

Tru-Test Corporation Limited

Independent Adviser's Report

In Respect of KTT Partnership Limited Increasing its Control of Voting Rights

August 2014

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
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this 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 Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 Background

Tru-Test Corporation Limited (**Tru-Test** or **the Company**) is a New Zealand-based world leader in agri-technology. The Company is a world leader in milk metering equipment, electric fencing and livestock scales and a New Zealand leader in contract manufacturing.

Tru-Test is a widely held, non-listed company with 155 shareholders. It had revenue of \$130 million for the year ended 31 March 2014 and equity of \$31 million as at 31 March 2014.

A profile of Tru-Test is set out in section 3.

1.2 Proposed Share Transactions

Tru-Test is seeking to acquire up to 9,523,809 of its ordinary shares pursuant to a buyback offer being made to all of the Company's shareholders (the **Buyback**).

The Company will offer to purchase, in aggregate, up to 9,523,809 shares from shareholders at a price of \$1.05 per share. This represents up to 23.61% of the Company's ordinary shares on issue (excluding the shares held by the Company as treasury stock). Any shares purchased by the Company under the Buyback will be cancelled.

The objective of the Buyback is to provide a liquidity event for all Tru-Test shareholders.

The Buyback will be funded by:

- \$6.0 million from a placement of 5,714,285 new ordinary shares to KTT Partnership Limited (**KTT**) at an issue price of \$1.05 per share (the **KTT Placement**)
- to the extent required, a loan of up to \$10.0 million from Bank of New Zealand Limited (the **BNZ Financing**).

We refer to the Buyback, the KTT Placement and the BNZ Financing collectively as the **Share Transactions**.

1.3 Impact on Shareholding Levels

Current Levels

Tru-Test currently has 42,623,375 ordinary shares on issue:

- 40,335,342 shares are held by 155 shareholders
- 2,288,033 shares are held as treasury stock by Tru-Test. No voting rights are attached to these shares.

Gallagher Buyback

The treasury stock arose on 21 February 2014 when Tru-Test bought back 5,425,322 ordinary shares held by Gallagher Holdings Limited (**Gallagher**) at a cost of \$1.05 per share (the **Gallagher Buyback**). Of those shares, 3,137,289 were cancelled and the remaining 2,288,033 shares are held by the Company as treasury stock.

KTT

KTT is the largest shareholder in Tru-Test, holding 8,762,151 ordinary shares. This equates to 20.56% of the total shares on issue (including the treasury stock) and 21.72% of the voting rights in the Company.

Immediately prior to the Gallagher Buyback, KTT's 8,762,151 shares equated to 19.15% of the total shares on issue and voting rights in the Company.

KTT is a limited partnership formed by Kestrel Capital Pty Limited, an Australian private equity and venture capital manager based in Sydney. Kestrel TT GP Limited is KTT's general partner. We refer to the 3 entities collectively as KTT.

KTT is not expected to participate in the Buyback but will subscribe for 5,714,285 new ordinary shares under the KTT Placement.

Non-associated Shareholders

The Company's shareholders not associated with KTT (the **Non-associated Shareholders**) currently collectively hold 74.07% of the Company's ordinary shares on issue (including the treasury stock) and 78.28% of the voting rights.

The treasury stock shares represent 5.37% of the ordinary shares on issue but carry no voting rights.

Potential Levels After the Share Transactions

The minimum and maximum levels of ordinary shares held by KTT (based on its current shareholding level) and the Non-associated Shareholders following the Share Transactions are set out below, depending on the number of ordinary shares accepted into the Buyback.

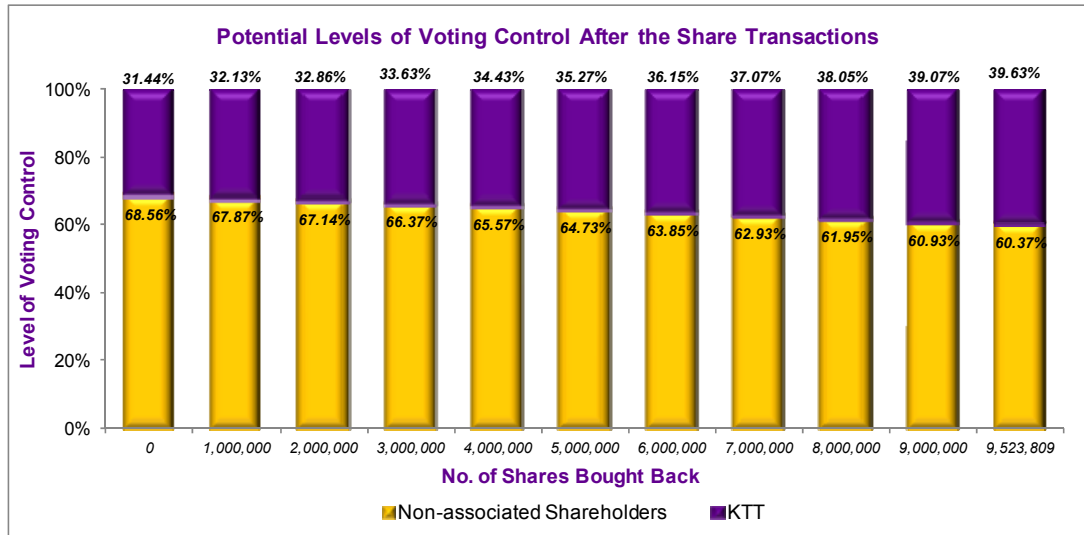
Range of Potential Levels of Control of Voting Rights					
	KTT		Non-associated Shareholders		Total Voting Rights
	No. of Shares	%	No. of Shares	%	
Minimum Scenario					
Current	8,762,151	21.72%	31,573,191	78.28%	40,335,342
Buyback	0		0 ¹		0
KTT Placement	5,714,285		0		5,714,285
Post the Share Transactions	<u>14,476,436</u>	<u>31.44%</u>	<u>31,573,191</u>	<u>68.56%</u>	<u>46,049,627</u>
Maximum Scenario					
Current	8,762,151	21.72%	31,573,191	78.28%	40,335,342
Buyback	0		(9,523,809) ²		(9,523,809)
KTT Placement	5,714,285		0		5,714,285
Post the Share Transactions	<u>14,476,436</u>	<u>39.63%</u>	<u>22,049,382</u>	<u>60.37%</u>	<u>36,525,818</u>
¹	Assumes no shares are accepted into the Buyback				
²	Assumes the maximum number of shares are accepted into the Buyback				

If no shares are accepted into the Buyback, then KTT will hold 31.44% of the voting rights in the Company following the KTT Placement (the **Minimum Scenario**).

