

Mykco Limited

Independent Adviser's Report

In Respect of the Allotment of Shares to the Shareholders of Corporate Holdings Limited

Independent Report

In Respect of the Proposed Backdoor Listing of Corporate Holdings Limited

July 2018

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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1. Introduction

1.1 Background

Mykco Limited (**Mykco** or the **Company**) was incorporated in New Zealand on 30 September 2011 as Mykris Limited and listed its shares on the NZX Alternative Market (**NZAX**) operated by NZX Limited (**NZX**) on 10 January 2012.

The Company was established as a special purpose vehicle and holding company for a Malaysian internet business comprising 2 companies – MyKRIS Asia Sdn. Bhd and MyKRIS Net (MSC) Sdn. Bhd (the **2 Mykris Companies**).

The Company completed the sale of the 2 Mykris Companies to Mykris International Sdn. Bhd (**MIB**) on 3 November 2015 and changed its name to Mykco Limited on 11 November 2015.

The Company's market capitalisation was \$1.2 million as at 9 July 2018 and its audited total equity was \$1.0 million as at 31 March 2018.

A profile of Mykco is set out in section 4.

1.2 Proposed Transaction with Corporate Holdings Limited

Overview

Mykco announced on 28 May 2018 that it had entered into a conditional agreement for sale and purchase of shares with the shareholders of Corporate Holdings Limited (**CHL**) (other than itself) on 28 May 2018 (the **CHL Agreement**) whereby Mykco will acquire all of the shares in CHL other than the 100,000 shares that Mykco already owns (the **CHL Shares**) (the **CHL Acquisition**).

Consideration for the CHL Acquisition will be in the form of the issue of 104,323,240 new fully paid ordinary shares in the Company (the **Consideration Shares**) at a price of \$0.0588 per share (the **CHL Allotment**) to the 13 shareholders of CHL other than Mykco (the **CHL Shareholders**).

We refer to the CHL Acquisition and the CHL Allotment collectively as the **CHL Transaction**.

The CHL Transaction is effectively a scrip merger of Mykco and CHL and represents a backdoor listing of CHL through Mykco. Following the CHL Transaction, the CHL Shareholders will hold 86.20% of the shares in Mykco and the current Mykco shareholders not associated with the CHL Shareholders will hold 13.80% of the shares.

Corporate Holdings Limited

CHL is a holding company that wholly owns 2 companies:

- General Finance Limited (**GFL**) – a non-bank deposit taker (**NBDT**) which operates as a finance company
- Investment Research Group Limited (**IRG**) – a corporate advisory and financial research company.

A profile of CHL is set out in section 5.

CHL has 6,512,000 shares on issue:

- 1,555,000 shares are ordinary shares
- the remaining 4,957,000 shares are preference shares that will convert into ordinary shares on a one for one basis prior to the settlement of the CHL Transaction.

Mykco holds 100,000 shares, representing 1.54% of CHL's shares.

The other 6,412,000 shares are held by the 13 CHL Shareholders including:

- Borneo Capital Limited (**Borneo**) – 2,000,000 shares (30.71%)
- Brent King – 1,280,000 shares (19.66%)
- Garth Ward – 100,000 shares (1.54%).

Borneo

Borneo is wholly owned by Rewi Bugo. Mr Bugo is a non-executive director of Mykco and a director of CHL.

King Associates

Brent King is the non-executive chair of Mykco and a director of CHL. He has a relevant interest in 2,464,786 ordinary shares in Mykco, representing 12.56% of Mykco's total shares on issue. Mr King's relevant interest in Mykco is held via Barter Investments Limited (**Barter**) (2,342,220 shares) and in his own name (122,566 shares).

Mr Ward is the financial controller of Mykco and CHL. Mr Ward holds 45,455 ordinary shares in Mykco, representing 0.23% of Mykco's total shares on issue. Mr Ward is a director of Barter and a director of CHL.

For the purposes of the CHL Transaction, Mr King, Barter and Mr Ward are deemed to be associates / associated persons.

We refer to Mr King, Barter and Mr Ward collectively as the **King Associates**.

Purchase Price

The purchase price for the CHL Shares is \$6,132,436.80 (the **Purchase Price**).

Consideration

The consideration will be payable by Mykco to the CHL Shareholders by way of the issue of 104,323,240 Consideration Shares at a price of \$0.0588 per share:

- Borneo will be allotted 32,540,000 shares
- the King Associates will be allotted 23,672,850 shares
- the other 9 CHL Shareholders will be allotted 48,110,390 shares.

Conditions

The CHL Transaction is conditional on shareholder approval.

The CHL Transaction is also conditional on:

- the consent of the supervisor of GFL (Covenant Trustee Services Limited (**Covenant**))
- the consent of the Reserve Bank of New Zealand (the **Reserve Bank**)
- Mykco remaining listed on the NZAX on completion
- GFL’s NBDT licence remaining in full force and effect on completion
- GFL continuing to offer term deposits up to completion under a Product Disclosure Statement (**PDS**) that complies with all applicable laws.

Completion

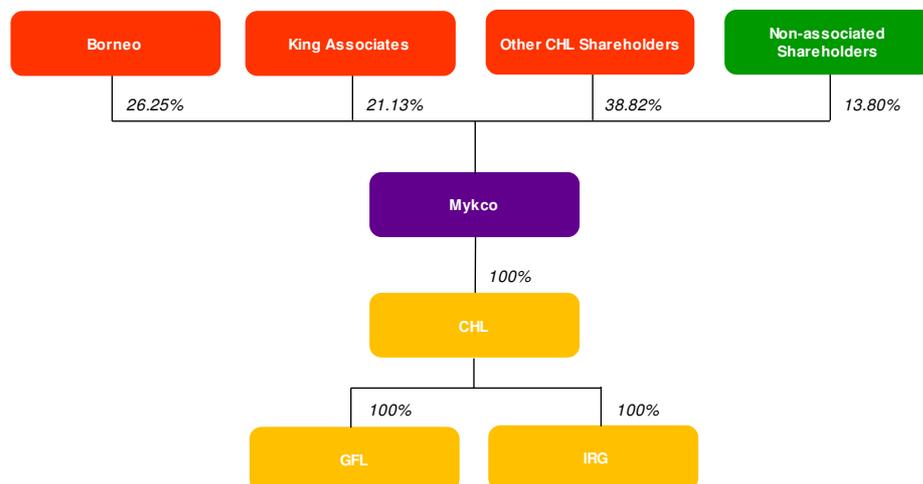
Mykco and the CHL Shareholders envisage that the CHL Transaction will be completed by 3 August 2018.

1.3 Shareholding Levels Post the CHL Transaction

The table below shows the number of shares that will be held by the current Mykco shareholders not associated with Borneo or the King Associates (the **Non-associated Shareholders**), Borneo, the King Associates and the other CHL Shareholders immediately following the CHL Transaction.

Mykco Shareholding Levels Post the CHL Transaction					
	Current		CHL Allotment	Post CHL Transaction	
	No. of Shares	%	No. of Shares	No. of Shares	%
Non-associated Shareholders	17,106,633	87.20%	-	17,106,633	13.80%
Borneo	-	-	32,540,000	32,540,000	26.25%
King Associates	2,510,241	12.80%	23,672,850	26,183,091	21.13%
Other CHL Shareholders	-	-	48,110,390	48,110,390	38.82%
Total	19,616,874	100.00%	104,323,240	123,940,114	100.00%

Following the CHL Transaction, the Non-associated Shareholders will hold 13.80% of the Company’s shares and Borneo, the King Associates and the other CHL Shareholders will collectively hold 86.20% of the shares.



1.4 Summary of Opinions

Takeovers Code

Our evaluation of the merits of the CHL Transaction as required under the Takeovers Code (the **Code**) is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the CHL Transaction (including the CHL Allotment) significantly outweigh the negative aspects from the perspective of the Non-associated Shareholders.

NZX Guidance Note

Our evaluation of the fairness of the CHL Transaction as required under the NZX Guidance Note *Backdoor and Reverse Listing Transactions* dated August 2008 (the **NZX Guidance Note**) is set out in section 3.

In our opinion, after having regard to all relevant factors, the terms of the CHL Transaction are fair and reasonable to the Non-associated Shareholders and are in the best interests of Mykco given the options reasonably available to the Company at the current time.

1.5 Special Meeting

The Non-associated Shareholders will vote on a special resolution in respect of the CHL Transaction (resolution 1 - the **CHL Transaction Resolution**) at the Company's special meeting of shareholders on 31 July 2018.

A special resolution is passed by a majority of not less than 75% of the votes cast.

The King Associates are not permitted to vote on the CHL Transaction Resolution. Borneo does not currently hold any shares in Mykco.

The Company's shareholders will also vote on:

- resolution 2 – an ordinary resolution in respect of Mykco entering into a management agreement with Brent King upon the completion of the CHL Transaction, whereby Mr King will be appointed managing director of Mykco and its subsidiaries
- resolution 3 – an ordinary resolution in respect of increasing the total directors' remuneration pool from \$150,000 to \$300,000 per annum.

An ordinary resolution is passed by a simple majority of the votes cast.

The resolutions are interdependent in that all 3 resolutions must be passed in order for any of them to be passed.

1.6 Disclosure Document

In addition to the notice of special meeting that this report accompanies, Mykco has prepared a disclosure document in respect of the CHL Transaction (the **Disclosure Document**) in accordance with NZAX Listing Rules 6.1.1 and 7.1.3. The Disclosure Document provides detailed information in respect of CHL and the CHL Transaction.

1.7 Regulatory Requirements

Takeovers Code

Mykco is a code company as defined by the Code and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person and that person's associates who hold or control no voting rights or less than 20% of the voting rights in a code company from increasing their holding or control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

Borneo currently does not hold any shares in Mykco. The King Associates currently hold 2,510,241 shares in Mykco, representing 12.80% of the voting rights in the Company.

The CHL Allotment will result in Borneo controlling 26.25% of the voting rights in Mykco and the King Associates controlling 21.13% of the voting rights in Mykco.

Accordingly, the Non-associated Shareholders will vote at the Company's special meeting on the CHL Transaction Resolution in accordance with the Code. As stated in section 1.4, the CHL Transaction Resolution is a special resolution. The passing of a special resolution means that the threshold for the passing of an ordinary resolution (as required under the Code) is also passed.

The King Associates are not permitted to vote on the CHL Transaction Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

NZX Guidance Note

As the CHL Transaction represents a backdoor listing of CHL into Mykco, an Independent Report on the CHL Transaction is required under the NZX Guidance Note.

The NZX Guidance Note requires that the Independent Report complies with the requirements of an Appraisal Report under NZX Main Board Listing Rule 1.7.2.

Companies Act 1993 and NZAX Listing Rules

The CHL Transaction constitutes a major transaction under section 129 (2) of the Companies Act 1993 (the **Companies Act**) and Rule 9.1.1 (b) of the NZAX Listing Rules.

The CHL Transaction also involves the Company issuing shares for the purpose of NZAX Listing Rule 7.3.1, an issue of shares affecting control for the purpose of NZAX Listing Rule 7.5, a change in the essential nature of the Company's business for the purpose of NZAX Listing Rule 9.1.1 (a) and transactions with related parties for the purpose of NZAX Listing Rule 9.2.1.

Section 129 (1) of the Companies Act and NZAX Listing Rules 7.3.1, 7.5, 9.1.1 (a), 9.1.1 (b) and 9.2.1 require that the CHL Transaction be approved by way of a special resolution. Accordingly, the Non-associated Shareholders will vote at the Company's special meeting on the CHL Transaction Resolution in accordance with the Companies Act and the NZAX Listing Rules.

1.8 Purpose of the Report

The directors of Mykco not associated with Borneo or the King Associates, being Graeme Brown, Huei Min (Lyn) Lim and Simon McArley (the **Independent Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the CHL Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 1 March 2018 to prepare the Independent Adviser's Report.

