



## ASX Release 1 February 2007

### Lion and AuSelect to proceed with Recommended Merger

***“The Recommended Merger will result in the formation of a diversified mining company with a portfolio of high quality junior resource investments, which will complement and drive development of a core holding of larger investment and operations to provide capital growth and cash flow.”***

The directors of Lion Selection Group Limited (Lion) and AuSelect Limited (AuSelect) are pleased to announce they have agreed, subject to shareholder approval, to merge the two companies (the Recommended Merger) to form a new company, Lion Selection Limited (New Lion). The two companies have entered into a Merger Implementation Agreement dated 1 February 2007.

New Lion will have the benefits of a stronger balance sheet, greater financial capacity, a wider spread of assets, both geographically and by type, and continued exposure to the Lion Manager team and its proven investment philosophies.

#### The Recommended Merger at a Glance:

- Is a merger of equals based on relative net tangible asset (NTA) contributions.
- Will be implemented by way of two schemes of arrangement – the Lion scheme and the AuSelect scheme – importantly allowing both groups of shareholders to vote on the Recommended Merger.
- Terms will be based on the pre-tax NTAs of both companies calculated 5 days prior to the scheme meetings (the Calculation Date).
- The pre-tax NTAs are based on the share price of Lion’s and AuSelect’s listed investments and, in the case of the Cracow gold mine and exploration assets recently acquired by AuSelect through its acquisition of Sedimentary Holdings, the market value of that transaction.
- Based on the pre-tax NTAs of Lion and AuSelect as at 31 December 2006, the shareholders of Lion and AuSelect would receive:
  - Lion: 1 New Lion share for each Lion share held and 61 New Lion options for every 1,000 Lion shares held
  - AuSelect: 788 New Lion shares for every 1,000 AuSelect shares held
- The final terms of the Recommended Merger will be released to ASX on the Calculation Date and will also be available on the Lion ([www.lionselection.com.au](http://www.lionselection.com.au)) and AuSelect ([www.auselect.com.au](http://www.auselect.com.au)) websites.
- The cost structure remains substantially unchanged, with no changes envisaged to directors and management. The new simplified structure will result in greater effectiveness.

Scheme booklets (including the independent expert’s report) are expected to be dispatched to shareholders by the end of February.



## Lion's PDF Status

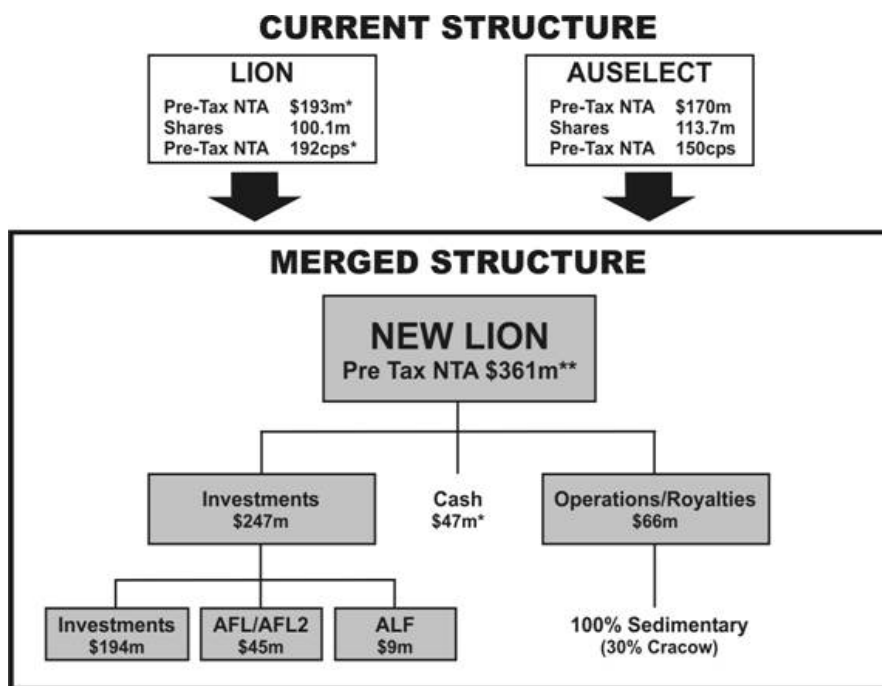
As a result of the implementation of the Recommended Merger it will be necessary for Lion to cease to be registered as a pooled development fund (PDF). Whilst there have been advantages associated with Lion being part of the PDF scheme, the tax advantages originally enjoyed by Lion and its shareholders have been eroded over time by changes to the tax system and other market factors.

