

**PACIFIC STRATEGIC INVESTMENTS LTD**

ABN 85 082 668 380

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1<sup>st</sup> October 2004

The Manager  
Company Announcements Office  
Australian Stock Exchange Limited  
Exchange Centre  
Level 6  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir

**Notice of Dispatch of Target's Statement**

Please be advised that the company is today dispatching to its shareholders its Target's statement as required by item 12 of subsection 633(1) of the Corporations Act.

A copy of the document included in this separate mailout is attached.

Yours faithfully,

A handwritten signature in black ink, appearing to read "John de Gouveia", with a large, stylized initial "J" and a long, horizontal flourish extending to the right.

**John de Gouveia**  
**Company Secretary**

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO HOW YOU SHOULD ACT, YOU SHOULD CONTACT YOUR BROKER, FINANCIAL ADVISER OR LEGAL ADVISER IMMEDIATELY



## **TARGET'S STATEMENT**

by

**PACIFIC STRATEGIC INVESTMENTS LIMITED**

ABN 85 082 668 380

in relation to the off market takeover bid made by Brickworks Investment Company Limited  
ABN 23 106 719 868 for all ordinary shares in Pacific Strategic Investments Limited

**THE INDEPENDENT DIRECTORS OF PACIFIC STRATEGIC INVESTMENTS LIMITED RECOMMEND THAT, IN THE ABSENCE OF A HIGHER OFFER, YOU ACCEPT THE OFFER BY BRICKWORKS INVESTMENT COMPANY LIMITED**



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## **IMPORTANT NOTES**

### **WHAT THIS DOCUMENT IS**

This document is a Target's Statement which is issued by PSI under Part 6.5 of the Corporations Act in response to the Bidder's Statement and Offer.

### **DEFINITIONS**

Definitions of words and phrases used in this Target's Statement are set out in section 7.

### **WHAT THIS DOCUMENT DOES NOT DO**

This Target's Statement does not take into account the particular investment objectives, financial situation or needs of a PSI Shareholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

### **LODGEMENT WITH ASIC**

A copy of this Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for the contents of this Target's Statement.

### **IF YOU REQUIRE FURTHER INFORMATION**

PSI has established a shareholder information line which PSI Shareholders may call between the hours of 9.00 am and 5.00 pm (Sydney time) on business days if they have any questions in relation to the Offer. The telephone number for the shareholder information line is 1300 365 183 (for callers within Australia) and (613) 9415 4224 (for callers outside Australia).

In accordance with the requirements of the Corporations Act, all calls to the shareholder information line will be recorded.

### **IMPORTANT DATES**

Date of Bidder's Statement	8 September 2004
Date of Offer	23 September 2004
Date of this Target's Statement	30 September 2004
Closing date of the Offer*	7.00pm (Sydney time) on 25 October 2004

\*This date may be varied by BK1 in accordance with the Corporations Act.



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**1. CHAIRMAN'S LETTER**

30 September 2004

Dear Shareholder

As you may be aware, on 9 August 2004 BKI announced its intention to make an off market takeover bid for all the PSI Shares on issue.

You will have already received the Bidder's Statement from BKI containing details of the Offer. Under the terms of Offer, PSI Shareholders are offered 2 New BKI Shares in exchange for every 7 PSI Shares held. Based on the closing price of BKI shares on 6 August 2004, this equates to a cash offer of approximately \$0.274 per PSI share.

The Target's Statement sets out PSI's response to the Offer and this letter is written to you on behalf of the Independent Directors. As Mr Millner and Mr Hall are directors of BKI neither Mr Millner nor Mr Hall will be making a recommendation to you in relation to the Offer.

Your Independent Directors have engaged Grant Thornton Corporate (NSW) Pty Ltd to provide an independent report as to the fairness and reasonableness of the Offer. The report of Grant Thornton Corporate (NSW) Pty Ltd is contained in annexure "A" and you are urged to read it in its entirety. In summary, in the opinion of Grant Thornton Corporate (NSW) Pty Ltd the Offer is both fair and reasonable.

After considering the Offer, the report of Grant Thornton Corporate (NSW) Pty Ltd and the potential future for PSI should it not merge with BKI, the Independent Directors recommend acceptance of the Offer, in the absence of any higher offer.

In considering the Offer, the Independent Directors have taken into account a number of factors relevant to PSI including the relatively low liquidity of PSI Shares, the historically high discount between net tangible assets per PSI Share and the market price of PSI Shares and the relatively high management expense ratio of PSI as a small listed investment company

The company has released its Annual Report to the ASX and a copy of this is available on the ASX website at [www.asx.com.au](http://www.asx.com.au). The Annual Report will be forwarded to all PSI Shareholders upon completion of printing which should be in the next 7 days.

All Directors have indicated that they propose to accept the Offer in respect of the PSI Shares which they control.



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**1. CHAIRMAN'S LETTER ( Continued)**

The Target's Statement contains further information to assist you in determining whether to accept the Offer, including more detailed reasons for the recommendations of the Independent Directors. It also contains other information required by the Corporations Act. Please read this material in its entirety and consult your broker, financial or legal adviser if you have any questions.

As set out in the Bidder's Statement, the Offer is scheduled to close on 25 October 2004. PSI Shareholders who wish to accept the Offer should do so by that date.

Yours sincerely

**Geoffrey G Hill  
Chairman**



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### **2. SUMMARY OF THE TERMS OF THE OFFER**

#### **2.1 Outline of Offer**

On 8 September 2004 BKI served on PSI a copy of the Bidder's Statement which contains the terms of the Offer to PSI Shareholders. BKI has sent the Bidder's Statement to PSI Shareholders on 23 September 2004.

A summary of the Offer is set out in this section. You should refer to section 11 of the Bidder's Statement for further information on the terms of the Offer.

#### **2.2 Consideration payable to PSI Shareholders who accept the Offer**

BKI has offered to acquire all PSI Shares on issue by offering PSI Shareholders 2 New BKI Shares for every 7 PSI Shares held.

You may only accept the Offer in respect of all PSI Shares you hold. Partial acceptance of the Offer by a PSI Shareholder is not permitted.

If as a result of the consideration offered for your PSI Shares you become entitled to a fraction of a New BKI Share, your entitlement will be rounded up to the nearest whole number of New BKI Shares unless BKI believes a holding of PSI Shares has been manipulated to take advantage of rounding up in which case your entitlement will be rounded down to the nearest whole number of New BKI Shares.

The assessed value per PSI Share as a result of the Offer is discussed in the independent expert's report in annexure "A". In that report Grant Thornton Corporate (NSW) Pty Limited:

- (a) give their preferred assessed value of PSI prior to the Offer as \$0.275 per PSI Share; and
- (b) assuming BKI acquires 100% of the PSI Shares on issue, give their preferred assessed value of BKI on completion of the Offer as \$0.971 per BKI Share; and
- (c) assuming BKI acquires 100% of the PSI Shares on issue, give their preferred assessed value of PSI Shares to PSI Shareholders on completion of the Offer as \$0.277 per PSI Share.



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### **2.3 Conditions**

BKI Shares are currently quoted on the ASX and BKI has stated in its Bidder's Statement that it will apply to the ASX for quotation of the New BKI Shares.

The Offer is only subject to the statutory condition contained in section 625(3) of the Corporations Act that BKI makes application to the ASX for quotation of the New BKI Shares within 7 days of the start of the Offer Period and that the ASX grants permission for quotation of the New BKI Shares within 7 days after the end of the Offer Period. The Corporations Act does not permit BKI to waive this condition.

Approval by the ASX to the quotation of the New BKI Shares is a matter within the ASX's discretion, however PSI is not aware of any reason why that approval would not be granted in the normal course.

### **2.4 Offer Period**

Unless the Offer is withdrawn in accordance with section 652B of the Corporations Act or extended by BKI, it will remain open for acceptance from 23 September 2004 to 7.00pm (Sydney time) on 25 October 2004.

BKI must extend the Offer Period if, within the last 7 days of the Offer Period:

- (a) BKI improves the consideration under the Offer; or
- (b) BKI's voting power in PSI increases to more than 50%.

If either of the events in (a) and (b) above occurs, the Offer Period will be extended so that it ends 14 days after the occurrence of that event.

BKI may (but is not obliged to) extend the Offer Period at any time before the end of the Offer Period.

### **2.5 Withdrawal of Offer**

The Offer may only be withdrawn in accordance with section 652B of the Corporations Act which requires the written consent of ASIC (which may be given subject to conditions). BKI has stated in its Bidder's Statement that if the Offer is withdrawn BKI will give notice of the withdrawal of the offer to the ASX and PSI and will comply with any conditions imposed by ASIC for the withdrawal.



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### **2.6 Withdrawal of Acceptance**

Once a PSI Shareholder accepts the Offer, the acceptance may not be withdrawn and will be binding on the PSI Shareholder unless BKI withdraws the Offer in accordance with section 652B of the Corporations Act in which case any acceptance of the Offer by PSI Shareholders will be void.

### **2.7 Time for payment**

Subject to section 4.4 regarding Foreign PSI Shareholders, if you validly accept the Offer you will be issued the New BKI Shares in consideration for the transfer of your PSI Shares to BKI on the earlier of:

- (a) one month after BKI receives your acceptance of the Offer; and
- (b) 21 days after the end of the Offer Period.

### **2.8 Compulsory Acquisition**

Under Part 6A.1 of the Corporations Act BKI will be entitled to compulsorily acquire any PSI Shares on issue in respect of which it has not received an acceptance of the Offer, on the same terms as the Offer, if during or at the end of the Offer Period, BKI (together with its associates) has a relevant interest in at least 90% (by number) of the PSI Shares on issue.

If this threshold is met, BKI will have one month from the end of the Offer Period within which to give the compulsory acquisition notices to PSI Shareholders who have not accepted the Offer. PSI Shareholders may challenge compulsory acquisition of their PSI Shares, but this will require the relevant PSI Shareholders to establish to the satisfaction of the court that the terms of the Offer do not represent fair value for the PSI Shares.

If PSI Shares are compulsorily acquired from a PSI Shareholder in accordance with the provisions of Part 6A.1 of the Corporations Act, the relevant PSI Shareholder will receive the New BKI Shares to which it is entitled as a consequence, later than other PSI Shareholders who accept the Offer.

BKI has indicated in the Bidder's Statement that it intends to exercise its compulsory acquisition rights if it becomes entitled to those rights.



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### **3. DIRECTORS' RECOMMENDATION**

#### **3.1 Recommendation**

Mr Geoffrey Hill, Mr Warren Eades and Mr Creagh O'Connor, constituting the Independent Directors, recommend that, in the absence of a higher offer, you accept the Offer for your PSI Shares.

Mr Robert Millner and Mr David Hall also being Directors make no recommendation in relation to the Offer.

#### **3.2 Reasons for Independent Directors' recommendation**

Mr Geoffrey Hill, Mr Warren Eades and Mr Creagh O'Connor recommend that you accept the Offer for the following reasons:

##### **(a) Premium to price of PSI Shares before announcement of Offer**

BKI's offer of 2 New BKI Shares for every 7 PSI Shares valued each PSI Share at \$0.274 based on the closing price for BKI Shares of \$0.98 (adjusted to \$0.96 to take into account the payment of a 2 cent dividend by BKI on 31 August 2004) on 6 August 2004 (the business day before the Offer was announced). This represented a premium of:

- (i) 5.5% to the closing price of PSI Shares of \$0.26 on 6 August 2004; and
- (ii) 8.0% to the weighted average share price of PSI Shares over the three months ending 6 August 2004.

It is noted however that changes in the price of BKI Shares will change the implied market value of the Offer for PSI Shares

##### **(b) Independent expert's opinion**

The independent expert, Grant Thornton Corporate (NSW) Pty Ltd, engaged by the Independent Directors to provide a report as to whether the Offer is fair and reasonable in accordance with section 640 of the Corporations Act, has concluded that in its opinion the Offer is both fair and reasonable. A copy of this report is set out in annexure "A" and you are urged to read it in its entirety.

##### **(c) Lower management expense ratio**

BKI has stated in its Bidder's Statement that if it:



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- (i) becomes entitled to compulsorily acquire PSI Shares under Part 6A.1 or Part 6A.2 of the Corporations Act, it intends to exercise those rights;
- (ii) acquires 100% of PSI Shares on issue:
  - it will seek to delist PSI from the ASX;
  - it will seek the removal or resignation of the Independent Directors other than Mr Geoffrey Hill; and
  - the investment portfolios of BKI and PSI will be managed as a single pooled portfolio.

The pooled investment portfolios of BKI and PSI would as at 30 June 2004 have a value of approximately \$206.8 million.

It is expected that significant savings would be achieved as a consequence of the actions proposed should BKI acquire 100% of the PSI Shares on issue including ASX listing fees, directors' fees and audit and accounting costs.

These cost savings when combined with the increased size of the pooled portfolio are expected to lead to a reduction in the management expense ratio for the merged group. PSI's management expense ratio for the 2004 financial year was 2.9% compared to BKI's management expense ratio of 0.6% (annualised) for the same period.

### (d) **Similarity of BKI's and PSI's investment philosophy**

The investment manager which effectively manages the respective investment portfolios of both PSI and BKI is Souls Funds Management Limited. An analysis of the investments held by BKI and PSI at the date of the Bidder's Statement reveals a significant correlation between the investment approaches of BKI and PSI. The main differences in BKI's and PSI's respective investment philosophies are:

- (i) BKI does not invest in strategic investments (ie those likely to be the target of corporate activity or have the potential to be turned around) and tends to take a slightly longer term view to its investment strategy than PSI;
- (ii) PSI will, where appropriate, make strategic investments in entities which are considered to offer opportunities for significant capital growth over the longer term (ie. those likely to be the target of corporate activity or have the potential to be turned around). Otherwise



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PSI's investment portfolio has been constructed with a medium term view;

- (iii) BKI invests a small portion of its investment portfolio in interest bearing securities whereas PSI has had negligible exposure to interest bearing securities; and
- (iv) historically, BKI has tended to hold a smaller portion of its total assets in cash than PSI.