The Independent Directors have engaged Simmons Corporate Finance to prepare an Independent Report on the fairness of the CHL Transaction in accordance with the NZX Guidance Note.

Simmons Corporate Finance issues this Independent Adviser's Report and Independent Report to the Independent Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the CHL Transaction Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the CHL Allotment and the fairness of the CHL Transaction in relation to each shareholder. This report on the merits of the CHL Allotment and the fairness of the CHL Transaction is therefore necessarily general in nature.

This Independent Adviser's Report and Independent Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the CHL Allotment

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the CHL Allotment having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 1 March 2018
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

Given that the CHL Allotment is an integral component of the CHL Transaction, we are of the view that an assessment of the merits of the CHL Allotment cannot be undertaken in isolation and needs to be considered in conjunction with the merits of the CHL Transaction. Accordingly, we are of the view that an assessment of the merits of the CHL Transaction should focus on:

- the rationale for the CHL Transaction
- the fairness of the terms of the CHL Transaction
- the likelihood of alternative transactions
- the impact of the CHL Transaction on the financial performance and financial position of Mykco
- the impact of the CHL Transaction on the control of Mykco
- the impact of the CHL Transaction on Mykco's share price
- the benefits and disadvantages to the Non-associated Shareholders of the CHL Transaction
- the benefits and disadvantages to the King Associates of the CHL Transaction
- the implications if the CHL Transaction Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the CHL Transaction

The Non-associated Shareholders currently hold shares in a listed shell company with total equity of \$1.0 million as at 31 March 2018 and whose shares are thinly traded on the NZAX.

The Non-associated Shareholders are being asked to vote on 3 resolutions, one of which is in respect of the CHL Transaction. All resolutions must be passed in order for the CHL Transaction to proceed. Accordingly, the Non-associated Shareholders have 3 alternatives with regard to their voting:

- vote in favour of all 3 resolutions, in which case the CHL Transaction will proceed, resulting in the Non-associated Shareholders holding a much smaller shareholding in Mykco, which will have total equity in excess of \$7 million and will focus on developing new operations in the financial services sector, or
- vote against any of the resolutions. In the event that any one of the 3 resolutions is not passed, then the CHL Transaction will not proceed and the Company will remain as a listed shell company, or
- abstain from voting, in which case the voting of the other Non-associated Shareholders will determine the outcome.

The CHL Transaction is effectively a scrip merger of Mykco and CHL whereby Mykco will acquire CHL for \$6.1 million and the CHL Shareholders will collectively own 86.20% of Mykco's shares, with Borneo holding 26.25% of the Company's ordinary shares and the King Associates holding 21.13%. The CHL Transaction will transform Mykco into a company with over \$7 million of total equity that owns 2 businesses operating in the finance company sector and financial advisory sector

Our evaluation of the merits of the CHL Transaction (including the CHL Allotment) is set out in detail in sections 2.3 to 2.17.

In summary, the key positive aspects of the CHL Transaction are:

- the rationale for the CHL Transaction is sound. It achieves Mykco's objective of backdoor listing one or more businesses through its listed shell. Mykco will be transformed into listed financial services company operating a finance company and a financial advisory services business
- the terms of the CHL Transaction are reasonable:
 - the Purchase Price of \$6.1 million is fair to the Non-associated Shareholders. We assess the value of the CHL Shares to be in the range of \$5.5 million to \$6.2 million
 - the issue price of the Consideration Shares is fair to the Non-associated Shareholders. They will be issued at \$0.0588 per share, which equates to Mykco's net assets per share as at 30 September 2017. The issue price approximates Mykco's 3 months volume weighted average share price (**VWAP**) up to the announcement of the CHL Transaction and is at a premium of between 9% and 15% to the Company's VWAP measured between 6 months and 12 months. Given that the Consideration Shares will be issued at a price not less than market value of the Company's shares, the issue will not be value-dilutionary to the Non-associated Shareholders

- we note that no value is ascribed to Mykco's NZAX listing in the issue price of the Consideration Shares. However, we do not consider this to be materially adverse for the Non-associated Shareholders when the CHL Transaction is viewed from an overall perspective
- the conditions and warranties set out in the CHL Agreement are in line with market practice for transactions of this nature and are not unreasonable
- the CHL Transaction will have a significant positive impact on the Company's financial performance and financial position. Mykco will significantly increase in size and scale following the CHL Transaction. It will have:
 - forecast total revenue of \$2.5 million for the 2019 financial year (compared with Mykco's revenue of \$9,000 for the 2018 financial year)
 - total equity of \$7.3 million immediately following the CHL Transaction (compared with Mykco's total equity of \$1.0 million as at 31 March 2018)
 - total assets of \$17.7 million immediately following the CHL Transaction (compared with Mykco's total assets of \$1.1 million as at 31 March 2018)
- the main implication of the CHL Transaction Resolution not being approved by the Non-associated Shareholders is that the CHL Transaction cannot proceed. The Company will likely need to raise additional capital in a relatively short timeframe to fund its current operating costs and to enable it to continue to seek acquisition opportunities to effect a backdoor listing. If the Company cannot raise sufficient capital, this may lead to the need to wind up the Company, in which case the return to the Non-associated Shareholders may be minimal.

In summary, the key negative aspects of the CHL Transaction are:

- the risk profile of Mykco will change significantly from the limited risks associated with a listed shell company to the wide range of risks associated with businesses operating in the financial services sector
- Borneo will hold 26.25% and the King Associates will hold 21.13% of the Company's shares following the CHL Allotment:
 - they will both hold significant influence over the outcome of shareholding voting and exert a high degree of influence over the Company's board of directors (the **Board**) and the Company's operations
 - however, no King Associate nor Borneo will control more than 50% of the Company's voting rights and therefore will not be able to utilise the *creep* provisions of Rule 7(e) of the Code to buy up to a further 5% of the Company's shares per annum without the need for shareholder approval
- the dilutionary impact of the CHL Transaction on the Non-associated Shareholders will result in their proportionate shareholdings in the Company reducing by 84.2% following the CHL Allotment. However, there will be no dilutionary impact on the value of their shareholdings
- the attraction of Mykco as a takeover target may diminish.

The CHL Transaction may have some impact on the liquidity of Mykco's ordinary shares if some of the CHL Shareholders seek to trade their Consideration Shares. However, the number of shares held by the Non-associated Shareholders will not change. It is uncertain as to what price range the shares may trade at post the CHL Transaction.

There are a number of positive and negative features associated with the CHL Transaction. In our view, when the Non-associated Shareholders are evaluating the merits of the CHL Transaction, they need to carefully consider whether the negative aspects of the CHL Transaction, including the level of control that Borneo and the King Associates will hold over the Company and the dilutionary impact, could justify voting against the CHL Transaction Resolution with the outcome that the Company will not be able to acquire CHL and will need to seek alternative sources of capital within a relatively short timeframe in order to continue to fund its operations and evaluate backdoor listing opportunities.

In our opinion, after having regard to all relevant factors, the positive aspects of the CHL Transaction (including the CHL Allotment) significantly outweigh the negative aspects from the perspective of the Non-associated Shareholders.

2.3 Rationale for the CHL Transaction

Background

Following the settlement of the sale of the 2 Mykris Companies on 3 November 2015, Mykco has been a listed shell company and the Board has been evaluating opportunities to acquire one or more businesses to backdoor list via the Company. The Board's criteria for a suitable business has been:

- the business is cash flow positive
- the business operates at a minimum at break-even
- the business does not need a capital injection to survive
- the business has an established management team in place.

Mykco received a number of approaches, none of which met the Board's criteria. The approaches were mainly from companies wishing to list on the NZAX and then raise capital, including companies in the information technology sector with limited revenue and requiring significant capital and early stage property development companies which needed both debt and equity capital.

In order to fund the Company's operations during this time, Mykco raised capital through various private placements.

Mykco announced on 30 March 2017 that it had made a \$100,000 non-recourse loan to CHL (the **CHL Loan**). CHL at the time was actively looking to acquire financial services businesses. A term of the CHL Loan was that if CHL made an acquisition, the loan amount would convert into ordinary shares in CHL. CHL also granted Mykco the first right of refusal to make a scrip bid for CHL if it acquired one or more financial services business.

CHL acquired all of the shares in GFL for \$4.7 million and all of the shares in IRG for \$1.1 million on 19 December 2017.

Mykco converted the CHL Loan into 100,000 CHL ordinary shares on 20 December 2017.

The CHL Transaction arises from Mykco exercising its right to make a scrip bid for CHL.

Given that Mr King and Mr Bugo had a conflict of interest as they are CHL Shareholders, negotiations of the CHL Transaction were led by Huei Min (Lyn) Lim and Simon McArley on behalf of the Board.

Mykco undertook a due diligence review of CHL based primarily on publicly available information.

Business Strategy

We are advised by the Board that it intends to keep CHL's current structure of being a holding company of GFL and IRG and to operate the 2 companies as separate, but complementary, businesses. The Board expects that some of GFL's borrowers will also want to make use of IRG's services. It also expects IRG to be an additional source of funds for Mykco to use to fund the activities of both IRG and GFL.

The Board's intended business strategy in relation to GFL is:

- to continue to provide loans, mainly written over 3 to 60 months periods, and, in most cases, secured by residential mortgages or agreements to mortgage supported by caveats
- to continue to provide its loans for a variety of purposes, including preparing a property for sale, bridging a property acquisition, funding a business purchase or providing working capital
- to continue to operate under its current lending policy
- to continue to source loan applications through established networks of brokers, financial planners and insurance agents as well as look to source borrowers directly
- to continue to fund loans by way of term deposits as well as equity
- to significantly expand its loan book over time by a combination of organic growth and acquisition
- to maximise the finance company opportunities arising from market dynamics, particularly those affecting banks, such as the recent changes to the loan to value ratio requirements for banks.

The Board's intended business strategy in relation to IRG is:

- to continue to operate as a corporate advisory and financial research company
- to continue to focus on its market, build its work pipeline and continue to develop research products.

The Board is of the view that the CHL Transaction will provide significant benefits to the Company's shareholders:

- Mykco will acquire 2 established businesses in the financial services sector which will provide growth prospects for the Company
- Mykco will gain new substantial shareholders who have business experience in the financial services sector
- Mykco's total equity will increase from \$1.0 million as at 31 March 2018 to in excess of \$7 million
- it will provide Mykco with a platform to seek further capital and expand the operations of its operating subsidiaries (GFL and IRG).

Conclusion

We consider the rationale for the CHL Transaction to be sound. Following the sale of the 2 Mykris Companies, Mykco has been a listed shell company and has considered a number of different investment and capital raising opportunities to utilise Mykco's NZAX listing and create value for the Company's shareholders. Mykco has operated on a minimal budget during this time. However, unless the Company receives an injection of capital in the near future, its current operating model is not sustainable.

The CHL Transaction will transform Mykco from a listed shell company into a financial services business with a focus on the finance company sector (through GFL) and the complementary financial advisory sector (through IRG) with total equity of \$7.3 million and total assets of \$17.7 million (including \$3.0 million of intangible assets).

2.4 Terms of the CHL Transaction

Purchase Price

The Purchase Price is \$6,132,436.80. This equates to \$0.9564 per share for the 6,412,000 CHL Shares.

Our assessment of the value of the CHL Shares is set out in section 6.

We assess the value of the CHL Shares to be in the range of \$5.5 million to \$6.2 million as at the present date.

The Purchase Price is within our valuation range, marginally below the upper end of the range. Accordingly, we consider the Purchase Price to be fair to the Non-associated Shareholders.

Consideration

Consideration for the Purchase Price will be in the form of the CHL Allotment, being the issue of 104,323,240 Consideration Shares to the CHL Shareholders at an issue price of \$0.0588 per share.

Each CHL Shareholder will receive 16.27 Consideration Shares for each CHL Share, calculated on the following basis:

- \$0.9564 (being CHL's net assets per share as at 30 January 2018) divided by
- \$0.0588 (being Mykco's net assets per share as at 30 September 2017).