If the maximum 9,523,809 shares are accepted into the Buyback, then KTT will hold 39.63% of the voting rights in the Company following the KTT Placement (the **Maximum Scenario**).

It is difficult to predict how many shares will be accepted into the Buyback. However, we consider both the Minimum Scenario and the Maximum Scenario to be unlikely outcomes.

The graph below shows the potential voting rights levels for KTT and the Non-associated Shareholders, depending on the number of shares acquired and cancelled by Tru-Test under the Buyback.



1.4 Annual Meeting

The Non-associated Shareholders will vote on an ordinary resolution in respect of KTT retaining the 1.72% of voting rights it holds in excess of 20% of the voting rights (the **Additional Voting Rights**), being 695,083 ordinary shares, at the Company's annual meeting on 29 August 2014 (resolution 4 - the **Additional Voting Rights Resolution**).

KTT and its associates (as defined in the Takeovers Code (the **Code**)) are not permitted to vote on the Additional Voting Rights Resolution.

Shareholders will also vote on 4 ordinary resolutions in respect of the Share Transactions (the **Share Transactions Resolutions**):

- the Buyback (resolution 5)
- the KTT Placement (resolution 6)
- the BNZ Financing (resolution 7)
- KTT increasing its control of voting rights to up to 39.63% under the Share Transactions (resolution 8).

All 4 resolutions are interdependent. All the Share Transactions Resolutions must be approved in order for the Share Transactions to proceed. If any one of the 4 resolutions is not approved, then the Share Transactions cannot proceed.

KTT and its associates are not permitted to vote on resolution 8. KTT and its associated parties (as defined in the Company's constitution) are not permitted to vote in favour of resolutions 5, 6 and 7.

1.5 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights (together with its associates) beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

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

Additional Voting Rights

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Class Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Class Exemptions provides an exemption for a shareholder controlling (alone or with their associates) in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Class Exemptions (and their associates)).

Clause 5 of the Class Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

The Gallagher Buyback on 21 February 2014 resulted in KTT's control of voting rights increasing from 19.15% to 21.72%. Pursuant to Clause 5 of the Class Exemption, KTT must dispose of the Additional Voting Rights by 21 August 2014 and not exercise the voting rights in respect of those shares during this period.

KTT has been granted an exemption by the Takeovers Panel from the Code to permit it to retain the Additional Voting Rights beyond 21 August 2014 to allow the Non-associated Shareholders to vote at the annual meeting to be held on 29 August 2014 as to whether to allow KTT to retain the Additional Voting Rights (the **Tru-Test 2014 Exemption**).

The purpose of Additional Voting Rights Resolution is to enable KTT to retain the Additional Voting Rights.

Clause 8(b)(vi) of the Tru-Test 2014 Exemption requires that the notice of meeting containing the Additional Voting Rights Resolution must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

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

Share Transactions

The Share Transactions will result in KTT increasing its voting rights in Tru-Test to between 31.44% and 39.63% (assuming the Additional Voting Rights Resolution is passed).

Accordingly, the Non-associated Shareholders will vote at the Company's annual meeting on the 4 ordinary resolutions in respect of the Share Transactions in accordance with the Code. The purpose of resolution 8 is to enable KTT to increase its control of voting rights to up to 39.63% under the Share Transactions.

Clause 6(b)(ix) of the Tru-Test 2014 Exemption requires that the notice of meeting containing the resolutions in respect of the Buyback (resolution 5) and the KTT Placement (resolution 6) must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

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 such as the KTT Placement under Rule 7(d).

1.6 Purpose of the Report

The directors of Tru-Test not associated with KTT, being the Company's directors other than Niall Cairns (the **Non-associated Directors**), have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of KTT retaining the Additional Voting Rights and increasing its voting rights in the Company.

Simmons Corporate Finance was approved by the Takeovers Panel on 23 June 2014 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Non-associated Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on voting on the Additional Voting Rights Resolution and the Share Transactions Resolutions.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of KTT retaining the Additional Voting Rights and increasing its control of voting rights in relation to each shareholder. Our advice and opinions are necessarily general in nature.

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

2. Evaluation of the Merits of KTT Increasing its Control of Voting Rights

2.1 Basis of Evaluation

Clauses 6(b)(ix) and 8(b)(vi) of the Tru-Test 2014 Exemption and Rule 18 of the Code require an evaluation of the merits of KTT retaining any increase in its voting rights in the Company, having regard to the interests of the Non-associated Shareholders.

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

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 May 2014
- 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*.

We are of the view that an assessment of the merits of KTT retaining the Additional Voting Rights should focus on:

- the background to how the Additional Voting Rights arose
- the impact of the Additional Voting Rights on the control of the Company
- the implications if the Additional Voting Rights Resolution is not approved.

We are of the view that an assessment of the merits of KTT retaining any increase in its voting rights in the Company arising from the Share Transactions should focus on:

- the rationale for the Share Transactions
- the terms and conditions of the Share Transactions
- the financial impact of the Share Transactions
- the impact of the Share Transactions on the control of the Company
- the impact of the Share Transactions on Tru-Test's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Transactions
- the implications if the Share Transactions Resolutions are 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 Evaluation of the Merits of KTT Retaining the Additional Voting Rights

In our opinion, after having regard to all relevant factors, the positive aspects of KTT retaining the Additional Voting Rights outweigh the negative aspects from the perspective of the Non-associated Shareholders.

