private companies and are of a confidential nature, and accordingly we are not in a position to disclose the details. However, we note that the average size of the target companies identified for the calculation of implied transaction multiples range from revenues/premiums of less than \$1 million to those in excess of \$100 million.

Overseas transactions and benchmarks have been researched and the multiples used in this report are consistent with those results.

The factors affecting the valuation range for brokers include:

- Management and personnel
- Type of insurance placed (scheme, commercial, domestic)
- Geographic spread (i.e. offices in capital cities)
- Insurer spread
- Profitability

The factors affecting the valuation range for underwriting agencies include:

- Insurer appetite
- Management and underwriting capability
- Security (Australia or Lloyds)
- Underwriting agency agreement
- Profit commission capacity (profitability)
- Type of insurance placed (class)
- Sector niche or continuity
- Level of binding authority.

The key attributes of underwriting agencies are:

- Lower expense transactions (documentation and information processing)
- Lower wage to revenue ratios
- Higher profitability
- Sustainable market segmentation
- Highly transferable distribution to sophisticated insurance buyers

Based on the above, dVT has assessed the value of ACIL on the basis of multiples of revenue, at AU\$41 million.

We have not disclosed the details of the multiples used to be disclosed, as to do so may prejudice ACIL's position in future negotiations with likely acquisitions, and the particulars are not crucial to the ability of shareholders to comprehend the information otherwise provided.

### **7.3. Working Capital**

Based on the principles of the capitalisation of earnings methodology, our assessed enterprise value of ACIL has assumed the business has the required level of working capital. If the working capital is below the required level, the shortfall is generally deducted from the valuation to arrive at the equity value. The rationale is that the hypothetical purchaser of the business is required to further invest in order to fund the shortfall in working capital.

Management of ACIL have advised that ACIL is expected to have sufficient working capital to fund its operations. Accordingly, we have not made any adjustment in relation to working capital for the purpose of this report.

### **7.4. Net Cash**

As there is no recognised surplus cash, we have not adjusted the enterprise value of ACIL in this regard.

### **7.5. Other Assets and Liabilities**

We have considered and discussed with management of ACIL, the assets and liabilities contained in the agreed acquisition balance sheet. Management of ACIL have confirmed that the acquisition balance sheet does not have any surplus assets or liabilities. External debt consists of financial liabilities and deferred consideration payable, totalling AU\$18.837 million.

## 7.6. Summary of Valuation

Based on the abovementioned assumptions, we set out below our valuation assessment of ACIL:

<b>Summary of Valuation</b>		
Australian Consolidated Insurance Ltd	NZ \$000	NTA NZ \$000
Enterprise Value	\$ 51,250	\$ 5,568
Net Debt	-\$ 23,546	\$ -
Equity Value	<u>\$ 27,704</u>	<u>\$ 5,568</u>
Number of shares on issue	42,834,287	42,834,287
Value per share - on a controlling basis (\$)	\$ 0.6468	\$ 0.1300

Using a conversion rate of NZ\$1:AU\$0.8000 dVT concludes that the value of ACIL shares on a 100% basis is AU\$0.5174 per share.

## 8. Valuation of Lombard

As discussed in Section 8.2.2 we have adopted the methodology of net asset backing to value Lombard on a standalone basis.

### 8.1. Net Asset Backing

We have reviewed the audited financial statements of Lombard at 31 March 2009 which indicate net assets of NZ\$364,000. We also note that as part of the proposed transaction, Lombard will transfer all assets to First One Holdings Limited in return for shares in that company, as described in Section 6.2.

The resultant effect on the financial statements is that there will be no assets and liabilities remaining in Lombard with the exception of NZ\$500,000 goodwill and NZ\$220,000 in liabilities.

Unaudited financial statements of the company as at 22 July 2009 show that the present position before the completion of the transaction is that the company has net assets of NZ\$274,000.

### 8.2. Premium for Control

The net asset backing per share values have been calculated based on the book value of assets and liabilities, and do not include a premium for control.

A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:

- the ability to realise synergistic benefits;
- access to cash flows;
- access to tax benefits; and
- control of the board of directors of the company.

Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 30% and that the premiums vary significantly from transaction to transaction.

### **8.3. Tax Losses**

No account has been taken of tax losses that may be available to Lombard. We are not aware of any such losses.

### **8.4. Transaction Costs**

Management of ACIL and Lombard have advised that if the ACIL transaction is implemented, ACIL is expected to incur a total of approximately NZ\$200,000. Lombard will not be responsible for the transaction costs and accordingly no adjustment is required against the valuation of that company.

### **8.5. Comparisons**

We have considered the reasonableness of our valuation by comparing our results to the current share market prices of Lombard. As previously noted, the current share price on the New Zealand Stock Exchange for Lombard is \$0.06 per share. However, trading has been minimal over the last few months and it is unlikely that this price represents a real market value for the share, particularly as it is in excess of the net tangible asset value for the shares and the company has no current operations by which it can generate future income.

We believe that the best valuation method is Net Tangible Assets as it best represents the current position of Lombard, particularly as the company is no longer actively trading.

The expected price per share in Lombard after the restructure and transaction is NZ\$0.01196 which is in excess of the current value per share on a net tangible assets basis, and we consider this valuation to be reasonable.

### **8.6. Summary of Valuation**

Based on the above we set out below our valuation assessment of Lombard:

<b>Summary of Valuation</b>	<b>Asset Backing</b>	
Lombard Group Limited	NZ \$000	
Total Assets	\$	500
Total Liabilities	-\$	220
Net Assets	\$	280
Number of shares on issue		23,406,435
Value per share - on a controlling basis (\$)	\$	0.01196

dVT concludes that the value of Lombard shares on a 100% basis is NZ\$0.01196 per share.

## 8.7. Combined Valuation

Lombard will be known by a new name Insured Group Limited once the transaction is complete. Insured Group Limited will then be seeking additional funds from a capital raising. Even though the fair market value of Insured Group Limited will effectively be the fair market value of ACIL, we feel it prudent to make the comment that the fair market value as calculated above is not necessarily the same as the value placed on Insured Group Limited by investors in any additional capital raising.

It is likely that the initial share placement will be largely among the professional investment community as well as existing shareholders, resulting in a probable heavy discount on the market price per share. Ultimately, the value of Insured Group Limited will be influenced by a range of factors, including:

- The ability of Insured Group Limited to 'win' the trust of analysts, institutional and retail investors by demonstrating the ability to achieve the strategy set out to the market;
- The extent to which Insured Group Limited as a 'pure play' company can attract and maintain a new investor base or whether it is restricted to existing investors;
- The performance of the broader insurance industry;
- The market conditions of global equity markets; and
- Economic conditions prevalent at the time.

To reflect the above, and in particular the current position of the equity markets and the likely placement of shares in the short timeframe remaining to raise the capital that ACIL requires to settle its Vendor commitments, we are of the opinion that the gross market value of ACIL could be discounted by approximately 20%, giving a gross value of A\$33,000,000 for ACIL instead of A\$41,000,000. This translates to a net value for the group after reverse takeover of A\$14,387,000 calculated as follows (using an estimated exchange rate of A\$1.00:NZ\$1.25):

	A\$	NZ\$
Enterprise Value of ACIL	\$ 33,000,000	\$ 41,250,000
Less: Net Debt	\$ 18,837,000	\$ 23,546,250
Equity Value	\$ 14,163,000	\$ 17,703,750
Lombard Net Assets	\$ 224,000	\$ 280,000
Net Value after Takeover	\$ 14,387,000	\$ 17,983,750

The revised share swap ratio is 34.55752 Lombard shares for each ACIL share.

The new Lombard shares to be issued to ACIL shareholder are therefore 1,480,246,656 diluting Lombard shareholders to 1.56% of the total shares on issue after the takeover.

## 9. Evaluation of the Transaction

### 9.1. Fairness

#### 9.1.1. Lombard

For the purpose of assessing whether the ACIL Transaction is fair to the Lombard Shareholders, we have compared the value of Lombard Shares on a stand alone basis and before the implementation of the ACIL Transaction with the value of Lombard Shares as if the ACIL Transaction is implemented. When considering the value of Lombard Shares as if the ACIL Transaction is implemented, dVT has aggregated the standalone value of Lombard and ACIL.