Our analysis of the fairness of the issue price of \$0.0588 per Consideration Share is set out in section 7.

The issue price approximates Mykco's 3 months VWAP up to the announcement of the CHL Transaction and is at a premium of between 9% and 15% to the Company's VWAP measured between 6 months and 12 months.

We consider the issue price to be fair to the Non-associated Shareholders as the Consideration Shares will be issued at a price not less than the market value of the Company's shares and therefore will not be value-dilutionary to the Non-associated Shareholders.

We do not consider the fact that minimal value is ascribed to Mykco's NZAX listing to be materially adverse for the Non-associated Shareholders when the CHL Transaction is viewed from an overall perspective.

Conditions

The CHL Transaction is conditional upon:

- CHL and Mykco approaching and obtaining the written consent of Covenant as supervisor of GFL under a Trust Deed dated 2 November 2004 (as amended) to the CHL Transaction and to continue in its role as supervisor of GFL after completion on terms that are acceptable to CHL and Mykco (acting reasonably)
- CHL and Mykco approaching and obtaining the written consent of the Reserve Bank under section 43 of the Non-bank Deposit Takers Act 2013 (the **NBDT Act**) to the CHL Transaction on terms that are acceptable to CHL and Mykco (acting reasonably)
- Mykco obtaining all shareholder and other approvals required to implement the CHL Transaction in compliance with the Companies Act, the NZAX Listing Rules, the Code and any other applicable laws and any contracts binding on Mykco on a basis that is acceptable to CHL and Mykco (acting reasonably).

The date for satisfaction of the above conditions is 31 July 2018.

We are of the view that the conditions of the CHL Transaction are in line with market practice for transactions of this nature and are not unreasonable.

Completion

Completion of the CHL Transaction is to take place on or before 7 business days after satisfaction of the above conditions. Completion is conditional upon:

- Mykco remaining listed on the NZAX on completion
- GFL's NBDT licence remaining in full force and effect on completion
- GFL continuing to offer term deposits up to completion under a PDS that complies with all applicable laws.

We do not consider any of these matters represent a major impediment to the CHL Transaction completing.

Warranties

Under the CHL Agreement, each of the CHL Shareholders warrants that it owns its shares in CHL, that they are fully paid and that on completion they will pass to Mykco free of encumbrances and rights of pre-emption.

In addition, Mr King in his capacity as a CHL Shareholder on the one hand, and Mykco on the other, provide limited warranties including as to the accuracy of the information provided prior to entering into the CHL Agreement.

Each party's liability under these warranties is limited to claims brought within 18 months of completion and to an aggregate amount in the case of each CHL Shareholder of the purchase price for its CHL Shares.

In relation to the additional warranties provided by Mr King, there is an additional separate cap of liability equal to the amount of the purchase price of his CHL Shares.

The liability of Mykco under its warranties is limited to the amount of the Purchase Price.

We are of the view that the warranties provided under the CHL Agreement are in line with market practice for transactions of this nature and are not unreasonable.

2.5 Limited Likelihood of Alternative Transactions

We are advised by the Board that it is not evaluating any other transactions at this point in time.

2.6 Impact on Financial Performance and Financial Position

Appendix A of the Disclosure Document sets out Mykco's pro forma consolidated financial statements for the year ended 31 March 2018.

Financial Performance

A summary of Mykco's recent financial performance is set out at section 4.5 and CHL's pro forma recent financial performance is set out at section 5.6.

The table below shows the pro forma consolidated financial performance of Mykco and CHL for the year ended 31 March 2018.

Summary of Pro Forma Consolidated Financial Performance			
	Year to 31 Mar 18		
	Mykco (Audited) \$000	CHL (Pro Forma) \$000	Consolidated (Pro Forma) \$000
Revenue	9	1,978	1,987
Expenses	(275)	(1,863)	(2,247)
Net profit / (loss) before tax	(266)	115	(260)
Tax	-	(106)	(106)
Net profit / (loss) after tax	(266)	9	(366)

Source: Disclosure Document

The pro forma consolidated results show that Mykco's revenue would have been significantly higher (due to the revenue earned by GFL and IRG) but there would have been little change to its profitability (due to CHL operating at close to break-even in the 2018 financial year).

Financial Position

A summary of Mykco's recent financial position is set out in section 4.6 and CHL's pro forma recent financial position is set out at section 5.6.

The table below shows the pro forma consolidated financial position of Mykco and CHL as at 31 March 2018.

Summary of Pro Forma Consolidated Financial Position			
	Mykco (Audited) \$000	CHL (Pro Forma) \$000	Consolidated (Pro Forma) \$000
Total assets	1,081	16,451	17,756
Total liabilities	(127)	(10,238)	(10,431)
Total equity	<u>954</u>	<u>6,213</u>	<u>7,325</u>
No. of shares (000)	19,617		123,940
Net assets per share	\$0.0486		\$0.0591
Net tangible assets (NTA) per share	\$0.0131		\$0.0292

Source: Disclosure Document

The pro forma consolidated financial position shows that Mykco's total equity as at 31 March 2018 would increase from \$1.0 million to \$7.3 million. Net assets per share would increase from \$0.0486 to \$0.0591 per share and NTA per share would increase from \$0.0131 to \$0.0292.

2.7 Impact on Control

Share Capital and Shareholders

Mykco currently has 19,616,874 fully paid ordinary shares on issue held by 717 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 29 June 2018 are set out in section 4.4.

Mykco currently has 6 shareholders who each hold more than 5% of the Company's shares and collectively hold 63.32% of the Company's shares.

The Company's largest shareholder is Belian Holdings Limited (**Belian**), which holds 16.67% of the Company's shares. Belian is owned by Mykco non-executive director Graeme Brown.

The 10 largest shareholders collectively hold 73.90% of the Company's shares.

Borneo and the King Associates' Shareholding Levels Post the CHL Transaction

The CHL Transaction will result in Borneo holding 26.25% and the King Associates holding 21.13% of the shares in the Company without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the reason why the Code requires the Non-associated Shareholders to have the opportunity to vote for or against the CHL Transaction Resolution.

Shareholding Voting

Borneo and the King Associates' respective ability to influence the outcome of shareholder voting will be significant. Borneo's control of 26.25% of the Company's voting rights will enable it to block special resolutions (which require the approval of 75% of the votes cast by shareholders).

The King Associates' control of 21.13% of the Company's voting rights is technically not sufficient to singlehandedly block a special resolution. However, in reality, it most likely will be in a listed company with more than 700 shareholders (as Mykco currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 21.13% interest increases.

Neither Borneo nor the King Associates will be able to singlehandedly block or pass ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the NZAX Listing Rules and the Companies Act.

Board Control

As set out in section 4.3, the Company currently has 5 directors, one of whom is deemed to be an associate of Borneo (being Rewi Bugo) and one of whom is deemed to be an associate of the King Associates (being Brent King).

We are advised by the Board that the CHL Transaction is not expected to have any impact on the composition of the Board in the near term.

Operations

As a listed shell company, Mykco does not have a management team in place.

The Company's shareholders not associated with Brent King will vote on an ordinary resolution at the Company's special meeting in respect of the proposed management agreement between Mykco and Mr King which would replace Mr King's current management agreement with CHL and take effect on completion of the CHL Transaction. Mr King will be appointed managing director of Mykco and its subsidiaries.

The proposed management agreement between Mykco and Mr King has similar terms to Mr King's management agreement with CHL and provides for:

- a salary of \$120,000 per annum (reviewable annually), a vehicle allowance of \$12,000 per annum, the cost of a covered carpark and reimbursement of petrol charges for use of a motor vehicle
- a performance fee equal to 10% of any fees earned by Mykco or any of its subsidiaries (except fees earned by GFL from its lending business)
- a profit share equal to 8% of any amount by which the Mykco group's net profit after tax exceeds a benchmark equal to the shareholders' funds of the Mykco group at the commencement of the relevant year, multiplied by the official cash rate (expressed as a percentage) plus a margin of 10% per annum.

Protection for Minority Shareholders

While Borneo and the King Associates will have significant control over Mykco, they cannot act in an oppressive manner against minority shareholders. The Companies Act provides a level of protection to minority shareholders. Furthermore, any transactions between Mykco and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the NZAX Listing Rules with respect to transactions with related parties.

2.8 Dilutionary Impact

The CHL Allotment will result in the Non-associated Shareholders' shareholdings in the Company being significantly diluted. Following the CHL Allotment, each Non-associated Shareholder's interest in the Company will be diluted by 84.2%.

While the potential dilutionary impact is significant, we are of the view that the Non-associated Shareholders' main focus should be on whether there is any dilutionary impact on the value of their respective shareholdings rather than on their level of voting rights. As stated in section 2.4, we are of the view that the CHL Transaction is fair to the Non-associated Shareholders from a financial point of view and therefore does not dilute the value of their respective shareholdings.

2.9 Impact on Share Price and Liquidity

Share Price

A summary of Mykco's closing share price since 5 January 2015 is set out in section 4.8.

The CHL Allotment will be undertaken at \$0.0588 per share. This price represents:

- a discount of 2% to the Company's share price immediately prior to the announcement of the CHL Acquisition on 28 May 2018 of \$0.060
- a discount of 2% to the 3 months VWAP of \$0.060
- a 9% premium over the 6 months VWAP of \$0.054
- a 15% premium over the 12 months VWAP of \$0.051.

In our view, the CHL Allotment is unlikely to have any significant impact on the Company's share price as the issue price is at, or close to, the prevailing market price.

Re-rating of Mykco Shares

The completion of the CHL Transaction may lead to a re-rating of the Company's shares. Mykco will be financial services company with the potential to grow. It could potentially generate profits which in turn may lead to the Company paying dividends.

These factors may lead to greater demand for the Company's shares which in turn may lead to higher prices for the shares. However, the Non-associated Shareholders should also bear in mind that any re-rating of the Company's shares may increase the variability in the share prices and this may result in the Company's share price either increasing or decreasing.

Liquidity

The analysis in section 4.8 shows that Mykco's shares are thinly traded on the NZAX, with only 2.6% of the shares being traded in the year up to the announcement of the CHL Transaction.

The CHL Allotment will not improve the liquidity of the Company's shares as the number of shares held by the Non-associated Shareholders will not change.

However, should the CHL Shareholders seek to dispose of some of their Mykco shares, this may result in increased trading in the Company's shares, thereby improving liquidity.

Conversely, given that there are no restricted trading constraints on the Consideration Shares, should one or more of the CHL Shareholders look to sell a significant number of their Consideration Shares, this may depress the Company's share price.

2.10 Main Advantage to the Non-associated Shareholders of the CHL Transaction

Following the CHL Transaction, the Non-associated Shareholders will collectively hold 13.80% of the shares in a company with 2 established businesses operating in the financial services sector with \$7.3 million of total equity (as at 31 March 2018 on a pro forma basis). Currently they hold 87.20% of the shares in a listed shell company with total equity of \$1.0 million as at 31 March 2018 and whose shares are thinly traded on the NZAX.

2.11 Main Disadvantage to the Non-associated Shareholders of the CHL Transaction

The main disadvantage to the Non-associated Shareholders of the CHL Transaction is that the issue of the Consideration Shares under CHL Allotment will significantly dilute their interests in the Company. Their collective shareholding will be diluted by 84.2% under CHL Allotment. This will reduce their collective shareholding from 87.20% at present to 13.80%.

In our view, the positive aspects of the transformation of the Company from a listed shell company to a financial services business significantly outweighs the dilutionary impact of the CHL Transaction.

2.12 Other Issues for the Non-associated Shareholders to Consider

Change in Business Risk

As a listed shell company with cash on deposit as its only income-generating asset, the business risks associated with the current Mykco business are limited. However, the Non-associated Shareholders face a degree of investment risk as the Company had total equity of \$1.0 million as at 31 March 2018, of which only \$0.3 million was represented by cash and cash equivalents.

