



Tru-Test Corporation Limited

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON 15 June 2018**



28 May 2018

Dear Shareholders,

This letter addresses two proposals before the Board which require shareholder approval – the proposed sale of business assets and a proposed allotment of shares to KTT Limited Partnership (KTT LP). These matters are covered in detail in the accompanying Notice of Meeting.

**Proposed Sale of Tru-Test Businesses and Assets**

The Board of Tru-Test Corporation Limited (**the Company**) is pleased to advise that it has signed a conditional sale and purchase agreement (**Sale Agreement**) with Datamars SA and Datamars Limited (together **Datamars**) under which Datamars will purchase certain businesses and assets owned by Tru-Test Corporation Limited and Tru-Test Limited (together **Vendor Companies**).

The businesses and assets agreed to be sold by the Vendor Companies to Datamars (**Sale Businesses**) comprise:

- The weighing, electronic identification, contract manufacturing and electric fencing products business operations (the **FRM business**);
- The milk metering business;
- All Tru-Test Group's intellectual property relating to these businesses, including the right to the "Tru-Test" name;
- All assets relating to these businesses;
- All shares in Tru-Test Group's overseas subsidiaries; and
- All shares in Agrac Services Limited and Tru-Test Management Services Limited.

The sale does not include Tru-Test Group's dairy automation systems and milk cooling and farm holding tank businesses and assets. These will continue to be operated by the Vendor Companies' New Zealand subsidiary, Dairy Technology Services Limited.

The price for the Sale Businesses under the Sale Agreement is based on their Enterprise Value. The Enterprise Value is calculated on agreed multiples of the Sale Businesses' 2018 financial year run rate earnings before interest, tax, depreciation and amortisation (**RR EBITDA**), free of debt and excluding cash.

Assuming that the Sale Businesses exactly meet the targeted FY2018 RR EBITDA as specified in the sale and purchase agreement the Enterprise Value will be \$132,362,000.

The targeted RR EBITDA for the FRM business is \$12.5m and the Milk Meter business is \$2.477m. The agreed multiples for each of the businesses are 9.4 times and 6 times respectively. If the RR EBITDAs of the respective businesses exceed these targets, then the agreed multiples will be applied to the actual RR EBITDAs to produce a higher Enterprise Value than \$132,362,000. It is the Board's current expectation that the RR EBITDA for the FRM business will exceed the target.

### **Conditional Nature of Sale Agreement**

The Sale Agreement is subject to a number of conditions common to business transactions of this nature, for example, the approval of landlords of premises leased by the businesses. The conditions which are key to the sale proceeding are:

- shareholder approval to the sale of the Sale Businesses to Datamars at an Enterprise Value of not less than \$132,362,000, which is the reason for convening the meeting of shareholders referred to in the attached Notice of Meeting. The approval of 75% of the votes of shareholders entitled to vote and voting on the resolution is required for the sale to proceed. This approval is required to be obtained by Friday 15 June 2018.
- the consent of the Overseas Investment Office (the **OIO**) to the purchase by Datamars. Most likely, the satisfaction of that condition will not be known for a number of months following the meeting of shareholders, and if satisfied settlement of the sale within the terms of the Sale Agreement would only then occur. Processing of the application for OIO consent will be assisted by the fact that assets and businesses being purchased by Datamars do not include any “sensitive land” as that term is defined in the Overseas Investment Act 2005. OIO approval is required to be obtained by 30 November 2018 unless the parties agree to extend that date.

The Sale Agreement requires all conditions to be satisfied or waived by 31 December 2018 and if not satisfied or waived, or if the sale has not been settled by that date, either the Company or Datamars may then cancel the Sale Agreement.

### **Warranty Claims by Datamars**

The Company has given the normal warranties to Datamars in the Sale Agreement, covering title, the Sale Businesses and tax. However, Datamars has taken out Warranty and Indemnity Insurance which covers most of the liability that the Company might face in the event that Datamars had a claim. An amount of \$3.5million will also be retained in escrow as a fund for any uninsured warranty claims in respect of the Brazilian business.

### **Estimated Return to Shareholders**

The sale does not involve any change in your shareholding in Tru-Test Corporation Limited. However, if the sale is completed, the Board will propose that a return be paid to shareholders in the most effective manner.

The amount of that return to shareholders will depend upon the final purchase price paid, the amount of any warranty claims made by Datamars in respect of the Sale Businesses, the amounts required to be repaid by the Company for debts and expenses, the amount of working capital required for Dairy Technology Services Limited and other matters provided for in the sale agreement.

