

17 August 2006

## **ASX ANNOUNCEMENT**

### **SKILLED Group launches a recommended offer to acquire Catalyst Recruitment and consolidate its position as Australia's leading provider of specialist staffing services**

#### **Transaction Summary**

- SKILLED Group Limited ("SKILLED") (ASX: SKE) has launched an offer to acquire all of the shares in Catalyst Recruitment Systems Limited ("Catalyst Recruitment") (ASX: CRU).
- Catalyst Recruitment shareholders will receive a cash offer of 90 cents per share and will be entitled to Catalyst Recruitment's final dividend for the 2006 financial year, which will be 4 cents per share fully franked. The record date for the dividend will be 28 August 2006.
- The directors of Catalyst Recruitment have unanimously recommended that shareholders accept SKILLED's offer and intend to accept for all shares they own or control, in the absence of a superior proposal.
- The implied offer represents a premium of 27.5% to Catalyst Recruitment's three month volume weighted average share price (VWAP) or a premium of 33.2% when Catalyst Recruitment's final dividend of 4 cents per share is included.
- The proposed acquisition is expected to be EPS accretive (pre-intangibles amortisation) for SKILLED from year one.
- The offer values Catalyst Recruitment's fully diluted equity at \$47.1 million. SKILLED will fund the acquisition using existing debt facilities, increasing SKILLED's gearing to around 40%, including the existing balance of Catalyst Recruitment's debt (approximately \$2.3 million) immediately following the acquisition.
- The offer is conditional upon receiving a minimum 90% Catalyst Recruitment shareholder acceptance and other closing conditions set out in the Annexure.
- Ten major shareholders in Catalyst Recruitment, who together hold 40% of issued shares, have already agreed to sell shares totalling 19.9% of issued shares to SKILLED at 90 cents each.
- An update on the financial profile of the combined business will be presented at SKILLED's Full Year Results announcement on 23 August 2006.
- The acquisition would consolidate SKILLED's position as Australia's leading provider of staffing services.

## Overview of the Offer

SKILLED Group today announced an offer to acquire all of the shares in Catalyst Recruitment through a cash offer of 90 cents per share to Catalyst Recruitment shareholders, representing a 27.5% premium to Catalyst Recruitment's three month volume weighted average price (VWAP). Additionally, Catalyst Recruitment shareholders will be entitled to Catalyst Recruitment's final dividend of 4 cents per share for the year ended 30 June 2006. This implies a premium of 33.2% to Catalyst Recruitment's three month VWAP when Catalyst Recruitment's final dividend is included.

The offer values Catalyst Recruitment's fully diluted equity at \$47.1 million and SKILLED will fund the acquisition using existing debt facilities with gearing expected to increase to around 40% following the acquisition.

The proposed transaction will be EPS accretive (pre-intangibles amortisation) from year one.

The offer is conditional upon receiving a minimum 90% shareholder acceptance. Ten of the major shareholders in Catalyst Recruitment, who together hold 40% of issued shares, have already agreed to sell shares totalling 19.9% of issued shares to SKILLED at 90 cents each. This demonstrates that they consider the bid price is fair and decreases the possibility that a competing bid may emerge.

The directors of Catalyst Recruitment intend to accept SKILLED's offer in respect of all the Catalyst Recruitment shares they own or control, in the absence of a superior proposal.

Commenting on the acquisition Greg Hargrave, Managing Director and Chief Executive Officer of SKILLED Group said:

"The Catalyst Recruitment business is an excellent strategic fit and further consolidates our position as Australia's leading provider of staffing services.

"Catalyst Recruitment is a well run business with a strong management team and good people and we look forward to working with them. Together we will make a formidable team."

George Zammit, Chairman and Managing Director of Catalyst Recruitment said:

"The future of the staffing services industry is based on niche players or bigger industry consolidators who are able to leverage their scale to cater to the demands of larger clients. Catalyst Recruitment is excited about becoming a part of the industry leader and the outstanding opportunities it will create for our employees, clients and field staff."