Our valuations of Lombard and ACIL are on a 100% basis and are inclusive of a premium for control. If the ACIL Transaction is implemented, existing ACIL shareholders will immediately own approximately 98.5% of the enlarged share capital of Lombard on an undiluted basis. Accordingly, from the existing Lombard Shareholders' perspective, we have considered the value of the Lombard Shares post the ACIL Transaction on a minority parcel basis by applying a minority discount in the range of 20% to 30%.

We understand that the ACIL Transaction may generate certain synergistic benefits which may be available to the existing Lombard Shareholders but we have not quantified any potential amount for the purpose of this report.

The following table calculates the value of Lombard Shares as if the ACIL Transaction is implemented.

	Low	High
<b>The ACIL Transaction</b>		
Assessment of Fairness	NZ \$000	NZ \$000
Net Asset Value of Lombard	\$ 280,000	\$ 280,000
Equity Value of ACIL	\$ 17,703,750	\$ 17,703,750
Value of Lombard post transaction	\$ 17,983,750	\$ 17,983,750
Number of Lombard Shares on issue	23,406,435	23,406,435
Shares to be issued to ACIL Shareholders	1,480,246,656	1,480,246,656
	1,503,653,091	1,503,653,091
Value of Lombard Shares on controlling basis (\$)	\$ 0.01196	\$ 0.01196
Minority Discount	30%	20%
Value of Lombard Share on Minority Basis (\$)	\$ 0.00837	\$ 0.00957
Value of FOHL Shares on controlling basis (\$)	\$ 0.01047	\$ 0.01047
<b>Value of Total Shares Held</b>	\$ 0.01884	\$ 0.02004
<b>Value of Lombard Shares on standalone basis - controlling basis (\$)</b>	\$ 0.01196	\$ 0.01196

As part of the proposed transaction, Lombard shareholders will also be able to participate in a buyback agreement for their shares, at a price based on the agreed value of Lombard of

NZ\$0.01196 per share. This is marginally higher than the value attributed to Lombard shares in the assessment of the number of shares to be offered to ACIL shareholders as consideration for their shares.

As the underlying value of Lombard shares on a minority basis after the implementation of the ACIL transaction is higher than the value of the Lombard shares on a standalone basis, we conclude that the ACIL transaction is fair to Lombard shareholders.

### 9.1.2. ACIL

For the purpose of assessing whether the ACIL Transaction is fair to the ACIL Shareholders, we have compared the value of ACIL Shares on a stand alone basis and before the implementation of the ACIL Transaction with the value of Lombard Shares as if the ACIL Transaction is implemented. When considering the value of Lombard Shares as if the ACIL Transaction is implemented, dVT has aggregated the standalone value of Lombard and ACIL.

Our valuations of Lombard and ACIL are on a 100% basis and are inclusive of a premium for control. If the ACIL Transaction is implemented, existing ACIL shareholders will immediately own approximately 98.5% of the enlarged share capital of Lombard on an undiluted basis.

The following table calculates the value of Lombard Shares as if the ACIL Transaction is implemented.

<b>The ACIL Transaction</b>	
Assessment of Fairness	NZ \$000
Net Asset Value of Lombard	\$ 280,000
Equity Value of ACIL	\$ 17,703,750
Value of Lombard post transaction	\$ 17,983,750
Number of Lombard Shares on issue	23,406,435
Shares to be issued to ACIL Shareholders	1,480,246,656
	1,503,653,091
Value of Lombard Shares on controlling basis (\$)	\$ 0.01196
ACIL / Lombard Equity Swap	1:34.55752
Equivalent value of ACIL Shares on standalone basis - controlling basis (\$)	\$ 0.01196

As the underlying value of Lombard shares on a minority basis after the implementation of the ACIL transaction is equal to or greater than the value of the ACIL shares on a standalone basis (as adjusted for the proposed equity swap), we conclude that the ACIL transaction is fair to ACIL shareholders.

## 9.2. Reasonableness

As the ACIL transaction is fair to both ACIL and Lombard shareholders, the transaction is also reasonable in accordance with RG 111.