However, assuming the sale is at the minimum Enterprise Value of \$132,362,000, the Board estimates that shareholders would receive a return of capital in the range \$1.00 to \$1.45 per share held in the Company, at the record date. While this is a wide range due to a number of matters that are not yet determined (e.g. agreement of 2018 RR EBITDA and working capital wash-up) the directors expect the return of capital to be towards the upper end of the range.

### **Remaining businesses**

In addition to receiving the return of capital above all shareholders will continue to hold shares (in the same portion that they do now) in the company that owns the businesses not being

sold – being the Group’s farm holding tank, milk cooling and dairy automation systems businesses and assets. These businesses are expected to generate revenue of approximately \$32 million and earnings before interest, tax, depreciation and amortisation of between \$4 million and \$5 million in FY19. The demand for farm holding tanks has increased significantly over the last 6 months and this coupled with the strong demand for milk cooling products due to the change in the milk cooling regulations gives a positive outlook for the dairy solutions business.

### **Approval to the Sale**

The approval of shareholders to the proposed sale will be of no effect if the Enterprise Value is less than \$132,362,000. If the Enterprise Value is determined to be less than \$132,362,000, Datamars must decide whether it still wishes to proceed with the purchase.

If Datamars decides to proceed with the purchase at the lower Enterprise Value, a new shareholders meeting will be convened to determine whether shareholders wish to approve the sale of the Sale Businesses at that lower Enterprise Value. If shareholders do not approve the sale of the Sale Businesses at that lower Enterprise Value, the Vendor Companies must pay Datamars a break fee of \$2,000,000 to compensate it for the costs that it has incurred on the purchase.

On the other hand, if Datamars decides not to proceed with the purchase at the lower Enterprise Value, it must pay the Vendor Companies a break fee of \$2,000,000 to compensate them for the costs that they have incurred on the sale.

The break fee is based on the actual likely costs to be incurred on the sale and purchase of the Sale Businesses, is intended to be compensatory in nature, and represents a genuine and reasonable estimate of cost and loss that would be suffered by the party to whom the break fee is payable.

Accompanying this letter and the Notice of Meeting is an appraisal report prepared by Simmons Corporate Finance Limited opining on the merits of the sale of the Sale Businesses. This has been prepared in order to assist shareholders in determining how they will vote on the resolution to approve the sale. The Board urges shareholders to consider carefully the terms of that report.

### **Proposed allotment of shares to KTT LP**

In the light of the proposed sale, at the request of KTT LP, the board resolved, as permitted by the Convertible Note Deed Poll pursuant to which KTT LP and AGR Agricultural Investments LLC (AGR) held options to convert to ordinary shares, to bring forward the date on which their options could be exercised. Both KTT LP and AGR have indicated that they intend to exercise that conversion right whether or not the sale of the Sale Businesses is approved by shareholders.

KTT LP upon exercise of the conversion right will be allotted 700,000 ordinary shares. The provisions of the Takeovers Code require KTT LP, being the holder of more than 20% of the voting rights in the Company, to obtain the approval of shareholders to the increase in its voting securities which arises as a consequence of the allotment. As a limited partnership, KTT LP’s business is managed and controlled by its General Partner, Kestrel TT GP Limited which itself is managed and controlled by Kestrel Capital Pty Limited. Neither of these “Kestrel” entities holds shares in the Company but as a consequence of their relationship with KTT LP they indirectly but effectively control the voting rights held by KTT LP in the Company. The

need for shareholder approval extends also to the “Kestrel” entities because their effective control of the voting rights in Tru-Test will increase as an incident of the increase in the holding of voting rights by KTT LP in the Company.

Neither KTT LP nor the “Kestrel” entities are permitted to vote on the matter. AGR with a shareholding of 15% is not affected by the Code.

Additionally, the Code requires a report from an independent adviser on the merits of the allotment to KTT LP having regard to the interests of the shareholders who vote on the allotment. That report has been prepared by Campbell MacPherson and accompanies the Notice of Meeting.

## **Recommendations of Board**

### **Board recommendation of the sale of the Sale Businesses**

The Board unanimously recommends that all shareholders vote in favour of the resolution proposed at the Special Meeting to approve the sale. In making this recommendation the Board has taken into account a number of considerations including: the price being offered by Datamars for the Sale Businesses and the appraisal report provided by Simmons Corporate Finance Limited.

Each of Niall Cairns, John Loughlin, Daniel Masters and Phil Pryke, being directors holding shares or representing shareholders in the Company, confirms that he/the shareholders that he represents will vote at the meeting in favour of the sale at an Enterprise Value of not less than \$132,632,000.