"Furthermore, we are pleased with SKILLED's offer to our shareholders and believe it demonstrates the intrinsic value of the business".

## Value creation for Catalyst Recruitment shareholders

SKILLED's offer enables Catalyst Recruitment shareholders to continue to be entitled to the Catalyst Recruitment final dividend for the 2006 financial year which will be 4 cents per share, fully franked.

The implied value of SKILLED's offer of 90 cents per share represents:

- a 27.5% premium to Catalyst Recruitment's three month volume average weighted share price (VWAP) of \$0.71 on 16 August 2006.
- a 33.2% premium to Catalyst Recruitment's three month volume average weighted share price (VWAP) of \$0.71, if the value of Catalyst Recruitment's final dividend of 4 cents per share is included.

## **Strategic Rationale**

There are several compelling reasons for the transaction:

### *Excellent strategic fit*

SKILLED and Catalyst Recruitment are complementary businesses focused on specialist staffing services, predominantly in the blue collar sector where minimal client crossover is expected. In addition, the Wine Workforce brand provides SKILLED with the opportunity to diversify into staffing services in a new market segment.

### *Well managed business*

Staffing services businesses are built on the strength of their people. Catalyst Recruitment is a reputable, well run business with a strong management team and long term client relationships.

### *Good cultural fit*

There are many cultural similarities between SKILLED and Catalyst Recruitment and both businesses have similar values and a strong focus on training and development. The combined business will offer outstanding long term career opportunities for staff and field employees.

### *Synergy benefits*

Maintainable synergy benefits are expected through the elimination of costs currently incurred by Catalyst Recruitment as a publicly listed company and related overheads.

### *Consistent with SKILLED's growth strategy*

The acquisition of Catalyst Recruitment is consistent with SKILLED's growth strategy to grow organically or by acquiring related staffing services businesses.

### *Low operational risk*

Catalyst Recruitment's operations are generally within SKILLED's area of expertise and it is SKILLED's desire and intention to retain Catalyst Recruitment management and staff so operational risk is expected to be low.

### *Positive financial impact*

The acquisition is expected to be EPS accretive from year one (pre-intangibles amortisation).

## **Implementation Agreement**

Catalyst Recruitment has entered into a Takeover Bid Implementation Agreement with SKILLED under which Catalyst Recruitment agrees to cooperate with SKILLED to facilitate the takeover bid, to pay a break fee of \$500,000 to SKILLED in certain circumstances and not to solicit other bids for Catalyst Recruitment.

Further details are set out in the Annexure.

## **Timing**

Catalyst Recruitment shareholders will receive SKILLED's formal offer through a Bidder's Statement and Catalyst Recruitment's Target's Statement which are expected to be mailed together within the next week.

Goldman Sachs JBWere is acting as financial adviser to SKILLED Group and Freehills is acting as SKILLED's legal adviser.

Bell Potter is acting as financial adviser to Catalyst Recruitment and Minter Ellison is acting as Catalyst Recruitment's legal adviser.

For further information please contact:

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**About SKILLED Group**

SKILLED Group Limited is Australia's leading provider of labour hire and staffing services, partnering with clients to improve their workforce utilisation and increase their productivity levels through the provision of skilled and semi-skilled people. With over 90 offices across Australia, SKILLED provides staffing services in the blue collar, call centre and nursing sectors and their expertise in safety, industrial relations, training and apprenticeships is a core competitive advantage. SKILLED is listed on the Australian Stock Exchange (ASX: SKE) and has approximately 6,169 shareholders, predominantly in Australia.

**About Catalyst Recruitment**

Catalyst Recruitment Systems Limited is an Australian owned, quality accredited ISO company, listed on the Australian Stock Exchange, as a supplier of human resource and recruitment services to more than 1,000 companies nationally.