The key factors leading to our opinion are:

- the Additional Voting Rights arose from the Gallagher Buyback - a non pro rata buyback of shares by the Company from Gallagher in February 2014 - rather than any actions of KTT
- the retention of the Additional Voting Rights will not increase KTT's ability to influence the outcome of shareholder voting to any significant degree as the Additional Voting Rights represent only 1.72% of the Company's voting rights
- if the Additional Voting Rights Resolution is not passed, then KTT will need to sell 695,083 ordinary shares:
 - if the Share Transactions Resolutions are passed, then KTT will be able to sell the shares through the Buyback at \$1.05 per share. This may reduce the number of shares that the Non-associated Shareholders can sell into the Buyback
 - if the Share Transactions Resolutions are not passed, then KTT will need to find one or more buyers for the 695,083 shares. However, trading in the Company's shares is extremely illiquid and the sale of such a large parcel of shares may have a material adverse impact on the price at which the Company's shares trade.

2.3 Summary of the Evaluation of the Merits of KTT Increasing its Control of Voting Rights

In our opinion, after having regard to all relevant factors, the positive aspects of KTT retaining any increase in its voting rights as a result of the Share Transactions outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits is set out in detail in sections 2.4 to 2.10. In summary, the key factors leading to our opinion are:

- the rationale for the Share Transactions is sound. It creates a liquidity event for the Company's shareholders:
 - shareholders wishing to sell shares can do so under the Buyback at \$1.05 per share
 - the Buyback will be funded by \$6.0 million from the KTT Placement
 - if additional funding of the Buyback is required, this will be provided by the BNZ Financing
- the terms of the Share Transactions are reasonable:
 - the Buyback is open to all shareholders on a pro rata basis at \$1.05 per share
 - shareholders may be able to sell more than their pro rata entitlement into the Buyback, but this may be subject to scaling
 - the issue price for the KTT Placement is the same price as the Buyback

- the Buyback price and the KTT Placement issue price of \$1.05 per share is the same price as the Company paid under the Gallagher Buyback and at which all share trades since October 2013 have occurred
- the financial impact of the Share Transactions is not significant. Total equity will reduce by a maximum of \$4.0 million, with a corresponding increase in debt
- the Share Transactions will result in KTT holding between 31.44% and 39.63% of the voting rights in the Company (assuming the Additional Voting Rights Resolution is passed). The Share Transactions will increase KTT's ability to influence the outcome of shareholder voting. This is the main disadvantage of the Share Transactions from the Non-associated Shareholders' perspective
- the Share Transactions will provide support for Tru-Test's share price at its current level of \$1.05 per share
- the Share Transactions will improve the liquidity of the shares held by Non-associated Shareholders over the period of the Buyback
- the Share Transactions are unlikely to reduce the attraction of Tru-Test as a takeover target
- in the event of the Share Transactions Resolutions not being approved, the Buyback will not proceed, thus removing the ability for shareholders to sell shares in Tru-Test at \$1.05 per share. It would be difficult for the Company's board of directors (the **Board**) to subsequently implement an alternative liquidity event without seeking shareholder approval as KTT would be required to sell down its shareholding to return its percentage holding to the pre-liquidity event level within 6 months of the increase. The Board would be conscious that this would likely place downward pressure on the Company's share price and thus may be disinclined to implement the alternative liquidity event.

2.4 Rationale for the Share Transactions

The Board's key reason for the Buyback is to create a liquidity event for the Company's shareholders.

As discussed in section 2.8, trading in the Company's shares is extremely illiquid. The Buyback provides an opportunity for those shareholders who wish to sell shares to sell at least 23.61% of their shareholdings at \$1.05 per share. Depending on the level of acceptances into the Buyback, shareholders wishing to sell more than 23.61% of their shares into the Buyback may be able to do so, but may be subject to scaling.

2.5 Terms of the Share Transactions

Buyback

The key terms of the Buyback are:

- the Company offers to purchase up to 9,523,809 shares at a price of \$1.05 per share
- the Buyback is conditional on:
 - the Share Transactions Resolutions being approved
 - the KTT Placement having occurred on or before 25 September 2014

- the Board being satisfied that the Company will satisfy the solvency test (as defined in section 4 of the Companies Act 1993)
- in the event that any condition is not satisfied, the Buyback will lapse and no shares will be purchased from any shareholder pursuant to the Buyback
- the Buyback will be in respect of the shares registered in the name of each shareholder registered on the Company's share register at 5.00 pm on 29 August 2014
- the Buyback will open on 30 August 2014. However, it will not proceed if any condition is not satisfied
- shareholders will have until 3.00 pm on 5 September 2014 to accept the Buyback
- Tru-Test may extend the closing time and reserves the right to accept late acceptances
- a shareholder may accept the Buyback in respect of all or any shares held by that shareholder:
 - a shareholder who accepts the Buyback in respect of 23.61% or less of their shareholding will not have their acceptance scaled down
 - if a shareholder accepts the Buyback in respect of more than 23.61% of their shareholding and more than 9,523,809 shares are accepted into the Buyback in total, that shareholder's acceptance may be scaled down but not so as to be reduced to less than 23.61% of their shareholding
- shares acquired by the Company under the Buyback will be cancelled on their acquisition.

We consider the terms of the Buyback to be reasonable:

- the Buyback is a pro rata offer to all shareholders
- shareholders may accept more than their pro rata entitlement into the Buyback, but any excess acceptances may be subject to scaling
- the Buyback price of \$1.05 per share is the same price as paid to Gallagher under the Gallagher Buyback, is the same price as the KTT Placement issue price and is the same price at which all share trades since October 2013 have taken place.

KTT Placement

The key terms of the KTT Placement are:

- the Company proposes to issue 5,714,285 new ordinary shares to KTT at an issue price of \$1.05 per share
- the consideration payable by KTT will be payable upon issue of the shares
- the shares issued will be identical to the existing ordinary shares in the Company (including as to voting and dividends) and will rank equally in all respects with the existing ordinary shares in the Company
- the KTT Placement is conditional on the receipt by KTT of all consents required under the Overseas Investment Act 2005 for its acquisition of the 5,714,285 shares (the **OIA Consent**)

- if resolution 6 is passed and KTT receives the OIA Consent, it is intended that the KTT Placement will take place as soon as possible following receipt of the OIA Consent and, in any event, prior to Tru-Test purchasing any shares under the Buyback
- the KTT Placement will not proceed if the Share Transactions Resolutions are not approved by shareholders or if the OIA Consent is not obtained.