### **Board recommendation of the KTT LP increase in voting rights**

The Board recommends that all shareholders vote in favour the allotment of the shares to KTT LP. Niall Cairns, being an associate of KTT LP (as defined in the Code), abstained from voting on the recommendation. The Board makes its recommendation having regard to the conclusions reached by Campbell MacPherson that:

**“In our opinion, taking into account all of the relevant factors, the positive aspects of the Proposed Allotment significantly outweigh the negative aspects”**

Each of John Loughlin, Daniel Masters and Phil Pryke, being directors holding shares or representing shareholders in the Company, confirms that he/the shareholders that he represents will vote in favour of the increase in the voting rights/control arising from the allotment of voting securities to KTT LP. Niall Cairns, being the representative of KTT LP will not exercise any vote on the allotment of the shares and the consequent increase in the voting rights of KTT LP.

Yours sincerely



**John Loughlin**  
**Chairman of the Board**

**TRU-TEST CORPORATION LIMITED**  
**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**NOTICE IS HEREBY GIVEN** that a Special Meeting of shareholders of **Tru-Test Corporation Limited (the Company)** will be held on 15 June 2018 at the Waipuna Hotel & Conference Centre, 58 Waipuna Road, Mt Wellington, Auckland commencing at 11am.

The Explanatory Notes, which accompany this Notice of Meeting:

- set out details of the proposal for the Company to sell certain of its businesses and related assets to Datamars SA and Datamars Limited (together **Datamars**);
- explain the requirements for the resolutions and shareholder approvals under the Companies Act 1993 (the **Companies Act**) and the constitution of the Company in order to give effect to the proposed sale.
- explain the requirement for the approval of shareholders to the increase in the voting rights/control of KTT LP and its associates arising from the allotment of voting securities to KTT LP pursuant to its exercise of the options (**Options**) it holds under the terms on the Convertible Note Deed Poll issued on 28 February 2017.

**BUSINESS OF THE MEETING**

The business of the meeting will be to consider and, if thought fit, pass the following resolutions of Tru-Test Corporation Limited:

**Resolution 1: As a Special Resolution - Approval of Sale of Businesses and Assets of Tru-Test Corporation Limited**

*To approve, for all purposes (including s.129 Companies Act 1993 and clause 27 of Tru-Test Corporation Limited's constitution) the sale of certain businesses and assets of Tru-Test Corporation Limited and its subsidiaries as set out in the agreement for sale and purchase of shares and assets (**Sale Businesses**) to Datamars SA and Datamars Limited at an Enterprise Value<sup>1</sup> of not less than \$132,362,000 (**Sale**) including:*

- (a) *the weighing, electronic identification, contract manufacturing and electric fencing products business operations;*
- (b) *the milk metering business;*
- (c) *all Tru-Test Group's intellectual property relating to these businesses, including the right to the "Tru-Test" name;*
- (d) *all assets relating to those businesses;*
- (e) *all shares in Tru-Test Group's overseas subsidiaries; and*
- (f) *all shares in Agrac Services Limited and Tru-Test Management Services Limited,*

*and for the directors of Tru-Test Corporation Limited to take all actions, do all things and execute all documents and agreements necessary or considered by them to be expedient to give effect to the Sale.*

---

<sup>1</sup> The method for calculating the Enterprise Value is set out in clause 6 of the Notes to the Business of the Meeting.

**Resolution 2: As an Ordinary Resolution - Approval to the increase in the voting securities of KTT LP**

*To approve the increase in KTT's holding and control of voting rights in the Company, and Kestrel TT GP Limited's and Kestrel Capital Pty Limited's increase in the control of voting rights (as detailed in the table below) which arise by virtue of the allotment of 700,000 ordinary shares in the Company to KTT LP pursuant to the exercise of the options held by KTT LP under the Convertible Note Deed Poll issued by the Company on 28 February 2017.*

Assumptions as to the exercise of the options held by KTT LP and AGR	Percentage of all voting securities currently held or controlled by KTT LP and any associates prior to the allotment to KTT LP*1	Number of voting securities being allotted to KTT LP	Percentage which the allotment represents of the aggregate of all the existing voting securities and the allotment	Percentage of all voting securities that will be held or controlled by KTT LP after completion of the allotment	Aggregate of the percentage of all voting securities that will be held or controlled by KTT LP and its associates after completion of the allotment*1
Assuming that KTT LP alone exercises options	43.30%	700,000	0.95%	44.25%	44.25%
Assuming that both KTT LP and AGR exercise their respective options	43.30%	700,000	0.43%	43.73%	43.73%

\*1 No voting securities are held by persons who could be regarded as associates (as that term is defined in the Takeovers Code) of KTT LP

## NOTES TO THE BUSINESS OF THE MEETING

### 1. EXPLANATORY NOTES

Explanatory Notes for Resolutions 1 and 2 accompany this Notice of Meeting as **Appendix A** and **Appendix B**, respectively.

