

**Doubtless Strategic Limited**

**Independent Adviser's Report**

Under Rule 18 of the Takeovers Code

in relation to proposals for

**Interests Associated with Mr Brent King**

To be allotted additional ordinary shares in

**Investment Research Group Limited**

**29 October 2010**

# **Doubtless Strategic Limited**

2307/26 Albert Street  
Auckland 1010

29 October 2010  
The Independent Directors  
Investment Research Group Limited  
Level 13,  
57 Fort Street,  
**AUCKLAND**

## **INDEPENDENT ADVISER'S REPORT UNDER TAKEOVERS CODE RULE 18**

### **1 INTRODUCTION**

Investment Research Group Limited (“IRG” and “the Company”), a company listed on the NZAX Market, is a Code Company for the purposes of the Takeovers Code (“the Code”). Mr. Brent King, a director of IRG, is the sole director and shareholder of Snowdon Peak Investments Limited (referred to in this report as “the King Interests”). Snowdon Peak Investments Limited currently holds or controls 24.39% of the voting securities of IRG. Combined with a further parcel of shares held directly by Mr King, the King Interests holds or controls 24.57% of the voting securities of IRG. This report is addressed to those directors of IRG not associated with Mr King or the King Interests.

IRG and the King Interests contemplate a transaction that would result in the King Interests increasing its holding or control, already being in excess of 20% of the voting rights in a Code Company, to a level between 20% and 50%.

IRG and the King Interests seek authorisation from the shareholders of IRG to allow the conversion of \$519,531.72 of loan advances from the King Interests to IRG into 57,725,747 fully paid ordinary shares at a price of 0.9 cents per share (pursuant to Rule 7(d)).

The King Interests will not be entitled to vote in respect of the authorising shareholder resolution. This report is intended to address the impact of the proposed transactions on all of those shareholders of IRG other than the King Interests, being those shareholders not associated with the King Interests and entitled to vote in respect of the authorising shareholder resolutions. The report is to be read as being for the benefit of such shareholders.

### **SCOPE OF REPORT**

#### **Requirements of the Takeovers Code**

Rule 6(1) (b) of the Takeovers Code prohibits any person holding or controlling greater than 20% of the voting rights of a Code Company becoming the holder or controller of an increased percentage of the voting rights of that company except as provided for in certain circumstances set out under Rule 7 of that code.

Rule 7(d) of the Takeovers Code provides that a person may become the holder or controller of an increased percentage of the voting rights of a Code Company by way of an allotment of securities of the Code Company if such allotment has been approved by way of ordinary resolution of the Code Company in accordance with the Code.

Rule 16 provides that any notice of meeting containing a proposed resolution in respect of an allotment of securities under Rule 7(d) must be accompanied by an independent adviser's report, prepared in accordance with Rule 18.

Rule 18 requires that the directors of a Code Company must obtain a report from an independent adviser on the merits of any proposed allotment under Rule 7(d), having regard to the interests of those persons who may vote to approve the allotment.

IRG has asked that Doubtless Strategic Limited ("Doubtless Strategic") prepare the required independent adviser's report to accompany the Notice of Special General Meeting to be sent to shareholders. We confirm, having performed our standard checks for possible conflicts of interest that no conflict of interest exists that could affect our ability to provide an unbiased report.

The Takeovers Panel has approved Doubtless Strategic to act as an independent adviser in respect of the proposed transactions for the purposes of Rule 18.

### **Basis of Evaluation for the Purposes of the Takeovers Code**

While we are required to comment on the merits of the transactions, the term "merits" is not legally defined, either in the Takeovers Code or in those statutes dealing with securities or commercial law.

One possible source of guidance is contained in the literal meaning of "merits". The most appropriate formal definition would appear to be "the rights and wrongs (of a case etc., especially in law)". Such a definition would tend to imply that our report should opine on the pros and cons of the proposed allotment from the perspective of those shareholders not a party to the transaction. In so doing, we have given consideration to the following factors:

- Mr King's role in relation to IRG;
- The origins of the King Interests advances to IRG, including the nature of those advances and the circumstances under which they have arisen and the implications these have for IRG;
- The level of shareholding and voting rights that will result in the event the transaction is approved and the implications this may have for control of IRG;
- The effect of the allotment on any person's control of voting rights;
- The price at which the transaction may occur, and the economic implications of this price on other shareholders as well as the ability (or otherwise) for other shareholders to participate in the transaction;
- The impact on IRG's possible future financial position; and

- Alternatives or counter-factuals to the transaction (including, by implication, the consequences in the event the resolution is not approved).

Based on these factors we have identified a number of pros and cons that constitute the merits of the transaction that are the subject of the resolution. We consider that these merits may be interpreted differently by different shareholders and could justify a number of conclusions. These conclusions should be weighed up as a whole in the context of the present position of the company, rather than putting full weight on any individual consideration in isolation.

### **Voting in Respect of the Resolutions**

Whether individual shareholders vote to accept or to reject the respective resolutions is a matter for those shareholders according to their own assessment of the value of IRG shares and of the implications of the respective transactions for them given market conditions and also the other multivariate factors that may affect their individual situations. Shareholders are advised to consult their own professional advisers if appropriate.

### **Consents**

We consent to the distribution of this report in its current form to the shareholders of IRG for the purposes stated above. Our report should be considered as a whole, as selecting individual components of this report in isolation could create a misleading view of the merits or fairness analysis. We accept no responsibility whatsoever to any party for use of this report otherwise than in its current form or for purposes other than those stated above.

## **BACKGROUND**

### **Overview**

Investment Research Group Limited was incorporated as Viking Capital Limited on 10 April 2006 and listed on the NZAX Market on 28 June 2006 following an Initial Public Offering that raised \$4,994,438 in cash (in addition to shares allotted as consideration for assets). The offer price was \$0.25 per share.

Viking Capital was styled as an investment company and the initial focus of the company was on a range of equity investments.