(e) **Greater liquidity in BKI Shares**

Should BKI acquire 100% of the PSI Shares on issue, the resulting market capitalisation of BKI would be approximately \$189.4 million (based on the closing price of BKI Shares on 6 August 2004) with no single shareholding in excess of 22.3% of the expanded capital base.

It is expected that the increased market capitalisation of BKI and the greater shareholding spread of BKI Shares will give PSI Shareholders a more liquid market for their New BKI Shares (should the Offer be accepted) than has been the case with PSI Shares.

(f) **Enhancement of ability to diversify investments**

The pooled investment portfolios of a merged BKI and PSI group will allow PSI Shareholders to benefit from a larger and potentially more diverse portfolio of assets than PSI's present investment portfolio.

(g) **No Conditions**

Other than for the statutory condition referred to in section 2.3, the Offer is not subject to conditions. Accordingly, unless BKI withdraws the Offer in accordance with section 652B of the Corporations Act, any acceptance of the Offer by a PSI Shareholder will (subject to satisfaction of the statutory condition) result in the shareholder receiving the New BKI Shares to which it is entitled under the Offer.

(h) **Tax considerations**

Subject to BKI acquiring 80% or more of the PSI Shares on issue, PSI Shareholders who accept the Offer may be eligible to claim capital gains tax rollover relief in respect of any taxable capital gain which arises as a result of accepting the Offer.



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This means that PSI Shareholders who accept the Offer can defer any capital gains tax liability until they dispose of their New BKI Shares. Further those PSI Shareholders will be deemed to have acquired their New BKI Shares at the time they acquired the PSI Shares in exchange for which the New BKI Shares are issued. This means that PSI Shareholders may still qualify for the 50% capital gains tax discount if they dispose of their New BKI Shares after the date 12 months from the date of acquisition of the relevant PSI Shares for which the New BKI Shares are exchanged.

(i) **No other offers**

Other than the Offer, the Independent Directors are not aware of any takeover offer for PSI at the date of this Target's Statement nor has any approach been received by the Independent Directors in relation to a possible competing offer to the Offer.

(j) **Possibility of fall in PSI Share price**

If a PSI Shareholder does not accept the Offer and BKI does not become entitled to compulsorily acquire all the PSI Shares in respect of which it has not received an acceptance of the Offer, in the opinion of the Independent Directors the market price of PSI Shares could fall below the prevailing share price of PSI Shares at the date of this Target's Statement. In those circumstances once the Offer Period ends, the price of PSI Shares may again trade at a similar discount to net tangible assets per PSI Share as has historically been the case.

### **3.3 Reasons for Mr Millner and Mr Hall refraining from making recommendation**

Mr Robert Millner and Mr David Hall do not consider it appropriate to make a recommendation in relation to the Offer because:

- (a) each is a director of BKI; and
- (b) as they are directors of BKI they did not participate in board meetings of PSI at which the Offer was considered.

Therefore they make no recommendation in relation to the Offer.

### **3.4 Intentions of Directors**

Each of the Directors proposes to accept the Offer in respect of the PSI Shares which he controls.



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### **4. OTHER MATTERS FOR PSI SHAREHOLDERS TO CONSIDER**

#### **4.1 Tax Considerations**

The tax consequences for PSI Shareholders who accept the Offer depend on a number of factors. A general description of some of the taxation implications for PSI Shareholders accepting the Offer is set out in section 9 of the Bidder's Statement.

You should read section 9 of the Bidder's Statement carefully and consult your professional tax adviser before making any decision whether or not to accept the Offer. In particular you should consider the comments in section 9.2.3 of the Bidder's Statement in relation to the availability of capital gains tax rollover relief.

#### **4.2 Risk factors**

PSI Shareholders who accept the Offer will be subject to the following risks:

(a) **Acceptance of Offer**

The risk arising as a result of being unable to sell their PSI Shares on the market or otherwise dealing with their PSI Shares while the Offer remains open. In particular, those PSI shareholders would be unable to accept any subsequent competing offer.

(b) **Availability of capital gains tax rollover relief**

The risk that capital gains tax rollover relief may not be available. Your attention is drawn to the fact that capital gains tax rollover relief is only available if BKI acquires 80% or more of the PSI Shares on issue. The Offer is not conditional on BKI obtaining acceptances of the Offer in respect of any particular percentage of PSI Shares.

Accordingly, if you accept the Offer in respect of your PSI Shares and BKI does not acquire 80% or more of the PSI Shares on issue capital gains tax rollover relief will not be available. You should consult your professional tax adviser as to the effect of this risk on your particular circumstances.

(c) **Market risks**

The general market risks an investor faces in investing in shares in a listed investment company, in particular that the price of BKI Shares may rise or fall. General and specific risks relating to BKI Shares are referred to in section 10 of the Bidder's Statement.



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### **4.3 Consequences of BKI not acquiring 100% of PSI Shares**

The Offer is not conditional upon any level of acceptance of the Offer and therefore acceptance of the Offer by a PSI Shareholder will, in the absence of a withdrawal of the Offer by BKI in accordance with section 652B of the Corporations Act and subject to the satisfaction of the statutory condition referred to in section 2.3, be effective.

If the level of acceptances of the Offer by PSI Shareholders is insufficient to enable BKI to acquire 100% of PSI Shares on issue, this may have the following consequences:

- (a) the current share price of PSI Shares may be unsustainable given the takeover premium which appears to be incorporated in it;
- (b) there is likely to be less liquidity in PSI Shares as the PSI Shares held by BKI are unlikely to be traded;
- (c) a change in the constitution of PSI's board so that BKI has board representation equivalent to BKI's proportionate shareholding interest in PSI;
- (d) the improvement in the management expense ratio referred to in section 3.2(d) is unlikely to be fully realised;
- (e) as indicated in section 4.4 of the Bidder's Statement, BKI may through its representatives on PSI's board, propose a review of PSI's dividend policy, dividend reinvestment plan and share purchase plan.

### **4.4 Foreign PSI Shareholders**

If you are a Foreign PSI Shareholder or you hold PSI Shares on behalf of a Foreign PSI Shareholder, you will not be entitled to New BKI Shares as a result of your acceptance of the Offer.

Instead, BKI will arrange for the allotment of the New BKI Shares to which you would otherwise be entitled to a nominee who will then sell those shares on the ASX within 30 days after the end of the Offer Period with the net sale proceeds (after expenses of sale) to be paid to you. This procedure is described in further detail in section 11.19 of the Bidder's Statement.



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### **5. ALTERNATIVES AVAILABLE TO PSI SHAREHOLDERS**

#### **5.1 Accepting the Offer**

If after having carefully considered the information contained in the Bidder's Statement and this Target's Statement you wish to accept the Offer, you should follow the instructions in section 11.10 of the Bidder's Statement.

If you accept the Offer, subject to BKI not withdrawing the Offer in accordance with section 652B of the Corporations Act and the satisfaction of the statutory condition referred to in section 2.3, you should receive the consideration for your PSI Shares within the time period set out in section 2.7.

A consequence of accepting the Offer is that you will not be able to sell your PSI Shares on market or accept any other takeover offer which may be made for PSI Shares.

PSI Shareholders should be aware that if BKI acquires less than 80% of the PSI Shares on issue capital gains tax rollover relief will not be available.

#### **5.2 Selling your PSI Shares otherwise than under the Offer**

PSI Shareholders may sell their PSI Shares on market during the Offer Period in which case the sale price for PSI Shares sold in this manner, less any brokerage payable on the sale, will be received.

If you sell your PSI Shares on market you will receive a cash consideration for your PSI Shares rather than New BKI Shares which is the form of consideration under the Offer. The cash consideration (net of brokerage) receivable on a sale of PSI Shares on market will be received sooner than the consideration offered by BKI under the Offer.

A sale of PSI Shares on market may result in a liability for capital gains tax arising. Any PSI Shareholder considering a sale of PSI Shares on market should review their own tax position carefully and, if in any doubt, seek their own taxation advice.

#### **5.3 Taking no action**

PSI Shareholders who do not wish to accept the Offer or sell their PSI Shares on market should take no action. However in this case if BKI becomes entitled to compulsorily acquire your shares, as referred to in section 2.8, it is the intention of BKI to do so, in which case you will receive the consideration for your PSI Shares later than other PSI Shareholders who accept the Offer.



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**6. ADDITIONAL INFORMATION**

**6.1 Directors**

The Directors are:

Geoffrey G Hill  
Warren R Eades  
David C Hall  
Robert D Milner  
F Creagh O'Connor

**6.2 Relevant interests in securities on issue in PSI held by the Directors**

The only securities which PSI has on issue at the date of this Target's Statement and has had on issue in the 4 months preceding the date of this Target's Statement are PSI Shares.

At the date of this Target's Statement, the Directors have a relevant interest in PSI Shares as follows:

<b>Name of Director</b>	<b>PSI Shares</b>
Geoffrey G Hill	8,496,536
Warren R Eades	51,297
David C Hall	2,683,285
Robert D Millner	20,692,898
F Creagh O'Connor	13,333

**6.3 Directors dealings in PSI securities**

In the four months preceding the date of this Target's Statement the following Directors or their associates have had the following dealings in PSI Shares:

<b>Name of Director</b>	<b>Date of Dealing</b>	<b>No of PSI Shares</b>	<b>Price per PSI Share</b>	<b>Nature of Dealing</b>
David C Hall	7 July 2004	56,035	\$0.2409	Acquisition under the PSI Share Purchase Plan
Robert D Millner	7 July 2004	41,510	\$0.2409	Acquisition under the PSI Share Purchase Plan



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### 6.4 Relevant interests in securities on issue in BKI held by the Directors

At the date of this Target's Statement, the following Directors have a relevant interest in BKI Shares as follows:

Name of Director	BKI Shares
David C Hall	50,001
Robert D Millner	914,000

### 6.5 Directors dealings in BKI securities

In the four months preceding the date of the Bidder's Statement neither PSI nor any Director has acquired or disposed of a relevant interest in any securities issued by BKI, other than as disclosed below;

Name of Director	Date of Dealing	No of BKI Shares	Price per BKI Share	Nature of Dealing
Robert D Millner	17 May 2004	14,000	\$0.9346	On-market acquisition by JS Millner Holdings Pty Ltd (an entity controlled by Robert D Millner)

### 6.6 Benefits from PSI

As a result of the Offer, no benefit (other than a benefit which can be given without shareholder approval under the Corporations Act) has been or will be given by PSI to any person (including a Director) in connection with the retirement of the person from a board or managerial office of PSI or a related body corporate of PSI.

### 6.7 Benefits from BKI

With the exception of:

- (a) the proposed invitation by BKI for Mr Geoffrey Hill to join BKI's board; and
- (b) benefits which Directors may receive in their capacity as holders of PSI Shares as a consequence of their acceptance of the Offer,

no Director has agreed to receive or is entitled to receive any benefit from BKI in connection with or conditional upon the outcome of the Offer.



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### **6.8 Agreements with Directors**

Other than as disclosed in this Target's Statement, there is no agreement which has been made between any Director and any other person in connection with or which is conditional on the outcome of the Offer.

### **6.9 Interests of Directors in contracts involving BKI**

#### **(a) Geoffrey G Hill**

Mr Hill has the following interests in the following companies which have contractual or other commercial relationships with BKI:

- (i) Mr Hill is a director and shareholder of Geoffrey Hill & Associates Pty Ltd which holds 25% of the shares on issue in Pitt Capital Partners Limited and Mr Hill is joint managing director of Pitt Capital Partner Limited.

Pitt Capital Partners Limited is a subsidiary of Washington H. Soul Patterson & Co Ltd which is the largest single shareholder in PSI and the largest single shareholder in Brickworks Limited. Brickworks Limited is the largest single shareholder in BKI. Pitt Capital Partners Limited is providing advice to BKI in connection with the Offer. Mr Hill has not participated in any way in the provision of this advice.

Pitt Capital Partners Limited acted as adviser in the initial public offer by BKI in 2003.

- (ii) Pitt Capital Partners Limited has a controlling interest in Corporate & Administrative Services Pty Limited. Mr Hill is a non-executive director of Corporate & Administrative Services Pty Limited. Corporate & Administrative Services Pty Limited provides secretarial and administrative services to both BKI and PSI.
- (iii) Pitt Capital Partners Limited holds approximately 25% of the shares on issue in Souls Funds Management Limited. Mr Hill is a non-executive director of Souls Funds Management Limited.

Souls Funds Management Limited provides investment advice to BKI and PSI (on behalf of PCP Securities Limited)

- (iv) Mr Hill has a controlling interest in PCP Securities Limited which has been contracted to manage PSI's portfolio of securities. Portfolio management services are undertaken on behalf of PCP Securities Limited by Souls Funds Management Limited.



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(b) **Robert D Millner**

Mr Millner has the following interests in the following companies which have contractual or other commercial relationships with BKI:

- (i) Mr Millner has an indirect interest in Pitt Capital Partners Limited.

Pitt Capital Partners Limited is a subsidiary of Washington H. Soul Patterson & Co Ltd which is the largest single shareholder in PSI and the largest single shareholder in Brickworks Limited. Brickworks Limited is the largest single shareholder in BKI. Pitt Capital Partners Limited is providing advice to BKI in connection with the Offer.