### 2. VOTING/PROXIES

A shareholder whose name is recorded on the Company's Share Register at 5.00 pm on 14 June 2018 will be entitled to vote at the Special Meeting and vote either in person or by appointing a proxy to attend and vote on behalf of that shareholder. The proxy need not be a shareholder of TTC.

If you wish to appoint a proxy, the Proxy appointment form must be delivered to Tru-Test Corporation Limited, 25 Carbine Road, Mt Wellington, Auckland 1060, Auckland (PO Box 51078, Pakuranga, Auckland 2140) not less than 48 hours before the Special Meeting (no later than 11am on 13 June 2018). A proxy form is enclosed with this Notice. The Chairman of the Special Meeting can be appointed as a proxy. If so appointed, his intention is to vote discretionary proxies in favour or all resolutions. **Shareholders are, however, encouraged to direct their proxy how to vote on their behalf by ticking the relevant Box.**

With respect to Resolution 2, KTT LP, the "Kestrel" entities, and any associates or representatives of those three entities are prohibited by the Takeovers Code from voting. Niall Cairns, being the representative of the "Kestrel" entities at the meeting will abstain from voting on the resolution. As a consequence, Mr Cairns cannot be a proxy for undirected proxies.

**If you intend to attend the meeting in person, you should bring the Voting/Proxy Form (attached to this Notice) with you since voting may be by way of a poll.**

### 3. CORPORATE REPRESENTATIVES

A corporation which is a shareholder may appoint a representative to attend the Special Meeting on its behalf in the same manner as it could appoint a proxy.

### 4. REPORTS PREPARED FOR SHAREHOLDERS

#### **Appraisal Report on the Sale of the Sale Businesses**

An appraisal report to shareholders has been prepared by Simmons Corporate Finance opining on the merits of the sale of the Sale Businesses to Datamars.

#### **Independent Report on the allotment of the Shares to KTT LP**

The Takeovers Panel has approved Campbell MacPherson as an independent adviser to prepare a report on the merits of the proposed allotment and consequent increase in the voting securities held by KTT LP.

Full copies of both reports are enclosed with this Notice of Meeting.

Each shareholder will need to carefully consider the information in this Notice of Meeting and the independent reports in light of that shareholder's individual circumstances. Shareholders should consult their own professional adviser as appropriate.

### 5. MAJORITIES REQUIRED FOR RESOLUTIONS

The resolutions which are to be considered at the Special Meeting comprise:

#### **Resolution 1**

- in relation to the sale at an Enterprise Value of not less than \$132,362,000, a **special resolution** which requires a supermajority of 75% of the votes of shareholders of TTC entitled to vote and voting at the Meeting (whether in person or by proxy); and

**Resolution 2**

- in relation to the allotment and the increase in the voting securities held and/or controlled by KTT LP and its associates, an **ordinary resolution**, which requires a simple majority of the votes of shareholders entitled to vote and voting at the meeting (whether in person or by proxy).

**6. ENTERPRISE VALUE FOR THE SALE**

The **Enterprise Value** is based on the 2018 financial year run rate earnings before interest, tax, depreciation and amortisations (**FY2018 RR EBITDA**) of the Sale Businesses. The Enterprise Value is the total of the amounts calculated as follows:

- (a) 9.4 times the FY2018 RR EBITDA of the weighing, electronic identification, contract manufacturing and electric fencing products businesses; and
- (b) 6.0 times the FY2018 RR EBITDA of the milk metering business.

The Enterprise Value does not include the Company’s dairy automation systems and milk cooling and farm holding tank businesses, which remain with the Company following the sale of the Sale Businesses.

**7. VOTING EXCLUSION STATEMENT**

**Voting on the Sale – Resolution 1**

The Company believes that all its shareholders are eligible to vote on Resolution 1 (sale of Sale Businesses). The Company must disregard any votes cast on the resolutions by Datamars and any persons who are related parties<sup>2</sup> of Datamars should they hold any shares at the time of the Special Meeting.

**Voting on the increase in voting rights/control – Resolution 2**

KTT Limited Partnership and its associates, Kestrel TT GP Limited and Kestrel Capital Pty Limited, may not vote on Resolution 2.

**Proxies**

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or it is cast by the person chairing the Special Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Set out in the accompanying Explanatory Notes is further information on the Resolutions to be proposed at this Special Meeting. The implications of the above legal requirements, including the Companies Act, the Code and the Constitution, are addressed in the Explanatory Notes to the Resolutions.