During 2007 and 2008 the Company acquired a series of financial publishing and financial advisory businesses and associated assets. The company name was changed from Viking Capital Limited to Investment Research Group Limited on 11 August 2008, reflecting a change of focus away from that of an investment company to that of the new core business of investment media, transactional and advisory businesses.

These acquisitions included:

Announcement	Acquisition	Consideration
7/03/2007	Investment Research Group	\$2,500,000
	Less Data Division sold to NZX	\$1,430,000
	Net Consideration	\$1,070,000
13/05/2008	Equity Investment Advisers/MoneyOnline	\$1,755,611
26/09/2008	Ellerie Cornwall	\$524,147
31/03/2008	Other advisory customer database	\$282,683
	<b>Total</b>	<b>\$3,632,441</b>

One of the acquired databases was subsequently sold (after some further investment) for \$500,000 during the year to 31 March 2010 resulting in a realised gain of \$154,990.

Note also that the consideration imputed to the value of the customer databases from these transactions has since been amortised and/or subject to impairment testing so that the book value of the businesses is now lower than the acquisition price.

IRG today remains listed on the NZAX Market. The IRG Constitution requires a minimum of three Directors. They presently are:

Sir William Birch	Chairman
Brent King	Managing Director
Marvin Yee	Director

The Board currently comprises two non-executive Directors. The Board considers Sir William Birch and Marvin Yee to be independent directors.

IRG's Audit Committee focuses on audit and risk management and specifically addresses responsibilities regarding financial reporting and regulatory conformance. The Audit Committee is accountable for ensuring the performance and independence of the external auditors. The Audit Committee also makes recommendations to the Board. The Audit Committee comprises the independent directors and is currently chaired by Marvin Yee.

In his role as Managing Director Mr King has a significant degree of operational as well as strategic influence on IRG.

The key operating divisions today are:

#### **IRG Media**

IRG operates a number of media titles. These are all focused on the Investment sector and give readers information, opinions and data, including:

- New Zealand Investor Magazine
- McEwen Investment Report (MIR)
- On Line Research
- IRG Yearbook

### **IRG Investment Advisors - Retail Financial Services**

This business is the former Equity Investment Advisors & Sharebrokers Ltd and offers information, sharebroking and transactional services to clients from its Auckland office.

### **IRG BOP Limited – (Bay of Plenty Office)**

Tauranga based advisors and financial planning business (previously Ellerie Cornwall). This business offers transactional, advisory and financial planning services to clients in the Bay of Plenty and also in other regions around the country.

### **MoneyOnline Limited - Internet Financial Services**

MoneyOnline is a web based investment business, providing information, data and products. The site presently experiences over 45,000 hits per month. Clients can download investment statements and can complete investments electronically.

More detail on the operations of IRG may be found on the Company's web sites:

- [www.irg.co.nz](http://www.irg.co.nz)
- [www.irgbop.co.nz](http://www.irgbop.co.nz)
- [www.moneyonline.co.nz](http://www.moneyonline.co.nz)
- [www.equity.co.nz](http://www.equity.co.nz)
- [www.shareinfo.co.nz](http://www.shareinfo.co.nz)
- [www.nzadviser.co.nz](http://www.nzadviser.co.nz)
- [www.shareclub.co.nz](http://www.shareclub.co.nz)

We have evaluated the recent performance of IRG's main web sites and published titles. Some of the variability that we have observed appears to be on account of data collection, reducing the reliability of comparisons over time.

We have estimated web site hits as running at approximately 46,000 per month on the moneyonline site, slightly over 3000 hits/month on the equity.co.nz site, over 5000 hits/month on shareinfo.co.nz and 16,000 hits/month on the irg.co.nz site. Subject to the comment on data reliability, the rate of hits on the moneyonline and equity sites appears to be down on the previous year, while that on the shareinfo and irg.co.nz sites appear to be up.

Subscription based online services, which compete with other web-based data services, are down approximately 9% on a year earlier (but after being at long-term high levels only 4 months ago).

Subscriptions for the key publications also appear to be variable. Subscriptions for the NZ Investor Monthly are running at approximately 760, 9% down on a year earlier, but only 3 months ago were tracking 12% above the previous year. Subscriptions for the higher value McEwen Investment Report are running at approximately 400 and have shown consistent growth, most recently running at 18% above the level a year earlier.

### **Capital Structure**

IRG's capital structure has changed markedly over the period since its initial public offering. It has issued shares for acquisitions, exercise of warrants, conversion of loans or other securities, rights issues and through share placements to raise additional cash. These actions have taken the number of shares on issue from 49,610,076 immediately following the IPO, to 152,096,659 at the date of this report, an increase of 207%.

The transactions over the last two years to 31 March 2010 were as follows:

		Rights Issue	Warrants	3 <sup>rd</sup> Party Issues*	Staff Issues
<b>Balance at 31 March 2008</b>	75,153,540				
<b>Movement for 2009</b>	14,618,175				
Ordinary shares issued:					
At 9.60 cents per share	1,562,500			1,562,500	
4 cent warrants exercised	6,643,910		6,643,910		
At between 5 and 8.50 cents per share	6,411,765			6,411,765	
<b>Balance at 31 March 2009</b>	89,771,715				
<b>Movement for 2010</b>	62,324,944				
Ordinary shares issued:					
To new investors at 2.5 cents per share	11,600,000			11,600,000	
To new investors at 2.25 cents per share	20,377,778			20,377,778	
6 cent 2011 warrants exercised	4,005,372		4,005,372		
5 cent 2010 warrants exercised	152,143		152,143		
To Viking Share Plan Trustee Ltd	10,000,000				10,000,000
In respect of 1 for 4 rights issue	15,445,251	15,445,251			
To new investors at 1.6 cents per share	744,400			744,400	
<b>Total New Shares</b>	76,943,119	15,445,251	10,801,425	40,696,443	10,000,000
<b>Balance at 31 March 2010</b>	152,096,659				

\*3<sup>rd</sup> Party Issues includes issues by way of consideration for acquisitions and share placements

The King Interests have exercised warrants on several occasions. In contemplation that this would lead to increases of the King Interests' holdings owing to the need for allotments of shares on exercise, a resolution under Rule 18 of the Takeovers Code approving the proposed allotments was approved by shareholders at a special general meeting held on 7 March 2007.