We consider the terms of the KTT Placement to be reasonable:

- the KTT Placement will raise \$6.0 million of fresh equity which will be used to fund the Buyback
- the issue price of \$1.05 per share is the same price as paid to Gallagher under the Gallagher Buyback, the Buyback price and the price at which all share trades since October 2013 have taken place.

2.6 Financial Impact of the Share Transactions

A summary of Tru-Test's recent financial performance and financial position is set out in sections 3.8 and 3.9.

The illustrative financial impact of the Share Transactions on the Company's financial results for the year ended 31 March 2014 set out below focuses on 2 scenarios in respect of the Buyback:

- scenario I – a Buyback of 3,500,000 shares at a total cost of \$3.7 million. The Buyback would be fully funded by the KTT Placement
- scenario II – a Buyback of 9,523,809 shares at a total cost of \$10.0 million. The Buyback would be funded by \$6.0 million from the issue of 5,714,285 shares under the KTT Placement and \$4.0 million from the BNZ Financing.

For the purposes of the illustration, we have assumed:

- the Buyback effectively occurred on 1 April 2013, so that Tru-Test carried the additional debt burden for the full year ended 31 March 2014
- an interest rate of 5% on the BNZ Financing.

Illustrative Financial Impact of the Share Transactions			
	Year to 31 Mar 14	Scenario I	Scenario II
Profit for the year (\$000)	2,179	2,179	2,035
EPS (\$)	\$0.05	\$0.05	\$0.06
Total equity (\$000)	31,268	33,593	27,268
Net assets per share (\$)	\$0.78	\$0.79	\$0.75
Financial leverage	68%	66%	72%
<i>EPS: Earnings per share</i>			

The Share Transactions will not have a significant financial impact on Tru-Test. The illustrative analysis shows:

- EPS would increase by 3% to \$0.06
- net assets per share would reduce by 4% to \$0.75
- financial leverage would increase from 68% to 72%.

2.7 Impact on Control

Capital Structure and Shareholders

Tru-Test currently has 42,623,375 ordinary shares on issue:

- 40,335,342 shares are held by 155 shareholders
- 2,288,033 shares are held as treasury stock by Tru-Test. The treasury stock do not have voting rights attached to the shares.

The names, number of shares and percentage holding of the 10 largest shareholders are set out in section 3.6.

Shareholder Voting

Any shareholder that does not participate in the Buyback will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

KTT has indicated to the Company that it will not participate in the Buyback if the Additional Voting Rights Resolution is passed.

As detailed in section 1.3, the Share Transactions will result in KTT controlling between 31.44% and 39.63% of the voting rights in the Company (assuming the Additional Voting Rights Resolution is passed).

KTT currently holds a strategic shareholding. While in theory it cannot singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders), in reality it most likely can at present. This is because some shareholders in widely held companies tend not to vote on resolutions and hence the relative weight of the 21.72% voting rights increases.

KTT cannot singlehandedly determine the outcome of ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) nor pass a special resolution.

The potential increase for KTT to up to 39.63% of the voting rights in Tru-Test will ensure its ability to singlehandedly block a special resolution (which we consider it already holds) but will not change its inability to singlehandedly control the outcome of an ordinary resolution or pass a special resolution.

Board of Directors

The Tru-Test Board consists of 5 directors as set out in section 3.7. KTT has one representative on the Board.

We are advised by the Non-associated Directors that they do not expect the Share Transactions to have any impact on the composition of the Board.

Operations

We are advised by the Non-associated Directors that the Share Transactions will not have any impact on the level of influence of KTT over the Company's operations.

2.8 Impact on Share Price and Liquidity

Tru-Test makes a market for shareholders who wish to trade their shares.

Set out in section 3.11 is a summary of trading in Tru-Test's shares from 1 January 2011.

During the period, a total of 9,090,326 shares have traded between a low of \$0.80 (on 14 June 2011) and a high of \$1.10 (on 6 December 2011, 15 December 2011 and 1 November 2012) at a volume weighted average share price (**VWAP**) of \$0.98.

Trading in the Company's shares is extremely illiquid. Two large parcels of shares account for approximately 88% of the shares traded over the period:

- 6,555,396 shares were traded on 10 October 2012
- 1,418,511 shares were traded on 21 November 2013.

Excluding these 2 parcels, only 1,116,419 shares have traded since 1 January 2011, representing 2.8% of the total shares currently on issue (excluding treasury stock).

The Buyback will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders over the period of the Buyback as shareholders wishing to sell shares will be able to do so into the Buyback (although those shareholders wishing to sell more than 23.61% of their shares may be subject to scaling).

However, following the completion of the Share Transactions (and in the absence of any other changes to the Company's capital structure and / or method by which its shares are traded), the liquidity of Tru-Test's shares is unlikely to change.

2.9 Benefits and Disadvantages to Non-associated Shareholders

Key Benefit

The key benefit of the Share Transactions to the Non-associated Shareholders is that it will provide buy-side demand for the Company's shares, thereby improving liquidity over the period of the Buyback.

Main Disadvantage

The main disadvantage is that the Share Transactions will increase KTT's voting rights from 21.72% to between 31.44% and 39.63% (assuming the Additional Voting Rights Resolution is passed), thereby increasing its ability to control the outcome of shareholder voting to some degree.

In our view, the increased level of control is not of such significance that it outweighs the benefits of the Share Transactions.

Unlikely to Change the Likelihood of a Takeover Offer from KTT

We are not aware of any intention on KTT's part to make a takeover offer. However, if it did have such intent, an increase in KTT's voting rights from 21.72% to up to 39.63% is unlikely to change the likelihood of a takeover offer as the increase in its level of voting rights is not significant from a control perspective.