Pitt Capital Partners Limited acted as adviser in the initial public offer by BKI in 2003.

- (ii) Mr Millner has an indirect interest in Corporate & Administrative Services Pty Limited which is controlled by Pitt Capital Partners Limited. Corporate & Administrative Services Pty Limited provides secretarial and administrative services to both BKI and PSI.
- (iii) Mr Millner holds an indirect interest in Souls Funds Management Limited. Souls Funds Management Limited provides investment advice to BKI and PSI (on behalf of PCP Securities Limited).

**6.10 No other material information**

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

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

The Directors are of the opinion that the information that PSI Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer is:

- (i) the information contained in the Bidder's Statement;
- (ii) the information contained in this Target's Statement (including the independent expert's report contained in annexure "A");



## **PACIFIC STRATEGIC INVESTMENTS LIMITED TARGET'S STATEMENT**

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- (iii) the information contained in PSI's releases to the ASX prior to the date of this Target's Statement; and
- (iv) the information contained in PSI's 2004 Annual Report which was released to the ASX on 14 September 2004.

The Directors have assumed for the purposes of preparing this Target's Statement that the information in the Bidder's Statement is correct. However in making that assumption, the Directors in their capacity as directors of PSI do not take any responsibility for the contents of the Bidder's Statement nor do they endorse the statements made in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the PSI Shares;
- the matters that PSI Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of PSI Shareholders; and
- the time available to PSI to prepare this Target's Statement.

### **6.11 Consents**

Grant Thornton Corporate (NSW) Pty Ltd has consented to the inclusion in this Target's Statement of its independent expert's report in the form and context in which it appears and Grant Thornton Corporate (NSW) Pty Ltd has not withdrawn its consent before this Target's Statement was lodged with ASIC.

### **6.12 Copies of documents**

This Target's Statement contains statements which are made or based on statements made in documents lodged with ASIC or given to the ASX by a listed company or other body in compliance with the ASX listing rules. Pursuant to ASIC Class Order 01/1543, the consent of the relevant person is not required for the inclusion of such statements in this Target's Statement.

Any PSI Shareholder requiring a copy of any of those documents may obtain a copy of them free of charge during the Offer Period by contacting the shareholder information line between 9.00am and 5.00pm (Sydney time) on business days on 1300 365 183 (for callers within Australia) and (613) 9415 4224 (for callers outside Australia). In accordance with the requirements of the Corporations Act, all calls to the shareholder information line will be recorded.



## PACIFIC STRATEGIC INVESTMENTS LIMITED TARGET'S STATEMENT

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### 7. GLOSSARY AND INTERPRETATION

#### 7.1 Defined Terms

In this Target's Statement unless the context otherwise requires the following words and phrases have the following meanings:

“**ASIC**” means Australian Securities and Investments Commission.

“**ASX**” means the Australian Stock Exchange Limited.

“**Bidder's Statement**” means the bidder's statement dated 8 September 2004 by BKI under Part 6.5 of the Corporations Act in connection with the offer by BKI to acquire all PSI Shares on issue.

“**BKI**” means Brickworks Investment Company Limited ABN 23 106 719 868.

“**BKI Share**” means an ordinary share in the capital of BKI.

“**Corporations Act**” means the Corporations Act 2001 (Cth)

“**Directors**” means the directors of PSI at the date of this Target Statement and  
“**Director**” means one of them.

“**Foreign PSI Shareholder**” means a PSI Shareholder who is (or is acting on behalf of) a citizen or a resident of a jurisdiction other than Australia or whose address as shown in the register of members of PSI is a place outside Australia and its external territories or who is acting on behalf of such a person unless BKI otherwise determines.

“**Independent Directors**” means those directors of PSI who are not directors of BKI being Mr Geoff Hill, Mr Creagh O'Connor and Mr Warren Eades.

“**New BKI Shares**” means BKI Shares to be issued under the terms of the Offer.

“**Offer**” means the offer made by BKI for all PSI Shares on issue as set out in the Bidder's Statement.

“**Offer Period**” means the period from 23 September 2004 until 7.00pm (Sydney time) on 25 October 2004 unless the Offer is extended or withdrawn in accordance with section 652B of the Corporations Act.

“**PSI**” means Pacific Strategic Investments Limited ABN 85 082 668 380

“**PSI Share**” means an ordinary share in the capital of PSI.



## PACIFIC STRATEGIC INVESTMENTS LIMITED TARGET'S STATEMENT

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“**PSI Shareholder**” means a holder of a PSI Share.

“**Target's Statement**” means this target's statement prepared by PSI under Part 6.5 of the Corporations Act in response to the Bidder's Statement and Offer.

### 7.2 Interpretation

Unless otherwise required by the context, where words and phrases have a defined meaning in the Corporations Act, those words and phrases shall have the same meaning when used in this Target's Statement and:

- (a) references to sections and annexures are to sections of and annexures to this Target's Statement;
- (b) words importing one gender include the other genders;
- (c) the singular includes the plural and vice versa;
- (d) a reference to a person includes a reference to a corporation, trust or other entity and vice versa;
- (e) a reference to any legislation or to any provision of any legislation shall include any modification or re-enactment of, or any legislative provisions substituted for, and all legislation and statutory instruments issued under, such legislation or provision;
- (f) a reference to dollars or “\$” is to the currency of the Commonwealth of Australia;
- (g) headings are for ease of reference only and do not affect the interpretation of this Target's Statement.



**PACIFIC STRATEGIC INVESTMENTS LIMITED  
TARGET'S STATEMENT**

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**8. AUTHORISATION**

This Target's Statement was approved by a resolution passed by the directors of PSI. All Independent Directors voted in favour of that resolution.

Signed for and on behalf of PSI on 30 September 2004:

**Geoffrey G Hill  
Chairman**



**PACIFIC STRATEGIC INVESTMENTS LIMITED  
TARGET'S STATEMENT**

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

The Directors  
Pacific Strategic Investments Limited  
Level 2  
160 Pitt Street  
SYDNEY NSW 2000

30 September 2004

Dear Directors

**INDEPENDENT EXPERT REPORT  
PROPOSED ACQUISITION BY BRICKWORKS INVESTMENT COMPANY  
LIMITED**

**INTRODUCTION**

The Directors of Pacific Strategic Investments Limited (“PSI” or “the Company”) have requested Grant Thornton Corporate (NSW) Pty Limited (“Grant Thornton Corporate Finance”) to prepare an independent expert report as to whether the proposed acquisition of the entire issued capital of PSI by Brickworks Investment Company Limited (“Brickworks” or “BKI”) by way of the issue of 2 new ordinary Brickworks shares for every 7 ordinary PSI shares as consideration (“the Offer”), is fair and reasonable to the non associated shareholders of PSI.

The terms of the Offer are set out in the Target Statement (in which this report is included) dated 30 September 2004 and summarised below:

**The Offer**

BKI is offering to acquire all PSI Shares on issue in the ratio of 2 new BKI Ordinary Shares for every 7 PSI Ordinary Shares held.

The Offer is subject to the statutory condition found in section 625(3) of the Corporations Act that an application for admission to quotation on the ASX of the new BKI ordinary shares will be made within 7 days after the start of the offer period and that permission for admission to quotation on the ASX is granted no later than 7 days after the end of the offer period.

**PURPOSE OF REPORT**

Grant Thornton Corporate Finance has been engaged by the Directors of PSI to provide an independent expert report stating whether, in its opinion, the Offer is fair and reasonable to the shareholders of PSI not associated with Brickworks (“the non-associated shareholders”).

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ABN 59 003 265 987

Holder of Australian Financial Services Licence No: 247140

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW)

Member of Grant Thornton Association Inc  
Member of Grant Thornton International

In providing an opinion as to whether the Offer is fair and reasonable to the non-associated shareholders of PSI, we have formed an opinion by considering the Offer as a whole, specifically we have compared the assessed value to a PSI shareholder before and after completion of the Offer (assuming 100% acceptance of the Offer) on a per share basis.

An independent expert's report is required to accompany the Target's Statement in accordance with section 640 of the Corporations Act. The Directors have also commissioned this independent expert's report to assist them in their duties to provide shareholders with full and proper disclosure to enable them to assess the merits of the Offer.

Our report is to be read in conjunction with the Target Statement, in which this report is included and which is to be dispatched to the shareholders of the Company on or around 30 September 2004 and has been prepared for the exclusive purpose of PSI, its Board of Directors and its shareholders in their consideration of the Offer as discussed in this report.

This report has been prepared to provide information to PSI shareholders considering the sale of PSI shares only under the Offer. We do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions of this paragraph.

Grant Thornton Corporate Finance is independent of the Company and its Directors and has no involvement with, or interest in, the outcome of the Offer other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out of pocket expenses for the preparation of this report. Our fee at the date of this report is \$36,000 (plus GST). Except for this fee, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the preparation of this report. The payment of this fee is in no way contingent upon the success or failure of the proposed Offer.

## **SUMMARY OF OPINION**

In forming our opinion, as to whether the Offer is fair and reasonable to the non-associated shareholders of PSI, we have had regard to, amongst other things, the following:

- the assessed value of PSI;
- the assessed value of Brickworks;
- the terms of the Offer; and
- other advantages and disadvantages associated with the Offer.

## Quantitative assessment “fairness”

We set out below our assessed valuation of PSI, before and after the Offer (on the assumption of 100% acceptance of the Offer) on a per share basis:

**Figure 1: Valuation summary**

	Assessed Value			
	Pre Trans.	Post Transaction		
	Preferred Value \$'000	Preferred Value \$'000	Low Value \$'000	High Value \$'000
Assessed value of PSI	21,211	21,211	19,290	22,034
Assessed value of BKI		166,426	160,965	171,887
Cost of the Transaction	-	-	-	-
<b>Assessed value of the combined group</b>	<b>-</b>	<b>187,637</b>	<b>180,255</b>	<b>193,921</b>
<b>Shares on issue</b>				
Shares on issue in PSI (No.) <sup>(1)</sup>	77,130,595	-	-	-
Existing shareholders BKI (No.)	-	171,226,981	171,226,981	171,226,981
BKI shares issued to PSI shareholders (No.)	-	22,037,313	22,037,313	22,037,313
<b>Total shares on issue (No.)</b>	<b>77,130,595</b>	<b>193,264,294</b>	<b>193,264,294</b>	<b>193,264,294</b>
<b>Value per share (\$)</b>	<b>0.275</b>	<b>0.971</b>	<b>0.933</b>	<b>1.003</b>
<b>Value per share (\$) according the 7:2 ratio</b>		<b>0.277</b>	<b>0.266</b>	<b>0.287</b>

*(1) Includes the 2.4 million shares issued under the share purchase plan*

Grant Thornton Corporate Finance’s preferred assessed value of PSI prior to the Offer is **\$0.275 per share.**

Grant Thornton Corporate Finance’s preferred assessed value of one BKI share following completion of the Offer (assuming 100% acceptance) is **\$0.971 per share.** Accordingly having regard to the exchange ratio of 2 BKI shares for every 7 PSI shares, Grant Thornton Corporate Finance’s preferred assessed value of one PSI share following completion of the Offer (assuming 100% acceptance) is **\$0.277 per share.**

**Accordingly, in the opinion of Grant Thornton Corporate Finance, the Offer is fair.**

As the Offer contains elements which we believe impact both qualitative and quantitative factors, we recommend non-associated shareholders carefully consider the quantitative considerations in conjunction with the qualitative considerations set out below and detailed in the remainder of this report.

**Qualitative assessment “reasonableness”**


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

- At the date of this report, we are not aware of a takeover bid or an alternative offer for PSI, which is more favourable than the Offer detailed in this report.
- PSI’s independent directors have unanimously recommended acceptance of the Offer in the absence of a higher offer.

**Accordingly, in the opinion of Grant Thornton Corporate Finance, the Offer is reasonable.**

These opinions should be considered in conjunction with the information, qualifications and declarations set out in the remainder of this report.

Yours faithfully  
GRANT THORNTON CORPORATE (NSW) PTY LTD



SCOTT T GRIFFIN  
Director and Authorised Representative



RICHARD N MOFFITT  
Director and Authorised Representative

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## **1 THE OFFER**

### **1.1 Summary of the Offer**

The details of the Offer are set out in the Target Statement in which this report is included and are set out below.

#### ***The Offer***

BKI is offering to acquire all of the PSI Shares on issue. BKI is offering 2 New BKI Shares for every 7 PSI Shares held.

The Offer period is scheduled to close on 25 October 2004. The Offer is subject to the statutory condition found in section 625(3) of the Corporations Act that an application for admission to quotation on the ASX of the new BKI ordinary shares will be made within 7 days after the start of the offer period and that permission for admission to quotation on the ASX is granted no later than 7 days after the end of the offer period.

## **2 SCOPE OF THE REPORT**

### **2.1 Purpose of report**

Grant Thornton Corporate Finance has been engaged by the Directors of PSI to provide an independent expert report stating whether, in its opinion, the Offer is fair and reasonable to the non-associated shareholders of PSI.

In providing an opinion as to whether the Offer is fair and reasonable to the non-associated shareholders of PSI, we have formed our opinion by considering the Offer as a whole by comparing the assessed value to a PSI shareholder before the Offer and after completion of the Offer (on the assumption of 100% acceptance of the Offer).

An independent expert's report is required to accompany the Target's Statement in accordance to section 640 of the Corporation Act. The Directors have also commissioned this independent expert's report to assist them in their duties to provide shareholders with full and proper disclosure to enable them to assess the merits of the Offer.