New Lion will have enhanced access to new resource opportunities which Lion, as a PDF, is not permitted to invest in, including offshore domiciled companies, companies whose total assets are greater than \$50 million and direct interests in selected operations such as Cracow. New Lion will also be able to make and sell investments on market whereas Lion can only subscribe to new share issues.

## Overview of the Recommended Merger

The Recommended Merger of Lion and AuSelect is a merger of equals. The Recommended Merger terms will be based on the relative pre-tax NTA of Lion and AuSelect as at the Calculation Date.

The structure of New Lion based on the pre-tax NTA of Lion and AuSelect as at 31 December 2006 are illustrated in the simplified chart below.



\* After the \$10m Lion dividend payable on 23 February 2007.

\*\* After the \$10m Lion dividend payable on 23 February 2007 and excluding the value of Lion's AuSelect options.

Lion and AuSelect have agreed to merge on the basis of pre-tax NTA as this is believed to be the most accurate measure of value, given the assets of the two companies are made up largely of listed investments. The only significant exception to this principle is AuSelect's 30% interest in the Cracow gold mine acquired as a result of its acquisition of Sedimentary Holdings in late 2006. For the purpose of calculating AuSelect's NTA, the parties have agreed that the cost of acquiring Sedimentary Holdings under the takeover is the best measure of the value of the interest in the Cracow Gold Mine and its exploration assets as it is a recent market transaction between willing sellers and a willing buyer.

The ownership structure of New Lion, if the final terms of the Recommended Merger are based on the pre-tax NTAs of Lion and AuSelect as at 31 December 2006 (as outlined above), would be:



- Existing Lion shareholders                      approximately 53%
- Existing AuSelect shareholders                approximately 47%

In addition, Lion shareholders would receive New Lion options which, if exercised, would represent 3.1% of the diluted capital of New Lion. Lion currently owns options in AuSelect and once Lion and AuSelect become wholly owned subsidiaries of New Lion, these options will cease to have any value. Accordingly, the AuSelect options will be excluded from the calculation of the Lion's NTA and Lion shareholders are receiving New Lion options as compensation for the loss of the value of AuSelect options held by Lion. The terms of the New Lion options have been calculated so that their value is equivalent to the value of the AuSelect options.

Further detail on the mechanisms for determining the Recommended Merger terms will be outlined in the Lion and AuSelect scheme booklets.

### **Overview of New Lion**

New Lion is a new public company that has been established for the purpose of implementing the Recommended Merger between Lion and AuSelect.

New Lion will have the same board of directors as the current boards of Lion and AuSelect and has entered into a management agreement with Lion Manager which will come into effect on implementation of the Recommended Merger.

A brief description of New Lion's assets and anticipated activities post implementation of the Recommended Merger is provided in Annexure 1 of this announcement.

Further detail on New Lion will be provided in the Lion and AuSelect scheme booklets.

### **Key benefits of the Recommended Merger**

Lion and AuSelect have identified the following benefits of the Recommended Merger.