Likelihood of Other Takeover Offers Does not Change

We are of the view that the increase in KTT's voting rights from 21.72% to up to 39.63% is unlikely to reduce the attraction of Tru-Test as a takeover target to other parties:

- any bidder looking to fully take over the Company would need to ensure that KTT would accept its offer, irrespective of whether it held 21.72% or to up to 39.63% of the voting rights
- any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would want to ensure that KTT would accept its offer to increase the chances of a successful offer, irrespective of whether KTT held 21.72% or to up to 39.63% of the voting rights.

2.10 Implications of the Share Transactions Resolutions not Being Approved

In the event that the Share Transactions Resolutions are not approved, then the Buyback will not proceed.

It would be difficult for the Board to create an alternative liquidity event without seeking shareholder approval as this would require KTT to sell down its shareholding to return its percentage holding to the pre-liquidity event level within 6 months in accordance with clause 5 of the Class Exemptions.

The Board would be mindful that any forced sale of shares by KTT may place downward pressure on the Company's share price and thus may be disinclined to implement an alternative liquidity event.

2.11 Voting For or Against the Share Transactions Resolutions

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

3. Profile of Tru-Test

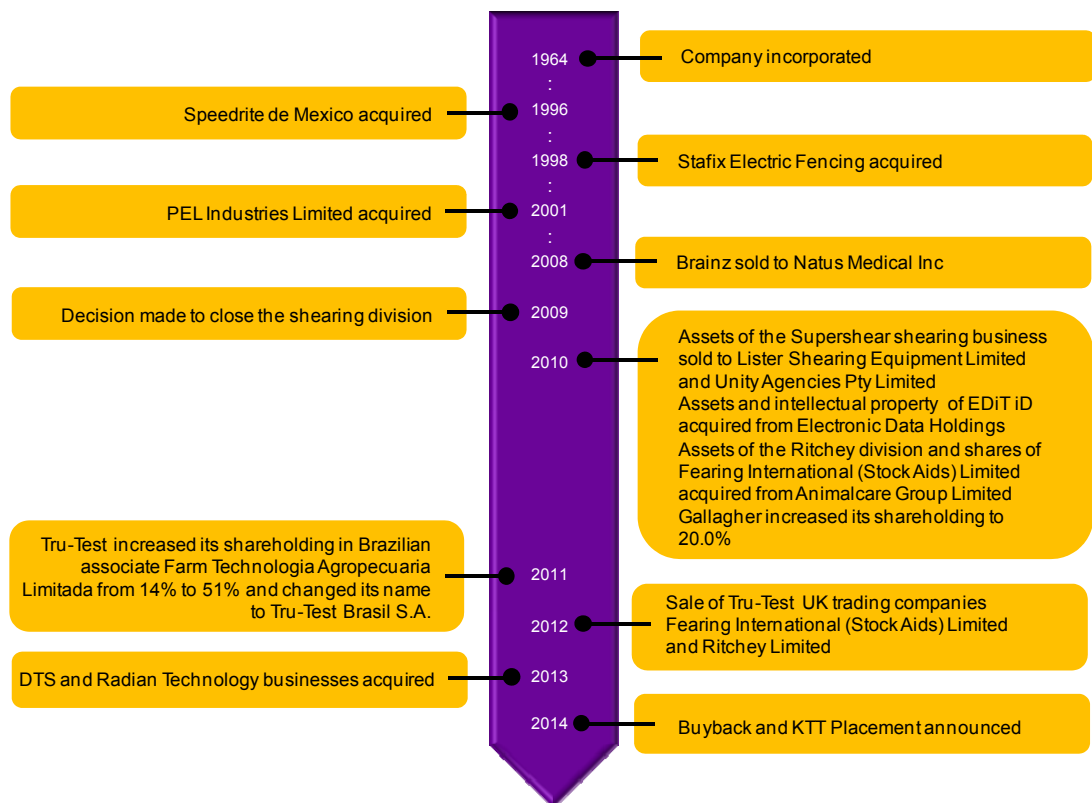
3.1 Company Background and History

Tru-Test was incorporated on 22 December 1964. The Company developed and commercialised the world’s first proportionate flow milk meter in 1964. Today, Tru-Test is a New Zealand-based multi-national business that designs, manufactures and markets a portfolio of products across 7 brands into over 100 countries around the world. As a result of acquisitions, the Company’s products date back to 1895.

Tru-Test acquired the Dairy Technology Services (**DTS**) business in January 2013 for \$74.5 million. The DTS business manufactures farm holding tanks (**FHTs**) for the NZ dairy industry and provides on-farm servicing to farmers throughout the country.

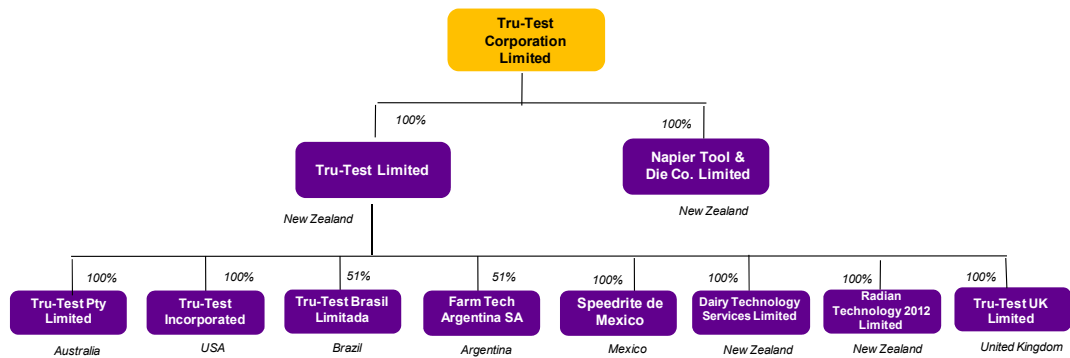
Tru-Test now has over 50% global market share in the electronic animal weighing business, over 90% in the official milk metering business, is a dominant global player in the professional electric fence market and a New Zealand leader in contract manufacturing.