This report has been prepared solely for the purpose of assisting the Shareholders of PSI in considering the Offer. This report has been prepared to provide information to PSI shareholders considering the sale of PSI shares only under the Offer. We do not assume any responsibility or liability for any losses suffered as a result of the use of this report behind the provisions of this paragraph.

### **2.2 Basis of Assessment**

ASX Listing Rules and the Corporations Act do not provide any specific guidance to the matters to be dealt with in an Independent Expert's Report. In these circumstances we propose to comply with the intent of Chapter 6 of the Corporations Act and ASIC Policy Statement 75 "Independent Expert Reports to shareholders".

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

### 2.3 Fairness and reasonableness

An independent expert's report prepared pursuant to ASIC Policy Statement 75 directs the independent expert to advise whether the Offer is "fair and reasonable" to the non-associated shareholders.

The term "fair and reasonable" has no legal definition. ASIC Policy Statement 75 states that to determine whether the Offer is "fair and reasonable", the Offer's likely advantages and disadvantages to non-associated shareholders must be compared with the advantages and disadvantages to the same shareholders if the Offer is not accepted.

ASIC Policy Statement 75 states that "fair and reasonable" should be judged in all circumstances of the Offer. In essence the Offer will be "fair and reasonable" if the non-associated shareholders are better off if the Offer were accepted. They will be better off if the expected benefits to non-associated shareholders outweigh the disadvantages.

Assessing the value impact of the Offer on the non-associated shareholders is an important element of this analysis although it is not the only determinant of our final opinion.

In addition to our quantitative assessment, we have also had regard to the following qualitative assessment, in determining if the Offer is fair and reasonable:

- the relationship between the value that can be attributed to shareholders before and after the Offer;
- the likely benefits for the non-associated shareholders from the Offer; and
- any disadvantages of the Offer;

### 3 LISTED INVESTMENT COMPANY OVERVIEW

#### 3.1 Introduction

Listed Investment Companies (“LIC”) are the oldest type of managed investments, with the first Australian listing in 1982. More than 300,000 Australian investors hold shares in LIC’s. Regular dividend and the ability to smooth out returns of over performing and under performing years are among the most relevant characteristics of LIC’s.

#### 3.2 The listed investment company industry

LIC’s provide investors with exposure to a professionally managed portfolio of assets. These assets may include:

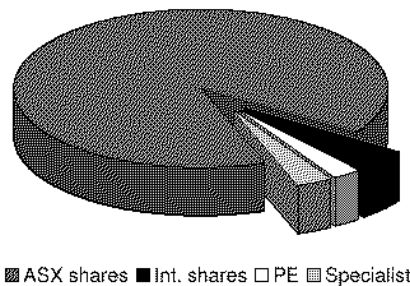
- Australian shares;
- International shares;
- Fixed income securities;
- Property; and
- Unlisted private companies.

Differently from managed funds, LIC’s have a closed-end structure. This means that the number of shares on issue is stable and the manager does not regularly issue or cancel shares as investors enter and leave. This allows the investment manager to concentrate on the performance of the fund without having regard to any inflow or outflow of monies. Investors may purchase additional shares through market purchase, dividend reinvestment plans or share purchase plans.

LIC’s are usually classified into 4 categories:

1. Australian equities – investing principally in shares listed on Australian Stock Exchange (“ASX”);
2. International equities - investing principally in shares listed on international stock exchanges;
3. Private equity – investing in Australian or international unlisted companies; and
4. Specialist – investing in special assets or investment sectors such as wineries, technology, resources and telecommunications.

**Figure 2: LIC’s breakdown by category of investment**



LIC’s total investment value is approximately \$10.7 billion.

Argo Investment and Australian Foundation Investment Company hold almost 50% of total invested funds.

Excluding both these companies the average invested fund of an LIC is \$130 million.

LIC’s compound average growth rate of invested funds was approximately 16% over the period January 1996 to January 2002.

On average LIC’s have a very flexible cost structure, some LIC’s are internally managed, while others are managed by external consultants and pay a management fee.

Management fees can vary considerably from 0.20% to 1.5% per annum of assets managed. LIC's share price is related to the net tangible assets value ("NTA"), and the market expectations about potential future earnings. NTA is an indication of what each share in a company is worth if all the assets were liquidated, all the debts were paid and the residual was distributed to the ordinary shareholders on a per share basis.

A comparative analysis of some LIC's with a main focus of investment on the ASX is set out below.

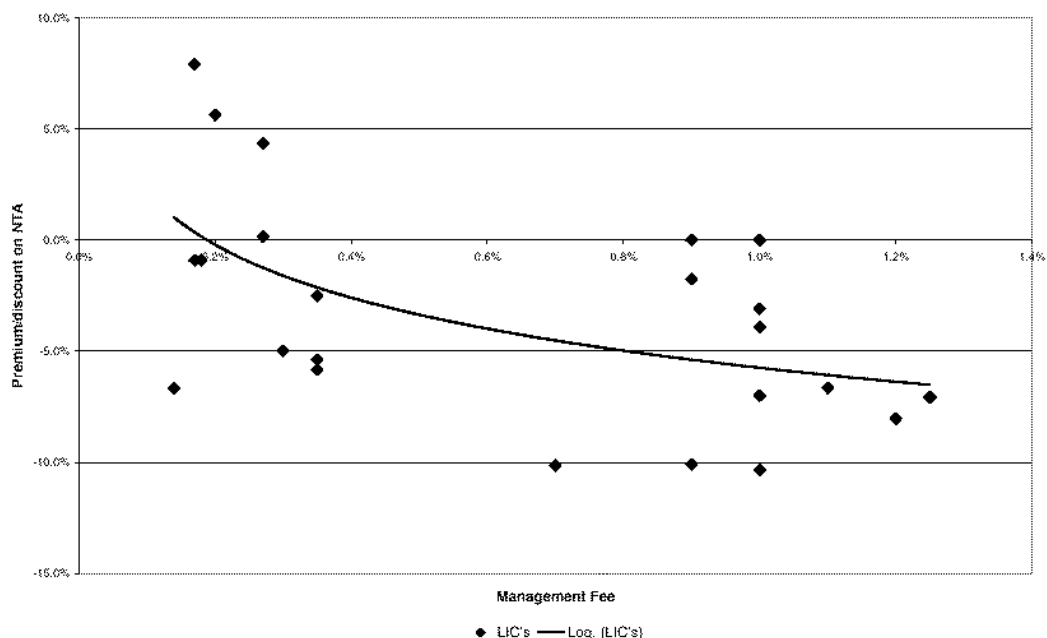
Figure 3: LIC's comparative information

ASX focused LIC's	Market Cap (P) \$ millions	Price as at 30/06/04 \$	Post tax NTA \$	Prem/disc to post tax NTA %	P/NTA post tax times
Aberdeen	63	1.05	1.14	-8%	0.92x
Argo	2190	4.82	4.30	12%	1.12x
Australian foundation	2995	3.32	3.11	7%	1.07x
Australian United	369	4.5	4.16	8%	1.08x
Biotech Capital	40	0.42	0.56	-25%	0.75x
<b>Brickworks</b>	<b>170</b>	<b>0.98</b>	<b>1.05</b>	<b>-7%</b>	<b>0.93x</b>
Century Australia	180	1.01	1.00	1%	1.01x
Diversified United	199	1.93	1.90	2%	1.02x
Djerriwa	558	3.53	3.20	10%	1.10x
Milton	941	13.42	12.39	8%	1.08x
Mirabooka	144	1.24	1.26	-2%	0.98x
MMC Contrarian	194	0.97	1.04	-7%	0.93x
<b>Pacific Strategic Investments</b>	<b>19</b>	<b>0.25</b>	<b>0.29</b>	<b>-12%</b>	<b>0.88x</b>
Premium Investors	170	0.95	1.03	-8%	0.92x
Wam	90	1.62	1.40	16%	1.16x
Wilson	154	0.96	1.02	-6%	0.94x
<b>Mean</b>				<b>-1%</b>	<b>0.99x</b>

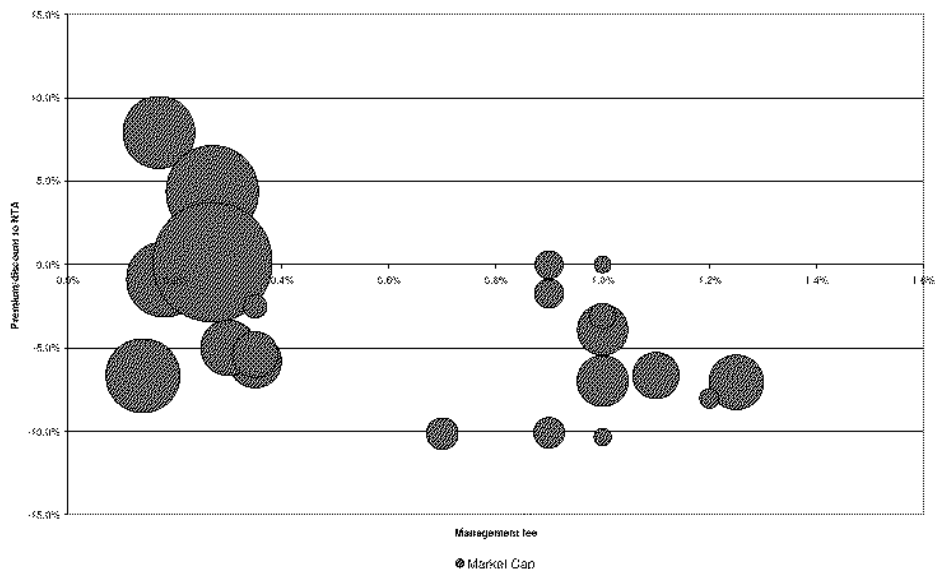
Source: brokers report and ASX

As set out in the graphs below, premium/discount of the share price of LIC's compared to NTA is related to the level of management fee. LIC's with a larger market capitalisation pay a smaller proportionate management fee.

Figure 4: LIC's: relationship between management fee and premium/discount to NTA



**Figure 5: LIC's: relationship between management fee and market capitalisation**



## 4 OVERVIEW OF PSI

### 4.1 PSI Company operation

PSI is a specialist strategic corporate investment vehicle whose primary activity is investing in companies listed on the Australian Stock Exchange.

PSI investment strategy is focused on companies with medium and small market capitalisation. However, larger investments may be included in the portfolio from time to time due to strategic timing opportunities. We understand that the value of investments in unlisted companies should not exceed 25% of the Company's total asset value.

Investments are identified and categorised into two distinct categories:

- *Strategic Value* - focuses on investing in companies that are likely targets of corporate activity or have the potential to be turned around by management. The time horizon for this type of investment is generally longer than other management styles.
- *Growth at value* - focuses on investing in companies that contain superior franchise attributes (high barriers to entry, licences/patents, well recognised brand name, established distribution network, quality marketing function, quality R&D/technology function, quality management) yet are attractively priced relative to the market and or comparable companies.

PSI is managed by PCP Securities Limited in accordance with terms and conditions set out in the management agreement between PSI and PCP Securities Limited. PSI pays each quarter to PCP Securities Limited a management fee of 0.25% of the net assets of PSI as at the end of the preceding month.

PSI's asset allocation strategy and invested portfolio as at 31 August 2004 are set out below.

Figure 4: PSI's portfolio breakdown as at 30-June-04

Investment	Portfolio %	Strategic Value	Portfolio %
Alinta Limited	3.5%	Agronaut Limited	0.2%
ANZ	3.6%	AXA	3.5%
AWB Limited	4.8%	Brambles Industries	4.6%
Alumina Limited	3.0%	Beach Petroleum	2.7%
BHP	5.4%	Coventry Group	3.1%
Commonwealth Bank	5.2%	Henry Walker	0.9%
Foodland	2.9%	GWA International	4.7%
HPAL Limited	2.3%	Iluka Resources	3.9%
Peppercorn Investment	1.7%	SPC Ardmora	3.0%
Ten Network Holding	4.4%	Vision Systems	0.8%
Telstra	3.4%	West Australian Newspaper	3.1%
Westfarmers Limited	5.0%	<b>Total</b>	<b>30.5%</b>
Woolworths Limited	4.0%	<b>Cash Deposit</b>	<b>14.9%</b>
Woodside Petroleum	5.4%	<b>Total</b>	<b>45.4%</b>
<b>Total</b>	<b>54.6%</b>		

Source: Company's half year report

Figure 5: PSI asset allocation

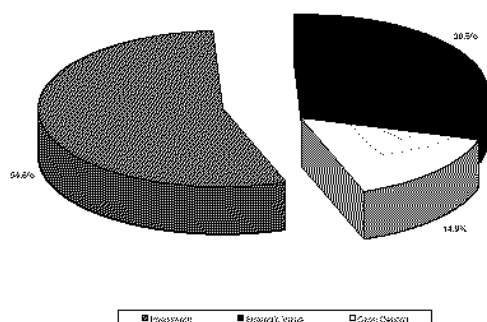
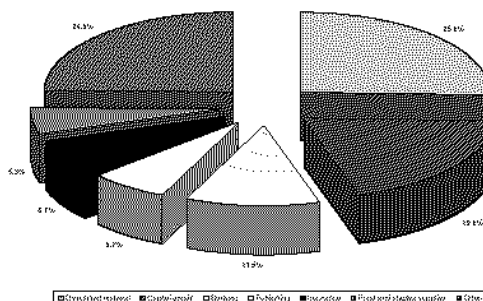


Figure 6: PSI industry diversification



## 4.2 PSI Company history

The Company was incorporated in New South Wales on 22 June 1998, with shares being quoted on the Australian Stock Exchange on 30 April 1999.