We fill positions literally from the factory floor to the boardroom and operate under various brand names offering our services to the executive, commercial, industrial, call centre, information technology, government, mining and wine marketplaces, making our organisation one of the most diverse and flexible recruitment companies in Australia.

*This annexure sets out the proposed bid conditions and summarises material provisions of the Takeover Bid Implementation Agreement between Skilled and Catalyst.*

## 1 Conditions to the bid

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The takeover offers will be subject to the following conditions:

(a) **Minimum acceptance**

During, or at the end of, the offer period, Skilled and its associates have a relevant interest in at least 90% (by number) of all of the shares in Catalyst (**Shares**).

(b) **No action by Government Agency adversely affecting the offer**

Before the end of the offer period:

- (1) there is not in effect any preliminary or final decision, order or decree issued by a Government Agency;
- (2) no action or investigation is instituted by any Government Agency; and
- (3) no application is made to any Government Agency (other than by Skilled) or commenced by a Government Agency,

in consequence of, or in connection with, the offer, which restrains, prohibits or impedes or otherwise materially adversely impacts upon, the making of the offer or the rights of Skilled in respect of its capacity as a shareholder in respect of Catalyst and the Shares to be acquired under the offer or otherwise, or seeks to require the divestiture by Skilled of any Shares, or the divestiture of any assets of Catalyst or by any subsidiary of Catalyst.

For this purpose, "Government Agency" means any government or any governmental, semi-governmental, statutory or judicial entity, agency or authority, whether in Australia or elsewhere, including (without limitation) any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions, and ASX or any other stock exchange.

(c) **No material adverse change**

None of the following occurs:

- an event, change, condition, matter or thing occurs;
- information is disclosed or announced by Catalyst or any of its subsidiaries concerning any event, change, condition, matter or thing; or
- information concerning any event, change, condition, matter or thing becomes known to Skilled (whether or not becoming public),

which (either alone or in combination with any other item falling within the above) will have, could reasonably be expected to have or which evidences that there has been a material adverse financial effect on the business, assets, liabilities, financial position and performance, material contracts (taken as a whole), profitability or prospects of Catalyst or any of its subsidiaries, since 30 June 2006 (except for such events, changes, conditions, matters or things disclosed to ASX by Catalyst prior to the date of this agreement). For these purposes a 'material adverse financial effect' is a reduction in Catalyst's annual net profit after tax by more than \$250,000.

(d) **No material acquisitions, disposals or changes in the conduct of business**

Neither Catalyst nor any subsidiary of Catalyst, other than in the ordinary course of business:

- (1) acquires, offers to acquire or agrees to acquire one or more companies or assets (or an interest in one or more companies or assets) for an amount in aggregate greater than \$250,000;
- (2) disposes, offers to dispose or agrees to dispose of one or more companies or assets (or an interest in one or more companies or assets) for an amount in aggregate greater than \$250,000;

- (3) enters into, offers to enter into or announces that it proposes to enter into any joint venture or partnership, involving a commitment of greater than \$250,000;
- (4) incurs, commits to or brings forward the time for incurring or grants to another person a right the exercise of which would involve Catalyst or a subsidiary of Catalyst incurring or committing to any capital expenditure or liability in respect of one or more related items of greater than \$250,000, other than a proposed IT upgrade by Catalyst; or
- (5) discloses (without having disclosed to ASX or to Skilled prior to the date of this agreement the existence of any matter described in sub-paragraphs (1) to (4) above, or announces an intention or proposal to do anything described in sub-paragraphs (1) to (4) above.

(e) **S&P/ASX 200 Index**

The S&P/ASX 200 Index does not fall below 4463 for 3 consecutive ASX trading days, which is approximately 10% lower than its level at the date prior to the announcement of the takeover bid.