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



3.2 Organisation Structure

The Company's organisation structure is set out below.



3.3 Nature of Operations

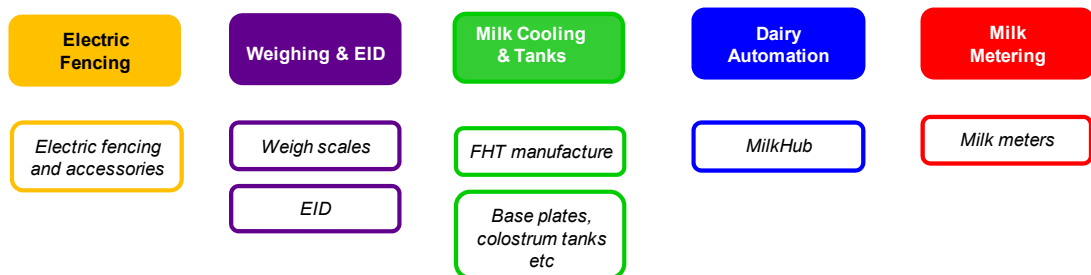
Tru-Test is the world's leading manufacturer of livestock weigh scale indicators and milk metering equipment.

In 2013 Tru-Test added dairy automation and on farm cooling solutions to its stable of agricultural products and services designed to help farmers maximise productivity and profit.

Globally Tru-Test is also the world leader in electric fencing and traditional fencing tools, helping ensure animals are contained and pastures are managed for sustainable, profitable results.

Tru-Test products are sold in over 100 countries world-wide through its network of wholly-owned subsidiaries and established distribution partners.

The Tru-Test business comprises 5 main operating divisions:



Electric Fencing

Electric fencing is a core part of Tru-Test's business, accounting for approximately 40% of the Company's revenue. The Company has 4 electric fence brands - *Speedrite*, *Stafix*, *PEL* and *Patriot* and the *Hayes* brand of traditional fence tools.

Weighing & EID

Measuring livestock performance is vital to maximising farm productivity and profitability. The information provided by Tru-Test weigh scale indicators ensures quality decision making on feed, health treatment and herd size management. Electronic identification (**EID**) allows farmers to go further by maximising the potential of the weigh data for data decision making.

Tru-Test acquired all of the assets and intellectual property of radio-frequency identification equipment company EDiT iD from Electronic Data Holdings Limited in 2010.

Milk Cooling & Tanks

Tru-Test provides nationwide on-farm milk cooling and storage systems and support to New Zealand's leading dairy farms. It provides on-farm refrigeration servicing and parts to farmers throughout the country and manufactures FHTs for the New Zealand dairy industry.

Dairy Automation

Tru-Test's *MilkHub* is a dairy automation solution that tracks performance. It comprises several modular components – *EID Herd Tracking*, *Auto Drafting*, *Walk Over Weighing* and *Automatic Heat Detection* complemented with rotary solutions for feed control, in-bail identification and sensors. Information from each milking is collected and wirelessly transmitted to the *MiHub Online Herd Management* tool via an in-shed command unit and cellular modem.

Milk Metering

The Tru-Test business started with the development of the world's first proportionate flow milk meter, designed to capture an accurate sample of milk extracted from a dairy cow during a milking session. Tru-Test has been the dominant player in the world-wide milk meter market for 50 years and today has over 90% of the official world market in portable milk meter products, with systems sold in over 50 countries.

3.4 Corporate Strategy

Tru-Test is now positioned as a global agri-business with a focus on dairy.

Tru-Test's strategy is focussed on 7 key areas:

- the creation of a platform to manage an expanding global business
- improving the pace of new product development delivery
- establishing a New Zealand technical service capability (with an ability to expand offshore in time)
- extending *Lean* manufacturing across the business to improve customer outcomes
- further extending team co-operation skills
- establishing a permanent mergers and acquisitions due diligence and implementation capability
- ensuring the group supply chain capability matches mergers and acquisitions and new product development growth.

3.5 Key Issues Affecting Tru-Test

The main industry and specific business factors and risks that Tru-Test faces include:

- reliance on key customer relationships
- the dairy sector
- competitor initiatives
- economic conditions
- borrowing facilities and interest rates
- disruption to manufacturing operations
- foreign exchange
- intellectual property
- failure to attract and / or retain key personnel
- product recall
- availability of funds
- reputational risk
- raw material supply
- product innovation
- taxation
- insurance.

3.6 Capital Structure and Shareholders

Tru-Test currently has 42,623,375 ordinary shares on issue:

- 40,335,342 shares are held by 155 shareholders
- 2,288,033 shares are held as treasury stock by Tru-Test.

The names, number of shares and percentage holding of the 10 largest ordinary shareholders (excluding the treasury stock) are set out below.

10 Largest Ordinary Shareholders		
Shareholder	No. of Shares Held	% of Voting Rights
KTT	8,762,151	21.72%
Co-Investor Private Equity (NZ) Limited No.1 (14 parcels)	4,879,185	12.10%
Desmond Scott & Madeleine Scott (3 parcels)	3,616,596	8.97%
Keith Aitchison & Michele Aitchison (2 parcels)	3,584,672	8.89%
Ashweir Limited	3,200,000	7.93%
Aspiring Asset Management Limited (Aspiring)	2,563,511	6.36%
Muir Trust	2,164,213	5.37%
Keran McCaull (2 parcels)	1,307,556	3.24%
Norwood Investments Limited	1,124,444	2.79%
Purlieu Enterprises Limited	1,078,720	2.67%
	32,281,048	80.03%
Others (145 shareholders)	8,054,294	19.97%
Total	40,335,342	100.00%

Source: Tru-Test

Following shareholder approval on 20 December 2012, Tru-Test issued 9,498,768 fully paid ordinary shares at \$0.96 per share via a rights issue and placements. The proceeds of the share issues were used to fund the acquisition of the DTS business.