All ordinary shares have equal rights to vote, to receive dividends and to participate in any surplus upon winding up.

Substantial Security Holders (as that term is defined in the Securities Markets Act 1988) of record as at the date of this report are:

Holder	No. of shares	% of voting rights <sup>3</sup>
Snowdon Peak Investments Limited <sup>1</sup>	37,098,855	24.51%
Anthony Edwin Falkenstein & Ian Donald Malcolm <sup>2</sup>	22,347,222	14.76%

**Notes:**

(1) Comprising the major part of the King Interests. The last Substantial Security Holder notice was filed on 6 January 2010. Based on shares on issue as at the date of this report the Snowdon peak Investments Limited percentage of voting rights is 24.39%.

(2) Held as trustees for the Edwin Trust. IRG announced on 3 September 2009 that it had been in negotiations with the Edwin Trust to acquire a stake in the company. A subsequent issue of ordinary shares was approved by a resolution of shareholders at the 2009 Annual General Meeting of IRG on 14 October 2009. The last Substantial Security Holder notice was filed on 11 January 2010. Based on shares on issue as at the date of this report the Edwin Trust percentage of voting rights is 14.69%.

(3) Calculations of percentage holdings are as disclosed in the respective substantial security holders most recent notices. Adjustments for actual current holdings are provided in the notes.

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IRG has one other form of security listed (and currently suspended from trading) on the NZAX Market. There are currently 23,202,554 Warrants to purchase new ordinary shares, exercisable at a price of 6 cents at any time until 30 June 2011. These warrants were issued on a 1 for 3 basis pursuant to a prospectus registered on 28 October 2008 to shareholders on the share register as at 12 November 2008.

At the present time it appears to us that the likelihood that the 6 cent warrants will be exercised appears remote on economic grounds, disregarding any other factors that might become relevant in the intervening period between now and 30 June 2011.

Earlier series of warrants are now all expired.

The 20 largest holders on the respective registers for the two forms of security issued by IRG, ordinary shares and warrants, as at 31 August 2010 are shown in Appendix B.

The following table shows the respective positions of the parties that comprise the King Interests as at the date of this report, prior to the proposed transactions:

	<b>Brent King</b>	<b>Snowdon Peak Investments</b>	<b>Total King Interests</b>	<b>Total Shares on Issue</b>	<b>Percent Held</b>
Current	275,000	37,098,855	37,373,855	152,096,659	24.57%

## **Share Trading**

We set out below a graph showing movements in the share price of IRG over the last two years along with information on the volume of transactions:





Source: Interactive Data Real-Time Services, Inc/NZX.com

Trading of IRG shares and warrants was suspended by NZX on 22 June 2010 following the Company's failure to file its financial results for the year to 31 March 2010 within the time limits specified in the NZAX Listing Rules.

Trading resumed on 14 October 2010 following the filing of the 2010 Preliminary Full Year Results and 2010 Annual Report. Trades have occurred at 0.5 cents, 0.6 cents and a last trade at 1.0 cent. At the time of writing the shares are quoted on the NZAX at 1.0 cents to buy and 1.5 cents to sell. The transaction price of 0.9 cents per share is therefore below the last traded price of IRG shares.

Although the shares have been relatively thinly traded, we have calculated that they have traded on 40% of actual trading days over the last 2 years (the period reflected in the chart above) with mean daily turnover of 18,778 shares (46,717 on days when trades occurred).

## DETAILS OF THE PROPOSED ARRANGEMENTS

We have been supplied with details of the resolution to be voted upon by shareholders not associated with the King Interests, together with the Explanatory Notes in respect of the resolution.

We have analysed the resolution as follows:

### Resolution – Conversion of Loan Advances

The Resolution authorises IRG to allot ordinary shares on the conversion of \$519,531.72 of loan advances from the King Interests to IRG.

The loan has been made through a series of cash advances over a period of months as follows:

- (1) a Loan of \$9,261.97 made on 12 February 2010;
- (2) a Loan of \$20,000.00 made on 22 February 2010; and
- (3) a Loan of \$14,493.75 made on 12 March 2010;
- (4) a Loan of \$15,000.00 made on 31 March 2010;
- (5) a Loan of \$35,000.00 made on 15 April 2010;
- (6) a Loan of \$30,000.00 made on 20 April 2010;
- (7) a Loan of \$16,500.00 made on 16 June 2010;
- (8) a Loan of \$15,000.00 made on 21 June 2010;
- (9) a Loan of \$9,276.00 made on 24 June 2010;
- (10) a Loan of \$125,000.00 made on 5 July 2010;
- (11) a Loan of \$75,000.00 made on 12 July 2010;
- (12) a Loan of \$50,000.00 made on 12 July 2010;
- (13) a Loan of \$50,000.00 made on 26 August 2010;
- (14) a Loan of \$35,000.00 made on 2 September 2010; and
- (15) a Loan of \$20,000.00 made on 15 September 2010.

These advances have been made to support the operational cash requirements of IRG over the period.

The loan advances are interest free, unsecured and payable on demand.

This resolution is required under Rule 7(d) of the Takeovers Code.

This resolution means that the King Interests will be able to convert the loan advances into ordinary shares in IRG, extinguishing all rights to call the loans. The price proposed for the share conversion is 0.9 cents per share.

## **EVALUATION OF MERITS**

### **Application of Takeovers Code**

The stated objectives of the proposed transaction are to:

- enable the Company to discharge the liability to repay the loan advances to the King Interests without recourse to the Company's cash reserves and/or the Company having to make further borrowings; and
- the conversion of the Debt assists the Company to maintain its liquidity and improves its capital to debt ratio, and therefore strengthens the Company's balance sheet at a time when funding is

difficult to obtain and the Company is looking to reduce its debt commitments as much as possible.