By order of the Board



John Loughlin  
Chairman  
28 May 2018

<sup>2</sup> A “related party” is defined in clause 28.4 of Tru-Test Corporation Limited’s Constitution.

# APPENDIX A

## EXPLANATORY NOTES TO RESOLUTION 1 – SALE OF THE SALE BUSINESSES

These Explanatory Notes comprise 3 Parts:

- **Part A** provides an overview of the proposed sale including the Board's reasons for recommending the sale
- **Part B** explains the legal issues which touch on the proposed sale
- **Part C** reviews and explains the proposed resolution for which approval is sought from shareholders in order to proceed with the proposed sale.

### **PART A Sale Overview**

Tru-Test Corporation Limited and Tru-Test Limited (**the Vendor Companies**) have entered into an agreement (**Sale Agreement**) with Datamars SA and Datamars Limited (**Datamars**) pursuant to which it is intended that the Vendor Companies will sell all the following businesses and assets of TTC (**Sale Businesses**) to Datamars (**Sale**):

- the weighing, electronic identification, contract manufacturing and electric fencing products business operations;
- the milk metering business;
- all Tru-Test Group's intellectual property relating to these businesses, including the right to the "Tru-Test" name.
- all assets relating to those businesses;
- all shares in Tru-Test Group's overseas subsidiaries; and
- all shares in Agrac Services Limited and Tru-Test Management Services Limited.

The Sale will not include the Company's dairy automation systems and milk cooling and farm holding tank businesses and assets. These will continue to be operated by the Company.

The approval by shareholders to the sale of the Sale Businesses is strictly conditional on the Enterprise Value of the Sale Businesses being not less than \$132,362,000. If the Enterprise Value is subsequently determined to be less than \$132,362,000 and Datamars still wishes to proceed with the purchase, a new shareholders meeting will be convened to determine whether shareholders wish to approve the sale of the Sale Businesses at the lower Enterprise Value.

The Sale Agreement provides that Datamars will pay the purchase price for the Sale Businesses in cash. The purchase price will be the Enterprise Value, adjusted for debt, working capital deficit or surplus and other amounts usual for such transactions.

The Sale Agreement is subject to a number of conditions. One key condition is the obtaining of shareholder approval to the Sale, which is the reason for convening the meeting of shareholders referred to in the attached Notice of Meeting.

Another key condition requires Datamars to obtain the consent of the Overseas Investment Office to purchase the Sale Businesses. Most likely, the satisfaction of that condition would not be known for a number of months following the meeting of shareholders, and if satisfied settlement of the Sale in accordance with the terms of the Sale Agreement would only then occur.

## **Rationale for recommending the Sale**

The Sale has a strong commercial rationale for the Company.

The sale:

- Is at an Enterprise Value that the Board considers to be advantageous to the Company. This is supported by the appraisal report prepared by Simmons Corporate Finance Limited, which values the Sale Businesses at less than the Enterprise Value agreed by Datamars;
- Does not include the Company's dairy automation systems and milk cooling and farm holding tank businesses, which the Company will continue to operate;
- Will enable the Company to make a substantial return to shareholders.

In summary, the board of the Company is delighted to affect a sale of the Sale Businesses at an Enterprise Value of not less than \$132,362,000.

## **Calculation of Enterprise Value**

The **Enterprise Value** is based on the 2018 financial year run rate earnings before interest, tax, depreciation and amortisations (**FY2018 RR EBITDA**) of the Sale Businesses. The Enterprise Value is the total of the amounts calculated as follows:

- 9.4 times the FY2018 RR EBITDA of the weighing, electronic identification, contract manufacturing and electric fencing products businesses; and
- 6.0 times the FY2018 RR EBITDA of the milk metering business.

The process followed by your board in determining the minimum Enterprise Value included a due diligence investigation undertaken by your directors with the assistance of the company's executives and external advisers. The conclusion was that the minimum Enterprise Value that would not require a further meeting of shareholders, being \$132,362,000, was fair and reasonable to shareholders. In satisfying themselves that this was the case, the directors have regard to the merits appraisal report of Simmons Corporate Finance Limited which accompanies the Notice of Meeting.

## **Approvals required from Shareholders**

The attached Notice of Meeting seeks the approval of shareholders to the sale of:

- the weighing, electronic identification, contract manufacturing and electric fencing products business operations;
- the milk metering business;
- all Tru-Test Group's intellectual property relating to these businesses, including the right to the "Tru-Test" name;
- all assets relating to those businesses;
- all shares in Tru-Test Group's overseas subsidiaries; and
- all shares in Agtrac Services Limited and Tru-Test Management Services Limited,

to Datamars at an Enterprise Value of not less than \$132,362,000.