Following the completion of the CHL Transaction, the Non-associated Shareholders will face a significant change in business risk. They will face a number of risks associated with the financial services sector and in particular the finance company sector through GFL. Such risks include:

- operational risks such as:
 - the ability to raise deposits
 - the ability to make loans
 - interest rate spread
 - reinvestment rates
 - the level of default on loans
 - liquidity risk
- regulatory risks – GFL and IRG are required to comply with various legal obligations. Any material failure to comply with these could result in reputational damage and / or financial penalties

- the financial services sector is competitive, which could result in the Company not being able to execute its business strategies effectively within the timeframes anticipated.

A detailed analysis of the risks associated with an investment in Mykco post the CHL Transaction is set out in section 7 of the Disclosure Document entitled *Risks to the Mykco Group's Business and Plans*. The analysis highlights the significant level of risk associated with an investment in Mykco post the CHL Transaction and the Non-associated Shareholders need to be cognisant of the change in the risk profile of their investment in the Company.

Future Requirements for Capital

The CHL Transaction is a scrip transaction with no cash being raised. We note that given the objective of Mykco to grow GFL's loan book, it is highly probable that the Company will need to raise capital in the near term to fund this growth.

Mykco has not provided any details at this point in time as to when and how future equity capital will be sourced, other than an expectation that \$1.75 million of new capital will be raised in the 2019 financial year. Non-associated Shareholders should be cognisant that any equity raisings in the future by Mykco in which they do not participate will lead to further dilution of their proportionate interests in the Company.

Funding of Transaction Costs

The costs associated with the CHL Transaction are estimated to be in the vicinity of \$150,000. The costs include legal fees, Takeovers Panel fees, NZX fees, shareholder meeting costs and the cost of this report.

Mykco will fund these costs. Mykco had \$266,547 of cash on hand as at 31 March 2018. In the event that the CHL Transaction Resolution is not approved by the Non-associated Shareholders, the Board is of the view that the Company is unlikely to have sufficient cash resources to fund any further acquisition / backdoor listing transactions.

2.13 Key Benefits to Borneo and the King Associates

Enhanced Investment Liquidity

The CHL Transaction provides Borneo and the King Associates with the opportunity to acquire a significant shareholding in Mykco. They will exchange their respective 30.71% and 22.34% investment in a closely held non-listed company for a respective 26.25% and 21.13% shareholding in a company listed on the NZAX, thereby enhancing the liquidity of their investment.

2.14 Disadvantages to Borneo and the King Associates

Exposure to the Risks and Regulatory Requirements of Mykco

The key risks that are likely to impact upon the business operations of Mykco are summarised in section 2.12. Borneo and the King Associates currently face these risks through their investment in CHL and therefore their risk exposure does not change to any significant extent.

However, as CHL will be a subsidiary of Mykco, it will be subject to the additional regulatory requirements of the Code and the NZAX Listing Rules.

2.15 Other Issues

Benefits to Mykco of Borneo and the King Associates as Cornerstone Shareholders

The CHL Transaction will position Borneo and the King Associates as important cornerstone strategic investors in the Company, signalling their confidence in the future prospects of Mykco.

Both cornerstone shareholders are experienced investors in the financial services sector.

Non-associated Shareholders Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the CHL Allotment. This will be effected by the Non-associated Shareholders approving by special resolution the CHL Transaction.

The CHL Transaction will not proceed unless the Non-associated Shareholders approve the CHL Transaction Resolution and the 2 associated ordinary resolutions.

In addition, approval is required from the Reserve Bank and Covenant before the CHL Transaction can proceed.

May Reduce the Likelihood of a Takeover Offer

Following the CHL Transaction, Borneo and the King Associates will not be able to increase the level of their respective shareholdings unless they comply with the provisions of the Code. They will generally only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding Borneo or the King Associates
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding Borneo or the King Associates
- the Company undertakes a share buyback that is approved by the Company's shareholders and Borneo or the King Associates do not accept the offer of the buyback.

Neither Borneo nor any of the King Associates will be able to utilise the *creep provisions* under Rule 7(e) of the Code. The *creep provisions* enable entities that hold more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares in any 12 month period without the need for shareholder approval.

If Borneo holds 26.25% and the King Associates hold 21.13% of the Company's shares, this may reduce the likelihood of a takeover offer for the Company from either Borneo or the King Associates as they may consider that they have sufficient control over the Company.

It is possible that if Borneo and / or the King Associates did make a takeover offer for further shares in the Company, they may offer a control premium that is lower than would otherwise be expected as they may value their offer on the basis that they already had significant control of the Company and hence do not need to pay a control premium of any significance.

Borneo's shareholding of 26.25% and the King Associates' shareholding of 21.13% may also reduce the attraction of Mykco as a takeover target to other parties, as any bidder looking to fully or partially take over the Company would need to ensure that Borneo and the King Associates would accept its offer.

Possible Migration to the NZX Main Board

Mykco discusses the future of its NZAX listing in section 4.3 of the Disclosure Document.

NZX has recently released a consultation paper outlining proposed changes to the structure of the 3 markets that it operates. It proposes to operate a single market under the following eligibility requirements:

- companies must have a minimum of 300 shareholders
- they must have a minimum free float of 20%
- the minimum market capitalisation will be \$15 million.

Mykco will need to assess its options regarding listing going forward. The Company might seek to comply with NZX's proposals for a restructured single-tier Board for equity securities and apply for migration to that Board. Other possibilities are that it might seek to migrate to an unlisted market or to an overseas exchange.

We understand that Mykco's intention is that shareholders would continue to have a platform on which to trade their shares.

2.16 Likelihood of the CHL Transaction Resolution Being Approved

The CHL Transaction Resolution is a special resolution and the 2 associated resolutions are ordinary resolutions. All 3 resolutions must be passed in order for any one resolution to be passed.

The King Associates are not permitted to vote their 12.80% shareholding on the CHL Transaction Resolution. Therefore shareholders holding 87.20% of the shares will determine the outcome of the CHL Transaction Resolution (assuming they all vote).

The Company's largest shareholder is Belian, holding 16.67% of the Company's shares. Belian is owned by Graeme Brown, a non-executive director of the Company. The Independent Directors (including Mr Brown) have stated in the notice of special meeting that they support the CHL Transaction Resolution.

2.17 Implications of the CHL Transaction Resolution not Being Approved

As the CHL Transaction Resolution and the other 2 resolutions are interdependent and require sequential approval, if any one of the 3 resolutions is not approved, then the CHL Transaction will not proceed.

Mykco had cash of \$0.3 million as at 31 March 2018. Its cash burn rate is currently approximately \$10,000 per month and the costs associated with the CHL Transaction are estimated to be in the vicinity of \$150,000.

The Board may continue to operate Mykco as a shell company listed on the NZAX and seek to undertake another backdoor listing transaction. If this were to happen, there is no certainty as to if, or when, such a transaction could be completed. In the meantime, Mykco would continue to incur operating costs associated with remaining listed on the NZAX (including directors' fees, listing fees, registry fees and audit fees) and evaluating potential acquisitions / backdoor listing candidates. Accordingly, the Company would need to raise additional capital from its existing shareholders and / or new shareholders within a relatively short timeframe.

The non-approval of the CHL Transaction could possibly have negative implications for future capital raising initiatives as potential investors may be hesitant to invest in the Company – especially if shareholder approval is required.

In the event that the Company cannot raise sufficient capital in the required timeframe, this may lead to the need to wind up the Company, in which case the return to the Non-associated Shareholders may be minimal.

2.18 Options for Non-associated Shareholders who do not Wish to Retain Their Investment in Mykco

Sell On-market

Those Non-associated Shareholders who do not wish to remain shareholders in the Company after the CHL Transaction is completed could possibly sell their shares on-market. However, given that the Company's shares are infrequently traded on the NZAX, that option may not be readily available.

Minority Buy-out Rights Under the Companies Act

The CHL Transaction Resolution is a special resolution. If it is passed, those Non-associated Shareholders who voted all of their shares against the resolution will be entitled to require Mykco to buy their shares in accordance with the provisions of the Companies Act.

A shareholder entitled to require Mykco to purchase its shares by virtue of section 110 of the Companies Act may, within 10 working days of the passing of the special resolution, give written notice to the Company requiring it to purchase the shares.

The Board is then required to give notice to the shareholder of a fair and reasonable price for the shares. Shareholders who do not agree with the nominated price can object to the price, in which case the price will be determined by arbitration.

Further details of the minority buy-out rights is set out in the notice of special meeting.

2.19 Voting For or Against the CHL Transaction Resolution

Voting for or against the CHL Transaction Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Evaluation of the Fairness of the CHL Transaction

3.1 Basis of Evaluation

The NZX Guidance Note requires the Independent Report to comply with the requirements for an Appraisal Report.

The NZX Guidance Note also requires the Independent Report to include:

- a statement of whether there are any possible alternative courses for Mykco other than the proposed transaction
- a statement whether or not, in our opinion, the terms of the transaction are fair and reasonable to shareholders and in the best interests of Mykco.

NZX Main Board Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the CHL Transaction are fair to the Non-associated Shareholders. In our opinion, the CHL Transaction will be fair to the Non-associated Shareholders if:

- the value of the CHL Shares is equal to or greater than the value of the Consideration Shares
- the Consideration Shares are issued at or above a fair value
- the other terms and conditions of the CHL Transaction are fair.

We have evaluated the fairness of the CHL Transaction by reference to:

- the rationale for the CHL Transaction
- the fairness of the terms of the CHL Transaction
- the likelihood of alternative transactions
- the impact of the CHL Transaction on the financial performance and financial position of Mykco
- the impact of the CHL Transaction on the control of Mykco
- the impact of the CHL Transaction on Mykco's share price
- other benefits and disadvantages to the Non-associated Shareholders of the CHL Transaction
- the benefits and disadvantages to the CHL Shareholders of the CHL Transaction
- the implications if the CHL Transaction Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

3.2 Evaluation of the Fairness of the CHL Transaction

In our opinion, after having regard to all relevant factors, the terms of the CHL Transaction are fair and reasonable to the Non-associated Shareholders and are in the best interests of Mykco given the options reasonably available to the Company at the current time.

The basis for our opinion is set out in detail in sections 2.3 to 2.17. In summary, the key factors leading to our opinion are:

- the Non-associated Shareholders will collectively hold a 13.80% interest in Mykco, which will be transformed from a listed shell into a company with over \$7 million of total equity with 2 subsidiaries operating in the finance company sector and the financial advisory sector
- the rationale for the CHL Transaction is sound
- we consider the purchase price of \$6.1 million and the issue price of the Consideration Shares of \$0.0588 per share to be fair to the Non-associated Shareholders
- the CHL Transaction will have a significant positive impact on the Company's financial performance and financial position
- following the CHL Transaction, the Company's shares may be re-rated by the market which may improve the liquidity of the shares
- offsetting these positive aspects, the Non-associated Shareholders' proportionate interests in the Company will be significantly diluted by 84.2%, Borneo and the King Associates will hold 26.25% and 21.13% respectively of the voting rights in the Company and will hold significant influence over the outcome of shareholder voting, they will have 2 appointees to the Board, Mr King will lead the management of the Company's operations, the risk profile of Mykco will change significantly and the attraction of Mykco as a takeover target may diminish.

3.3 Implications of the CHL Transaction Resolution not being Approved

In the event that any one of the 3 resolutions is not approved, the CHL Transaction will not proceed. The implications of this are set out in section 2.17.

3.4 Voting For or Against the CHL Transaction Resolution

Voting for or against the CHL Transaction Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

4. Profile of Mykco Limited

4.1 Background

Mykco was incorporated on 30 September 2011 as Mykris Limited.

The Company was established via an in-specie distribution of shares to the then shareholders of Investment Research Group Limited (**Old IRG**) for the purposes of acquiring the 2 Mykris Companies.

Old IRG was incorporated on 10 April 2006 as Viking Capital Limited. The company has since changed its name 6 times, most recently to AFC Group Holding Limited (**AFC**) on 26 September 2016. AFC's shares are listed on the NZAX.