During April 2002, PSI raised \$1.6 million through the issue of 7.2 million shares to Washington H Soul Pattinson and Company Limited at a price of \$0.23 per share.

During May 2002, PSI concluded a one for three rights issue to all shareholders. As a consequence \$2.2 million was raised and 9.6 million shares issued to existing shareholders. Due to a shortfall in the subscription, 8.8 million of shares were acquired by Austock Brokers Pty Limited for a total value of \$2 million.

In March 2004, PSI issued 552,414 ordinary shares at a price of \$0.24 per share as part of the Company's dividend re-investment plan.

During April 2004, the Company issued 28,000 new ordinary shares at a price of \$0.30 per share as a result of the exercise of listed options expiring on 31 March 2004.

During May 2004, the Company announced a Shareholder Share Purchase Plan. Each shareholder was entitled to acquire up to \$5,000 of new shares of the Company at a price of \$0.24 per share. A total of 2,433,787 new shares were issued with proceeds received by PSI amounting to \$586,319.

### 4.3 PSI Financial performance

The audited statement of financial performance of PSI for the 2 year period ending 30 June 2004 is set out below:

**Figure 7: Statement of financial performance**

	<b>Year ended 30/06/2003 Audited Actual \$000s</b>	<b>Year ended 30/06/2004 Audited Actual \$000s</b>
<b>Revenues</b>	<b>15,609</b>	<b>18,674</b>
Expenses	(16,168)	(14,905)
<b>Profit before tax</b>	<b>(559)</b>	<b>3,769</b>
Income tax	157	(755)
<b>Net profit/(loss)</b>	<b>(402)</b>	<b>3,014</b>

*Source: Audited Annual Report for the 2 year period ending 30 June 2004*

#### 4.4 PSI Financial Position

The audited statement of financial position of PSI as at 30 June 2003 and 30 June 2004 is set out below:

**Figure 8: Statement of financial position**

	As at 30/06/2003 Audited Actual \$000	As at 30/06/2004 Audited Actual \$000
<b>Current assets</b>		
Cash	1,886	3,446
Investments	17,641	19,627
Receivables/unearned income	671	157
Prepayments	-	0
<b>Total current assets</b>	<b>20,198</b>	<b>23,230</b>
<b>Non-current assets</b>		
Fixed asset	1	1
Deferred tax assets	57	34
Other financial assets	-	0
<b>Total non-current assets</b>	<b>58</b>	<b>34</b>
<b>Total assets</b>	<b>20,256</b>	<b>23,265</b>
<b>Current liabilities</b>		
Payables	834	721
Current tax liabilities	2	294
<b>Total current liabilities</b>	<b>836</b>	<b>1,015</b>
<b>Non Current liabilities</b>		
Non Current tax liabilities	339	758
<b>Total non current liabilities</b>	<b>339</b>	<b>758</b>
<b>Net assets</b>	<b>19,081</b>	<b>21,492</b>
<b>Shareholders' equity</b>		
Equity	18,804	18,942
Retained earnings	277	2,550
<b>Total shareholders' equity</b>	<b>19,081</b>	<b>21,492</b>

*Source: Audited Annual Report as at 30 June 2003 and 30 June 2004*

The Company has no debt facilities in place at the present time, but it is permitted to have borrowings of up to 25% of net asset value of the Company.

As at 30 June 2004 NTA per share of PSI was \$0.289 per share after providing for tax on net realised and unrealised gains.

#### 4.5 Capital structure

As at 3 September 2004, PSI had 77,130,595 issued ordinary shares.

We set out below the twenty largest shareholders of PSI, as at 3 September 2004 together with shareholdings by parcel size.

**Figure 9: PSI top 20 shareholders**

<b>Shareholders</b>	<b>No. of Ordinary Shares</b>	<b>% of shares held of total</b>
Washington W Soul Pattinson and Company Ltd	20,613,076	26.7%
VJ Plummer	9,804,595	12.7%
Australia Republic Investments Pty Ltd	4,000,000	5.2%
Nodar Investments Pty Ltd	3,333,334	4.3%
Invia Custodian Pty Ltd	2,804,916	3.6%
Roche Group Pty Ltd	2,348,005	3.0%
L Givord	2,300,000	3.0%
HFT Nominees Pty Ltd	2,231,687	2.9%
R H Barlett	1,998,090	2.6%
HFT Nominees Pty Ltd	1,689,000	2.2%
Abbawood Nominees	1,050,000	1.4%
Tothemill	950,000	1.2%
Ben Nevis Pty Ltd	600,000	0.8%
Lyndis Ann Flynn	541,315	0.7%
Noonbah Pty Ltd	400,000	0.5%
Mary E Abbott	370,755	0.5%
Martlet Commodities Pty Ltd	370,368	0.5%
Eilaville Holding Pty Ltd	349,020	0.5%
Paradyn Holdings Pty Ltd	340,000	0.4%
Belsize Pty Ltd	331,755	0.4%
<b>TOTAL</b>	<b>56,425,916</b>	<b>73.2%</b>

*Source: Company*

**Figure 10: PSI number of shareholders by parcel size**

<b>Size of holding</b>	<b>No. of shareholders</b>
1 - 1,000	12
1,001 - 5,000	32
5,001 - 10,000	150
10,001 - 100,000	408
100,001 - and over	52
	<b>654</b>

*Source: Company*

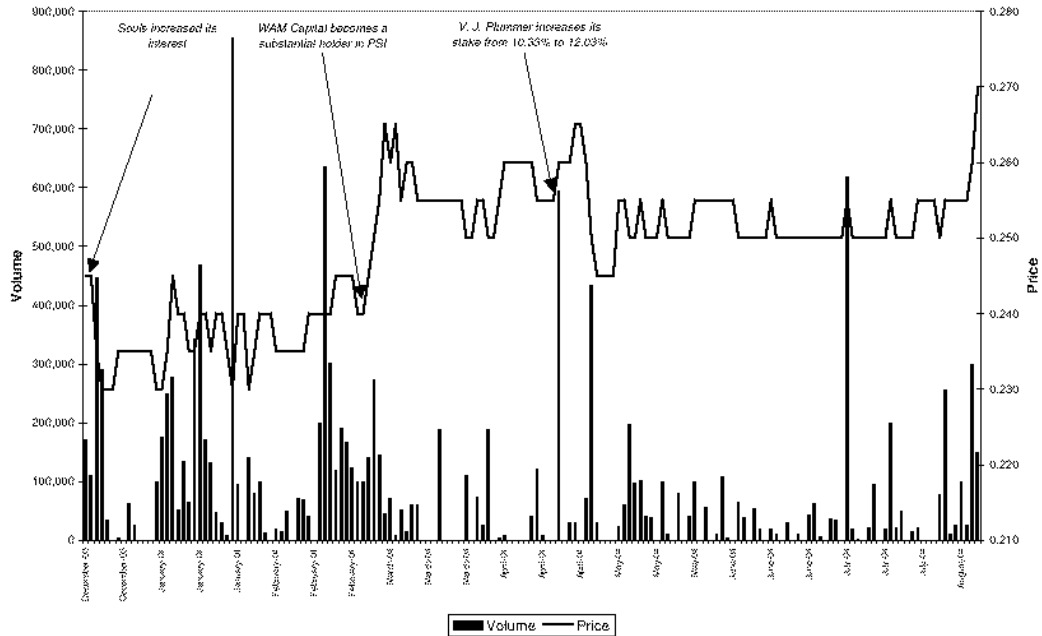
As at 30 June 2004, PSI does not have any share options on issue.

On 7 July 2004 PSI allotted 2,433,787 new shares under the share purchase plan increasing the total number of issued shares to 77,130,595.

#### 4.6 Share Price Performance

We set out below movements in PSI's share price and volumes for the period December 2003 (date of BKI listing) to 9 August 2004 (announcement of the Offer).

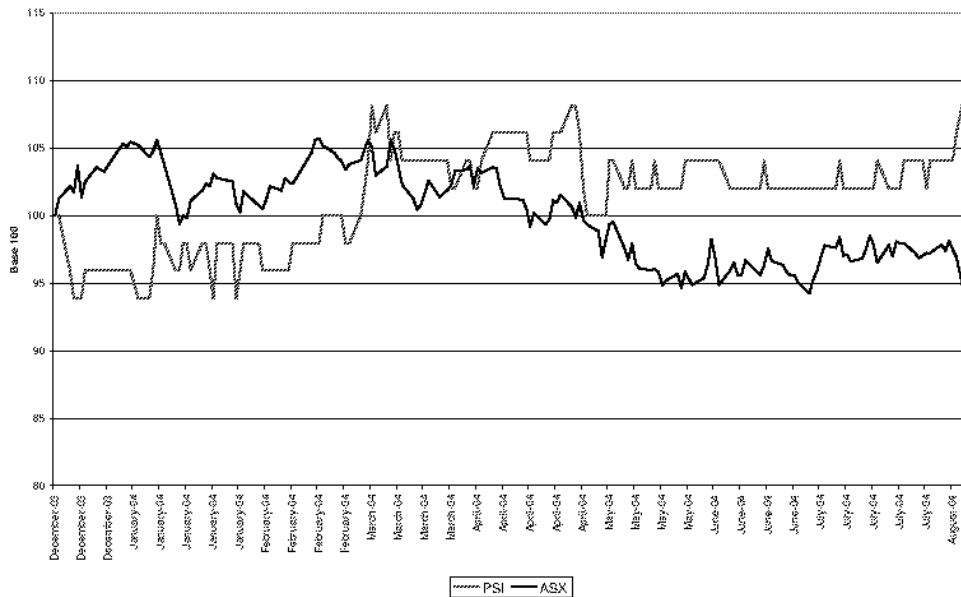
Figure 12: PSI share price performance



Source: [www.tradingroom.com.au](http://www.tradingroom.com.au) and ASX web site

We set out below movements in PSI's share price compared to the ASX all ordinary shares index for the period December 2003 (date of BKI listing) to 9 August 2004 (announcement of the Offer).

Figure 13: PSI versus ASX index



We set out below a comparison PSI's share price and NTA per share at each month end from 31 January 2004 to 31 July 2004 (being the month end before announcement of the Offer).

**Figure 14: Share price analysis**

	Average Price \$	Average Volume No.	NTA \$	Discount price vs NTA %
January	0.236	176,216	0.288	-18%
February	0.241	116,674	0.285	-15%
March	0.253	63,402	0.287	-12%
April	0.256	68,429	0.284	-10%
May	0.252	45,025	0.284	-11%
June	0.251	23,130	0.285	-12%
July	0.254	67,689	0.289	-12%

*Source: Calculations*

*Average Price is the volume weighted average by month*

As set out in the above tables, the principle characteristics of PSI's share price are:

- transaction volumes in reduction, with a significant number of days during which no share trading occurred;
- an increasing volume weighted average share price since January 2004 with PSI outperforming the ASX over the same period; and
- a reduction in the percentage discount of PSI volume weighted average price by month to NTA per share.

## **5 OVERVIEW OF BRICKWORKS**

### **5.1 Business Operations**

BKI was established to acquire and manage the investment portfolio of Brickworks Limited ("the Investment Portfolio").

The Investment Portfolio is focused on long-term investments in companies, trusts and interest bearing securities. The investment focus is mainly on Australian businesses with a profitable history and reasonable stream of dividend distribution.

BKI invests under the direction of the Board and Investment Committee who are supported by the investment manager Souls Fund Management Limited, a fund management company controlled by Washington H. Soul and Company Limited. While the Board and the Investment Committee makes the final investment decisions, Souls Fund Management Limited provides advisory services, research and analysis. BKI pays to Souls Fund Management Limited a management fee each month equal to one-twelfth of 0.35% of the total assets of BKI in the preceding month.

The Investment Portfolio is diversified across a number of stocks in most industry sectors and does not have exposure to any particular industry groups.

BKI does not follow the weighting on the ASX.

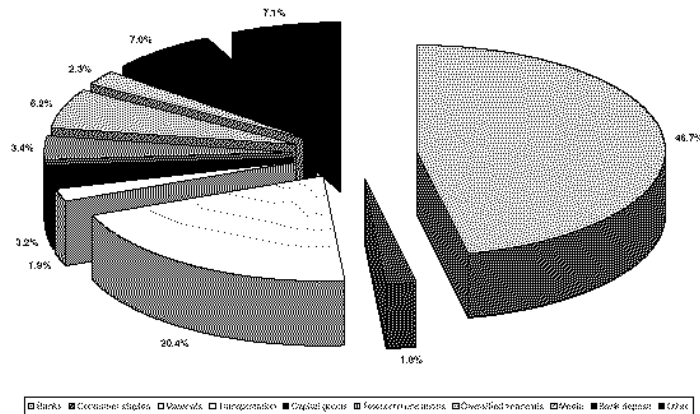
The Investment Portfolio is currently weighed towards banks and other financial institutions particularly National Australia Bank Limited.

Figure 15: Top ten investments held by BKI as at 30 June 2004

Investments	Amount	Portfolio
	\$000	%
National Australia Bank	46,959	25.6%
Commowealth Bank	21,471	11.7%
New Hope Corporation	15,748	8.6%
St Geroge Bank	9,859	5.4%
BHP Billiton	8,619	4.7%
Choiseul Investments	4,127	2.2%
Westfarmers	4,102	2.2%
Macquarie Bank	3,716	2.0%
Alumina Limited	3,585	2.0%
Bendigo Bank	3,296	1.8%

Source: Company

Figure 16: BKI composition of assets as at 30 June 2004



## 5.2 BKI Company History

BKI was incorporated on 17 October 2003 with the objective to acquire and manage the investment portfolio of Brickworks Limited.

