

---

# VETILOT LIMITED

## INDEPENDENT ADVISER'S REPORT

---

**In respect of the allotment of shares in Vetilot Limited to NZ Silveray Group Limited.**

**Prepared by**

**CAMPBELL MACPHERSON** 

CORPORATE ADVISORS

**6 March 2015**

---

### STATEMENT OF INDEPENDENCE

Campbell MacPherson Limited confirms that it:

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

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

## TABLE OF CONTENTS

---

GLOSSARY	3
1. OVERVIEW	4
2. MERITS OF THE PROPOSED TRANSACTION	9
3. PROFILE ON VETILOT LIMITED	19
4. PROFILE ON NZ SILVERAY GROUP LIMITED	24
5. VALUATION OF VETILOT	27
APPENDIX I. SOURCES OF INFORMATION	30
APPENDIX II. QUALIFICATIONS, DECLARATIONS & CONSENTS	32

## GLOSSARY

---

Campbell MacPherson	Campbell MacPherson Limited
Code	The Takeovers Code
DCF	Discounted Cash Flow
Directors, the Board	The Directors of Vetilot
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EV	Enterprise Value
GA Sego	GA Sego Limited
GYIMC	Guangdong YinRui Investment & Management Co. Limited
Independent Directors	The Independent Directors of Vetilot
IRG	Investment Research Group
Janus	Janus (Dongguan) Precision Components Company Limited
NAV	Net Asset Value
NDG	National Dairy Group Limited
NPAT	Net Profit after Tax
NZAX	Alternative Board of the New Zealand Stock Exchange
NZX	NZX Limited
NZ Silveray	NZ Silveray Group Limited
Proposed Transaction	The purchase and allotment of new shares in Vetilot to NZ Silveray
Report	This Independent Adviser's Report
SGM	Special General Meeting
Snowdon	Snowdon Peak Investments Limited
VWAP	Volume Weighted Average Price
Vetilot, the Company	Vetilot Limited
Viking	Viking Capital Limited
Warrants	The warrants to be issued to all Vetilot shareholders subject to settlement of the Proposed Transaction.

## 1. OVERVIEW

---

### 1.1 Introduction

Vetilot Limited (**Vetilot** or the **Company**) is listed on the Alternative Board of the New Zealand Stock Exchange (**NZAX**) operated by NZX Limited (**NZX**). The Company was founded by current Director Mr Brent King and has a current market capitalisation of approximately NZ\$1.60 million as at 6 March 2015 and an unaudited negative book value of equity of NZ\$(0.96) million as at 30 September 2014.

The largest shareholder of Vetilot is GA Sego Limited (**GA Sego**) with 53.39% of the voting securities on issue. The second largest shareholder is Snowdon Peak Investments Limited (**Snowdon**) with 17.75% of the voting securities on issue.

Following divestment of its remaining material business operations in 2012 Vetilot became a shell company. The Directors of Vetilot have subsequently sought a suitable acquisition target / transaction to present to shareholders.

On 11 February 2015 (and subject to correction issued on 12 February 2015) Vetilot announced that it had entered into a conditional subscription agreement with NZ Silveray Group Limited (**NZ Silveray**) which would result in NZ Silveray subscribing for 1.25 billion new ordinary shares in Vetilot at an issue price of 0.1 cents per share (the **Proposed Transaction**). In the event the Proposed Transaction proceeds NZ Silveray will become the largest shareholder in Vetilot holding 70.06% of the ordinary shares on issue.

Vetilot is a Code company under the Takeovers Code and has engaged Campbell MacPherson Limited (**Campbell MacPherson**) to act as Independent Adviser in respect of Vetilot's obligations under the Takeovers Code.

### 1.2 Proposed Transaction

Key terms of the Proposed Transaction are as follows:

- NZ Silveray will subscribe for 1.25 billion new ordinary shares in Vetilot at a price of 0.1 cents per share (total value of consideration \$1.25 million).

The Proposed Transaction is conditional upon a number of terms including:

- Vetilot's lenders forgiving all liabilities owed to them by Vetilot (the **Debt Forgiveness**).
- Vetilot obtaining all shareholder and other approvals required to issue the shares to be subscribed for by NZ Silveray and otherwise implement the transaction in compliance with the Takeovers Code, NZAX Listing Rules, the Companies Act 1993 and any other applicable laws and any contracts binding on Vetilot.
- The shareholders of Vetilot appointing up to three persons nominated by NZ Silveray to be Directors, such persons to be nominated by NZ Silveray within seven days (from the date of the announcement), and such appointments to be conditional on, and to take effect from the settlement date.