- The Recommended Merger is expected to lead to a re-rating for Lion and AuSelect shareholders by removing or reducing the share price discount to NTA through increased size and liquidity, and attracting increased institutional interest. The merger may lead in time to New Lion's inclusion in the S&P/ASX 200.
- New Lion will have a larger, more diverse asset portfolio across the project development spectrum, with the benefit of reduced investment and operational risk.
- New Lion will have enhanced access to new investment and resource opportunities through its increased size, stronger balance sheet and financial capability.
- The integration of the Lion and AuSelect investment philosophies will provide shareholders with expanded scope and greater exposure to the entire investment value curve.
- New Lion will be unshackled from the constraints placed on Lion's existing investment activities due to its status as a pooled development fund (PDF).
- The Recommended Merger will enable the Board and management of Lion and AuSelect to focus solely on the performance of New Lion.
- The Recommended Merger will simplify investment in the Lion Manager team for shareholders and new investors.



Further information on the benefits and the risks and disadvantages of the Recommended Merger will be contained in the Lion and AuSelect scheme booklets.

### **Implementation of the Recommended Merger**

The respective boards of Lion and AuSelect have delegated responsibility for decisions relating to the terms and implementation of the Recommended Merger to a committee of each board. No director is a member of both committees.

For Lion, the Board committee consists of Messrs Ewen Tyler and John O'Reilly. For AuSelect, the committee consists of Mr Graham Freestone. Mr Robin Widdup, as the Managing Director of Lion Manager, does not sit on either committee.

**The Lion and AuSelect board committees have recommended that shareholders of Lion and AuSelect (respectively) vote in favour of the Recommended Merger.** The committees resolved to enter into a Merger Implementation Agreement under which Lion and AuSelect have agreed to certain undertakings and arrangements to facilitate the implementation of the Recommended Merger. Key terms of the Merger Implementation Agreement are summarised in Annexure 2 of this announcement.

The principal steps now required to implement the Recommended Merger are:

- Lion shareholders must approve the acquisition of Lion by New Lion under the Lion scheme;
- AuSelect shareholders must approve the acquisition of AuSelect by New Lion under the AuSelect scheme;
- The Court must approve both the Lion scheme and the AuSelect scheme for the Recommended Merger to proceed; and
- ASX must admit New Lion to the official list of ASX and agree to quote the New Lion shares and New Lion options.

### **Timing**

It is expected that explanatory booklets for the Lion and AuSelect schemes will be dispatched to shareholders by the end of February and the Lion and AuSelect scheme meetings are expected to be held on 3 April 2007. Assuming shareholders and the Court approve the schemes, it is anticipated that implementation of the schemes will occur in late April. New Lion Shares and options will begin trading on ASX (initially on a deferred settlement basis) once the schemes become effective.

### **Company Name**

The merged company name is Lion Selection Limited. The name New Lion is used in this announcement to avoid confusion.

### **Advisers**

The financial adviser to Lion and AuSelect is Gryphon Partners. The legal adviser to Lion is Blake Dawson Waldron and to AuSelect is Mr Robert Paterson.