The stated aim of the Code<sup>1</sup>, as published in a Takeovers Panel statement is:

*“to provide commercial and sensible rules to ensure that takeovers take place in an orderly fashion.”*

The Takeovers Code seeks to ensure that:

- Those shareholders electing to participate in an offer are treated fairly and equally; and
- There is full transparency of all relevant information required by shareholders in making an informed decision as to whether or not to accept an offer or to approve an acquisition or allotment that may affect control.

To achieve these goals, the Code contains a fundamental rule prohibiting any person (considered together with any associated persons) from becoming the holder or controller of in excess of 20% of the voting rights in a Code Company other than in a manner allowed by the Code. In this respect the Code provides for five key mechanisms:

- A full takeover offer made to all shareholders;
- A partial takeover offer made to all shareholders;
- An acquisition or allotment of shares approved by ordinary resolution of non-associated shareholders (as is the case in this instance);
- Once a person holds or controls 50% of the voting securities in a Code Company, they may further increase their holding by a maximum of 5% per annum;
- A compulsory acquisition of remaining shares once a person holds 90% of a Code Company’s voting rights.

Rather than prohibiting outright acquisitions by persons (or associated persons) in breach of the fundamental rule, Rules 7(c) and 7(d) allow shareholders to consider the merits of non pro-rata acquisitions and allotments of shares affecting control and, depending on the precise circumstances of a transaction, approve such acquisition or allotment or veto it (effectively forcing a formal takeover in the latter instance, should the intended acquirer or allottee still seek increased voting control). This rule is particularly relevant in circumstances where a strategic stakeholder wishes to make a cornerstone shareholding in a Code Company without proceeding with a full or partial takeover offer and the consensus view is that the presence of such a shareholder would add considerable shareholder value to all other shareholders.

The Code is necessarily prescriptive in the manner in which it captures changes in control in excess of 20% of a company’s voting rights and, as such, correctly captures the proposed transaction for the consideration of shareholders.

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<sup>1</sup> As published on the Takeovers Panel website page <http://www.takeovers.govt.nz/code/business.htm>

## Conversion of Loan Advances - Analysis

In assessing the merits of the resolution to allow IRG to allot shares on the conversion of the Loan Advances from the King Interests to the Company we have had regard to certain key considerations:

- (a) the implications for voting control;
- (b) whether there are any balancing factors in relation to the level of control;
- (c) whether there is any premium paid or transferred for control; and
- (d) whether there are any other significant factors that shareholders might take into consideration.

### (a) Voting Control

For the purposes of analysing the transaction, the following table summarises the current situation, the situation as it will be in the event the transaction is approved by shareholders and the new shares allotted, and also the potential position should the King Interests exercise outstanding warrants (and no other warrant holders do so).

	<b>Brent King</b>	<b>Snowdon Peak Investments</b>	<b>Total King Interests</b>	<b>Total Shares on Issue</b>	<b>Percent Held</b>
Current	275,000	37,098,855	37,373,855	152,096,659	24.57%
Proposed	0	57,725,747	57,725,747	57,725,747	
Resulting	275,000	94,824,602	95,099,602	209,822,406	45.32%
Add Warrants	66,666	3,774,541	3,841,207	3,841,207	
Potential Total	341,666	98,599,143	98,940,809	213,663,613	46.31%

To summarise, the King Interests presently control 24.57% of the voting shares of IRG. Although it has a degree of effective negative control, in that it could almost certainly defeat any special resolution of shareholders (assuming it is unlikely that all shareholders would ever vote), this is a significant, but not a controlling interest, in our view.

There is evidence both in practice and from the literature on the subject of control that a stake of or close to 40%, and in any event a stake several percent below a 50% majority holding, constitutes effective control.

The allotment of shares under the proposed transaction will increase the King Interests voting shares to 45.32% of IRG. While this is not outright control as would be the clear consequence of a holding of 50% or greater, a holding of this level does have certain characteristics that could amount to control. One reason often cited for this is the fact that a voting interest of 45.32% would mean voting control of more than 50% of shares in the event that less than 90.64% of all shareholders exercised

their voting rights. In other words, 82.88% of the shareholders other than the King Interests would need to exercise their voting rights for the King Interests to cast less than 50% of the votes.

By the standards of voting for most public companies in New Zealand with predominantly non-institutional shareholder bases 82.88% would be a very high level of proxies or shareholder turnout. As at 31 August 2010 IRG had 781 registered shareholders. Of these, the 19 largest shareholders (other than the King Interests) hold 56.4% of the total voting shares. In the event the resolution is approved and new shares are allotted, this will fall to 40.9%.

We consider this transaction gives rise to a level of control specifically contemplated by the Takeovers Code. Accordingly it should deliver either a premium or other material benefits to shareholders (other than the King Interests) to be considered for approval.

We conclude that the King Interests will obtain a significant degree of shareholder voting control.

### **(b) The presence of any mitigating or balancing factors in respect of control**

We note that there are no other large shareholders that individually or as a small group would be in a position to wield countervailing voting pressure against the King Interests in future.

There is anecdotal evidence from our discussions to suggest that Mr Brent King and the King Interests are already viewed by many, or indeed most, shareholders to have an interest in the nature of a “Cornerstone Shareholder”. He was the founder and promoter of the Company from its conception and IPO. It is possible that there are many shareholders who will express the view that they are investors in the Company because of Mr King.

A relevant consideration to this analysis is the history of the King Interests’ holding, and the past and present attitude of other investors toward Mr King and the King Interests.

Since the Company’s IPO in 2006, the following substantial shareholding levels have been disclosed by Snowdon Peak Investments and by Mr Brent King:

Notice Date	Snowdon Peak Investments	Total for King Interests
28 June 2006	39.51%	40.31%
23 July 2007	30.64%	31.21%
1 April 2008	31.34%	31.61%
7 August 2009	28.60%	28.79%*
6 January 2010	24.51%	24.69%*

\* Includes addition of shares beneficially held by Mr King personally listed through officer disclosures rather than the notices of the given dates.