- Vetilot obtaining waivers from NZX Regulation so as to permit GA Sego and/or Snowdon to vote on any shareholder resolutions required to implement the Proposed Transaction.
- Vetilot remaining listed on a market for the trading of shares operated by NZX on the settlement date.
- Vetilot shall, on settlement, issue warrants (**Warrants**) to all its shareholders including NZ Silveray pro rata on a one for one basis. Each warrant will entitle the holder to subscribe for cash for one ordinary share in Vetilot at an exercise price of 0.2 cents per share at any time on or before 31 December 2017. Vetilot expects that the Warrants will be listed on the NZAX.

### 1.3 Takeovers Code Requirement

Vetilot is a code company for the purposes of the Takeovers Code (the **Code**). Rule 6 of the Code states:

6(1) Except as provided in Rule 7, a person who holds or controls

- (a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder of an increased percentage of the voting rights in the code company unless, after that event, that person and that persons associates hold or control in total not more than 20% of the voting rights in the code company:
- (b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

There are a number of exceptions to Rule 6 of the Code. These are set out in Rule 7 of the Code. Clause 7(d) of the Code states:

7. A person may become the holder or controller of an increased percentage of the voting rights in a code company:

- (d) By an allotment to the person of voting securities in the code company...if the allotment has been approved by an ordinary resolution of the code company in accordance with this code...

In the event that the Proposed Transaction proceeds, NZ Silveray will become the holder of more than 20% of Vetilot. Vetilot has therefore engaged Campbell MacPherson to prepare this Independent Adviser's Report in accordance with Rule 18 of the Code. The Report provides an evaluation of the merits of the Proposed Transaction.

This Independent Adviser's Report is required to be included in the Notice of Meeting (**Notice of Meeting**) pursuant to Rule 16(h). The Notice of Meeting and Explanatory Notes accompany this Report.

## 1.4 Definition of Associates

Rule 4 of the Code sets out the meaning of associates.

### 4. Meaning of associate

(1) For the purposes of this code, a person is an associate of another person if-

- a. the persons are acting jointly or in concert; or
- b. the first person acts, or is accustomed to act, in accordance with the wishes of the other person; or
- c. the persons are related companies; or
- d. the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates; or
- e. the first person is an associate of a third person who is an associate of the other person (in both cases under any of paragraphs (a) to (d)) and the nature of the relationships between the first person, the third person, and the other person (or any of them) is such that, under the circumstances, the first person should be regarded as an associate of the other person.

The fundamental rule, Rule 6 of the Code, prevents a person from increasing their shareholding to above 20% unless they use one of the exceptions set out in Rule 7 of the Code.

It is our understanding, based on the disclosures made to us by Vetilot and its legal adviser, that none of the existing shareholders of Vetilot are associates of NZ Silveray within the meaning of the Code.

We note that Vetilot Director Rewi Bugo is an associate of the Company's largest shareholder GA Segó. We also note that Vetilot Director Brent King is an associate of the Company's second largest shareholder Snowdon and Vetilot Director Colin Gardner is an Associate of minority shareholder Niloc Investments Limited.

## 1.5 NZX Waivers

Vetilot has been granted two waivers by NZX Regulation in relation to Listing Rule 9.3.1.

Listing Rule 9.3.1 prohibits a Related Party and its Associated Persons (as defined in the NZAX Listing Rules) from voting on a resolution of shareholders to approve any Material Transaction with a Related Party or any Material Transaction if a Related Party is a party to one of a related series of transactions of which the Material Transaction forms part.

The waivers received are summarised below:

### ***Waiver from NZAX Listing Rule 9.3.1 – GA Segó***

It is a condition of the Proposed Transaction that GA Segó enters into a Debt Forgiveness forgiving all indebtedness owed to it by Vetilot. The Debt Forgiveness is therefore a Material Transaction with a Related Party within the meaning of the NZAX Listing Rules.

NZX Regulation has granted the Company a waiver from Listing Rule 9.3.1 to the extent that the Rule would otherwise prohibit GA Segó and its Associated Persons from voting on Resolutions 1 to 4.

Vetilot has also received approval by NZX Regulation for the quotation of the Warrants on the NZAX.

## 1.6 Shareholders Meeting

Vetilot is holding a Special General Meeting (**SGM**) of shareholders in Auckland on 2 April 2015 to seek shareholder approval for Resolutions 1 to 4 as set out in the Notice of Meeting in relation to:

***Resolution 1: Share Placement to NZ Silveray Group Limited, Debt Forgiveness and Payment of Fees and Costs***

Subject to and conditional upon the passing of Resolution 2, that for the purposes of section 129 of the Companies Act, NZAX Listing Rules 7.3.1, 9.1.1 and 9.2.1, and Rule 7(d) of the Takeovers Code, the Company approve the issue by the Company to NZ Silveray Group Limited of 1.25 billion ordinary shares in the Company to be issued for cash at 0.1 cents per share, the Debt Forgiveness by the Company's lenders which is a condition of the issue of those shares, and the Fees and Costs (estimated by the Board to be approximately \$150,000) to be paid in connection with the Transaction and for work that enables the Transaction to take place and prior work on other projects seeking to use the Vetilot shell, each on the terms set out in the Explanatory Notes.