The acquisition of the Investment Portfolio was completed on 8 December 2003 at a market value of \$120 million in cash and \$37.2 million in BKI shares. BKI was subsequently listed on the ASX on 12 December 2003 raising \$171.2 million.

### 5.3 BKI Financial performance

We set out below the audited statement of financial performance for the period 17 October 2003 to 30 June 2004.

**Figure 17: Statement of financial performance**

	<b>Period ended 30/06/2004 Audited Actual \$000s</b>
<b>Revenues</b>	<b>10,976</b>
Expenses	(7,366)
<b>Profit before tax</b>	<b>3,610</b>
Income tax	(20)
<b>Net profit/(loss)</b>	<b>3,590</b>

*Source: Audited Annual Report as at 30 June 2004*

#### 5.4 BKI Financial Position

We set out below the audited statement of financial position as at 30 June 2004.

**Figure 18: Statement of financial position**

	<b>As at 30/06/2004 Audited Actual \$000</b>
<b>Current assets</b>	
Cash	12,792
Investments	170,974
Receivables/unearned income	1,989
Prepayments	23
<b>Total current assets</b>	<b>185,778</b>
<b>Non-current assets</b>	
Deferred tax assets	1,355
<b>Total non-current assets</b>	<b>1,355</b>
<b>Total assets</b>	<b>187,133</b>
<b>Current liabilities</b>	
Payables	92
<b>Total liabilities</b>	<b>92</b>
<b>Non Current liabilities</b>	
Non Current tax liabilities	4,630
<b>Total liabilities</b>	<b>4,630</b>
<b>Net assets</b>	<b>182,411</b>
<b>Shareholders' equity</b>	
Equity	178,821
Retained earnings	3,590
<b>Total shareholders' equity</b>	<b>182,411</b>

*Source: Audited Annual Report as at 30 June 2004*

As at 30 June 2004 the NTA per share of BKI was \$1.04 per share after providing for tax on net realised and unrealised gains.

## 5.5 BKI Capital structure

As at 3 September 2004, BKI had 171,226,981 issued ordinary shares.

We set out below the twenty largest shareholders of BKI and holdings by parcel size, as at 3 September 2004.

**Figure 22: BKI top 20 shareholders**

<b>Shareholders</b>	<b>No. of Ordinary Shares</b>	<b>% of shares held of total</b>
Brickworks Limited	43,101,479	25.2%
Bougainville Copper Limited	5,000,000	2.9%
Bougainville Copper Limited	2,100,000	1.2%
Westpac Custodian Nominees	1,893,762	1.1%
Invia Custodian Limited	1,500,000	0.9%
Invia Custodian Limited	1,250,000	0.7%
Argo Investment	976,763	0.6%
Tower Trust Limited	781,000	0.5%
Victor J Plummer	650,000	0.4%
James S Millner	540,667	0.3%
Peter Edwards Goodeve	500,000	0.3%
Gullane Holdings	500,000	0.3%
Janivan Investments	450,000	0.3%
Glenshera	449,600	0.3%
Impala Superannuation Nominees	375,000	0.2%
J S Millner Holdings Pty Ltd	364,000	0.2%
RBC Global Services Australia Nominees	334,922	0.2%
Mrs Jean Plummer	300,000	0.2%
Trepnant	300,000	0.2%
The Uniting Church in Australia Property Trust	300,000	0.2%
<b>TOTAL</b>	<b>61,667,193</b>	<b>36.0%</b>

*Source: Company*

**Figure 23: BKI number of shareholders by parcel size**

<b>Size of holding</b>	<b>No. of shareholders</b>
1 - 1,000	103
1,001 - 5,000	3,286
5,001 - 10,000	1,977
10,001 - 100,000	2,275
100,001 - and over	90
	<b>7,731</b>

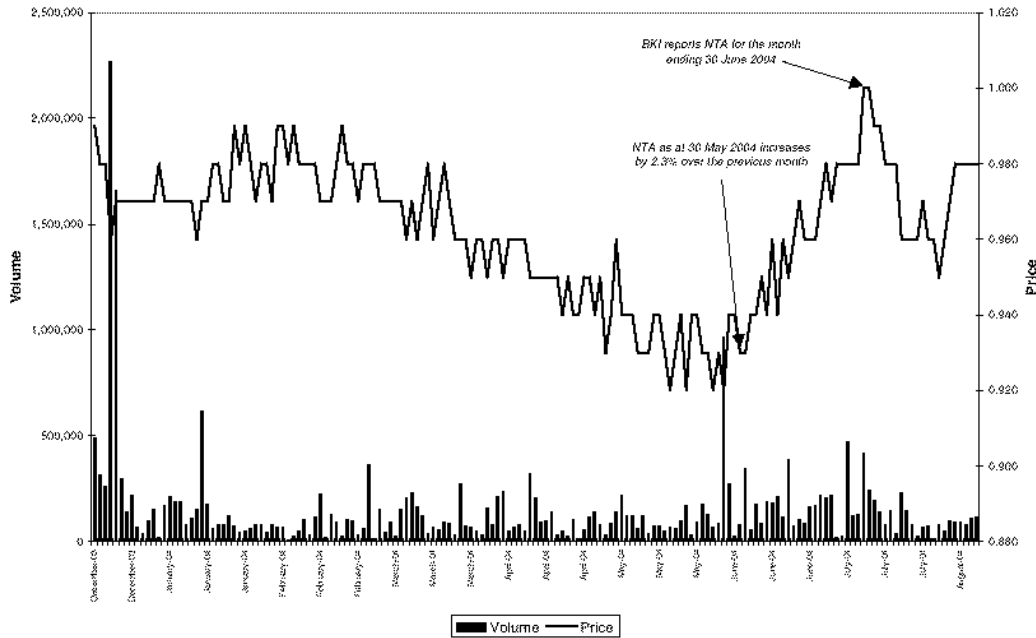
*Source: Company*

As at 3 September 2004, BKI had not issued any share options.

## 5.6 Share price performance

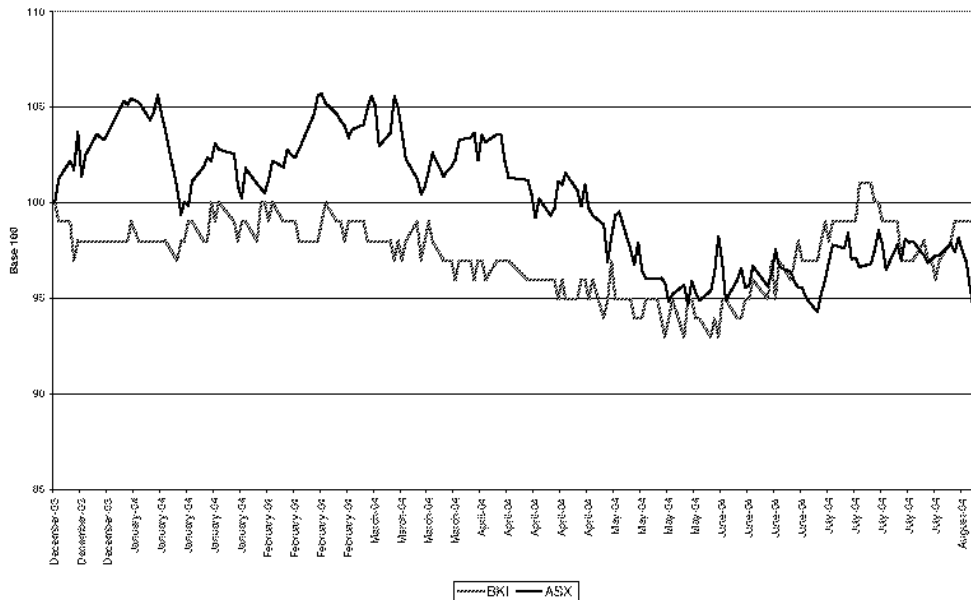
We set out below movements in BKI's share price and volumes for the period December 2003 (date of BKI listing) to 9 August 2004 (announcement of the Offer).

**Figure 19: BKI share price performance**



We set out below movements in BKI's share price compared to the ASX all ordinary shares index for the period December 2003 (date of BKI listing) to 9 August 2004 (announcement of the Offer).

**Figure 20: BKI versus ASX index**



We set out below a comparison BKI's share price and NTA per share at each month end from 31 January 2004 to 31 July 2004 (being the month end before announcement of the Offer).

**Figure 21: Share price analysis**

	<b>Average Price \$</b>	<b>Average Volume No.</b>	<b>NTA \$</b>	<b>Discount price vs NTA %</b>
January	0.972	133,342	0.998	-3%
February	0.978	90,593	1.013	-3%
March	0.965	101,058	1.029	-6%
April	0.951	109,347	1.007	-6%
May	0.935	97,398	1.023	-9%
June	0.943	200,937	1.056	-11%
July	0.980	137,931	1.041	-6%

*Source: Calculations*

As set out in the above tables, the principle characteristics of BKI's share price are:

- transaction volumes peaking in the last 2 months;
- a reduction in the volume weighted average share price since January with a recovery in July 2004, in line with the ASX index trend; and
- an increasing discount of BKI 's volume weighted average share price by month to NTA per share.

## 6 PRO FORMA CONSOLIDATED FINANCIAL POSITION

Set out below is the pro forma consolidated statement of financial position of BKI, following the Offer (on the assumption of 100% acceptance of the Offer).

**Figure 24: Pro-forma consolidated financial position**

	PSI Audited Actual 30/06/2004 \$000	BKI Audited Actual 30/06/2004 \$000	Consolidated Pro forma 30/06/2004 \$000
<b>Current assets</b>			
Cash <sup>(1)</sup>	3,446	12,792	13,400
Investments	19,627	170,974	190,601
Receivables/uneared income	157	1,989	2,146
Prepayments	0	23	23
<b>Total current assets</b>	<b>23,230</b>	<b>185,778</b>	<b>206,170</b>
<b>Non-current assets</b>			
Fixed asset	1	-	1
Deferred tax assets	34	1,355	1,389
<b>Total non-current assets</b>	<b>34</b>	<b>1,355</b>	<b>1,389</b>
<b>Total assets</b>	<b>23,265</b>	<b>187,133</b>	<b>207,559</b>
<b>Current liabilities</b>			
Payables	721	92	813
Current tax liabilities	294	-	294
<b>Total current liabilities</b>	<b>1,015</b>	<b>92</b>	<b>1,107</b>
<b>Non Current liabilities</b>			
Non Current tax liabilities	758	4,630	5,388
<b>Total non current liabilities</b>	<b>758</b>	<b>4,630</b>	<b>5,388</b>
<b>Net assets</b>	<b>21,492</b>	<b>182,411</b>	<b>201,065</b>
<b>Shareholders' equity</b>			
Equity <sup>(1)</sup>	18,942	178,821	198,349
Retained earnings	2,550	3,590	2,715
<b>Total shareholders' equity</b>	<b>21,492</b>	<b>182,411</b>	<b>201,065</b>

<sup>(1)</sup> Includes the following adjustments:

- final dividend of BKI \$2 cents per share; and

- the 2.4 million new ordinary shares issued of PSI within the share purchase plan, with a total value of \$0.58 million.

## 6.1 Basis of preparation

The pro forma consolidated statement of financial position of BKI has been prepared having regard to the terms of the Offer as summarised below:

- BKI will acquire the entire issued share capital of PSI by way of issue of 22,037,313 new ordinary shares in a ratio of 2 new BKI ordinary shares for every 7 PSI ordinary shares held.

The pro forma consolidated statement of financial position of BKI has been prepared on a fully diluted basis having regard to the following:

- BKI has paid a final dividend in respect of the 30 June 2004 year amounting to \$0.02 per share; and
- PSI issued 2,433,787 new ordinary shares in July 2004 for a total consideration of \$0.58 million under the share purchase plan.

## 6.2 Share Capital

The following tables set out the movement in BKI top shareholders before and after the Offer assuming 100% acceptance of the Offer

Shareholders	No. of Ordinary Shares	% of shares held of total
Brickworks Limited	43,101,479	25.2%
Bougainville Copper Limited	5,000,000	2.9%
Bougainville Copper Limited	2,100,000	1.2%
Westpac Custodian Nominees	1,893,762	1.1%
Invia Custodian Limited	1,500,000	0.9%
Invia Custodian Limited	1,250,000	0.7%
Argo Investment	976,763	0.6%
Tower Trust Limited	781,000	0.5%
Victor J Plummer	650,000	0.4%
Minority shareholders	113,973,977	66.6%
<b>Total</b>	<b>171,226,981</b>	<b>100.0%</b>

Source: BKI

Figure 25: BKI main shareholders prior to the Offer

Figure 26: BKI main shareholders after the Offer

Shareholders	No. of Ordinary Shares	% of shares held of total
Brickworks Limited	43,101,479	22.3%
Washington W Soul Pattinson and Company Ltd	5,889,450	3.0%
Bougainville Copper Limited	5,000,000	2.6%
VJ Plummer	2,801,313	1.4%
Bougainville Copper Limited	2,100,000	1.1%
Westpac Custodian Nominees	1,893,762	1.0%
Invia Custodian Limited	1,500,000	0.8%
Invia Custodian Limited	1,250,000	0.6%
Australia Republic Investments Pty Ltd	1,142,857	0.6%
Minority shareholders	128,585,433	66.5%
<b>Total</b>	<b>193,264,294</b>	<b>100.0%</b>

Source: PSI and BKI and Calculations

## **7 VALUATION METHODOLOGIES**

### **7.1 Introduction**

ASIC Practice Note 43 provides guidance on the methodologies that an independent expert should consider when valuing a company for the purpose of forming an opinion as to the fairness of an acquisition pursuant to the Corporations Act 2001.