#### **Enquiries:**

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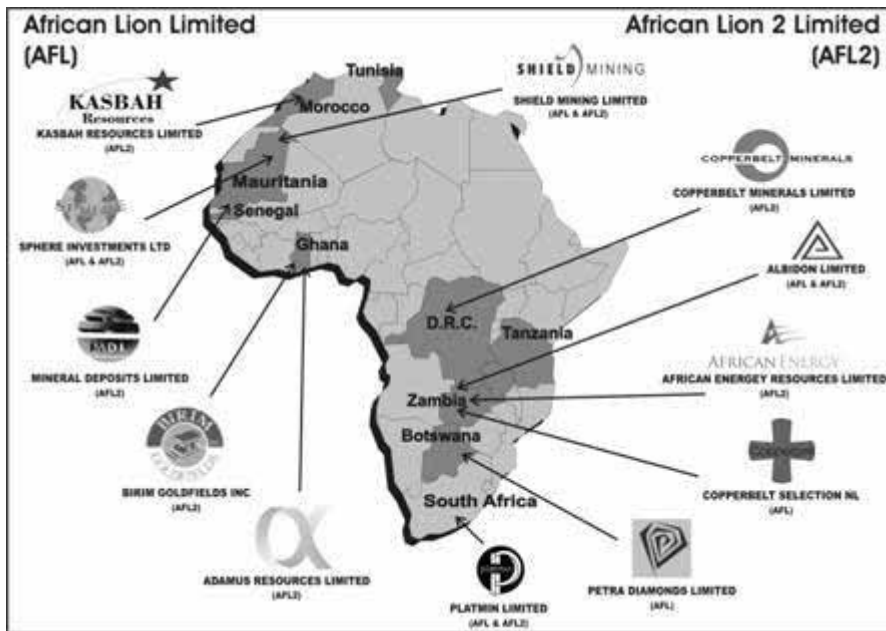
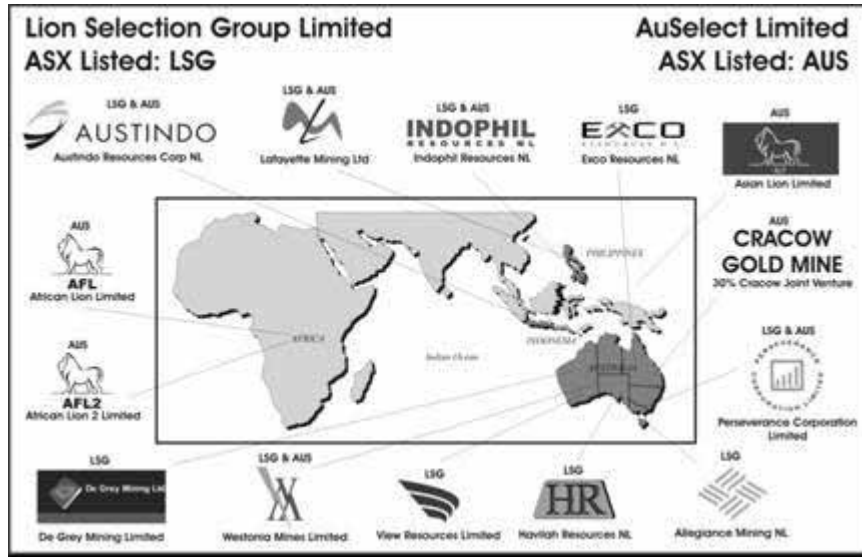
#### **Lion Selection Group / AuSelect Limited**

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## Annexure 1

### Overview of New Lion

New Lion will be an ASX listed resource company with a portfolio of high quality, junior resource investments and operations. New Lion's investments and assets will be initially a combination of those investments and assets held by Lion and AuSelect.