***Resolution 2: Warrant Issue***

Subject to and conditional upon the passing of Resolution 1, that for the purposes of Section 129 of the Companies Act and NZAX Listing Rules 9.1.1 and 9.2.1, the Company approve an issue to holders of existing ordinary shares in the Company upon settlement of the Proposed Transaction (including NZ Silveray Group Limited) of up to 1,784,080,173 new ordinary shares in the Company pursuant to a renounceable issue of warrants to be made pro rata on a one for one basis on settlement of the Proposed Transaction on terms that will entitle the holder of each warrant to subscribe for cash for one ordinary share in the Company at an exercise price of 0.2 cents per ordinary share at any time on or prior to 31 December 2017.

***Resolution 3: Election of Yang Xia as a Director***

That subject to and conditional upon the passing of Resolutions 1 and 2, Mr Yang Xia be elected as a Director of the Company, such appointment to be subject to, conditional upon, and to take effect from the time of, the allotment of shares to be made pursuant to Resolution 1.

***Resolution 4: Election of Tingsong Zhang as a Director***

That subject to and conditional upon the passing of Resolutions 1 and 2, Mr Tingsong Zhang be elected as a Director of the Company, such appointment to be subject to, conditional upon, and to take effect from the time of, the allotment of shares to be made pursuant to Resolution 1.

Resolutions 1 and 2 are special resolutions. Resolutions 3 and 4 are ordinary resolutions. A special resolution can only be passed by a majority of not less than 75% of votes of shareholders of Vetilot entitled to vote and voting. An ordinary resolution can only be passed

by a majority of not less than 50% of votes of shareholders of Vetilot entitled to vote and voting.

The implementation of Resolutions 3 and 4 are conditional upon Resolutions 1 and 2 being first approved by the shareholders of the Company.

## **1.7 Voting Restrictions**

Brent King's Director's fees (\$38,000) and costs (\$12,000) exceed the threshold in NZAX Listing Rule 9.2.2(e), and hence are a Related Party Transaction for the purposes of Rule 9.2.1. As a result Mr King, Snowdon, and their respective Associated Persons are prohibited by Rule 9.3.1 from voting on the Resolutions.

## **1.8 Minority Buyout Rights**

The Proposed Transaction represents a "major transaction" for the purposes of Section 129 of the Companies Act. Section 129 of the Companies Act requires that Resolutions 1 and 2 must be passed by a special resolution of shareholders present in person or proxy and able to vote at the meeting.

In the event that Resolution 1 or 2 is approved, Section 110 of the Companies Act gives those shareholders who vote against the Resolution that has been passed, certain rights to require the Company to purchase their shares. Any shareholder who casts all votes attached to the shares registered in their name (and having the same beneficial owner) against the Resolution that has been passed is entitled to require the Company to purchase their Vetilot shares.

The right to have shares purchased must be exercised within 10 Business Days of the passing of the relevant Resolution by the dissenting shareholder by giving written notice to the Company. Further information on minority buy-out rights is provided in the Notice of Meeting.

## **1.9 Purpose and Issue of this Report**

The Directors of Vetilot (**Directors, Board**) have engaged Campbell MacPherson to prepare an Independent Adviser's Report on the merits of the Proposed Transaction in accordance with Rule 18 of the Code. Campbell MacPherson was approved by the Takeovers Panel on 18 February 2015 to prepare the Independent Adviser's Report.

Campbell MacPherson issues this Independent Adviser's Report (**Report**) to the Directors to assist shareholders of Vetilot to form their own opinion on whether to vote for or against the Resolutions in respect of the Proposed Transaction.

We note that each shareholder's circumstances and objectives are unique. Accordingly it is not possible to report on the merits of voting for or against the Resolutions in relation to each individual shareholder. This Report is therefore necessarily general in nature. This Report is not to be used for any other purpose without our prior written consent.



## **2. MERITS OF THE PROPOSED TRANSACTION**

---

### **2.1 Basis of Evaluation**

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to NZ Silveray under the Proposed Transaction. 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 Takeover Panel guidance note on the role of Independent Advisers dated March 2015;
- Definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction;
- Overseas precedents; and
- The ordinary meaning of the term “merits”.

We are of the view that an assessment of the merits of the Proposed Transaction should focus on the following:

- Rationale for the Proposed Transaction.
- The terms of the Proposed Transaction.
- The subscription price for Vetilot shares.
- The value of Vetilot shares.
- NZ Silveray’s maximum % holding of voting securities in Vetilot following completion of the Proposed Transaction and implications for control of Vetilot by NZ Silveray.
- The potential impact on Vetilot’s share price and liquidity.
- The intentions of NZ Silveray with respect to Vetilot and the future business activities it may engage in.
- Any change in the business risk of Vetilot as a result of the Proposed Transaction.
- Any alternatives to the Proposed Transaction.
- The implications of the Resolutions in respect of the Proposed Transaction not being approved.