### **9.3. Advantages and Disadvantages**

We have summarised some of the relevant likely advantages and disadvantages associated with the ACIL transaction in order to provide shareholders of both companies with sufficient information in order to make an informed decision.

#### **9.3.1. Advantages**

- The costs in relation to the reverse take over are reasonable, and the reasonableness of these balances is in comparison to the cost of listing an organisation on the ASX. Costs incurred to achieve the reverse takeover are far less than if it was to independently list.
- The existing Lombard shareholders will in effect retain the current value of their shares, as the ownership of the assets in Lombard will be transferred to FOHL and the shareholders will then become the shareholders in FOHL. These shares will not be diluted by any issue of shares in Lombard to current ACIL shareholders.
- In addition, they retain their current interest in Lombard, although diluted, and obtain a small interest in Lombard's investment in ACIL. Once the transaction is complete, existing Lombard shareholders will actually increase the value of their combined shareholdings in both FOHL and Lombard.
- The ACIL transaction may generate certain operational synergies which may benefit Lombard shareholders. Our valuation of Lombard following the ACIL transaction has not incorporated the potential value of synergies as these are yet unquantified and still under study. Accordingly it is possible that the value of Lombard shares following the implementation of the ACIL transaction will be higher than our current assessment.
- The benefits of the transaction particularly for ACIL shareholders will be:
  - Liquidity of market
  - Access to capital
  - Increased multiplier of listed companies
  - Increased ability to achieve the stated growth targets of the business as the ability to access capital cheaply will enable it to grow through acquisition.
- The percentage of shares held in Lombard is diluted, but not the expected value of those shares, which increases to between NZ\$0.0188 and NZ\$0.0200 after restructure.
- Shareholders can elect to enter into a buyback arrangement which ensures them a value of NZ\$0.01196 for their shares.
- Instead of indirectly owning 100% of FOHL net assets via Lombard, existing Lombard shareholders will now directly own 100% of FOHL and its net assets.
- It provides ACIL shareholders with an interest in a listed public company that will be listed on the New Zealand Stock Exchange.

### **9.3.2. Disadvantages**

- The effective dilution of 1.56% of ACIL shareholders is the true cost of the transaction to those parties. This cost is however more than offset by the benefits of the reverse takeover.
- The existing Lombard shareholders will give up control of Lombard, specifically the shareholding of the existing Lombard shareholders will be diluted to 1.56%.
- For financial reporting purposes Lombard will recognise a significant goodwill balance arising from the acquisition of ACIL. In accordance with accounting standards, goodwill is subject to an annual impairment review. If the directors of Lombard determine that the goodwill balance associated with the acquisition of ACIL is impaired, the impairment adjustment will have a negative impact on Lombard's earnings.

After considering the likely advantages and disadvantages associated with the ACIL transaction, we are of the opinion that the likely advantages of the transaction outweigh the likely disadvantages. Accordingly, we consider the ACIL transaction to be reasonable to both ACIL and Lombard shareholders.

### **9.4. Overall Conclusion**

After considering the position of Lombard and ACIL Shareholders before and after the implementation of the ACIL Transaction, including the quantitative and qualitative factors outlined above, it is our opinion that the terms of the ACIL Transaction are fair and reasonable to the Lombard and ACIL Shareholders and in the best interests of Lombard.

## **10. Pro Forma Balance Sheet**

This section contains a summary of pro-forma historical financial information (the Pro-forma Financial Information) in respect of Lombard and ACIL.

### **10.1. Basis of Preparation**

The Pro-forma Historical Financial Information included in this section has been prepared in accordance with the recognition and measurement principles of AIFRS. The Pro-forma Historical Financial Information is presented in an abbreviated form and consequently does not comply with all the presentation and disclosure requirements of AIFRS and the Corporations Act.