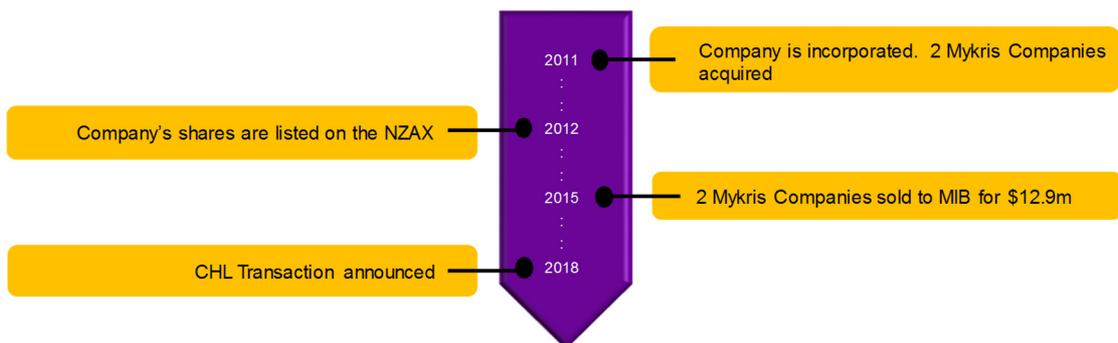
Mykco listed its shares on the NZAX on 10 January 2012 by way of a compliance listing.

The sale of the 2 Mykris Companies to MIB for \$12.9 million was completed on 3 November 2015 following shareholder approval of the sale on 29 September 2015. MIB held 56.70% of the Company's shares at that time. The consideration was structured as follows:

- \$8.80 million was satisfied by the Company repurchasing MIB's 56.70% shareholding in Mykco
- \$3.62 million was satisfied by MIB procuring third parties to transfer back to the Company 23.3% of the Company's total shares on issue at the time
- \$0.48 million in cash.

The Company changed its name to Mykco Limited on 11 November 2015.

Key events in the Company's history are set out below.



4.2 Nature of Operations

Since the divestment of the 2 Mykris Companies in 2015, Mykco has no operating business or material income generating assets under its control.

The Company has been actively seeking business opportunities that could use the Mykco listed entity as a vehicle to become NZX listed.

4.3 Directors

The directors of Mykco are:

- Graeme Brown, non-executive director
- Rewi Bugo, non-executive director (associated with Borneo)
- Brent King, non-executive chair (associated with the King Associates)
- Huei Min (Lyn) Lim, independent non-executive director
- Simon McArley, independent non-executive director.

4.4 Capital Structure and Shareholders

Mykco currently has 19,616,874 fully paid ordinary shares on issue held by 717 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 29 June 2018 are set out below.

Mykco's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Belian	3,269,479	16.67%
Zhenhua Qian	3,030,303	15.45%
Barter	2,342,220	11.94%
Sii Yih Ting	1,480,000	7.54%
Koon Weng Lee	1,291,325	6.58%
Chu Kian Then	1,008,300	5.14%
CIMB Securities (Singapore) Pte Limited	579,711	2.96%
Yada Holdings No 1 Limited	570,000	2.91%
Liew Chin Tan	480,000	2.45%
Lik Sean Chang	445,960	2.27%
Subtotal	14,497,298	73.90%
Others (707 shareholders)	5,119,576	26.10%
Total	19,616,874	100.00%

Source: NZX Company Research

Belian is owned by Graeme Brown, a non-executive director of the Company.

Barter is owned by 12 shareholders, including Brent King, who has a 3.85% beneficial interest in the company. Mr King and Mr Ward are the 2 directors of Barter.

4.5 Financial Performance

A summary of Mykco's recent financial performance is set out below.

Summary of Mykco Financial Performance				
	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000
Revenues	8,349	7,405	9	9
Expenses	(8,199)	(9,614)	(224)	(275)
Net profit / (loss) for the period	<u>150</u>	<u>(2,209)</u>	<u>(215)</u>	<u>(266)</u>
EPS (\$)	\$0.003	(\$0.054)	(\$0.014)	(\$0.014)

EPS: Earnings (loss) per share
Source: Mykco annual reports

A loss on disposal of the 2 Mykris Companies of \$2.4 million was recorded in the 2016 financial year.

Since the sale of the 2 Mykris Companies in November 2015, Mykco's sole source of revenue has been interest received.

Operating expenses consist mainly of NZX fees, auditor's fees and directors' fees.

4.6 Financial Position

A summary of Mykco's recent financial position is set out below.

Summary of Mykco Financial Position				
	As at 31 Mar 15 (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Audited) \$000	As at 31 Mar 18 (Audited) \$000
Current assets	3,534	212	550	289
Non current assets	13,964	843	697	792
Total assets	<u>17,498</u>	<u>1,055</u>	<u>1,247</u>	<u>1,081</u>
Total liabilities	(2,771)	(39)	(23)	(127)
Total equity	<u>14,727</u>	<u>1,016</u>	<u>1,224</u>	<u>954</u>
NTA per share	\$0.07	\$0.08	\$0.03	\$0.01

Source: Mykco annual reports

Mykco's assets and liabilities reduced significantly when the 2 Mykris Companies were sold to MIB for \$12.9 million on 3 November 2015.

The Company's current assets as at 31 March 2018 consisted mainly of cash and cash equivalents.

Mykco's non current assets as at 31 March 2018 consisted of:

- \$0.1 million of CHL Shares, following the \$0.1 million CHL Loan being converted into 100,000 CHL ordinary shares on 20 December 2017
- \$0.7 million of Bartercard Trade Dollars. A Bartercard Trade Dollar is an accounting unit used to record the value of goods and services traded. The Bartercard credit / debit system functions in the same way the MasterCard and Visa systems deliver service to cash-paying consumers.

The Company's main current liabilities are trade and other payables.

Shareholders' equity of \$1.0 million as at 31 March 2018 consisted of:

- \$3.5 million of issued share capital
- negative \$2.5 million of accumulated losses.

4.7 Cash Flows

A summary of Mykco's recent cash flows is set out below.

Summary of Mykco Cash Flows				
	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) \$000	Year to 31 Mar 18 (Audited) \$000
Net cash inflow / (outflow) from operating activities	1,707	448	(229)	(150)
Net cash inflow / (outflow) from investing activities	(2,077)	242	40	-
Net cash inflow from financing activities	61	996	423	-
Net increase / (decrease) in cash held	(309)	1,686	234	(150)
Cash disposed through sale of subsidiary	-	(2,343)	-	-
Opening cash balance	1,149	840	183	417
Closing cash balance	840	183	417	267

Source: Mykco annual reports

Investing cash flows in the 2016 financial year included \$0.5 million from the sale of the 2 Mykris Companies.

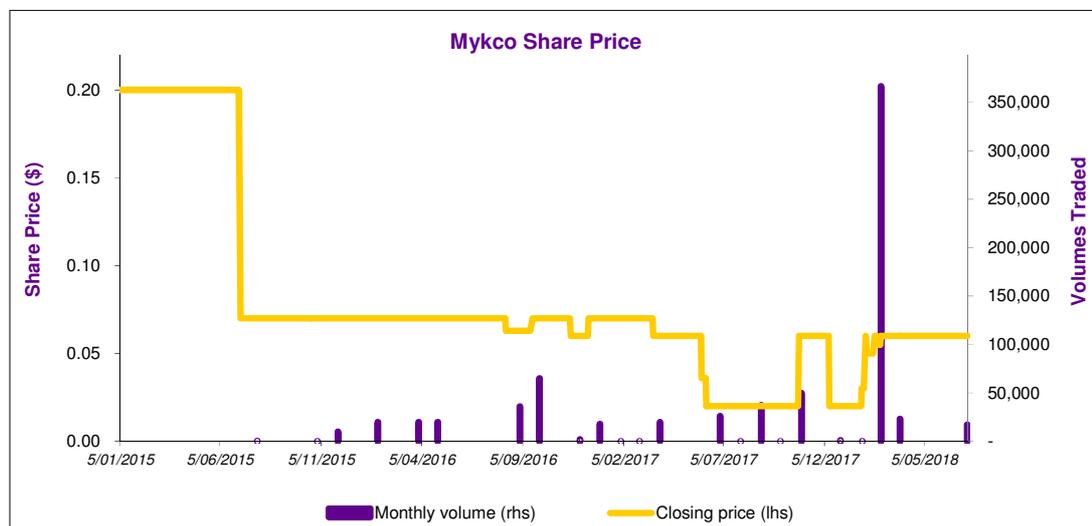
Financing cash flows have included:

- \$0.4 million raised in the 2016 financial year from the issue of 2,200,000 shares at \$0.17 per share to Barter on 6 July 2015, along with \$0.6 million of net borrowings
- \$0.4 million raised in the 2017 financial year from the issue of 3,269,479 shares at \$0.0625 per share to Belian on 26 August 2016 and the issue of 3,269,479 shares at \$0.066 per share to Joshua Qian, Barrie Foster, Brent King, Garth Ward and Barter on 13 January 2017.

4.8 Share Price History

The Company's shares were first quoted on the NZAX on 10 January 2012.

Set out below is a summary of Mykco's daily closing share price and monthly volumes of shares traded from 5 January 2015 to 9 July 2018.



Source: NZX Company Research

During the period, Mykco's shares have traded between \$0.02 and \$0.07 at a VWAP of \$0.055.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to the trading day before the announcement of the CHL Transaction on 28 May 2018 is set out below.

Mykco Share Trading up to the Announcement of the CHL Transaction					
Period	Low ¹ \$	High ¹ \$	VWAP ¹ \$	Volume Traded ¹ (000)	Liquidity
1 month	n/a	n/a	n/a	n/a	n/a
3 months	\$0.055	\$0.060	\$0.060	48	0.2%
6 months	\$0.020	\$0.060	\$0.054	391	2.0%
12 months	\$0.020	\$0.060	\$0.051	504	2.6%

¹ To 25 May 2018

n/a: Not applicable as the shares did not trade

Source: NZX Company Research

Trading in the Company's shares is very thin, with only 2.6% of the shares trading on 18 days in the past year.

Since the announcement of the CHL Transaction on 28 May 2018, only 17,135 shares have traded on one day at a VWAP of \$0.061.

5. Profile of Corporate Holdings Limited

5.1 Background

CHL was incorporated as a special purpose company in New Zealand on 16 March 2017. It raised \$4.9 million from investors and acquired 100% of the shares in GFL and IRG on 19 December 2017.

GFL Acquisition

Under an agreement dated 23 December 2016 (as amended), CHL acquired 100% of the shares in GFL from General Finance Holdings Limited (which subsequently changed its name to Cardrona Capital Limited on that day) for \$4,721,835 on 19 December 2017.

GFL's net assets at the acquisition date were \$3,111,835. Accordingly, the purchase price included \$1,610,000 of intangible assets in the form of goodwill.

Consideration for the purchase was paid in cash, which was raised from wholesale investors.

Covenant gave consent to the change of ownership on 3 November 2017, subject to certain conditions. The Reserve Bank gave consent to the change of ownership on 11 December 2017.

IRG Acquisition

Under an agreement dated 3 July 2017, CHL acquired 100% of the shares in IRG from Brent King for \$1,100,000 on 19 December 2017.

IRG's net assets were approximately \$110,000 at 30 September 2017. Accordingly, the purchase price comprised mostly intangible assets in the form of goodwill.

The purchase price was satisfied by CHL issuing 1,000,000 CHL shares to Mr King and undertaking to pay him 100,000 Bartercard Trade Dollars.

5.2 Directors and Senior Management

The directors of CHL are:

- Brent King (associated with the King Associates)
- Garth Ward (associated with the King Associates)
- Rewi Bugo (associated with Borneo).

CHL's senior management team comprises:

- Brent King, managing director
- Garth Ward, financial controller.