In establishing the fair value of PSI and BKI in assessing the Offer, the following valuation methods have been considered:

- capitalisation of future maintainable earnings to which is added the realisable value of any surplus assets
- the market value of listed securities
- the discounted cash flow method
- comparable transactions
- net asset backing
- amount distributable to shareholders on orderly realisation of assets
- amount a potential acquirer may be prepared to pay for the business.

### **7.2 Capitalisation of future maintainable earnings**

The capitalisation of future maintainable earnings multiplied by, an 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.

As the future maintainable earnings of PSI and BKI are unable to be forecast by management of the two companies at this point in time and the current level of earnings is not an established pattern of stable and predictable earnings, the capitalisation of future maintainable earnings is not considered an appropriate valuation methodology for assessing the value of PSI and BKI.

### **7.3 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 range 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.

Both the companies are listed on the ASX. Market price is a relevant reference for the valuation of LIC's with a portfolio primarily invested in listed Australian securities. We refer to the market value of PSI's and BKI's shares as a "cross check" valuation methodology.

#### **7.4 Discounted cash flow method**

An analysis of the net present value of projected cash flows or discounted cash flow method (“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 weighted average cost of capital (“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 PSI and BKI, 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.

Grant Thornton Corporate Finance is of the opinion that a DCF analysis is not an appropriate valuation methodology in the circumstances of PSI and BKI, due to primarily to the business that the two companies carry on, and the inability to forecast accurately future cashflows.

#### **7.5 Comparable Transactions**

The comparable transaction 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 PSI and BKI. 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. Accordingly, Grant Thornton Corporate Finance has concluded that the comparable transaction method is not an appropriate valuation methodology in the circumstances of PSI and BKI.

#### **7.6 Net asset backing**

The net asset backing valuation methodology for a company involves an assessment of the assets and liabilities of the company and applying a “fair market value” thereto. Asset backing valuations involve the determination of the net realisable value of the assets used in the business on the basis of an assumed sale of the business to a willing but not anxious buyer. This is not a valuation of a forced sale where assets might be sold at values materially different from their market value.

Grant Thornton Corporate Finance considers this is an appropriate valuation method for the valuation of PSI and BKI having regard to the fact LIC’s are required to provide the market with the value of net tangible assets on a monthly basis.

#### **7.7 Amount on an 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.

The orderly realisation of assets is a not currently a viable option available to the Directors of PSI and BKI, as the businesses are operated and managed on a going concern basis.

Accordingly, Grant Thornton Corporate Finance has concluded that the orderly realisation of assets method of valuation is not appropriate to the circumstances of the Offer.

## 8 VALUATION ASSESSMENT

We consider in this section of our report, the quantitative factors and our assessment of the “fairness” of the Offer. These considerations should be read in conjunction with our comments on the qualitative aspects or “reasonableness” of the Offer set out in section 9 of this report.

### 8.1 Valuation of PSI

#### *Net asset backing*

We believe the net asset backing method, as described in section 7, will provide a reliable valuation methodology for PSI. Asset backing valuations involve the determination of the net realisable value of the assets used in the business on the basis of an assumed sale of the business to a willing but not anxious buyer. This is not a valuation on the basis of a forced sale where assets might be sold at values materially different from their market value.

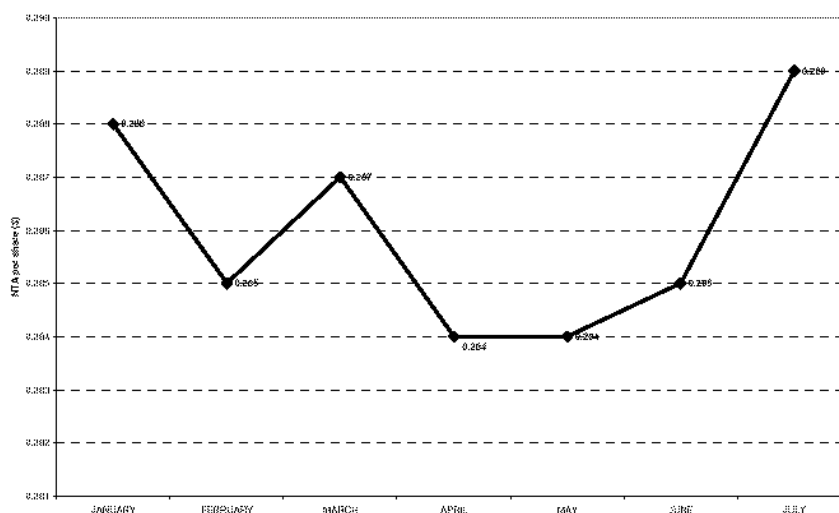
This valuation methodology assumes that PSI continues as a going concern and that the Company realises the value of its assets in its business including identifiable and non-identifiable intangible assets inherent in the business.

The ASX defines NTA as “*an indication of what each share in a company is worth if all the assets were liquidated, all the debts were paid and the residual was distributed to the ordinary shareholders on a per share basis*”.

We have assumed that our assessed equity value per share of PSI is based on net tangible assets disclosed by the Company in accordance with the ASX listing rules.

We set out below NTA per share announced by PSI on a monthly basis for the period 31 January 2004 to 31 August 2004.

**Figure 27: PSI's net tangible assets by month**



NTA is based on investments at market value, after providing for tax on net realised and unrealised gains.

We note that the NTA calculation is based on the market value of listed securities and is therefore exposed to the same volatility risk of the underlying assets, which could be detrimental in valuing a business as a going concern.

Moreover the fair value of the securities is determined by reference to the last quoted sale price on the Australian Stock Exchange at the close of the business on the reporting date. To take account of these sensitivities in assessing PSP's equity value per share we have weighted the disclosed NTA per share over last 6 month period with the market value of PSI shares.

**Figure 28: Valuation of PSI based on NTA**

	Preferred Assessed Value <sup>1</sup>	Lowest Value <sup>2</sup>	Highest Value <sup>3</sup>
	\$	\$	\$
<b>Net Tangible Assets per share</b>	<b>0.286</b>	<b>0.284</b>	<b>0.289</b>

<sup>1</sup> Average NTA disclosed in last 6 month period ending July 2004

<sup>2</sup> Lowest NTA since February 2004

<sup>3</sup> Highest NTA since February 2004

**Market value of listed securities**

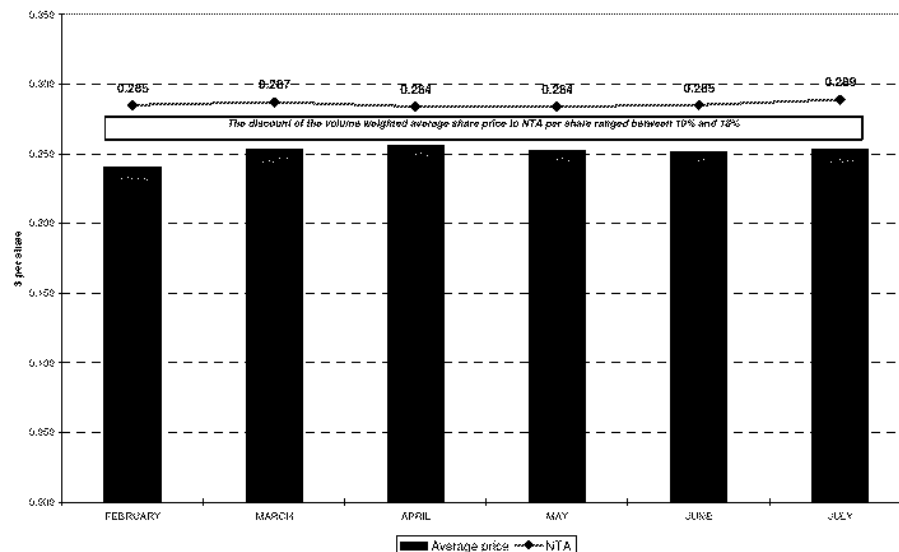
We have considered the share trading information in respect of PSI shares for the period from December 2003 to 8 September 2004 (set out in Figure 12 of this report) and noted that the share price fluctuated between \$0.230 and \$0.265. We note however since May 2004, the share price has fluctuated in a narrow band of between \$0.250 to \$0.255.

We also noted that transaction volumes over the same period have gradually reduced (refer to Figure 13), with a significant number of days in that period during which no share trading occurred.

This illiquidity could be detrimental to the reliability of the share price when referring to such a short term period of observation.

In order to partially reduce the limitations of the share trading price, we have analysed the share price of PSI having regard to the volume weighted share price over the last six month period commencing February 2004, as set out in the graph below together with a comparison with NTA per share.

**Figure 29: Volume weighted share price and NTA of PSI by month**



Grant Thornton Corporate Finance preferred assessed value per share of PSI has been calculated having regard to the volume weighted average share price over last six month period and set out in the table below.

**Figure 30: Valuation of PSI based on market value**

	<b>Preferred Assessed Value <sup>1</sup></b>
	\$
<b>Market value per share</b>	<b>0.250</b>

<sup>1</sup> Volume weighted average over last six month period

Our preferred assessed value implies a 12.5% discount to our preferred assessed NTA per share set out in figure 28 of this report.

***Summary of PSI preferred assessed value***

Our approach to the valuation has had regard to the value of:

- *Net asset backing* – the value of a PSI share if all the assets were liquidated, all the debts were paid and the residual was distributed to the ordinary shareholders; and
- *Market Value* – the average assessed value of a PSI share by reference to the market share price.

Having regard to our preferred valuation methodologies we have weighted the calculations to determine our assessed value per share of PSI.

We have weighted 70% of our assessed value per share to the net asset backing methodology and 30% of our assessed value per share to the market value approach.

The level of weighting is based on our assessment of the most likely value per share of PSI, after considering all other factors taken into consideration in the valuation calculation in particular;

- the relatively small size of PSI and illiquidity of PSI shares; and
- the share price PSI trades at a discount to NTA per share primarily due to the high management expenses ratio.

We set out below our assessed valuation range of PSI prior to the Offer.

**Figure 31: Summary of PSI valuation**

	<b>Assessed Value \$</b>	<b>Weighting %</b>
High value - NTA methodology	0.286	70%
Low value - Market value	0.250	30%
<b>Preferred value per share</b>		<b>0.275</b>

## 8.2 Valuation of Brickworks

As described in section 5 of this report, BKI operates in the same industry of PSI. Accordingly Grant Thornton Corporate Finance has assessed the value per BKI share having regard to a net asset backing methodology and to the market value of listed securities.

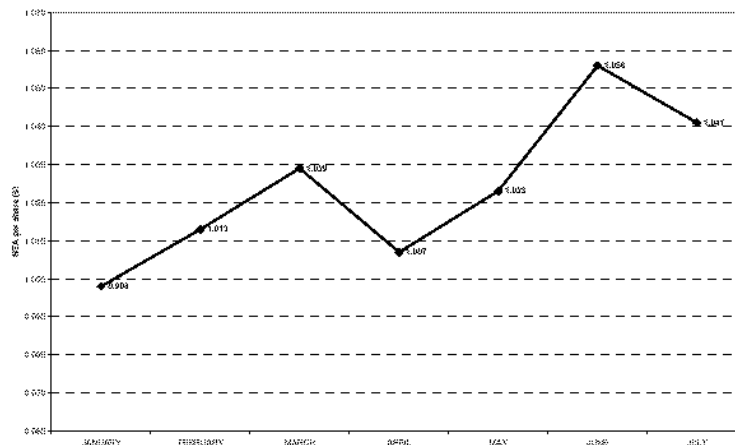
### *Net asset backing*

As detailed in the Section 8.1 of this report, NTA is an indication of the value of each share if all the assets were liquidated, all the debts were paid and the residual was distributed to the ordinary shareholders on a per share basis

We have assessed the equity value per share of BKI based on the net tangible assets disclosed by BKI in accordance to the ASX listing rules.

We set out below NTA per share announced by BKI for the period 31 January 2004 to 31 August 2004.

**Figure 33: BKI's net tangible assets by month**



NTA is based on investments at market value, after providing for tax on net realised and unrealised gains.

We note that the NTA calculation is based on the market value of listed securities and is therefore exposed to the same volatility risk of the underlying assets, which could be detrimental in valuing a business as a going concern.

Moreover the fair value of the securities is determined by reference to the last quoted sale price on the Australian Stock Exchange at the close of the business on the reporting date. To take account of these sensitivities in assessing BKI's equity value per share we have weighted the disclosed NTA per share over last 6 month period with the market value of BKI shares.