## **Consequences of Shareholders not granting approval**

If the approval in Resolution 1 is not granted by Shareholders, the Sale Agreement will be at an end and of no further effect.

## **Settlement of the Transaction**

Settlement of the sale is scheduled to take place following satisfaction of various conditions, of which the last to be satisfied is likely to be Datamars receiving approval from the Overseas Investment Office (**OIO**) to its purchase pursuant to the terms of the Sale Agreement. This is likely to occur a number of months following the meeting of shareholders and subject to their approval of the proposed sale. During that period, the Company will operate the businesses as usual.

The Company will provide further announcements regarding the satisfaction of the outstanding conditions precedent in the Sale Agreement in due course.

## **PART B. Legal Requirements**

### **Companies Act 1993 and Constitution**

The Company must comply with the Companies Act 1993 (**Companies Act**) and its constitution. The Companies Act and the Company's constitution contain specific requirements which are relevant to the approvals sought at this Special Meeting.

### **Companies Act Requirements**

Since the sale involves a sale which has a value which exceeds one-half of the value of the assets of the Company (a "major transaction"), the sale must, in accordance with the Companies Act, be approved by a special resolution of shareholders representing 75% of the votes of shareholders entitled to vote and voting. If the resolution is approved, the Companies Act provides that shareholders who vote against the proposal are entitled to require that the company buy back their shares at fair value. This is explained in more detail in the Specific Explanatory notes to Resolution 1 in Part C below.

## **PART C. Specific Explanatory Notes to Resolution 1**

### **Resolution 1: As a Special Resolution - Approval of Sale of Businesses and Assets**

The sale is a "major transaction" as defined in s.129 Companies Act 1993 because the value of the assets being sold exceeds one-half of the value of the assets of the Company.

As a consequence, shareholders are required by law to approve the acquisition by special resolution. If the resolution is approved, the Companies Act provides that shareholders who vote against the proposal are entitled to require that the company buy back their shares at a fair and reasonable value determined as at the day prior to the date of the meeting. It does not follow that the fair and reasonable value at that date will be equivalent to the value of shares resulting from the price obtained under the Sale Agreement. The Companies Act requires the Board of the Company to offer a price in response to a buy-back request which the Board considers is fair and reasonable calculated at a date immediately preceding the date on which shareholder approval is sought, which, if rejected by dissenting shareholders, is required to be determined by arbitration.

Shareholders who vote against the resolution and who wish to exercise this right to require TTC to buy back their shares must, pursuant to s.111 Companies Act 1993, within 10 working days of the passing of the resolution, give written notice that they require the company to buy back their shares. The procedural and pricing rules laid down by the Companies Act relating to the exercise of the buy-out right are summarised in **Appendix C** to these Explanatory Notes.

### **Board Recommendation**

The Directors of the Company have carefully considered the proposal to sell the Sale Businesses to Datamars and unanimously recommend that the Company's shareholders vote in favour of Resolution 1. If this resolution is not passed, the Sale Agreement will lapse.

# APPENDIX B

## EXPLANATORY NOTES TO RESOLUTION 2 – ALLOTMENT OF SHARES TO KTT LP

### Introduction – fundamental rule of the Code

The Takeovers Code requires a person (**Person A**) holding or controlling more than 20% of the voting rights in a “Code” company, to obtain the approval of shareholders to any increase in its voting rights which arise as a consequence of an allotment. The need for this shareholder approval extends also to any other person whose control of voting rights in the company increases as an incident of Person A’s increase in the holding of voting rights in that company.

### The Associates of KTT LP

For Code purposes, KTT LP, Kestrel TT GP Limited and Kestrel Capital Pty Limited are “associates” of KTT LP. This status arises because the “Kestrel” entities manage and control KTT LP. Neither of these “Kestrel” entities holds shares in the Company but, by virtue of their relationship with KTT LP, they indirectly but effectively control the voting rights held by KTT LP in the Company.

### The Allotment of shares to KTT LP

Resolution 2, as required by rule 16 of the Takeovers Code, seeks shareholder approval to the increase in KTT’s holding and/or control of voting rights in the Company, and Kestrel TT GP Limited’s and Kestrel Capital Pty Limited’s increase in control of voting rights which arises by virtue of the proposed allotment of 700,000 ordinary shares in the Company to KTT LP. The proposed allotment represents the exercise of the options (**Options**) held by KTT LP pursuant to the Convertible Note Deed Poll issued by the Company on 28 February 2017. AGR Agricultural Investments LLC (AGR) has also indicated that it intends to exercise its right to the allotment of 500,000 ordinary shares held pursuant to that Deed. The Code does not require the approval of shareholders to the increase in AGR’s shareholding as a result of the allotment of those shares.