(f) **No change of control rights**

No person who is one of Catalyst's 5 largest customers (measured by revenue for the financial year to 30 June 2006) having any rights, being entitled to have any rights, alleging an entitlement, or expressing or announcing an intention (whether or not that intention is stated to be a final or determined decision of that person) (in all cases whether subject to conditions or not), as a result of any change of control event in respect of Catalyst (including Skilled acquiring the Shares) or any of its subsidiaries or assets, to:

- (1) terminate or alter any contractual relations between any person and Catalyst or any of its subsidiaries (for this purpose an alteration includes the operations of a contract, whether or not that altered operation is provided for under the existing terms of the contract);
- (2) require the termination, modification or disposal (or offer to dispose) of any interest or asset, corporate body, joint venture or other entity; or
- (3) accelerate or adversely modify the performance of any obligations of Catalyst or any of its subsidiaries under any agreements, contracts or other legal arrangement.

(g) **Non-existence of certain rights**

No person has or will have any right (whether subject to conditions or not) as a result of Skilled acquiring the Shares to acquire, or require the disposal of, or require Catalyst or a subsidiary of Catalyst to offer to dispose of, any material asset (being an asset with a value of \$1 million or more) of Catalyst or a subsidiary of Catalyst.

(h) **No untrue statements to ASX or ASIC**

Skilled does not become aware that any document filed by or on behalf of Catalyst, or by or on behalf of any person in relation to Catalyst, with ASX or ASIC contains a statement which is incorrect or misleading in a material particular or from which there is a material omission.

(i) **No dividends or distributions**

Catalyst does not recommend, declare, pay or make or announce an intention or propose to recommend, declare, pay or make any dividend, bonus or other distribution (other than the dividend of 4 cents per Share fully franked for the financial year ending 30 June 2006).

(j) **No prescribed occurrences**

None of the following events happens before the date which is three business days after the end of the offer period:

- (1) Catalyst converts all or any of its shares into a larger or smaller number of shares;
- (2) Catalyst or a subsidiary of Catalyst resolves to reduce its share capital in any way;
- (3) other than in respect of any options over unissued Shares, Catalyst or a subsidiary of Catalyst:
  - enters into a buy-back agreement; or
  - resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;

- (4) Catalyst or a subsidiary of Catalyst issues shares (other than Shares issued as the result of the exercise of options) or grants an option over its shares, or agrees to make such an issue or grant such an option, other than Shares issued as required under or relating to the agreement for the acquisition by Catalyst or a subsidiary of Catalyst of the MindAtlas business;
- (5) Catalyst or a subsidiary of Catalyst issues, or agrees to issue, convertible notes;
- (6) Catalyst or a subsidiary of Catalyst disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (7) Catalyst or a subsidiary of Catalyst charges, or agrees to charge, the whole, or a substantial part, of its business or property;
- (8) Catalyst or a subsidiary of Catalyst resolves to be wound up;
- (9) a liquidator or provisional liquidator of Catalyst or a subsidiary of Catalyst is appointed;
- (10) a court makes an order for the winding up of Catalyst or a subsidiary of Catalyst;
- (11) an administrator of Catalyst, or a subsidiary of Catalyst, is appointed under section 436A, 436B or 436C of the Corporations Act;
- (12) Catalyst or a subsidiary of Catalyst executes a deed of company arrangement; or
- (13) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Catalyst or a subsidiary of Catalyst.

## 2 Takeover Bid Implementation Agreement

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On 17 August 2006, Skilled entered into a Takeover Bid Implementation Agreement with Catalyst. In summary, the agreement provides for the following matters:

(a) **Takeover bid**

Skilled agrees to make the takeover bid to Catalyst Shareholders on the agreed terms.