A detailed profile of CHL's, GFL's and IRG's directors and senior management is set out in section 2 of the Disclosure Document entitled *The Mykco Group And What It Does* and therefore is not replicated in detail in this report. Non-associated Shareholders are advised to read the Disclosure Document in full.

5.3 Capital Structure and Shareholders

CHL has 6,512,000 shares on issue held by the 13 CHL Shareholders and Mykco.

1,555,000 shares are ordinary shares and the remaining 4,957,000 shares are preference shares that will convert into ordinary shares on a one for one basis prior to the settlement of the CHL Transaction.

CHL Shareholders		
Shareholder	No. of Shares Held	%
Borneo	2,000,000	30.71%
Brent King ¹	1,280,000	19.66%
CFS NBDT Interest Limited (CFS)	1,000,000	15.36%
Industrie Properties Limited	357,000	5.48%
Donna Baker, Grant Baker and Lewis Grant	250,000	3.84%
Jacqueline Sinclair, Stephen Sinclair and Roger Wallis	250,000	3.84%
Harrigens Trustees Limited	250,000	3.84%
Bruce Speers	250,000	3.84%
John Tomson	250,000	3.84%
Owen Daji	250,000	3.84%
Garth Ward ¹	100,000	1.54%
Mykco	100,000	1.54%
Justin Cunningham and Andrew Scott	100,000	1.54%
Barter ¹	75,000	1.15%
Total	6,512,000	100.00%

¹ King Associates

Source: Companies Office

Borneo is wholly owned by Rewi Bugo. Mr Bugo is a non-executive director of Mykco and a director of CHL.

Mr King is a shareholder and director of both Mykco and CHL. Mr King acquired 1,000,000 shares as part consideration for the sale of IRG to CHL.

CFS is the general partner of the CFS Interest Limited Partnership, a partnership associated with Marvin Yee.

Mr Ward is a shareholder of both Mykco and CHL and a director and the financial controller of CHL.

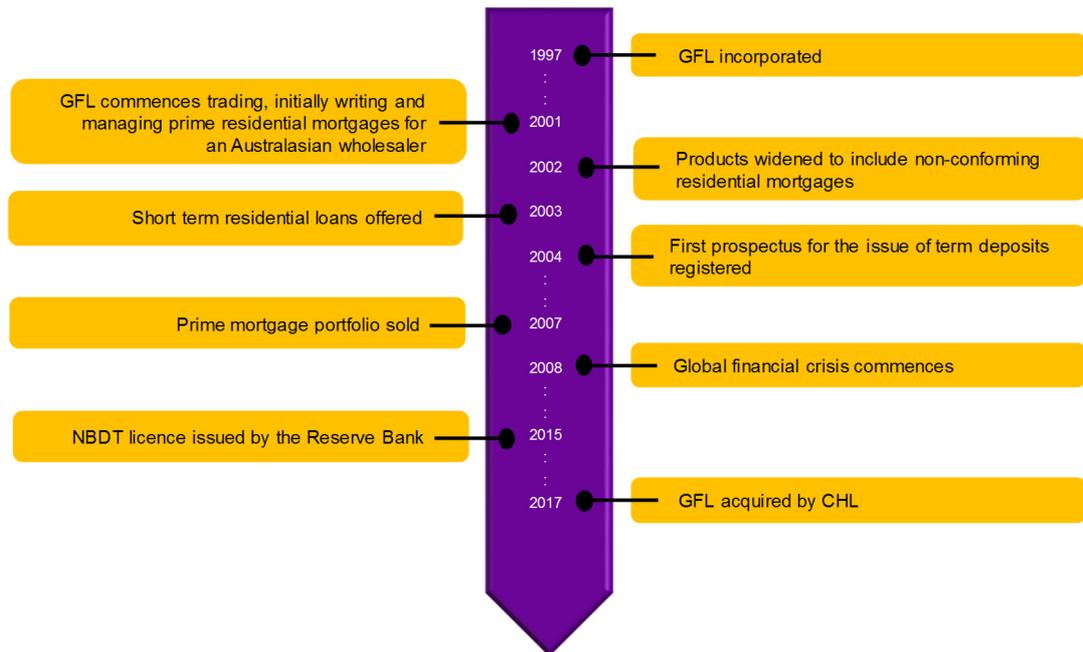
Mykco acquired its 1.54% shareholding when it converted the \$100,000 CHL Loan on 20 December 2017.

5.4 GFL

Nature of Operations

A detailed profile of GFL is set out in section 2 of the Disclosure Document entitled *The Mykco Group And What It Does*. In order to avoid unnecessary repetition, this report does not include a detailed profile of GFL. We recommend that Non-associated Shareholders read the Disclosure Document in full.

A summary of the key events in GFL’s history is set out below.



GFL is a finance company based in Auckland. It is a NBDT registered under the NBDT Act and a mortgage lending company. Its main activity is providing residential mortgage loans to borrowers, generally enabling borrowers to complete a short term transaction, such as preparing a property for sale, bridging a property acquisition, enhancing, developing, subdividing, building, constructing on and improving a property or funding a business purchase or expansion.

Borrowers are generally higher risk borrowers who may have some credit issues and have not been able to borrow from trading bank sources.

GFL’s loans are written over 3 to 60 month periods. A first or second ranking real estate mortgage security or a right to such a mortgage security is taken as security to support the lending.

The loans are funded from both GFL’s equity and from investors by way of term deposits.

The directors of GFL are:

- Rob Hart
- Don Hattaway, chair
- Brent King
- Greg Pearce
- Alistair Ward.

Business Model

GFL depends on the funds being raised from term deposits to grow its lending operations. Growth in term deposits comes from GFL’s marketing activity though advertising and via financial planners.

Growth in lending follows growth in term deposits. GFL sources lending proposals from mortgage brokers and directly from borrowers.

GFL's income generation is a function of:

- the total value of the loans that it provides
- the margin that it achieves between its borrowing and lending rates.

Its profitability is impacted by:

- any losses incurred on the loans provided
- the amount of cash that it holds.

Financial Performance

A summary of GFL's recent financial performance is set out below.

Summary of GFL Financial Performance			
	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) ¹ \$000	Year to 31 Mar 18 (Audited) \$000
Interest income	1,169	1,141	1,328
Interest expense	(542)	(494)	(536)
Net interest income	627	647	792
Net fee and commission income	160	172	198
Other revenue	9	12	17
Net revenue	796	831	1,007
Operating expenses	(475)	(390)	(628)
Profit before tax	321	441	379
Income tax expense	(90)	(124)	(106)
Profit after tax	231	317	273

¹ Restated
Source: GFL annual reports

Financial Position

A summary of GFL's recent financial position is set out below.

Summary of GFL Financial Position			
	As at 31 Mar 16 (Audited) ¹ \$000	As at 31 Mar 17 (Audited) ¹ \$000	As at 31 Mar 18 (Audited) \$000
Cash and cash equivalents	4,068	3,625	4,844
Loan receivables	7,401	8,303	8,611
Other assets	46	20	74
Total assets	11,515	11,948	13,529
Term deposits	(8,213)	(8,681)	(9,854)
Other liabilities	(106)	(154)	(290)
Total liabilities	(8,319)	(8,835)	(10,144)
Total equity	3,196	3,113	3,385

¹ Restated
Source: GFL annual reports

Cash Flows

A summary of GFL's recent cash flows is set out below.

Summary of GFL Cash Flows			
	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Audited) ¹ \$000	Year to 31 Mar 18 (Audited) \$000
Net cash (outflow) / inflow from operating activities	2,092	(482)	51
Net cash (outflow) from investing activities	-	-	(33)
Net cash inflow from financing activities	137	39	1,201
Net increase / (decrease) in cash held	2,229	(443)	1,219
Opening cash balance	1,839	4,068	3,625
Closing cash balance	<u>4,068</u>	<u>3,625</u>	<u>4,844</u>

¹ Restated

Source: GFL annual reports

5.5 IRG

Nature of Operations

A detailed profile of IRG is set out in section 2 of the Disclosure Document entitled *The Mykco Group And What It Does*. In order to avoid unnecessary repetition, this report does not include a detailed profile of IRG. We recommend that Non-associated Shareholders read the Disclosure Document in full.

IRG is a corporate advisory and financial research company that provides a range of corporate advisory services including:

- mergers and acquisitions
- listing companies on the NZX markets
- share placements.

IRG was appointed as an NZX Sponsor on 7 October 2011 and as an NXT Advisor on 22 December 2016.

IRG publishes the *Investment Yearbook*. The publication provides summary historical financial information for 141 New Zealand listed companies, 100 Australian listed companies and 25 global listed companies. The *2017-2018 Investment Yearbook* was the 43rd edition of the publication.

Brent King is the sole director of IRG.

Financial Performance

A summary of IRG's recent financial performance is set out below.

Summary of IRG Financial Performance			
	Year to 31 Mar 16 (Unaudited) \$000	Year to 31 Mar 17 (Unaudited) \$000	Year to 31 Mar 18 (Unaudited) \$000
Revenue	305	390	415
Operating expenses	(269)	(243)	(679)
Profit before tax	36	147	(264)
Income tax expense	-	-	-
Profit after tax	36	147	(264)

Source: IRG annual reports

IRG derives its revenue mainly from advisory fees and advertising and sales proceeds associated with the *Investment Yearbook*.

Operating expenses in the 2018 financial year included \$417,000 in respect of costs associated with the acquisition of GFL. Excluding these non-recurring expenses, IRG's profit before tax would have been \$154,000.

Financial Position

A summary of IRG's recent financial position is set out below.

Summary of IRG Financial Position			
	As at 31 Mar 16 (Unaudited) \$000	As at 31 Mar 17 (Unaudited) \$000	As at 31 Mar 18 (Unaudited) \$000
Cash and cash equivalents	-	-	108
Receivables	41	6	77
Inventory	-	20	5
Fixed assets	1	-	7
Intangible assets	60	66	78
Investments	15	21	-
Total assets	117	113	275
Payables	(18)	(17)	(43)
Related party balances	(159)	-	(400)
Total liabilities	(177)	(17)	(443)
Total equity	(60)	96	(168)

Source: IRG annual reports

Intangible assets represent a research database and capitalised costs associated with obtaining NZX Sponsor status.

The \$400,000 related party balance as at 31 March 2018 was owed to CHL.

5.6 CHL Pro Forma Financials

CHL has prepared pro forma financial statements for the 2016, 2017 and 2018 financial years which consolidate GFL's, IRG's and CHL's financial results for the past 3 financial years. It has also prepared forecasts for the 2019 and 2020 financial years.

Financial Performance

A summary of CHL's pro forma historic financial performance and its forecast financial performance for the 2019 and 2020 financial years is set out below.

Summary of CHL Pro Forma and Forecast Financial Performance					
	Year to 31 Mar 16 (Pro Forma) \$000	Year to 31 Mar 17 (Pro Forma) \$000	Year to 31 Mar 18 (Pro Forma) \$000	Year to 31 Mar 19 (Forecast) \$000	Year to 31 Mar 20 (Forecast) \$000
Interest income	1,169	1,141	1,329	1,831	4,363
Interest expense	(545)	(494)	(536)	(874)	(1,860)
Net interest income	624	647	793	957	2,503
Net fee and commission income	165	172	198	264	647
Other revenue	278	402	381	348	410
Net revenue	1,067	1,221	1,372	1,569	3,560
Operating expenses	(758)	(633)	(1,257)	(1,243)	(1,431)
Profit before tax	309	588	115	326	2,129
Income tax expense	(40)	(124)	(106)	(92)	(596)
Profit after tax	269	464	9	234	1,533

Source: CHL pro forma financial statements and forecasts

The 2018 financial year included \$417,000 of acquisition costs incurred by IRG in respect of the acquisition of GFL.