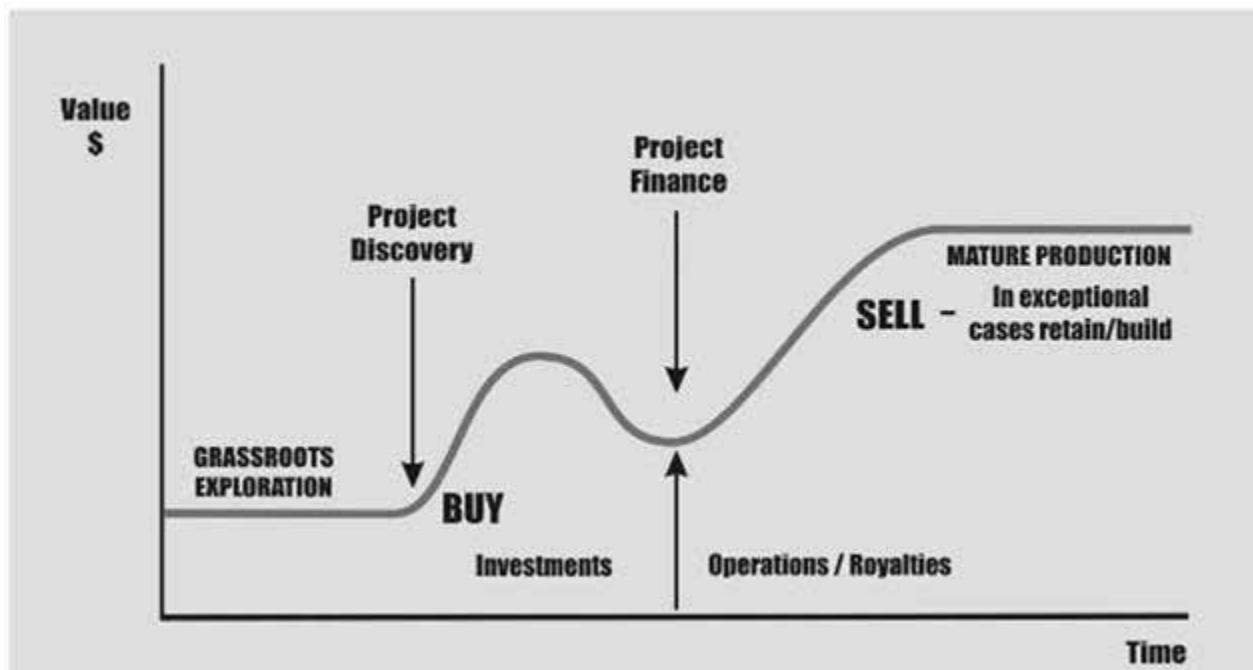




New Lion will retain the same investment philosophy as Lion and AuSelect currently, through the creation of two principal business arms.

Investments Division	Operations / Royalties Division
➤ Venture capital / early stage investor	➤ Opportunistic / later stage investor
➤ Invest in quality people / companies	➤ Invest in quality people, companies, operations and royalties
➤ Regional focus: <ul style="list-style-type: none"> <li>• 50% Australia</li> <li>• 50% Africa / Asia</li> </ul>	➤ Aim for balance within Australia, Africa and Asia
➤ Commodity focus: <ul style="list-style-type: none"> <li>• 50% gold</li> <li>• 50% other metals</li> </ul>	➤ Aim for commodity balance
➤ Sell portfolio within investment cycle	➤ Retain selective opportunities beyond the investment cycle

New Lion will continue to seek venture capital style investments and aim to either dispose of these investments at the appropriate time in their development cycle or retain and build on exceptional project opportunities, such as the Cracow gold mine and exploration joint venture.





The following is a draft Investment Summary table which gives an indication of the combined assets of New Lion as if the Recommended Merger had occurred on 31 December 2006.