These figures evidence the fact that, notwithstanding the overall dilution of the King Interests holding investors have been willing to invest in the company despite (if not because of) the knowledge of Mr King’s stake. At the time of the IPO this was of a level not far from that proposed now.

The King Interests’ role as a Cornerstone Shareholder is borne out by the willingness to make significant cash advances available to the support the Company in recent months. These transactions have been on interest free and unsecured terms despite the level of risk involved.

It is our view that some shareholders may (and others may not) view this evidence of willingness to support the Company as a consideration to be taken into account in assessing the merits of voting on the resolution.

**(c) Whether there is any premium paid or transferred for control**

We have concluded that an assessment of the merits of the transaction could not be made without consideration of the possible value to be attributed to IRG shares. We consider that the only way this is able to be further scrutinised is by a valuation of the ordinary shares of IRG.

This is for two principal reasons:

- There is insufficient basis to rely on an assumption that either the last share price of IRG shares prior to suspension of trading on the NZAX from 22 June 2010, viz. 1.1 cents per share, or alternatively the most recent traded price following the resumption of share trading (0.6 cents per share, which has been superseded by subsequent buy/sell quotes), ought to be relied on by shareholders as an appropriate value to place on IRG shares for present or future purposes; and
- The fact that the transaction will result in the obtaining of a holding of voting securities at the high end of the range between 20% and 50% means that particular scrutiny is required as to the effect of the transaction on the value of the shares held by all other shareholders.

The proposed price for the new shares to be issued is 0.9 cents, falling between the pre-suspension price and the last traded price of the shares. Reference to traded prices makes it highly unclear whether there is any clear or implicit premium being transferred for the benefit of all other shareholders of IRG.

After making enquiry regarding the performance of IRG's trading businesses and considering their market positions and business outlooks, we have estimated a range of potential values for the shares in the company.

A summary of the valuation, including key assumptions, may be found in Appendix C on page 24.

Key factors or assumptions taken into account in the valuation are:

We have valued IRG using three alternative bases:

- Failure scenario
- Low case survival
- High case survival

Our approach has been to value the operating businesses on an ongoing basis (so that even the failure scenario allows for a sale of businesses, albeit at receivership prices rather than what might be realised in a normal willing buyer willing seller situation. Note that this was done so as to establish first and foremost whether a receivership option under (d) below might be a better option than an issue of new shares at 0.9 cents). We do not rule out the possibility of a more dramatic improvement in business operating performance, which would lead to a higher valuation, or the possibility that an acquirer of one or more of the businesses may assess higher value. However, we consider that our valuation reflects the constraints under which IRG presently operates.

After arriving at values for the operating businesses (including working capital) we have then assessed the resulting implication for ordinary share values after adjusting for any remaining assets or liabilities.

We have valued the shares as follows:

Scenario	Equity Value (\$)	Share value (cents)	Share Value (post conversion)
Failure	(437,972)	-0.29	Negligible
Low Case	395,664	0.26	0.46
High Case	2,328,688	1.53	1.43

Applying these values we are able to assess the implications of the proposed shares for loan transactions.

Under the failure scenario we assess that there is little likelihood of returns to shareholders in the event of this outcome. Consequently IRG shares would have no value whether or not the loan advances are converted to ordinary shares.

In the low case “survival” scenario we assess a value per share without the transaction proceeding of 0.26 cents per share. If the loan advance conversion proceeds, the subsequent per share value would be 0.44 cents per share so that, after allowing for dilution, the result would be a value transfer or implicit premium to shareholders (other than the King Interests) of 68%.

In the high case “survival” scenario we assess a value per share without the transaction proceeding of 1.53 cents per share. If the loan advance conversion proceeds, the subsequent per share value would be 1.36 cents per share so that, after allowing for dilution, the transaction would results in a value reduction for shareholders (other than the King Interests) of 11%. In other words the transaction price of 0.9 cents is below the assessed value of the shares under this scenario.

Given this wide variance of outcomes we considered that it is worth adding that a mid case between the low and high case outcomes (allowing for a dilution adjustment) produces a pre-transaction value of 0.9 cents per share, the same as the transaction price. This would mean no premium for shareholders when some premium would generally be consider appropriate as a price for control under most takeover situations.

All of these scenarios factor the degree of dilution of existing shareholders if the loan advance conversion takes place. Post transaction the new shares allotted to the King Interests will amount to 27.5% of the shares on issue.

However, we feel obliged to stress three additional considerations:

- Certain numbers used in the valuation are subject to potential commercially sensitive negotiations with third parties that may or may not eventuate. While there is potential for these outcomes to result in positive value outcomes for shareholders, we do not as yet consider these, on a rough probability weighted basis, to materially alter our conclusions;
- Our reliance on highly variable historic performance indicators in deriving the underlying valuation numbers means that we consider these valuations indicative only and do not believe that undue reliance can be placed on them; and

- We wish to point out that certain considerations in (d) below may be regarded as of equal or greater weight in assessing the merits of the transaction.

**(d) Other significant factors that may be relevant**

Any assessment of the issues surrounding control and premium (if any) may risk obscuring other relevant considerations.

In considering the present transaction we take the view that some of these considerations particularly warrant evaluation in the analysis of merits of the transaction.

These considerations are in the nature of counter-factuals or “what if” analyses, reflecting on potential outcomes for shareholders in the event the transactions do not proceed.

The most relevant consideration is the ongoing financial viability of the Company. In the process of valuing the shares of IRG we concluded that while some progress has been made toward stabilising the Company and turning its fortunes around, the position must nevertheless be regarded as fragile and not without risk.