The long term incentive plan for executives ended on 20 September 2013, with 2,042,479 ordinary shares vesting with senior executives. Of these shares, 1,949,402 had previously been issued to senior executives as restricted shares. The remaining 93,077 ordinary shares were issued on 20 September 2013.

Between 21 November 2013 and 21 February 2014, Gallagher sold its holding of 6,843,833 ordinary shares in the Company:

- it sold a total of 1,418,511 shares at \$1.05 per share to:
 - KTT (250,000 shares)
 - John Loughlin and Kathryn Loughlin (167,000 shares)
 - Aspiring (1,001,511 shares)
- Tru-Test bought back 5,425,322 ordinary shares held by Gallagher under the Gallagher Buyback at a cost of \$1.05 per share. Of those shares, 3,137,289 were cancelled with the remaining 2,288,033 shares held by the Company as treasury stock. No votes are attached to the shares held as treasury stock.

3.7 Directors and Senior Management

The directors of Tru-Test are:

- Niall Cairns, associated with KTT
- Rhys Jones
- John Loughlin, chair
- Greg Muir, managing director
- Phillip Pryke.

The Company's senior management team comprises:

- Greg Muir, managing director
- Ian Hadwin, chief financial officer
- Verne Atmore, sales and marketing manager – New Zealand
- Allan Campbell, national sales manager – Tru-Test Australia
- Cliff Cobb, president – Tru-Test North America
- Jason Kiteley, group operations manager
- Teresa Steele-Rika, group marketing manager.

3.8 Financial Performance

A summary of Tru-Test's recent financial performance is set out below.

Summary of Financial Performance				
	Year to 31 Mar 11 (Audited) \$000	Year to 31 Mar 12 (Audited) \$000	Year to 31 Mar 13 (Audited) \$000	Year to 31 Mar 14 (Audited) \$000
Total revenue	84,590	86,960	97,584	129,791
EBITDA	3,631	4,559	5,353	14,854
EBIT	2,156	3,189	2,772	7,602
Profit for the year from continuing operations	1,195	1,664	943	2,179
Profit for the year from discontinued operations	297	671	5,633	-
Profit for the year	1,492	2,335	6,576	2,179
EPS (\$)	0.04	0.07	0.15	0.05

EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax

Source: Tru-Test annual reports

Revenue in the 2011 financial year increased by 20% due to moderately improved trading conditions and the 2 acquisitions completed by the Company during the year (EDiT iD and Ritchey / Fearing). Profitability improved due to the addition of higher margin products via acquisitions, the closure of the Company's less profitable shearing business and efficiencies made during the year with the roll-out of a number of *Lean* manufacturing initiatives.

Revenue from continuing operations increased by 3% in the 2012 financial year due to improved trading conditions in the New Zealand market and an increased shareholding in the Company's Brazilian subsidiary during the year, meaning its results were consolidated into the Company's financial statements. Profitability continued to improve during the year driven by the addition of higher margin products to the Company's portfolio and the continued manufacturing efficiencies delivered by the *Lean* manufacturing culture.

Revenue from continuing operations increased by 12% in the 2013 financial year, due in part to the DTS and Radian acquisitions in January 2013 and strong Tru-Test sales in the New Zealand, United States and Latin America markets. Gross margin, EBITDA and EBIT margins remained relatively constant. The 2 months trading from the DTS and Radian businesses contributed \$5.6 million of revenue and \$1.5 million of EBITDA. Costs associated with the acquisitions and divestments amounted to \$1.7 million. Profit from discontinued operations of \$5.6 million related to the UK trading companies sold in October 2012, which included a \$5.2 million gain on sale.

Revenue from continuing operations increased by 33% in the 2014 financial year, due in part to the full year impact of the DTS and Radian businesses and strong Tru-Test sales in the United States and Latin America markets. Gross margin remained relatively constant. EBITDA increased by 177%, due largely to the full year impact of the DTS and Radian businesses.

3.9 Financial Position

A summary of Tru-Test's recent financial position is set out below.

Summary of Financial Position				
	As at 31 Mar 11 (Audited) \$000	As at 31 Mar 12 (Audited) \$000	As at 31 Mar 13 (Audited) \$000	As at 31 Mar 14 (Audited) \$000
Current assets	40,469	46,942	51,999	51,006
Non current assets	9,182	10,435	86,698	84,809
Total assets	49,651	57,377	138,697	135,815
Current liabilities	(31,590)	(17,918)	(26,714)	(36,550)
Non current liabilities	(1,558)	(20,093)	(77,293)	(67,997)
Total liabilities	(33,148)	(38,011)	(104,007)	(104,547)
Total equity	16,503	19,366	34,690	31,268

Source: Tru-Test annual reports

Tru-Test's main current assets are inventories and trade and other receivables, representing 45% and 43% of current assets respectively as at 31 March 2014. The Company also held \$3.7 million of cash and cash equivalents as at 31 March 2014.

Tru-Test's fixed assets of \$5.6 million as at 31 March 2014 related primarily to plant and machinery, reflecting the Company's investment in its manufacturing plants.

Intangible assets of \$74.9 million as at 31 March 2014 related primarily to identified intangible assets and goodwill associated with the acquisition of the DTS business.

Tru-Test's main current liabilities are trade and other payables and borrowings, representing 52% and 35% of current assets respectively as at 31 March 2014.

Non current liabilities consist primarily of bank loans. Tru-Test had \$72.1 million of bank borrowings owing as at 31 March 2014, of which \$12.8 million was current and \$59.3 million was non current. The bank loans are secured by a mortgage over land and buildings and a debenture over total assets.

Tru-Test's net interest bearing debt as at 31 March 2014 (including net financial assets and liabilities in the form of foreign exchange contracts and interest rate swaps) was \$65.0 million.

The significant increase in total equity in the 2013 financial year was due in part to \$9.1 million raised from the rights issue and placements in December 2012.

3.10 Cash Flows

A summary of Tru-Test's recent cash flows is set out below.