### New Lion - Investment Summary

At 31/12/2006	Code	Country/Activity	New Lion Holding %	Investment \$m	Market Value \$m
<b>INVESTMENTS</b>					
Allegiance Mining	AGM	Australia - nickel	6.8%	6.1	21.8
Austindo Resources	ARX	Indonesia - gold	19.1%	11.4	7.0
De Grey Mining	DEG	Australia - gold	6.7%	3.4	1.9
Exco Resources	EXS	Australia - copper/gold	10.7%	4.1	5.0
Havilah Resources	HAV	Australia - gold/base metals	19.0%	2.4	19.6
Indophil Resources	IRN	Philippines - copper & gold	25.8%	22.6	77.2
Intrepid Mines	IAU	Australia/Argentina - gold	9.1%	14.6	10.3
Lafayette Mining	LAF	Philippines - polymetallic	18.6%	15.2	14.3
Perseverance Corp	PSV	Australia - gold	4.2%	14.5	11.0
View Resources	VRE	Australia - gold/nickel	8.7%	6.7	6.1
Westonia Mines	WEZ	Australia - gold	44.3%	13.1	19.4
Other				0.6	0.5
<b>TOTAL INVESTMENTS</b>				<b>114.7</b>	<b>194.0</b>
<b>FUNDS</b>					
<b>African Lion Funds</b>			<b>26.6%</b>	<b>9.1*</b>	<b>44.6</b>
Albidon - ASX	ALB	Zambia - Ni	6.0%	3.3	15.6
Mineral Deposits - ASX	MDL	Senegal - mineral sands/gold	0.7%	0.9	3.6
Platmin - TSX	PPN	South Africa - PGMs	2.7%	3.5	16.4
Sphere Investments - ASX	SPH	Mauritania - iron ore	2.0%	1.1	4.4
Other including cash committed					4.3
<b>Asian Lion Fund (ALF)</b>			<b>32.4%</b>	<b>8.9</b>	<b>8.8</b>
Total invested (including cash)				1.8	1.7
Cash committed				7.1	7.1
<b>TOTAL FUNDS</b>				<b>18.0</b>	<b>53.4</b>
<b>OPERATIONS</b>					
<b>Sedimentary</b>					
30% Cracow + Exploration				73.8	73.8
Net Cash (Debt)				(7.8)	(7.8)
<b>TOTAL OPERATIONS</b>				<b>65.9</b>	<b>65.9</b>
<b>NET CASH</b>					<b>47.2</b>
<b>TOTAL NET ASSETS</b>					<b>360.5</b>
Total Investments and Net Assets exclude value of Lion's AuSelect options					
<b>Total Net Assets after tax</b>					<b>360.5</b>
<b>Net Tangible Assets (NTA) before tax (cents per share)</b>					<b>190.0c**</b>
<b>Net Tangible Assets (NTA) after tax (cents per share)</b>					<b>190.0c**</b>

For NTA purposes, all listed investments at market price.

\*\*Million shares on issue 189.7625

\* AuSelect investment remaining in the African Lion Funds after capital returned



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## **Management Agreement with Lion Manager**

Lion Manager, which currently provides management services to both AuSelect and Lion, will provide the same management services to New Lion.

The annual management fee will be a simple addition of the management fees payable to both Lion and AuSelect, and will be approximately 0.76% of New Lion's pre tax NTA. The fee will increase by an additional 1% on any new capital raised following the merger.

A performance incentive of 10% of New Lion's market capitalisation over a hurdle will be payable. This compares to a 20% performance incentive payable under the Lion management agreement and no performance incentive under the AuSelect management agreement. The hurdle is equivalent to that under the agreement between Lion and Lion Manager.



## Annexure 2

### Summary of Merger Implementation Agreement

The following is a summary of the key terms and conditions of the Merger Implementation Agreement between Lion and AuSelect dated 1 February 2007 under which the parties agree to propose and implement the Lion scheme and the AuSelect scheme (together the Schemes).

#### Interconditionality of Schemes

Each Scheme is subject to and conditional on the other Scheme becoming Effective. Neither Scheme will come into operation unless the other Scheme comes into operation.

#### Conduct of Business Before Implementation Date

Each of Lion and AuSelect agrees to certain obligations requiring it to conduct its business in the ordinary course up to and including the implementation date of the Schemes. In addition, Lion agrees to not deal in any way with the AuSelect options held by Lion without the prior written consent of AuSelect.

#### Lion and AuSelect Schemes

(a) **Lion Scheme** - Lion agrees to propose the Lion scheme under which all of the Lion shares will be transferred to New Lion and Lion scheme participants will receive the Lion scheme consideration calculated as follows:

- 1 New Lion share for each Lion share held at the record date; and
- The number of New Lion options for each Lion share held at the record date calculated in accordance with the following formula:

$$\text{NLO} = \frac{7,697,600}{100,108,905} \times \text{NLS}$$

where:

- NLO = the number of New Lion options to be issued for each Lion share held at the record date (rounded to three decimal places);
- 7,697,600 = the number of existing AuSelect options;
- 100,108,905 = the number of existing Lion shares; and
- NLS = the number of New Lion shares to be issued under the AuSelect scheme for each AuSelect share at the record date (rounded to three decimal places).