**Figure 34: Valuation of BKI based on NTA**

	Preferred Assessed Value <sup>1</sup>	Lowest Value <sup>2</sup>	Highest Value <sup>3</sup>
	\$	\$	\$
<b>Net Tangible Assets per share</b>	<b>1.024</b>	<b>0.998</b>	<b>1.056</b>

<sup>1</sup> Average NTA disclosed in last 6 month period ending July 2004

<sup>2</sup> Lowest NTA since February 2004

<sup>3</sup> Highest NTA since February 2004

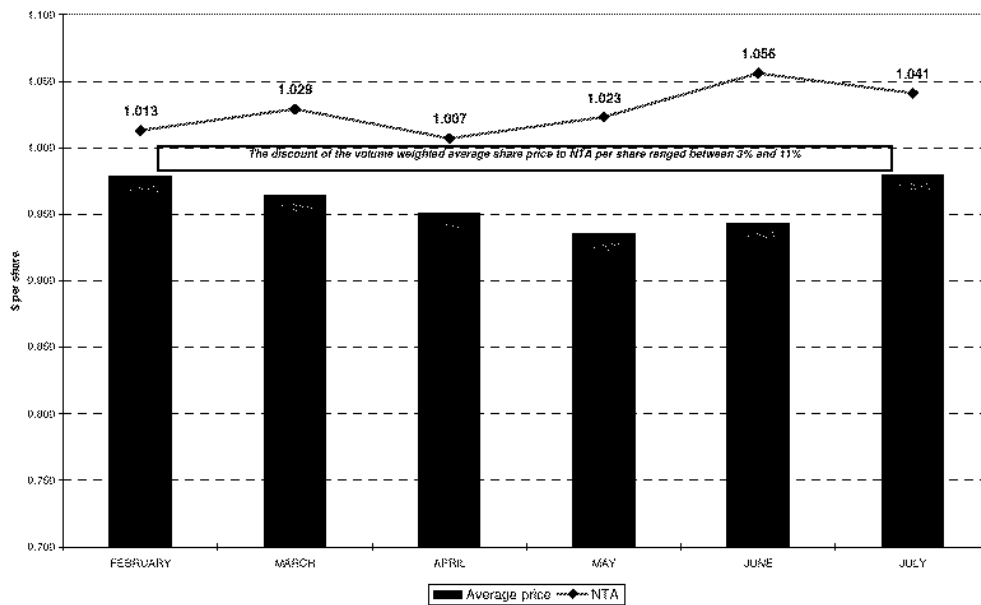
**Market value of listed securities**

We have also considered the share trading information in respect of BKI shares for the period from December 2003 to 8 September 2004 (set out in Figure 19 of this report) and noted that the share price fluctuated between \$0.920 and \$1.00.

In order to assess the value of BKI on a going concern basis, we have analysed the share price of BKI having regard to the volume weighted share price over the last six month period in order to weight any abnormal price fluctuations.

We set out below the volume weighted average share price of BKI by month compared to announced NTA per share on a monthly basis.

**Figure 35: Average share price and NTA of BKI by month**



Grant Thornton Corporate Finance preferred assessed value per share of BKI has been calculated having regard to the volume weighted average share price over last six month period ending 8 September 2004 and set out in the table below.

**Figure 36: Valuation of BKI based on market value**

<b>Market value per share</b>	<b>Preferred Assessed Value<sup>1</sup></b> \$ <b>0.960</b>
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<sup>1</sup> Volume weighted average over last 6 month period

### **Summary of BKI assessed value**

Our approach to the valuation has had regard to the value of:

- *Net asset backing* – the value of a BKI share if all the assets were liquidated, all the debts were paid and the residual was distributed to the ordinary shareholders; and
- *Market Value* – the average assessed value of a BKI share by reference to the market share price.

Having regard to our preferred valuation methodologies we have weighted the calculations to determine our assessed value per share of BKI.

We have weighted 50% of our assessed value per share to the net asset backing methodology and 50% of our assessed value per share to the market value approach.

The level of weighting is based on our assessment of the most likely value per share of BKI, after considering all other factors taken into consideration in the valuation calculation in particular;

- Portfolio size in line with the LIC's average size (\$130 million as set out in section 3.2);
- Average volume steady; and
- Management fee in line with most of more established LIC's (*source: Various Brokers' Reports*)

We set out below our preferred assessed value of a BKI share prior to the Offer.

**Figure 37: Preferred value per share**

	<b>Assessed Value \$</b>	<b>Weighting %</b>
High value - NTA methodology	1.024	50%
Low value - Market value	0.960	50%
<b>Preferred value per share</b>		<b>0.992</b>

As detailed in the BKI Annual Report as at 30 June 2004, a final dividend distribution of \$0.02 per share is to be paid, therefore we have adjusted our preferred assessed value for the payment of the dividend as set out below;

**Figure 38: Summary of BKI valuation**

	Assessed Value		
	Preferred Assessed Value	Low Value	High Value
	\$	\$	\$
<b>Assessed value per share ex ante dividend distribution</b>	<b>0.992</b>	<b>0.960</b>	<b>1.024</b>
Dividend distribution per share	0.020	0.020	0.020
<b>Assessed value per share ex post dividend distribution</b>	<b>0.972</b>	<b>0.940</b>	<b>1.004</b>

### 8.3 Synergies and cost savings

In our valuation assessment we have not included any adjustment for potential synergies or cost savings which may arise following successful completion of 100% acceptance of the Offer.

### 8.4 Valuation assessment of the Offer – “fairness”

We set out below the implied exchange ratio using our assessed value of PSI **prior to 100% acceptance of the Offer** (refer to Fig. 31 and 38) and the implied premium/discount of the proposed exchange ratio of the issue of 2 new BKI shares for every 7 PSI shares held.

**Figure 40: Implied exchange ratio**

		BKI value per share			
		Low	Preferred	High	
		0.940	0.972	1.004	
PSI value per share	Low	0.250	3.76	3.89	4.01
	Preferred	0.275	3.42	3.53	3.65
	High	0.286	3.29	3.40	3.51

*Note*

*Proposed exchange ratio of 7 PSI ordinary shares every 2 BKI ordinary shares have an implied ratio of 3.5. Every observations in the matrix higher than 3.5 (highlighted in red) is favourable to PSI shareholders*

**Figure 41: Implied premium/discount with the proposed exchange ratio**

		BKI value per share		
		Low	Preferred	High
		<b>0.940</b>	<b>0.972</b>	<b>1.004</b>
PSI value per share	Low	<b>0.250</b>	<b>7.4%</b>	<b>11.0%</b>
	Preferred	<b>0.275</b>	<b>-2.3%</b>	<b>1.0%</b>
	High	<b>0.286</b>	<b>-6.0%</b>	<b>-2.8%</b>

***Premium for control***

A control or takeover premium is appropriate in situations where an offeror is seeking to obtain the benefits associated with the ability to control the strategy and operations of its target and, in particular, the cash flows of that company.

In recent years, takeover premiums of companies listed on the ASX subject to takeovers have usually attracted premiums of between 15 and 40 per cent to the share market price at the time of the announcement of the offer.

A takeover or control premium is a market concept not a technical valuation concept. A technical valuation assumes 100 per cent of the underlying assets of the company, rather than a premium for acquiring a controlling stake over the issued shares of a company listed on a stock exchange. A takeover or control premium may also be appropriate where an offeror can exploit the particular business so that a greater value is achieved, for example through operational synergies.

Whilst historical and empirical evidence may not be comparable or representative of any particular offer, we have considered the circumstances of the Offer and believe that, under the circumstances, a premium for control is not applicable in this instance because:

- the value of an LIC's is incorporated in the fair value of NTA and in the ability of the portfolio manager to generate return in excess to the relevant index; and
- an acquirer would only be willing to pay a premium in excess to NTA per share of an LIC's if:
  - the acquirer would not be able to raise additional capital other than through the acquisition;
  - the transaction costs are lower than alternative opportunities to raise capital;

We also understand that the acquisition of PSI will not allow BKI to manage a portfolio of listed securities that include any relevant interests in the underlying companies. As a consequence BKI will be unable to exploit the cash flow of any companies' included in PSI's portfolio

Accordingly, Grant Thornton Corporate Finance consider that a premium for control is not appropriate in this instance.

We set out below, our assessed value of one PSI share before and after the Offer assuming 100% acceptance of the Offer:

**Figure 39: Valuation conclusion**

	Assessed Value			
	Pre Trans.	Post Transaction		
	Preferred Value \$'000	Preferred Value \$'000	Low Value \$'000	High Value \$'000
Assessed value of PSI	21,211	21,211	19,290	22,034
Assessed value of BKI		166,426	160,965	171,887
Cost of the Transaction	-	-	-	-
<b>Assessed value of the combined group</b>	-	<b>167,637</b>	<b>160,255</b>	<b>193,921</b>
<b>Shares on issue</b>				
Shares on issue in PSI (No.) <sup>(1)</sup>	77,130,595	-	-	-
Existing shareholders BKI (No.)	-	171,226,981	171,226,981	171,226,981
BKI shares issued to PSI shareholders (No.)	-	22,037,313	22,037,313	22,037,313
<b>Total shares on issue (No.)</b>	<b>77,130,595</b>	<b>193,264,294</b>	<b>193,264,294</b>	<b>193,264,294</b>
<b>Value per share (\$)</b>	<b>0.275</b>	<b>0.971</b>	<b>0.933</b>	<b>1.003</b>
<b>Value per share (\$) according the 7:2 ratio</b>		<b>0.277</b>	<b>0.266</b>	<b>0.287</b>

*(1) Includes the 2.4 million shares issued under the share purchase plan*

Grant Thornton Corporate Finance's preferred assessed value of PSI prior to the Offer is **\$0.275 per share**.

Grant Thornton Corporate Finance's preferred assessed value of BKI following completion of the Offer (assuming 100% acceptance) is **\$0.971 per share**. Accordingly, having regard to the exchange ratio of 2 new BKI shares for every 7 PSI shares held, Grant Thornton Corporate Finance's preferred assessed value per PSI share after completion of the Offer (assuming 100% acceptance) is **\$0.277**.



## 9 ADVANTAGES AND DISADVANTAGES OF THE OFFER – “REASONABLENESS”

### 9.1 Advantages

#### *Reduction in operating costs*

It is envisaged that the acceptance of the proposed Offer may result in a number of cost savings to the merged group as a direct consequence of the rationalisation and sharing of resources and economies of scale. These benefits may provide a basis for improved returns to shareholders.

#### *Greater critical mass*

The combined investment portfolios of BKI and PSI had a value of \$206.8 million as at 30 June 2004. By accepting the Offer, PSI Shareholders have the opportunity to participate in the benefits of a larger and more diverse portfolio of assets. Furthermore, the market capitalisation of BKI at 7 September 2004 was \$164.4 million compared to \$20.8 million for PSI. The combined market capitalisation assuming 100% acceptance of the Offer at 7 September was \$185.5 million.

#### *Increased liquidity*

As at 30 June 2004, BKI had 7,798 shareholders compared with PSI's existing shareholder base of 607 shareholders. PSI Shares have historically suffered from a lack of liquidity therefore following acceptance of the Offer PSI shareholders will be part of a wider shareholder base which may result in an increase in shareholder value.

#### *Potential future returns to shareholders*

Subject to future levels of profitability and the ability to retain cash, the merged group may have an enhanced capability to pay dividends to shareholders in the future.

In the absence of the Offer and its acceptance by PSI shareholders it is highly uncertain whether PSI will be in a position to distribute dividends to shareholders in the foreseeable future.

#### *Backing of independent directors*

PSI's independent directors have unanimously recommended PSI shareholders accept the Offer in the absence of a higher offer.

#### *Alternative offer*

We are not aware of a takeover bid or alternative offer, which is more favourable than the Offer detailed in this report.

### 9.2 Disadvantages

The risk that the capital gain rollover relief may not be available if BKI acquires less than 80% of the PSI shares on issue.

We have considered the likely advantages and disadvantages of the Offer for the non-associated shareholders of PSI, and the advantages and disadvantages for the same shareholders if the Offer is not accepted. It is the opinion of Grant Thornton Corporate Finance that the benefits, in the absence of an alternative proposal or higher offer, that are likely to accrue to the shareholders as a result of the Offer outweigh the considerations if the Offer is not accepted.

**Accordingly, in the opinion of Grant Thornton Corporate Finance, the Offer is reasonable.**

**In the opinion of Grant Thornton Corporate Finance, the Offer is fair and reasonable to the non-associated shareholders of PSI.**

## **10 SOURCES OF INFORMATION, DISCLAIMER AND CONSENTS**

### **10.1 Sources of information**

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- The Bidders Statement dated 8 September 2004;
- The Target Statement dated 30 September 2004;
- Audited consolidated financial statements of PSI for the year ended 30 June 2003;
- Audited consolidated financial statements of PSI for the year ended 30 June 2004;
- Audited consolidated financial statements of BKI for the period ended 30 June 2004;
- Discussions with directors and key executives of PSI
- Shareholder register of PSI and BKI as at 3 September 2004
- Releases and announcements by PSI and BKI to the ASX, and
- Share prices and other information sourced from a number of data providers.

### **10.2 Qualifications and independence**

Grant Thornton Corporate (NSW) Pty Limited holds Australian Financial Service Licence number 247140 under the Corporations Act 2001 and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to PSI and BKI with reference to the ASIC Practice Note 42 "Independence of Expert's Reports".

### **10.3 Limitations and reliance on information**

Grant Thornton Corporate Finance's 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.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by PSI and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided to it by PSI 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 Grant Thornton Corporate Finance 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 PSI.

This report has been prepared to assist the independent directors of PSI in advising shareholders in relation to the Offer and for assisting the shareholders of PSI in considering the Offer. We do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions of this paragraph. 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 Grant Thornton Corporate Finance's opinion as to whether the Offer is fair and reasonable.

The Company has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by PSI engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by PSI, which PSI knew or should have known to be false and/or reliance on information, which was material information PSI had in its possession and which PSI knew or should have known to be material and which PSI did not provide to Grant Thornton Corporate Finance. PSI will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

Grant Thornton Corporate Finance does not have, at the date of this report, and has not had within the previous two years, any relationship with PSI or BKI that could reasonably be regarded as capable of affecting its ability to provide an independent and unbiased opinion in relation to the proposed Offer. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out of pocket expenses for the preparation of this report. Our fee at the date of this report is \$36,000 (plus GST). Except for this fee, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this report. The payment of this fee is in no way contingent upon the success or failure of the Offer.

#### **10.4 Consents**

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Target Statement to be sent to the shareholders of PSI. 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 Grant Thornton Corporate Finance as to the form and content in which it appears.