Shareholders are reminded of the following statement made by Deloitte as the Company’s Auditors in respect of the Annual Financial Statements for 2010:

*“The validity of the going concern assumption on which the financial statements are prepared depends on continued financial support from the Company’s bank, other loan providers and/or shareholder funding. The financial statements do not include any adjustments that may result from a failure of the continued financial support. If financial support is withdrawn, the Company and Group may be unable to continue in operational existence and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business at amounts which could differ significantly from the amounts at which they are currently recorded in the Statement of Financial Position.”*

Deloitte’s report is qualified in respect of the value of the deferred tax asset, the recoverable values of goodwill and customer databases, and the carrying values of IRG’s investment in its subsidiary companies.

Deloitte’s report concludes:

*“Because of the potential effect of the limitation in the evidence available to us as described in the qualification paragraphs ..., we are unable to form an opinion on whether the Company and Group financial statements on pages 6 to 37:*

- *comply with generally accepted accounting practice in New Zealand;*
- *comply with International Financial Reporting Standards; and*
- *give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and their financial performance and cash flows for the year ended on that date.”*

We have reflected on Deloitte’s comments in our deliberations. For this reason we have preferred to value IRG’s businesses based on the business divisions as we have identified them and on the information requested by and provided to us, rather than relying on the estimates of asset values in the



annual financial statements. We further note that our approach resulted in a broad array of values ranging from lower to higher than those reflected in the statements.

Arising from our discussions with the Company we have viewed correspondence with IRG's bank, BNZ, in which certain breaches of financial covenants have been noted and the Bank has stated that while it takes no actions (reflecting management's actions to improve the performance of the Company) its position is reserved. BNZ has set two covenants, one for interest cover (which the Company cannot meet until it has returned to profitability) and one specifying the Shareholders Funds be greater than 25% of Total Assets.

Using the reported performance in its 2010 Statement of Financial Position, IRG's Shareholders Funds to Total Assets ratio stood at 25.014%. Any further deterioration would place the Company back in a default situation and may be viewed more gravely. Although management accounts to the end of July suggest a small improvement in the ratio, monthly performance and cash flows since balance date have been variable so that no confident assumptions regarding the position can yet be made.

While IRG has managed to further reduce bank debt, its ability to remain compliant is vulnerable without taking steps to alter its Shareholders Equity position. Using financial data as at 31 March 2010 and adjusting only for the King Interests Loan Advances, should these advances be converted to shares as contemplated the Shareholders Funds to Total Assets ratio would improve to 33.95%, reducing some of the immediate risk and giving more time to turn around ongoing profitability.

Should the transaction not proceed, IRG will be under a considerable and immediate pressure to either sell assets quickly at greater than book value or else to raise new equity capital from other sources.

In our view these are unlikely outcomes.

Accordingly, we are of the view that in the event the proposed transaction does not proceed, there is a material risk of further default on loan covenants and the consequent risk of insolvency.

One further alternative outcome needs to be addressed, and that is regarding the possibility that should the proposed transaction be rejected by shareholders the King Interests might instead make a bid for the Company. We consider that if this was a likely outcome it would be more likely already to have occurred. Given that a full bid would also take time to assemble and execute, we consider that it would be a high risk proposition given the other issues affecting the Company. Accordingly we do not consider this a realistic alternative proposition. In our view the present state of affairs makes IRG less attractive to other potential bidders.

In the event of insolvency, it is our view that the unsecured Loan Advances that it is proposed be converted to ordinary shares may be unlikely to recover any value, meaning that they would assume equity-like characteristics.

## SUMMARY

We stress that it is not the purpose of this report to opine on the merits of the proposed resolution, or of the proposed transaction, upon the King Interests. It is not and nor should it be the purpose of the Takeovers Code to specifically safeguard the economic interests of parties in a potential position to acquire and exercise control. Nevertheless, it is not possible to analyse the potential transactions without reference to economic or control implications for the different parties, and for other economic factors that may be relevant to all shareholders.

Accordingly, in evaluating the merits of the proposed transaction we consider it appropriate to balance a number of potential outcomes of the transactions.

We summarise the key merits of the proposed allotment, as they are relevant to those persons entitled to vote on an ordinary resolution approving such an allotment, to be:

- 1. Extension of control. The transaction will likely mean that the King Interests gain effective voting control of IRG.**
- 2. Accordingly we have prepared a valuation of IRG shares. We used three scenarios, although these have resulted in a wide variance of outcomes. We stress that we do not consider undue reliance can be placed on the resulting values. The low and high case scenarios result in values of 0.26 and 1.53 cents per share, implying a 68% premium for other shareholders and a 11% discount or value dilution respectively. The midpoint is approximately equal to the transaction price, with no premium.**
- 3. IRG has been in default of its loan covenants. One of these has been re-set, however following the writedown of some carrying values in the Company's Statement of Financial Position the Company's ratios are only slightly above the default threshold. Given highly variable trading in the interim and limited prospects for other transactions, including capital raising, to materially improve the position in the very immediate future, the position must be viewed as unstable with a risk of potential insolvency.**
- 4. In this circumstance the proposed transaction, despite no immediate cash flow benefits would improve the Shareholder's Funds ratio sufficiently, in conjunction with other improvements being made, to obtain more time in which to undertake other transactions that could more effectively improve the outlook.**
- 5. The likelihood of raising additional equity capital from other sources in the very near future is low.**

Other facts shareholders may wish to consider include:

- 6. We consider that there may be shareholders willing to take account of considerations regarding the King Interests as a historic "Cornerstone Shareholder" of IRG, including its past financial support of the Company. We recognise this factor but make no judgement regarding the merits of this consideration from a forward-looking perspective as it may affect control.**

7. We consider neither the historic traded share price of 1.1 cents per share before trading suspension, nor the most recent price of 0.6 cents per share to be reliable to form the basis of an analysis of value consequences for shareholders other than the King Interests.
8. We have not applied any allowance or factor for illiquidity that may result in the event of delisting from the NZAX market, although we are cognisant given the size of the Company and its level of overhead costs that the estimated cost saving of \$141,000 per annum could be material to IRG's future sustainable profitability.
9. IRG's effective short-term strategy is to properly stabilise the business and create a basis for more reliable longer-term operating earnings base. This would ensure a basis for re-assessing asset value such as future tax benefits that are subject to doubt in the present circumstances. We express no opinion as to whether IRG can or will achieve this outcome, other than to note that without the benefit of time its ability to do so will be severely constrained.
10. Should the voting shareholders decline to approve the proposed transaction we do not consider it likely that the King Interests would be willing to make a full takeover offer for all the shares in the Company.