The forecast for the 2019 financial year is based on the following key assumptions:

- a loan book of \$23.4 million by 31 March 2019
- term loan deposits of \$21.4 million by 31 March 2019
- average loan fees of 1.9%
- an average interest rate spread of 6.5% over the year
- revenue of \$0.3 million from IRG
- operating expenses of \$1.2 million:
 - CHL: \$0.3 million
 - GFL: \$0.7 million
 - IRG: \$0.2 million.

The forecast for the 2020 financial year is based on the following key assumptions:

- a loan book of \$50.9 million by 31 March 2020
- term loan deposits of \$47.4 million by 31 March 2020
- average loan fees of 1.9%
- an average interest rate spread of 6.5% over the year
- revenue of \$0.4 million from IRG

- operating expenses of \$1.4 million:
 - CHL: \$0.3 million
 - GFL: \$0.9 million
 - IRG: \$0.2 million.

Financial Position

A summary of CHL's pro forma financial position is set out below.

Summary of CHL Pro Forma Financial Position			
	As at 31 Mar 16 (Pro Forma) \$000	As at 31 Mar 17 (Pro Forma) \$000	As at 31 Mar 18 (Pro Forma) \$000
Cash and cash equivalents	4,068	3,625	4,950
Loan receivables	7,430	8,338	8,610
Other assets	3,775	3,745	2,891
Total assets	15,273	15,708	16,451
Term deposits	(8,213)	(8,681)	(9,854)
Other liabilities	(520)	(457)	(384)
Total liabilities	(8,733)	(9,138)	(10,238)
Total equity	6,540	6,570	6,213

Source: CHL pro forma financial statements

Other assets consist mainly of intangible assets in the form of \$2.6 million of goodwill arising from the acquisition of GFL (\$1.6 million) and IRG (\$1.0 million).

6. Reasonableness of the Purchase Price

6.1 Standard of Value

We have assessed the fair market value of the CHL Shares.

Fair market value is defined as the price that a willing but not anxious buyer, with access to all relevant information and acting on an arm's length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

6.2 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flows (**DCF**)
- capitalisation of earnings
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future cash flows, recognising the time value of money and risk. The value of an investment is equal to the value of future free cash flows arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and / or there is some indication that an orderly realisation is contemplated.

6.3 Valuation Approach

Our preferred valuation approach to assess the fair market value of the CHL Shares is the DCF method. However, CHL has not prepared detailed financial projections beyond the 2020 financial year and hence it is not possible to undertake any meaningful DCF analysis.

We have therefore assessed the fair market value of the CHL Shares using the capitalisation of earnings method.

The capitalisation of earnings method that we have applied derives an assessment of the value of the shares in CHL rather than the CHL enterprise value.

On the basis that the preference shares will convert into ordinary shares on a one for one basis prior to the settlement of the CHL Transaction, we have treated all of the shares in CHL as one class of shares for the purposes of our valuation assessment.

We have assessed the fair market value of 100% of the shares in CHL and have then taken the pro rata value to represent the fair market value of the CHL Shares.

6.4 Capitalisation of Earnings Valuation

Introduction

We have assessed CHL's future maintainable earnings and have reviewed the market valuation and operational performance of comparable companies to derive a range of earnings multiples to apply to our assessed level of maintainable earnings.

Future Maintainable Earnings

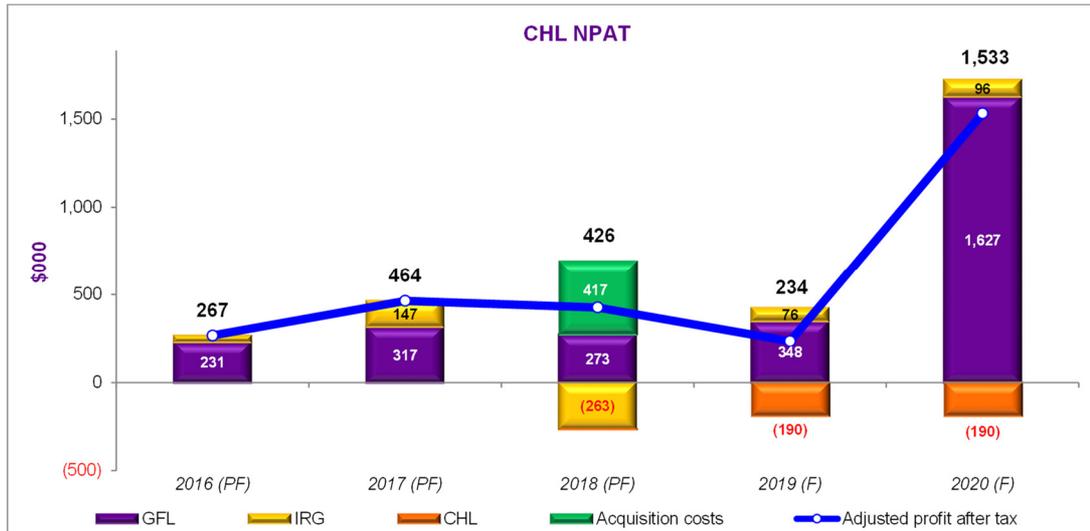
The evaluation of maintainable earnings involves an assessment of the level of profitability which (on average) the business can expect to generate in the future, notwithstanding the vagaries of the economic cycle.

The assessment of maintainable earnings is made after considering such factors as the risk profile of the business, the characteristics of the market in which it operates, its historical and forecast performance, non-recurring items of income and expenditure and known factors likely to impact on future operating performance.

We have used net profit after tax (**NPAT**) as the measure of earnings. The use of NPAT and price earnings (**PE**) multiples is more common in valuing companies in the financial services sector.

A summary of CHL's pro forma financial performance for the last 3 financial years and its forecast financial performance for the 2019 and 2020 financial years is set out in section 5.6.

The composition of CHL's NPAT for each year is set out in the graph below, along with an adjustment in the 2018 financial year to add back \$417,000 of acquisition costs in respect of GFL.



The graph highlights that the majority of CHL’s NPAT is driven by GFL. GFL’s NPAT has increased from \$231,000 in the 2016 financial year to \$273,000 in the 2018 financial year. It is forecast to increase to \$348,000 in the 2019 financial year and to \$1,627,000 in the 2020 financial year, driven by a significant increase in its loan book and term deposits.

The growth in GFL’s profitability in the 2020 financial year will be heavily dependent on Mykco being able to execute the GFL growth strategy, which is largely dependent on GFL’s ability to raise capital through term deposits and equity and to increase its loan book through providing profitable loans to quality borrowers.

Given that there is a degree of uncertainty as to whether Mykco can successfully execute the GFL growth strategy, we consider the average adjusted NPAT for the 2018, 2019 and 2020 financial years to be a reasonable basis for assessing future maintainable earnings. This equates to \$0.7 million.

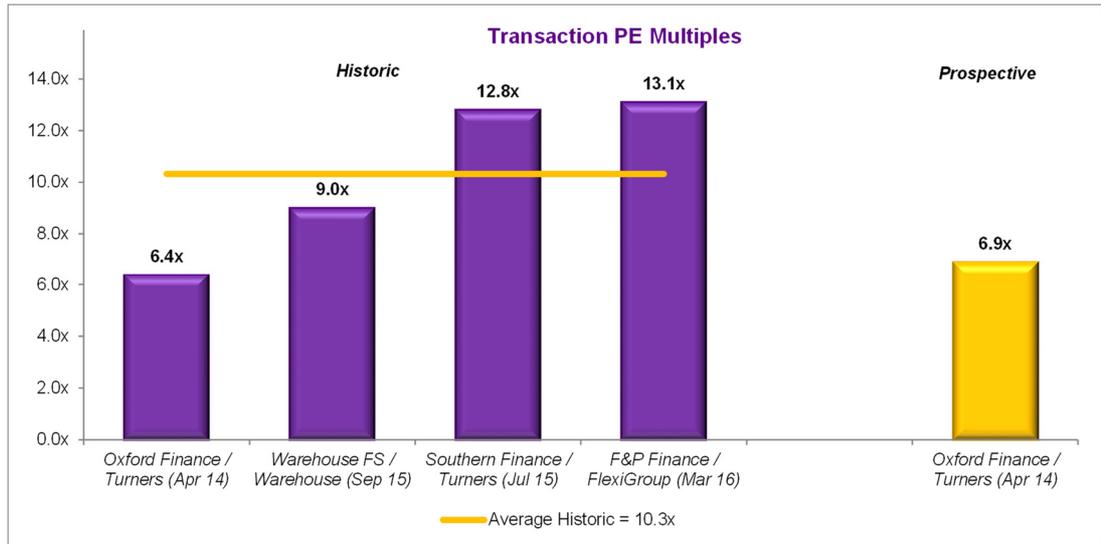
Earnings Multiple

Comparable Transactions

Our preferred approach to assessing an appropriate PE multiple is to examine transactions involving businesses in the same industry. Given that GFL’s earnings constitute the vast majority of CHL’s earnings, we have focused our evaluation on finance companies.

While there have been a number of transactions involving New Zealand finance companies in recent times, accessing reliable transaction data is difficult in many cases.

Set out at Appendix I is a summary of 5 transactions in the New Zealand finance company sector in the past 4 years where reliable data has been accessed. The historic PE multiples have ranged from 6.4x to 13.1x at an average of 10.3x.



Comparable Listed Companies

There are 2 listed companies in New Zealand that are comparable with GFL to varying degrees – Geneva Finance Limited (**Geneva**) and Heartland Bank Limited (**Heartland**). Their trading multiples are set out below.

Comparable Companies Trading Multiples			
	PE Multiple		NTA Multiple
	Historic	Prospective	
Geneva	7.0x	n/a	1.9x
Heartland	14.2x	13.9x	1.7x

n/a: Not applicable
Source: S&P Capital IQ, data as at 9 July 2018

Conclusion

We are of the view that the transaction multiples for the comparable companies provide the best basis for selecting a prospective PE multiple for CHL.

Based on the above, we consider an appropriate prospective PE multiple for CHL to be in the range of 8.0x to 9.0x.

Capitalisation of NPAT Valuation

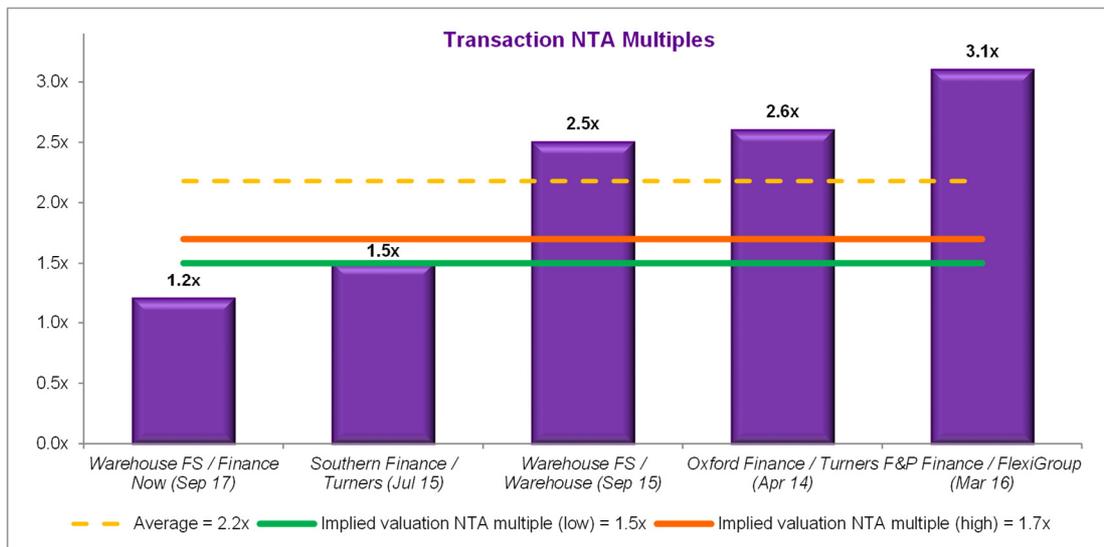
We assess the fair market value of 100% of the shares in CHL to be in the range of \$5.6 million to \$6.3 million as at the present date. This equates to \$0.86 to \$0.97 per share.