### Voting Approval

The Code permits only the shareholders who are un-associated with KTT LP to vote on the resolution to approve the increase in the holding or controlling of voting rights. Neither KTT LP nor the “Kestrel” entities nor any of their associates or representatives are permitted to vote on the allotment of shares arising from the exercise of the options.

### Independent Adviser

The Code requires a report from an independent adviser (appointed by the Company and approved by the Takeovers Panel), opining on the merits of the allotment having regard to the interests of the shareholders who vote on the allotment. That report has been prepared by Campbell MacPherson and accompanies the Notice of Meeting.

### Other Information required by the Code to be disclosed to shareholders

Rule 16 of the Code requires certain information to be provided to shareholders to assist the shareholders their consideration of the increase in the voting securities following the allotment. This information is listed below reflecting the same order as in rule 16:

- (a) The identity of the allottee: KTT Limited Partnership

(b) The following particulars of the voting securities to be allotted:

Assumptions as to the exercise of the options held by KTT LP and AGR	Percentage of all voting securities currently held or controlled by KTT LP and any associates prior to the allotment to KTT LP*1	Number of voting securities being allotted to KTT LP	Percentage of which the allotment represents of the aggregate of all the existing voting securities and the allotment	Percentage of all voting securities that will be held or controlled by KTT LP after completion of the allotment	Aggregate of the percentage of all voting securities that will be held or controlled by KTT LP and its associates after completion of the allotment*1
Assuming that KTT LP alone exercises options	43.30%	700,000	0.95%	44.25%	44.25%
Assuming that both KTT LP and AGR exercise their respective options	43.30%	700,000	0.43%	43.73%	43.73%

\*1 No voting securities are held by persons who could be regarded as associates (as that term is defined in the Takeovers Code) of KTT LP

- (c) If voting securities are being allotted in a body corporate other than the Company: No, the 700,000 ordinary shares are being allotted to KTT LP in the Company (Tru-Test Corporation Limited).
- (d) The issue price for the voting securities being issued is \$1.05 per share and is payable upon allotment which will immediately follow the exercise of the options. KTT LP has indicated to the Board that it intends to exercise its options but has not specified the date on which it may do so. KTT LP is entitled to exercise the options in the five year period commencing from the 5<sup>th</sup> business day following the approval of the shareholders pursuant to Resolution 2.
- (e) The allotment will follow the exercise by KTT LP of the Options it holds pursuant to the Convertible Note Deed Poll issued by the Company on 28 February 2017. The current exercise date has been brought forward by the board of the Company from a later date specified in the Deed Poll (being 30 September 2019) to the date being 5 business days following the approval of shareholders to the increase in the holding/control of voting rights by KTT LP and the “Kestrel” entities arising from the allotment. The board considered that to do so was in the interests of the Company for the reasons which are itemised in paragraphs 2-6 of subclause (i) below.
- (f) The allotment, if approved by shareholders will be permitted under rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.
- (g) KTT LP has provided the following statement to the Company for inclusion in this notice:

“For the purposes of sub-clause (g) of rule 16 of the Takeovers Code, no agreement or arrangement (whether legally enforceable or not) has been, or is intended to be, entered into between KTT LP and any other person (other than between it and the Company in respect of the matters set out in paragraphs (a) – (e) above) relating to the allotment or allotments, holding or control of the voting securities to be allotted, or to the exercise of the voting rights of the Company”.

- (h) The independent advisers report prepared by Campbell MacPherson, as required by rule 18 of the Takeovers Code, accompanies this Notice of Meeting.
- (i) Directors Statement as required by rule 19 of the Takeovers Code:

The directors of the Company (other than Niall Cairns) unanimously recommend that shareholders approve the increase in KTT LP’s holding and/or control of voting rights, and the increase by Kestrel TT GP and Kestrel Capital Pty Limited in the control of voting rights in the Company as a consequence of the allotment of shares to KTT LP, by voting in favour of Resolution 2 for the following reasons:

1. The conclusion set out in the Independent Adviser’s report which states

**“In our opinion, taking into account all of the relevant factors, the positive aspects of the Proposed Allotment significantly outweigh the negative aspects.”**