## **10.2. Acquisition Accounting**

AASB 3 'Business Combinations' (**AASB 3**) requires that all business combinations are accounted for using the purchase method. This involves assigning fair values at the Settlement date to the identifiable assets, liabilities and contingent liabilities, including intangible assets assumed. This financial information has been compiled by the companies' management based on limited financial information available to the companies as at the date of this report. A formal analysis of the fair value of the net assets acquired will be performed post completion of the transaction. The companies are permitted to adjust the assessment of fair values up to twelve months following the settlement date of the respective acquisition agreements with the amounts being classified as provisional during any interim reporting period. Any adjustments to these fair values will likely have an equal and opposite impact on goodwill recorded. Accordingly, any such adjustments will likely have no impact on the aggregate net assets of Lombard but could have an impact on any potential depreciation and amortisation charges in future financial periods. The provisional fair value of the combining entities' net assets at 30 June 2009 has been used for the purpose of preparing the Pro-forma Consolidated Historical Balance Sheet.

## **10.3. Reverse Acquisition Accounting**

Application of AASB 3 may lead to the conclusion that an entity whose shares have been acquired (legally, the subsidiary) is the acquirer, and the entity issuing shares (legally, the parent) is the acquiree. This is commonly referred to as 'reverse acquisition accounting'. At settlement of the ACIL Agreement, Lombard will effect a business combination by acquiring 100% of the issued share capital of ACIL. The business combination will be undertaken by Lombard issuing up to 1,480,246,656 shares to current ACIL shareholders, such that post settlement current ACIL shareholders will own up to 98.44% of the issued share capital of Lombard. In the opinion of the Directors, the acquirer for accounting purposes for the business combination under the principles of AASB 3 is ACIL rather than Lombard. Accordingly, in its financial statements for the year ended 30 June 2010 and future periods, Lombard will present both ACIL (accounting acquirer) consolidated financial information and Lombard's (legal parent) financial information.

## **10.4. Pro Forma Balance Sheet**

The pro-forma balance sheet of Lombard assuming settlement of the ACIL transaction is set out below:

	LOM		ACIL		Pro Forma Consolidated Balance Sheet	
	30.06.09	30.06.09	30.06.09	30.06.09	30.06.09	30.06.09
	NZ\$	AU\$	NZ\$	AU\$	NZ\$	AU\$
<b>Assets</b>	<b>Unaudited</b>		<b>Audited</b>			
<b>Current Assets</b>						
Cash and Cash Equivalents	-	-	571,511	454,905	571,511	454,905
Fiduciary Cash and Cash Equivalents	-	-	8,783,781	6,991,619	8,783,781	6,991,619
Trade and Other Receivable	-	-	18,843,597	14,998,923	18,843,597	14,998,923
<b>Total Current Assets</b>	<b>-</b>	<b>-</b>	<b>28,198,889</b>	<b>22,445,447</b>	<b>28,198,889</b>	<b>22,445,447</b>
<b>Non-Current Assets</b>						
Property, Plant and Equipment	-	-	446,991	355,791	446,991	355,791
Deferred Tax Assets	-	-	425,699	338,843	425,699	338,843
Intangible Assets	500,000	397,985	25,546,844	20,334,501	26,046,844	20,732,486
<b>Total Non-Current Assets</b>	<b>500,000</b>	<b>397,985</b>	<b>26,419,534</b>	<b>21,029,135</b>	<b>26,919,534</b>	<b>21,427,120</b>
<b>Total Assets</b>	<b>500,000</b>	<b>397,985</b>	<b>54,618,423</b>	<b>43,474,582</b>	<b>55,118,423</b>	<b>43,872,567</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Trade and Other Payables	220,000	175,113	25,263,800	20,109,205	25,483,800	20,284,318
Provisions	-	-	379,025	301,692	379,025	301,692
Deferred Consideration	-	-	8,394,301	6,681,605	8,394,301	6,681,605
Financial Liabilities	-	-	3,051,874	2,429,198	3,051,874	2,429,198
Current Tax Liability	-	-	115,469	91,910	115,469	91,910
<b>Total Current Liabilities</b>	<b>220,000</b>	<b>175,113</b>	<b>37,204,469</b>	<b>29,613,610</b>	<b>37,424,469</b>	<b>29,788,723</b>
<b>Non-Current Liabilities</b>						
Financial Liabilities	-	-	11,775,997	9,373,331	11,775,997	9,373,331
Deferred Consideration	-	-	443,100	352,694	443,100	352,694
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>12,219,097</b>	<b>9,726,025</b>	<b>12,219,097</b>	<b>9,726,025</b>
<b>Total Liabilities</b>	<b>220,000</b>	<b>175,113</b>	<b>49,423,566</b>	<b>39,339,635</b>	<b>49,643,566</b>	<b>39,514,748</b>
<b>Net Assets</b>	<b>280,000</b>	<b>222,871</b>	<b>5,194,857</b>	<b>4,134,947</b>	<b>5,474,857</b>	<b>4,357,818</b>
<b>Equity</b>						
Contributed Equity	62,009,814	49,357,903	5,371,901	4,275,868	5,651,901	4,498,739
Retained Profit/(Loss)	(62,229,814)	(49,533,016)	(37,728)	(30,030)	(37,728)	(30,030)
Revaluation Reserve	500,000	397,985	-	-	-	-
Minority Equity Interest	-	-	(139,316)	(110,891)	(139,316)	(110,891)
<b>Total Equity</b>	<b>280,000</b>	<b>222,871</b>	<b>5,194,857</b>	<b>4,134,947</b>	<b>5,474,857</b>	<b>4,357,818</b>