The valuation represents the full underlying standalone value of CHL based on its current strategic and operational initiatives assuming 100% of the company was available to be acquired.

Capitalisation of NPAT Valuation		
	Low	High
Future maintainable NPAT (\$000)	700	700
PE multiple	8.0x	9.0x
Value of 100% of the shares in CHL (\$000)	<u>5,600</u>	<u>6,300</u>
No. of shares (000)	6,512	6,512
Value per share (\$)	\$0.86	\$0.97
No. of CHL Shares (000)	6,412	6,412
Value of the CHL Shares (\$000)	<u>5,514</u>	<u>6,203</u>

A valuation range of \$5.6 million to \$6.3 million for 100% of the shares in CHL implies an NTA multiple of 1.5x to 1.7x based on CHL's pro forma financial position as at 31 March 2018.

We consider these implied NTA multiples to be reasonable when compared with the transaction NTA multiples.



6.5 Conclusion

We assess the fair market value of the CHL Shares, being the 6,412,000 shares in CHL to be acquired by Mykco under the CHL Acquisition (representing 98.46% of CHL's total shares on issue) to be in the range of \$5.5 million to \$6.2 million as at the present date. This equates to \$0.86 to \$0.97 per CHL Share.

7. Reasonableness of the Consideration Shares Issue Price

7.1 Introduction

The consideration for the CHL Shares will be in the form of the issue of 104,323,240 Consideration Shares at \$0.0588 per share totalling \$6.1 million.

7.2 Value of the Consideration Shares

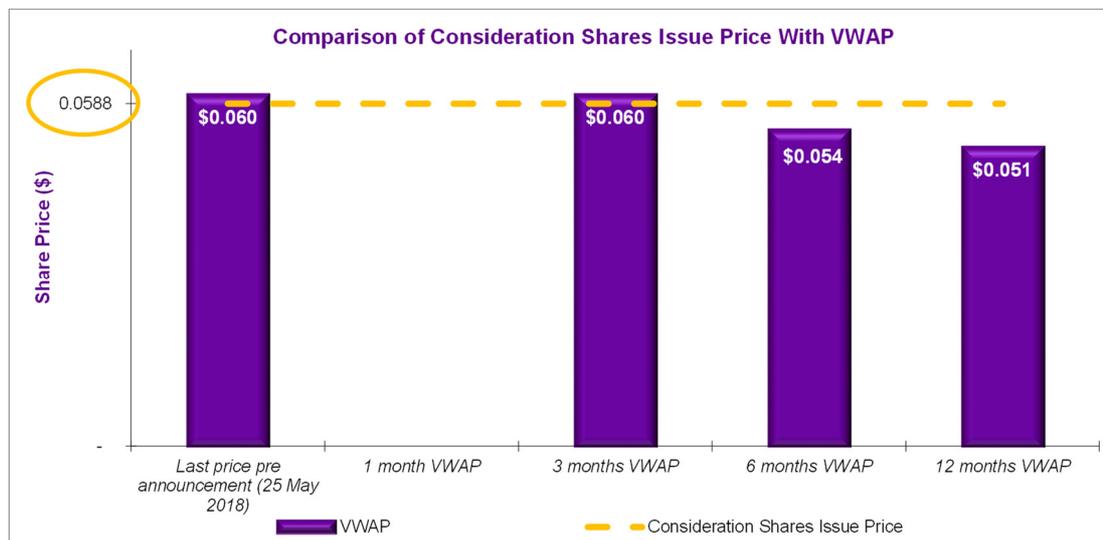
The reasonableness of the issue price of the Consideration Shares can be assessed by reference to:

- the prices at which the shares have recently traded on the NZAX prior to the announcement of the CHL Acquisition
- the prices at which the Company has recently issued shares
- the asset backing of the shares.

Recent Share Trading Prices

A summary of Mykco's daily closing share price and monthly volumes of shares traded since 5 January 2015 is set out in section 4.8.

The Consideration Shares issue price of \$0.0588 per share is broadly in line with the recent trading prices for Mykco's shares over the past 12 months up to the announcement of the CHL Transaction.



The issue price of \$0.0588 per share represents:

- a discount of 2% to the Company's share price immediately prior to the announcement of the CHL Acquisition on 28 May 2018 of \$0.060
- a discount of 2% to the 3 months VWAP of \$0.060
- a 9% premium over the 6 months VWAP of \$0.054
- a 15% premium over the 12 months VWAP of \$0.051.

The shares did not trade in the month prior to the announcement of the CHL Acquisition.

Recent Share Issues

An analysis of Mykco's recent significant equity raisings is set out below.

Mykco Recent Share Issues				
Date	Type of Issue	No. of Shares	Issue Price (\$)	Equity Raised (\$000)
26 Aug 2016	Private placement	3,269,479	\$0.0625	204
13 Jan 2017	Private placement	3,269,479	\$0.0660	216

The 2 most recent share issues were well over a year ago and were at slightly higher issue prices than the \$0.0588 issue price of the Consideration Shares. The issue prices were in line with the prevailing share trading prices at the respective dates of the 2 private placements.

Net Assets per Share

Mykco's total equity amounted to \$935,830 as at 31 March 2018, equating to net assets of \$0.0486 per share.

The nature of the Company's assets (cash, the 100,000 shares in CHL and the Bartercard Trade Dollars) is such that their carrying values represent reasonable proxies of their market values.

As a listed shell company, Mykco's only material intangible asset not on its balance sheet is likely to be its NZAX listing. In general terms, the value ascribed to a NZAX / NZX Main Board listing is a function of the costs saved by a company undertaking a backdoor listing or reverse listing rather than undergoing an initial public offering (IPO) or compliance listing.

The costs of an IPO (when a company seeks to raise capital at the time of its listing) can be significant due to brokerage fees as well as other expense such as share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage costs associated with preparing an investment statement and prospectus. However, the costs associated with a compliance listing, where a company's shares are listed but no new capital is raised, are considerably lower.

Recent backdoor listings and reverse listings on the NZAX / NZX Main Board have ascribed values in the range of \$200,000 to \$450,000 to the NZAX / NZX Main Board listings.

We consider a reasonable value for Mykco's NZAX listing to be in the range of \$200,000 to \$450,000.

Assuming the NZAX listing had such a value, the indicative value of Mykco's shares prior to the CHL Transaction, and in the absence of any alternative transaction, would be in the range of \$0.0588 to \$0.0716 per share.

Indicative Value of Mykco Shares Prior to the CHL Transaction				
	Total		Per Share	
	Low \$000	High \$000	Low \$	High \$
Net assets as at 31 Mar 2018	954	954	0.0486	0.0486
Value of NZAX listing	200	450	0.0102	0.0229
Indicative value of Mykco shares	<u>1,154</u>	<u>1,404</u>	<u>0.0588</u>	<u>0.0716</u>

The Consideration Shares are being issued at a value equivalent to Mykco's net assets per share as at 30 September 2017, thereby effectively ascribing minimal value to the Company's NZAX listing.

Conclusion

We consider the recent market prices to be the best basis for assessing the reasonableness of the Consideration Shares issue price. Accordingly, we are of the view that the issue price of \$0.0588 per share is fair to the Non-associated Shareholders as it approximates Mykco's 3 months VWAP up to the announcement of the CHL Transaction and is at a premium of between 9% and 15% to the Company's VWAP measured between 6 months and 12 months. The Consideration Shares will be issued at a price not less than the market value of the Company's shares and therefore will not be value-dilutionary to the Non-associated Shareholders.

We do not consider the fact that no value is ascribed to Mykco's NZAX listing to be materially adverse for the Non-associated Shareholders when the CHL Transaction is viewed from an overall perspective.

8. Sources of Information, Reliance on Information, Disclaimer and Indemnity

8.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of special meeting
- the draft Disclosure Document
- the CHL Agreement
- extracts from Mykco's Board minutes in respect of the CHL Transaction
- the Mykco annual reports for the years ended 31 March, 2015 to 2018
- Mykco share price data and shareholder data from NZX Company Research
- the CHL pro forma financial statement for the years ended 31 March, 2016 to 2018
- the CHL financial forecasts for the 2 years ended 30 June, 2019 and 2020
- the GFL PDS dated 28 February 2018
- the GFL annual reports for the years ended 31 March, 2016 to 2018
- the IRG annual reports for the years ended 31 March, 2016 to 2018
- information in respect of CHL, GFL and IRG compiled by Mykco during its due diligence review process
- publicly available information regarding Mykco, CHL, GFL and IRG
- information in respect of comparable companies from S&P Capital IQ and public sources.

During the course of preparing this report, we have had discussions with and / or received information from the Independent Directors and Mykco's legal advisers.

The Independent Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report and Independent Report with all information relevant to the CHL Transaction that is known to them and that all the factual information provided by Company contained in this report is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Adviser's Report and Independent Report.

In our opinion, the information set out in this Independent Adviser's Report and Independent Report is sufficient to enable the Independent Directors and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the CHL Transaction.

8.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Mykco and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Mykco, CHL, GFL or IRG. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

8.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Mykco, CHL, GFL or IRG will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Mykco, CHL, GFL or IRG and their respective directors and management teams. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of special meeting issued by Mykco and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

8.4 Indemnity

Mykco has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Mykco has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law, Simmons Corporate Finance shall reimburse such costs.

9. Qualifications and Expertise, Independence, Declarations and Consents

9.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

9.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Mykco, CHL, Borneo or the King Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the CHL Transaction.

Simmons Corporate Finance has not had any part in the formulation of the CHL Transaction or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting on the CHL Transaction Resolution. We will receive no other benefit from the preparation of this report.

9.3 Declarations

An advance draft of this report was provided to the Independent Directors for their comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

9.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to Mykco's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons
Director

Simmons Corporate Finance Limited

10 July 2018

Appendix I

Comparable Companies Transaction Multiples

Transaction Multiples						
Date	Target	Acquirer	Transaction Value (\$m)	PE Multiple		NTA Multiple
				Historic	Prospective	
Sep 17	The Warehouse Group Financial Services	Finance Now	18.0	n/d	n/d	1.2x
Mar 16	Fisher & Paykel Finance	FlexiGroup	315	13.1x	n/d	3.1x
Sep 15	The Warehouse Group Financial Services	The Warehouse Group	7.3	9.0x	n/d	2.5x
Jul 15	Southern Finance	Turners	4.9	12.8x	n/d	1.5x
Apr 14	Oxford Finance	Turners	12.5	6.4x	6.9x	2.6x
<i>Minimum</i>				6.4x	6.9x	1.2x
<i>Median</i>				10.9x	6.9x	2.5x
<i>Average</i>				10.3x	6.9x	2.2x
<i>Maximum</i>				13.1x	6.9x	3.1x
<i>n/d: Not disclosed</i>						
<i>Source: Media reports, company announcements, annual reports and presentations, S&P Capital IQ</i>						

Finance Now Limited, a subsidiary of **SBS Bank**, acquired **The Warehouse Group Financial Services Limited** from **The Warehouse Group Limited** for \$18.0 million on 11 September 2017. The Warehouse Group Financial Services Limited incurred an \$8 million operating loss in the 2017 financial year.

FlexiGroup Limited acquired **Fisher & Paykel Finance Limited** from **Fisher & Paykel Appliance Holdings Limited** for \$315 million on 18 March 2016.

The Warehouse Group Limited acquired the remaining 51% stake in **The Warehouse Financial Services Limited** from its joint venture partner **Westpac NZ Operations Limited** for \$7.3 million on 30 September 2015.

Turners Automotive Group Limited (then known as Turners Limited) acquired **Southern Finance Limited** from a group of individual sellers for \$4.9 million on 30 July 2015.

Turners Automotive Group Limited (then known as Dorchester Pacific Limited) acquired **Oxford Finance Limited** from **Electra Limited** for \$12.5 million on 1 April 2014.