The New Lion options will be listed on ASX and each New Lion option will be exercisable into one New Lion share at the Exercise Price by 26 April 2009. The Exercise Price for each New Lion option will be determined by the formula:



$$EP = 120 \times \frac{\text{Lion pre-tax NTA per Lion share}}{\text{AuSelect pre-tax NTA per AuSelect share}}$$

where:

EP = the Exercise Price of New Lion options expressed in cents;

120 = the Exercise Price of the AuSelect options expressed in cents; and

The pre-tax NTA for each of Lion and AuSelect (on a per share basis) will be equal to the pre-tax NTA of that party determined in accordance with the pre-tax NTA principles as set out below, divided by the number of shares of that party as at the Calculation Date.

- (b) **AuSelect Scheme** - AuSelect agrees to propose the AuSelect scheme under which all of the AuSelect shares will be transferred to New Lion and AuSelect scheme participants will receive the AuSelect scheme consideration calculated as follows:

$$NLS = \frac{\text{Lion pre-tax NTA per Lion share}}{\text{AuSelect pre-tax NTA per AuSelect share}}$$

where:

NLS = the number of New Lion shares to be issued for each AuSelect share held as at the record date; and

The pre-tax NTA for each of Lion and AuSelect (on a per share basis) will be equal to the pre-tax NTA of that party determined in accordance with the pre-tax NTA principles as set out below, divided by the number of shares of that party as at the Calculation Date.

- (c) **Pre-tax NTA Principles** – The calculation of pre-tax NTA for each of Lion and AuSelect is defined as the sum of:

- For all listed investments, the number of shares held in an Investee multiplied by the 5-day volume weighted average price of shares in the Investee over the 5 trading days immediately preceding the Calculation Date;
- For unlisted investments, valued at the lower of cost or written down value as at the Calculation Date; and
- Cash less debt and other liabilities as at the Calculation Date.

Lion's pre-tax NTA will not include the value of the AuSelect options, the amount of the Lion dividend to be paid on 23 February 2007 or the value of any incentive payment that has accrued to Lion Manager as at the Calculation Date under the Lion management agreement. Provision will be made for tax on any realised investments of Lion and AuSelect.

The Calculation Date will be the 5<sup>th</sup> business day before the date of the Lion and AuSelect scheme meetings to approve the Recommended Merger.

### Conditions of the Schemes

Implementation of each of the Schemes is subject to the satisfaction (or waiver) of the following conditions:

- (a) the independent expert's report obtained by Lion and AuSelect concluding that the Schemes are in the best interest of Lion shareholders and AuSelect shareholders respectively;



- (b) no Lion committee or AuSelect committee directors altering their recommendation in relation to the Schemes;
- (c) Lion shareholder approval of the Lion scheme being obtained at the Lion scheme meeting and AuSelect shareholder approval of the AuSelect scheme being obtained at the AuSelect scheme meeting;
- (d) the Court making orders under section 411(4)(b) of the Corporations Act approving the Schemes;
- (e) the Schemes becoming effective by 30 June 2007;
- (f) all relevant regulatory approvals (including any approvals required from the PDF Registration Board) being obtained by, and not being withdrawn before, 8.00am on the second Court hearing date;
- (g) no legal restraint or prohibition preventing implementation of the Schemes being in effect at 8.00am on the second Court hearing date;
- (h) no material adverse change occurring in relation to Lion or AuSelect before 8.00am on the second Court hearing date;
- (i) certain prescribed events (including changes to capital structure, major acquisitions, disposals and transactions, insolvency events, changes to constitution, declaration of dividends and other matters) not occurring in relation to Lion or AuSelect before 8.00am on the second Court hearing date;
- (j) the representations and warranties of Lion and AuSelect under the Merger Implementation Agreement being true and correct in all material respects as at 8.00am on the second Court hearing date;
- (k) the Merger Implementation Agreement not being terminated before 8.00am on the second Court hearing date; and
- (l) ASX approving the admission of New Lion to the official list and the New Lion shares and New Lion options to be issued in accordance with the Schemes being approved for official quotation by ASX (which approval may be conditional on the Schemes becoming effective and such other conditions customarily imposed by ASX).