The historical information above has been taken from audited financial statements of ACIL and unaudited financial statements of Lombard as at 30 June 2009.

The pro forma balance sheet reflects the following principal adjustments and is subject to the following notes:

- i. Intangible assets reflects value of consolidated ACIL operations at 30 June 2009 as per goodwill impairment calculations at that date, plus value in AUD of acquisition of Lombard at NZ\$500,000;
- ii. Consolidation eliminations required to properly reflect the consolidated balance sheets in accordance with AIFRS;
- iii. In accordance with accounting standards, the pro forma consolidated balance sheet is prepared on the basis that ACIL, although the legal subsidiary, is the “acquirer” in the transaction;
- iv. The assets and liabilities of ACIL are recognised and measured in the consolidated financial statements at the pre-combination carrying amounts i.e. no fair value adjustments are made for the assets and liabilities of the legal subsidiary ACIL;
- v. The assets and liabilities of LOM are recognised and measured at their acquisition date fair values (note revaluation reserve of NZ\$500k);

- vi. The retained earnings and other equity balances of ACIL immediately before the business combination (and not those of the legal parent) are recognised as the retained earnings and other equity balances in the consolidated financial statements;
- vii. The equity instruments recognised in the consolidated financial statements are those of ACIL immediately before the business combination plus the fair value of LOM determined in accordance with AASB 3. However, the equity structure (i.e. the number and types of shares) appearing in the financial statements shall be those of LOM immediately after the business combination, including the equity interests LOM issues to effect the combination. Accordingly, the equity structure of ACIL is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of LOM issued in the reverse acquisition;
- viii. The comparative information in the first set of consolidated accounts presented in the consolidated financial statement is that of ACIL but adjusted to reflect the legal capital of LOM;
- ix. The income statement of the consolidated entity will reflect the results of ACIL for the full period together with the post acquisition results of LOM.

We note that the projected balance sheet on consolidated, which has been prepared by ACI Limited, uses the value of AU\$20,334,501 as the goodwill of its consolidated business. This is not the calculated "value in use" of AU\$36,136,737 according to the Goodwill Impairment Summary produced as part of the audited financial statements for the year ended 30 June 2009.

As discussed earlier in this report, we have in fact calculated a value for the current business operated by ACIL at AU\$41 million. This value has been calculated on the basis of expected maintainable future revenues to which have been applied market multiples according to the nature of each stream of income.

It is therefore our opinion that the use of the consolidated goodwill value of AU\$20,334,501 is reasonable and conservative.

We have checked our calculations of the share values of both Lombard and ACIL based on the value in use of AU\$36,136,737. In all circumstances the share values after the proposed transaction exceed the share values on a standalone basis assuming that the transaction does not proceed. Accordingly, even at that valuation, it is our opinion that the transaction is fair and reasonable to all shareholders.