## **QUALIFICATIONS AND DECLARATIONS**

### **Qualifications**

Doubtless Strategic has been a provider of corporate finance, investment banking and strategic advisory services since its foundation in 2001. Our services have included lead advisory roles for merger, acquisition and divestment activities, capital raising engagements, valuation engagements, and the provision of complex strategic advice for a wide range of businesses.

The person responsible for the preparation of this report is Hugh Ammundsen, BA LLB. Hugh has had significant experience in corporate advisory roles in relation to valuation, merger & acquisition and strategic consulting engagements.

### **Independence**

We confirm that Doubtless Strategic will receive a capped time and cost fee for preparing this report. The fee is not contingent in any way upon the outcome of the transaction or the conclusions contained within our report. Neither Doubtless Strategic nor any of its officers, contractors or agents will receive any other benefit from the preparation of this report.

Neither Doubtless Strategic nor any of its employees or officers has had any involvement in the formulation of the proposed transaction or any aspect thereof. The sole involvement of Doubtless Strategic has been the preparation of this report.

No conflict of interest exists that would affect our ability to provide an unbiased report.

The Takeovers Panel has approved our appointment to act as an independent adviser for the purposes of Rule 18 of the Takeovers Code.

Nothing in our terms of reference has materially affected the scope of our report.

## **Reliance on Information**

We have relied upon publicly available information and that provided to us by the Management of IRG or their advisers in forming the opinions contained within this report. While we have applied commercial judgment in accepting and relying on certain of this information, we have not audited the information provided or performed any other form of independent verification. For the sake of clarity, we express no opinion as to the reliability, accuracy or completeness of the information supplied to us and upon which we have relied.

A list of the information upon which we have relied in forming our opinion is set out at Appendix A.

The directors and senior management of IRG have formally confirmed to us that they have provided us with all information relevant to the proposed transaction, that such information is complete and accurate and is not misleading by way of omission or otherwise. We have necessarily relied on management representations to this end, and accept no liability for loss attributable to any error contained within our report as a result of deliberate misstatement or omission.

Our opinion has been made on the basis of economic and market conditions in existence at the date of this report. Such conditions may change significantly over very short periods of time. Doubtless Strategic reserves the right, but is under absolutely no obligation to amend or revise its report or opinion for any change in circumstances that come to its attention after the date of this report.

## **Indemnity**

The directors of IRG have agreed that to the maximum extent allowed by law, IRG will indemnify Doubtless Strategic, its officers and employees for any liability or loss suffered as a result of or in connection with the preparation of this report except for any component of liability or loss directly attributable to conduct which a court subsequently finds to be gross negligence or wilful misconduct or conduct clearly falling outside of the parameters of our engagement contract.

This indemnification shall include the value of time spent by officers and employees of Doubtless Strategic, calculated at standard hourly rates, in any legal proceedings arising as a result of or in connection with the preparation of this report and any related legal costs and expenses.

Yours sincerely

**DOUBTLESS STRATEGIC LIMITED**

A handwritten signature in blue ink, appearing to read 'Hugh Ammundsen', followed by a horizontal line extending to the right.

Hugh Ammundsen  
**Director**

## **Appendix A Sources of Information**

1. Draft Notice of Annual General Meeting;
2. Annual Reports for IRG for the periods from the incorporation of the Company in 2006 to the present, including the draft Annual Financial Statements for the period ended 31 March 2010;
3. Interim Financial Statements for the periods ended 30 September 2008 and 2009;
4. Management accounts prepared for the Board for the months to July 2010;
5. Collated spreadsheet data regarding operating KPIs including web site hits, magazine and service subscriptions and data usage;
6. Share registry data for each IRG security and summaries of the trading histories for each security;
7. The Constitution of IRG;
8. Prospectuses, Investment Statements and prior Notices of Meeting (including an Independent Adviser's Report by Horwath Porter Wigglesworth Limited dated December 2006);
9. Discussions with Mr Les Turnock, Financial Controller of IRG, and Mr Brent King, Managing Director of IRG, including responses to all questions submitted in respect of past and expected future issues and performance;
10. Draft Auditor's Report prepared by Deloitte in respect of the Financial Year Ended 31 March 2010 Workings;
11. Forecasts and discussion forming the basis for the estimation of the Fair Value of Intangibles for inclusion in the Annual Financial Statements for the year ended 31 March 2010;
12. Details regarding historic substantial security holder notices;
13. Analysis of cost savings in respect of possible delisting from the NZAX market;
14. Amortisation and impairment calculations;
15. Correspondence from the Bank of New Zealand regarding IRG's banking status and arrangements; and
16. Calculations regarding available tax losses.