(b) **Break fee**

In recognition of the costs that Skilled will incur in making the bid and the benefits that will flow to Catalyst and its Shareholders, Catalyst agrees to pay Skilled \$500,000 if, at any time following Skilled's announcement of the takeover bid and prior to the earlier to occur of the end of the offer period and the termination of the Takeover Bid Implementation Agreement by Catalyst:

- (1) a Competing Proposal is announced or open for acceptance before the end of the offer period and a third party making the Competing Proposal, being a person other than Skilled or an associate of Skilled, acquires control (within the meaning of section 50AA of the Corporations Act) of Catalyst or any of its subsidiaries on or before the date 6 months after the date of the Takeover Bid Implementation Agreement;
- (2) any Catalyst director fails to recommend that Shareholders accept the offer in the absence of a superior offer, or, having made such a recommendation, makes a public statement which withdraws, revises or qualifies that recommendation (other than in circumstances where Catalyst is entitled under the Takeover Bid Implementation Agreement to terminate the Takeover Bid Implementation Agreement) on or before the date 6 months after the date of the agreement;
- (3) any Catalyst director recommends that Shareholders accept or support a Competing Proposal (other than in circumstances where Catalyst is entitled under the Takeover Bid Implementation Agreement to terminate the Takeover Bid Implementation Agreement) on or before the date 6 months after the date of the agreement; or
- (4) Skilled terminates the Takeover Bid Implementation Agreement.

(c) **Reverse break fee**

If Catalyst terminates the agreement as a result of a breach by Skilled of the agreement, Skilled must pay to Catalyst \$100,000, which is a genuine and reasonable pre-estimate of the costs that Catalyst would have incurred in these circumstances.

(d) **Bid conditions**

Catalyst agrees not to do (or omit to do) anything which will, or is likely to result in any of the conditions or the Bid being breached.

(e) **No solicitation**

Until the end of the Offer Period or the date which is 2 months after the date of this agreement (whichever is earlier), Catalyst must not and must ensure that each of its related bodies corporate, officers, employees, agents, consultants, investment bankers, lawyers or other advisers (each a **Relevant Person**) does not, directly or indirectly:

- (1) solicit or initiate (including, without limitation, by the provision of non-public information) any inquiries, expression of interest, offer, proposal or discussions by any person to make a Competing Proposal (whether from a person with whom Catalyst has previously been in discussions or not);
- (2) participate in any negotiations or discussions or provide any information to any person with respect to any inquiry, expression of interest, offer or proposal by any person to make a Competing Proposal;
- (3) accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding regarding a Competing Proposal; or
- (4) disclose any non-public information about the business or affairs of Catalyst to a third party (other than a Government Agency) with a view to obtaining or which may reasonably be expected to lead to receipt of a Competing Proposal, other than in the ordinary course of business or as required by law.

Sub-paragraphs (2) – (4) above do not prohibit any action or inaction by Catalyst or any Relevant Person if compliance with the relevant provision would, in the opinion of the board of Catalyst reasonably informed in good faith in reliance on specific written legal advice, constitute a breach of the duties of the directors of Catalyst provided that the approach by the third party was not facilitated by or as a result of a breach of sub-paragraph (1).

Catalyst must cease any discussions or negotiations existing as at the date of the agreement relating to any Competing Proposal or any transaction that may reduce the likelihood of the success of the Takeover Bid.

Until the end of the offer period or the date which is 2 months after the date of the Agreement (whichever is earlier), Catalyst must immediately notify Skilled of any approach or attempt to initiate discussions or negotiations regarding a Competing Proposal, such notification to include the detailed nature of the approach and the identity of the party making the approach.

(f) **Relevant definition**

For the purposes of the agreement, “Competing Proposal” means any proposal or transaction, which, if completed, would mean a person (other than Skilled or any associate of Skilled) would:

- (1) directly or indirectly acquire a legal or beneficial interest in, or control of, 10% or more of Catalyst’s share capital or of the share capital of any of its subsidiaries;
- (2) acquire control of Catalyst, within the meaning of section 50AA of the Corporations Act, or a material part of Catalyst’s business; or
- (3) otherwise acquire or merge (including by a reverse takeover bid or dual listed Catalyst structure) with Catalyst.