2. The allotment to KTT LP will not result in KTT LP materially increasing its ownership or voting control of the Company;
3. No change will occur in the Board of Tru-Test as a result of the allotment;
4. The allotment facilitates the sale for the benefit of non-associated shareholders. The allotment arises from the request made by Tru-Test of KTT LP to facilitate the sale to Datamars by having KTT LP’s representative on the Board agree to a restraint of trade required by Datamars as a condition of the purchase by Datamars, and the response of KTT LP requiring the exercise date on options held by KTT LP be brought forward.
5. The allotment would provide \$735,000 of additional cash to Tru-Test. These funds would then be included in the capital distribution to shareholders should the Sale proceed.
6. If the Sale proceeds and a capital distribution is made to Tru-Test shareholders, the allotment is expected to result in a small reduction only of up to \$0.01 per share in the capital distribution which would otherwise be made to shareholders if the allotment were not made to KTT LP.

Mr Niall Cairns abstained from the directors’ recommendation as he is interested in the matter, being a director of Kestrel TT GP and Kestrel Capital Pty Limited, respectively, the General Partner and manager of investments of KTT LP.

# APPENDIX C

## (Exercise of the Minority Buy-Out Right under the Companies Act 1993)

1. The procedures for a shareholder exercising a buy-out right are governed by sections 110, 111, 112 and 112A-C (inclusive) of the Companies Act 1993.
2. A shareholder of the Company who votes against Resolution 1 is entitled to require the Company to buy-back that shareholder's shares. That right is exercised by giving a written notice to TTC within 10 working days of the passing of Resolution 1 requiring the Company to purchase the shares.
3. Within 20 working days of receiving that notice from a shareholder exercising that shareholder's buy-out right, the Board of the Company must give written notice to the shareholder of the Board's decision to agree to have the Company agree to purchase the shares, or to arrange for some other person to agree to purchase the shares, or to give notice to the shareholder that Resolution 1 has been rescinded by cancellation of the proposed sale.
4. If the Board agrees to purchase the shares, the Board must give to the relevant shareholder written notice of:
  - (a) The price it offers to pay for those shares, being a fair and reasonable price; and
  - (b) How, in accordance with the Companies Act the fair and reasonable price was calculated.
5. In respect of sub-paragraph (b) of paragraph 4, above, the Companies Act mandates that the price must be a fair and reasonable price (as at the close of business on the day before the date on which the resolution (in this case Resolution 1) was passed) for the shares held by the shareholder, calculated as follows:
  - (a) First, the fair and reasonable value of the total shares in each class to which the shares belong must be calculated (the **class value**)
  - (b) Secondly, each class value must be adjusted to exclude any fluctuation (whether positive or negative) in the class value that has occurred (whether before or after the resolution was passed) that was due to, or in expectation of, the event proposed (in this case the acquisition to effect the sale) or authorised by the resolution
  - (c) Thirdly, a portion of each adjusted class value must be allocated to the shareholder in proportion to the number of shares he, she or it holds in the relevant class.
6. A different methodology from that set out above may be used to calculate the fair and reasonable value for the shares if using the methodology set out above would be clearly unfair to the shareholder or the Company.
7. On the day on which the Board gives notice under paragraph 4 above that the Board agrees to purchase the shares by the Company:
  - (a) The legal title to those shares pass to the Company; and

- (b) The rights of the shareholder in relation to those shares end.
- 8. The shareholder may within 10 working days after the date on which the Board gives written notice to the shareholder under paragraph 4 above, object to the price offered by the Company by giving written notice to the Company.
- 9. If the Company does not receive an objection to the price, the Company must purchase the shares at the nominated price no later than 10 working days after the date on which the Board's offer under paragraph 4 above is accepted, or if the Board has not received an acceptance, the date that is 10 working days after the date on which the board gave written notice to the shareholder under paragraph 4 above.
- 10. These time periods may be changed as agreed in writing between the Board and the shareholder.
- 11. If the Company receives an objection to the price offered for the shares:
  - (a) the Company must, within 5 working days of receiving the objection pay to the shareholder a provisional price in respect of each share equal to the price offered by the Company's Board under paragraph 4 above; and
  - (b) The issues as to the fair and reasonable price for the shares and the remedies available to the holder of the shares or the Company in respect of any price for the shares that differs as determined by the Board under paragraph 4 above, must be submitted to arbitration.
- 12. If the price determined under paragraph 9 for the shares:
  - (a) Exceeds the provisional price paid, the arbitral tribunal must order the Company to pay the balance owing the shareholder; or
  - (b) Is less than the provisional price paid, the arbitral tribunal must order the shareholder to pay the excess to the Company; and
  - (c) The arbitral tribunal must award interest on any balance owing or excess amount paid except in exceptional circumstances.