## Appendix B Top 20 Security Holders

As at 31 August 2010 the following were the 20 largest holders on the respective registers for the two forms of security issued by IRG:

### LARGEST ORDINARY SHAREHOLDERS (As at 31 August 2010)

Rank	Shareholder	Holding	%
1	Snowdon Peak Investments Ltd	37,098,855	24.39
2	Anthony Edwin Falkenstein & Ian Donald Malcolm	22,347,222	14.69
3	Viking Share Plan Trustee Ltd	12,875,072	8.46
4	JBWere (NZ) Nominees Ltd (A/c 44043)	10,444,444	6.86
5	Grant Keith Baker & Donna Jean Baker & Lewis Thomas Grant	9,370,372	6.16
6	David Brian Burgess	3,788,882	2.49
7	Hubbard Churcher Trust Management Ltd	3,700,000	2.43
8	Lloyd James Christie	3,250,000	2.13
9	JBWere (NZ) Nominees Ltd (A/c 30921)	3,122,000	2.05
10	Karren Lalita Hunter (No. 1 Account)	2,186,238	1.43
11	Hurricane House Ltd	2,127,251	1.39
12	Geoff Ross (Ross Family A/C)	1,739,086	1.14
13	Phillip Raymond King & Mis Trustee Ltd (Beijing A/C)	1,718,750	1.13
14	Larry William Dallimore	1,650,000	1.08
15	Bruce Duncan Colquhoun & Dellwyn Mary Colquhoun	1,600,000	1.05
16	David McEwen & Associates Ltd	1,426,025	0.93
17	Datex Services Ltd	1,274,717	0.83
18	Southern Hills Imperial Timber (1932) (Pty) Ltd	1,221,183	0.80
19	Stephen John Sinclair & Jacqueline Sinclair & Roger Frederick Wallis	1,034,543	0.68
20	Murray Charles Radford	1,000,000	0.65
<b>Total</b>		<b>122,974,640</b>	<b>80.77</b>

**LARGEST WARRANT HOLDERS (As at 31 August 2010)**

<b>Rank</b>	<b>Holder Name</b>	<b>Holding</b>	<b>%</b>
1	Snowdon Peak Investments Ltd	3,774,541	16.26
2	Grant Keith Baker & Donna Jean Baker & Lewis Thomas Grant	2,839,506	12.23
3	I-Cap Nominees Ltd	2,045,238	8.81
4	Viking Share Plan Trustee Ltd	1,328,571	5.72
5	Kay Investments Ltd	1,205,555	5.19
6	David Brian Burgess	1,148,146	4.94
7	Hubbard Churcher Trust Management Ltd	900,000	3.87
8	Stephen James Rogers & Louise Rogers	739,104	3.18
9	Hurricane House Ltd	709,083	3.05
10	Geoff Ross	526,996	2.27
11	Phillip Raymond King & MIS Trustees Ltd (Beijing A/C)	520,833	2.24
12	Larry William Dallimore	500,000	2.15
13	David McEwen & Associates Ltd	475,341	2.04
14	Datex Services Ltd	424,905	1.83
15	JBWere (NZ) Nominees Ltd (A/C 30921)	416,000	1.79
16	Lloyd James Christie	333,333	1.43
17	David Nicholas Wright	316,424	1.36
18	Stephen John Sinclair & Jacqueline Margaret Sinclair	313,498	1.35
19	Murray Charles Radford	310,772	1.33
20	Gary James Butler & Sheralyn Jane Butler	217,864	0.93
<b>Total</b>		<b>19,045,710</b>	<b>81.97</b>

## Appendix C Valuation Summary

### VALUATION

We have concluded that an assessment of the merits of the transaction could not be made without consideration of the possible value to be attributed to IRG shares.

This is for two principal reasons:

There is insufficient basis to rely on an assumption that the last share price of IRG shares prior to suspension of trading on the NZAX from 22 June 2010, viz. 1.1 cents per share, or the most recent post resumption price of 0.6 cents per share, ought to be relied on by shareholders as an appropriate value to place on IRG shares for present or future purposes, notwithstanding the fact that it has been proposed to use this as the price for the present transaction; and

The fact that the transaction will result in the obtaining of a holding of voting securities at the high end of the range between 20% and 50% means that particular scrutiny is required as to the effect of the transaction on the value of the shares held by all other shareholders.

Scenario	Failure	Low Case	High Case
Media	400,000	666,667	884,354
Auckland Funds Under Mgmt/ Database/MoneyOnline	1,818,182	3,030,303	3,571,429
IRG BOP	254,545	424,242	557,823
Unallocated Overheads	(150,000)	(1,393,939)	(605,442)
Total	2,322,727	2,727,273	4,408,163
Add			
Other assets	20,000	40,000	40,000
Tax Benefit PV	0	409,091	661,224
Total Assets	2,342,727	3,176,364	5,109,388
Outstanding Liabilities			
Bank	1,906,668	1,906,668	1,906,668
Other Loan liabilities	354,500	354,500	354,500
King Advances	519,532	519,532	519,532
Total	2,780,700	2,780,700	2,780,700
Net	(437,972)	395,664	2,328,688
Shares	152,096,659	152,096,659	152,096,659
Value (cents/share)	-0.29	0.26	1.53
Implied value post transaction (cps)	n/a	0.44	1.36



## **Key assumptions**

1. The Low Case and High Case valuations are calculated by an assessment of sustainable earnings for each division over a 3 year outlook.
2. We have arrived at these assessments after reviewing financial reports, management accounts and key statistical data regarding the use of the Company's products and services, including web site information and product subscriptions.
3. Non-capitalised corporate overheads have been assessed on the basis of current management accounts. These indicate that annual cost savings are running at a level approximately \$300,000 ahead of last year, and are also ahead of budget. These have then been capitalised (using the relevant discount rate in each scenario) and offset against earnings.
4. The high case scenario unallocated overhead also assumes savings of \$141,000 per annum resulting from delisting cost savings assessed by the Company. No allowance has been made for a possible countervailing increase in the cost of capital as a consequence of delisting.
5. The cost of capital assumed against the low and high cases values respectively was 20.3% and 18.1%. Data for calculating cost of capital has been obtained from Bloomberg and has been expressed as arrange reflecting the variability of beta estimates under different measures. An 8% Market Risk Premium has been used in these calculations.
6. Other assets include fixed assets notionally allocated to the corporate office rather than to divisions. These are assets that we have assumed might not be sold were the divisions divested.
7. The tax benefit is the capitalised value of future tax savings based on the going concern assumption and continued ownership of the divisions. It reflects the value to the company of continuing to own operating businesses with future tax limited by historic assessed tax losses. The Company estimates its full tax losses at over \$7,000,000 but we do not consider it likely that these can be fully utilised within a realistic forecast timeframe.