### **Representations and Warranties**

Mutual representations and warranties are given in relation to various matters including enforceability of the obligations of the parties to give effect to and implement the Schemes, authorisation, capacity, no breach of any legal or continuous disclosure obligations and the accuracy of information exchanged between the parties.

### **Exclusivity**

- (a) **No other existing discussions** – each party represents and warrants that it is not currently in negotiations or discussions in respect of any competing proposal with a third party.



- (b) During the period from the date of the Merger Implementation Agreement until the termination of the Merger Implementation Agreement or until the Schemes become effective (whichever is earlier), each party must:
- (i) **No-shop** - ensure that neither it nor any of its representatives take any actions with a view to obtaining any expression of interest or proposal from any person in relation to a competing proposal;
  - (ii) **No-talk** - ensure that neither it nor any of its representatives negotiates or enters into any negotiations or discussions with any person regarding a competing proposal; and
  - (iii) **Notification** – immediately inform the other party if it is approached by a third party in relation to a competing proposal.
- (c) **Fiduciary duties exception** - Despite the restrictions in (b)(ii) above, either party shall be entitled to respond to a bona fide proposal where failing to respond would constitute a breach of directors' fiduciary or statutory obligations, provided that it has received written advice from external legal advisers to that effect.

### Termination Rights

Either party may terminate the Merger Implementation Agreement if:

- the other party is in material breach of any term of the Merger Implementation Agreement; and
- the party wishing to terminate has given the other party written notice setting out the details of the breach and stating its intentions to terminate the Merger Implementation Agreement and the breach continues for at least 5 business days after notice has been given by the party not in breach.

The parties also have rights to terminate the agreement in certain circumstances if a condition of either of the Schemes is not satisfied or waived.

The Merger Implementation Agreement will automatically terminate if:

- Lion or AuSelect shareholder approval is not obtained at the scheme meetings;
- the Court refuses to grant an order convening either of the scheme meetings or approving either of the Schemes (and no appeal is made); or
- either of the Schemes does not become effective on or before 30 June 2007.

### Break Fee

- (a) Each of Lion and AuSelect agrees to pay the other party the sum of \$1.4 million (the Break Fee) for reimbursement of costs (including opportunity costs) if:
- a director on the committee established by the board of that party makes a statement to the effect that he does not support the Recommended Merger or withdraws or alters his recommendation of the Recommended Merger (other than in limited circumstances where that party is entitled to terminate the Merger Implementation Agreement or because the Independent Expert has concluded that the Recommended Merger is not in the best interest of that party's shareholders);



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- a director on the committee established by the board of that party publicly recommends, promotes or endorses a competing proposal prior to the termination of the Merger Implementation Agreement;
  - a competing proposal in relation to that party is announced prior to the termination of the Merger Implementation Agreement and (regardless of whether the agreement is terminated after the competing proposal is announced) the third party subsequently acquires control of that party or acquires all or a substantial part of the assets or business of that party and its subsidiaries; or
  - the other party terminates the Merger Implementation Agreement as a result of a material breach of the agreement by that party.

(b) The Break Fee is not payable if the Schemes become Effective.

### **Cost Sharing**

If the Recommended Merger does not proceed, and the Break Fee is not payable, the costs of the merger will be shared on the basis of 53% Lion and 47% AuSelect.