## **11. Declarations, Consents, Qualifications & Independence**

### **11.1. Declarations**

dVT has prepared the Report at the request of the Independent Directors of Lombard. The Report meets the NZSX Listing Rules 9.1.2 and 1.7.2 in relation to the proposed acquisition of the shares in ACIL.

It is not intended that this Report be used for any other purpose. The Report has been provided for the benefit of the Non-Associated Shareholders of Lombard.

In dVT's view, the contents of this Report in its entirety are sufficient for the Non-Associated Shareholders of Lombard to determine whether the proposed transaction is fair.

dVT consider that they have had access to all relevant information, and the assumptions we have relied on to form our opinion are clearly indicated within the body of the Report. The terms of reference for completing this Report were agreed with the Independent Directors of Lombard and in no way restricted our ability to act.

## **11.2. Consents**

dVT consents to the issuing of this report in the form and context in which it is included in the Notice of General Meeting and Explanatory Statement to be sent to shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of dVT as to the form and content in which it appears.

## **11.3. Qualifications**

This Report has been prepared by dVT Consulting Pty Limited. dVT provides a full range of corporate finance services and has advised on corporate valuations, acquisitions, and restructures.

The person responsible for preparing the Report was Suelen McCallum, Director (CA, B.Bus University of Technology, Sydney). Ms. McCallum has had significant experience in business valuations, preparation of expert reports and advising on corporate acquisitions.

## **11.4. Independence**

Prior to accepting this engagement, dVT considered its independence with respect to ACIL and Lombard and all other parties involved in the transaction with reference to the RG 112 "Independence of expert" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We concluded that there are no conflicts of interest with respect to Lombard, its shareholders and all other parties involved in the transaction.

dVT and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Lombard or their associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the transaction. dVT has had no involvement with the formulation of the proposed transaction or any aspect thereof, other than the preparation of this report. dVT has no interest in the outcome of the transaction.

dVT will receive a fixed fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. dVT's out of pocket expenses in relation to the preparation of the report will be reimbursed. dVT will receive no other benefit for the preparation of this report.

Dated this 28<sup>th</sup> day of January 2010



**Suelen McCallum**  
Director  
dVT Consulting Pty Limited

## **APPENDIX “A”**

### **OUTLINE OF VALUATION METHODOLOGIES**

#### **Capitalisation of Future Maintainable Earnings**

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or “one off” profits or losses. This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

#### **Multiples of Revenue**

This method, which applies an appropriate multiple to gross revenue, is a suitable valuation method of businesses that have an established share of their market or have traded for a reasonable period of time, or have a business where expected revenues are able to be predicted with some degree of certainty. Operating expenses are ignored for this purpose, and so this method is suitable for businesses that can more easily be incorporated into existing structures and where considerable synergies exist.

#### **Discounting projected cash flows**

An analysis of the net present value of projected cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

#### **Net asset backing / Orderly realisation of assets**

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

#### **Market value of listed securities**

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

#### **Comparable market transactions**

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable

transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

## APPENDIX “B”

### GLOSSARY

AU\$	Australian Dollar
NZ\$	New Zealand Dollar
ACIL	Australian Consolidated Insurance Limited
ACIL Shareholders	Shareholders in Australian Consolidated Insurance Limited
ASIC	Australian Securities and Investments Commission
Lombard	Lombard Group Limited
Lombard Shareholders	Shareholders in Lombard Group Limited
Company	Lombard Group Limited
FOHL	First One Holdings Limited
ACIL Transaction	The acquisition of 100% of the equity in Australian Consolidated Insurance Limited by issuing up to a maximum of 1,480,246,656 shares in Lombard.
Corporations Act	Corporations Act 2001 (Australia)
DCF	Discounted Cash Flow
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
FSG	Financial Services Guide
FY	Financial Year
dVT	dVT Consulting Pty Limited
NPAT	Net Profit After Tax
RG 111	ASIC Regulatory Guide 111
RG 112	ASIC Regulatory Guide 112
RG 74	ASIC Regulatory Guide 74
RG 42	ASIC Regulatory Guide 42
NZX	New Zealand Stock Exchange
ASX	Australian Stock Exchange
AIFRS	Australian International Financial Reporting Standard