Summary of Cash Flows				
	Year to 31 Mar 11 (Audited) \$000	Year to 31 Mar 12 (Audited) \$000	Year to 31 Mar 13 (Audited) \$000	Year to 31 Mar 14 (Audited) \$000
Net cash flow from / (used in) operating activities	(204)	1,430	517	13,118
Net cash (used in) investing activities	(5,398)	(3,852)	(66,258)	(5,335)
Net cash (used in) / from financing activities	<u>3,799</u>	<u>4,342</u>	<u>64,930</u>	<u>(8,057)</u>
Net increase / (decrease) in cash held	(1,803)	1,920	(811)	(274)
Effect of exchange rate on cash held	(23)	(238)	(192)	(124)
Opening cash balance	5,257	3,431	5,113	4,110
Closing cash balance	<u>3,431</u>	<u>5,113</u>	<u>4,110</u>	<u>3,712</u>

Source: Tru-Test annual reports

Net cash used in operating activities decreased in the 2011 financial year due primarily to a \$3.7 million increase in inventories and thus increased payments to suppliers. Changes in working capital (receivables, inventory and payables) were responsible for the improvement in cash flow from operating activities in the 2012 financial year. The significant increase in profitability in the 2014 financial year accounted for the significant increase in cash flow from operating activities in that year.

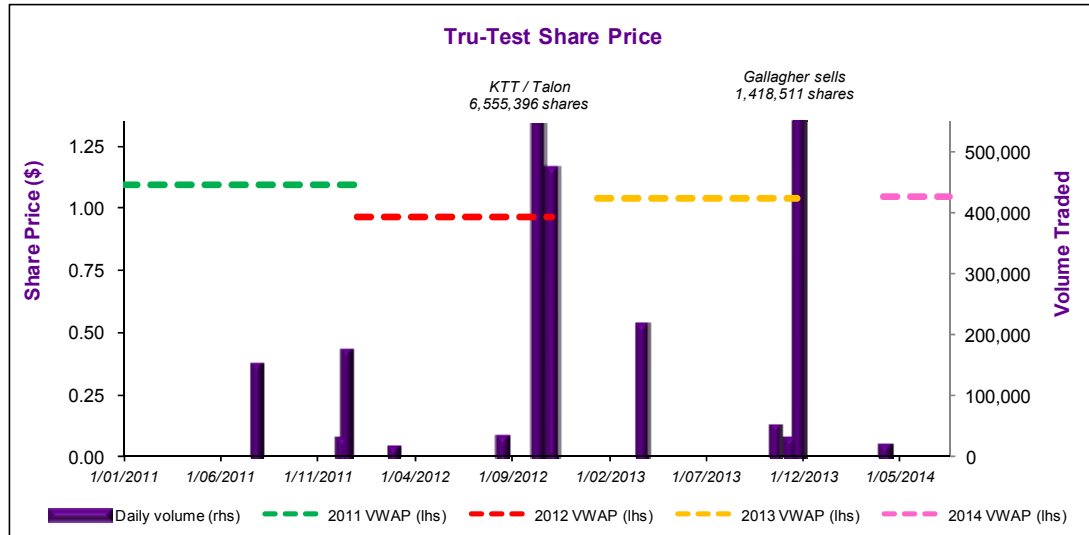
Cash used in investing activities in 2011 related primarily to the acquisition of subsidiaries and in 2012 related primarily to the purchase of plant and equipment. Cash used in investing activities in 2013 related primarily to the acquisition of the DTS and Radian businesses.

Net cash from financing activities represents the movements in net levels of debt each year. Debt levels have fluctuated due to acquisitions made (particularly in the 2013 financial year) and increase in inventories in 2011 and expansion in working capital and capital expenditure in 2012.

3.11 Share Price History

Tru-Test makes a market for shareholders who wish to trade their shares.

Set out below is a summary of trading in Tru-Test's shares from 1 January 2011.



Source: Tru-Test

During the period, a total of 9,090,326 shares have traded between a low of \$0.80 (on 14 June 2011) and a high of \$1.10 (on 6 December 2011, 15 December 2011 and 1 November 2012) at a VWAP of \$0.98.

The 2 largest share transactions during the period were:

- KTT acquired 6,555,396 shares from Talon A Pty Limited on 10 October 2012 at \$0.9571 per share
- Gallagher sold 1,418,511 shares to 3 shareholders on 21 November 2013 at \$1.05 per share.

Excluding these 2 transactions, a total of 1,116,419 shares have traded over the period, representing 2.8% of the total shares currently on issue (excluding treasury stock).

VWAP for the 2013 calendar year was \$1.04 (on a total volume of 1,694,476 shares) and there has been one trade in 2014 of 10,000 shares at \$1.05.

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

4.1 Sources of Information

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

- the draft notice of 2014 annual meeting
- the Tru-Test 2014 Exemption
- the draft KTT Subscription Agreement
- the minutes of the Tru-Test board of directors meeting in respect of the Share Transactions
- the Tru-Test Business Plan FY15
- the Tru-Test annual report for the years ended 31 March, 2011 to 2014
- Tru-Test shareholder data from the Company
- Tru-Test share price data from the Company.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors and executive management of Tru-Test and Tru-Test's legal advisers.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Additional Voting Rights and the Share Transactions that is known to them and that all the information 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 desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Tru-Test to the Non-associated Shareholders is sufficient to enable the Non-associated Directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Additional Voting Rights and the Share Transactions.

4.2 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 Tru-Test 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 Tru-Test. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

4.3 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 Tru-Test 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 Tru-Test and its directors and management. 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 annual meeting issued by Tru-Test and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

4.4 Indemnity

Tru-Test 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 the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Tru-Test 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 or term of reference, Simmons Corporate Finance shall reimburse such costs.

5. Qualifications and Expertise, Independence, Declarations and Consents

5.1 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.

5.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Tru-Test or KTT or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Additional Voting Rights and the Share Transactions.

Simmons Corporate Finance has not had any part in the formulation of the Share Transactions 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 in respect of the Additional Voting Rights and the Share Transactions. We will receive no other benefit from the preparation of this report.

5.3 Declarations

An advance draft of this report was provided to the Non-associated 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.

5.4 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 annual meeting to be sent to Tru-Test'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
1 August 2014