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

### **2.2 Rationale for the Proposed Transaction**

Since the sale of its remaining material business operations over two years ago, the Directors of Vetilot advise that they have reviewed numerous potential investment opportunities. However, many of these related to relatively high risk early-stage companies seeking a public

listing on the NZAX via a “reverse-takeover” of Vetilot. None of these opportunities were ultimately deemed by the Board to be sufficiently attractive enough to proceed with.

As at 30 September 2014 Vetilot’s total liabilities exceeded its total assets by \$955,154. Vetilot has continued to operate on a minimal budget with the support of its Directors and major shareholders, in particular Mr Rewi Bugo, who’s family interests have continued to extend loan facilities to Vetilot. However, this situation is not considered by the Directors to be sustainable. As at 30 September 2014 secured and unsecured loans to the Company totalled \$1,039,327.

In the event the Proposed Transaction proceeds it will facilitate the recapitalisation of Vetilot and provide the Company with a significant cash injection as well as forgiveness of current secured and unsecured loans. This will place Vetilot in a much stronger and more sustainable financial position and allow it to consider further investment opportunities.

A summary comparison of Vetilot’s financial position as at 30 September 2014 compared against the pro forma financial position estimated by Vetilot following the completion of the Proposed Transaction is shown below. The pro-forma financial position clearly demonstrates the significant improvement in both a cash reserves and net assets of the Company as a result of the issue of new shares to NZ Silveray and the Debt Forgiveness by Vetilot’s lenders, which is a key condition of the Proposed Transaction.

<b>Vetilot Limited - Summary Financial Position</b>		
<b>NZ\$000</b>	<b>Sep-14 Unaudited (Pre-Transaction)</b>	<b>Mar-15 Pro-forma (Post-Transaction)</b>
<b>Current Assets</b>		
Bank Balances	16	1,123
Trade and other receivables	32	20
Loans receivable	45	-
Other investments	-	-
	<u>92</u>	<u>1,143</u>
<b>Non-Current Assets</b>	-	-
<b>Total Assets</b>	<u>92</u>	<u>1,143</u>
<b>Current Liabilities</b>		
Trade and related party payables	1	1
Income in advance and accruals	7	14
Unsecured Loans	180	-
Secured loans	859	-
	<u>1,047</u>	<u>15</u>
<b>Non-Current Liabilities</b>	-	-
<b>Total Liabilities</b>	<u>1,047</u>	<u>15</u>
<b>Net Assets</b>	<u>(955)</u>	<u>1,128</u>

The Board of Directors of Vetilot have issued a statement to shareholders recommending approval of the Proposed Transaction.

## 2.3 Terms of the Proposed Transaction

### ***Subscription***

The terms of the Proposed Transaction are straightforward and principally provide for the subscription by NZ Silveray for 1.25 billion new shares to be issued by Vetilot at a price of 0.1 cents per share for an aggregate consideration of \$1.25 million. Our opinion on the value of Vetilot shares relative to the subscription price is summarised in Section 2.4 below.

Under the terms of the Proposed Transaction NZ Silveray has already paid a \$150,000 non-refundable cash deposit to Vetilot.

### ***Debt Forgiveness***

The Proposed Transaction is subject to Vetilot shareholder approval and other conditions as set out in Section 1.2. These include the forgiveness by Vetilot lenders of existing debt facilities to Vetilot totalling \$1,039,327 as at 30 September 2014. The Vetilot lenders comprise GA Segro and related companies that have previously loaned cash to Vetilot to refinance bank facilities and provide working capital to support the Company's ongoing survival.

The Debt Forgiveness is a very attractive feature for existing Vetilot shareholders not associated with the Vetilot lenders as the repayment obligations (both principal and capitalised interest) relating to these loans will be extinguished without existing shareholders suffering any additional dilution to their ownership in the Company (beyond that resulting from the issue of shares to NZ Silveray).

We note that Vetilot has advised that there will not be any negative tax implications for Vetilot in relation to the Debt Forgiveness due to the ability of Vetilot to utilise existing tax losses to offset any tax liability arising.

### ***Warrants***

A condition of the Proposed Transaction is the issue of the Warrants to all shareholders (including NZ Silveray) following settlement on a "one for one" basis. Each Warrant would entitle the holder to subscribe for 1 ordinary share in Vetilot at a price of 0.2 cents per share at any time on or before 31 December 2017.

The Warrants provide the option for all Vetilot shareholders to acquire additional shares in the Company on or before 31 December 2017.

The total number of Warrants issued would be 1,784,080,173. In the event that some or all of the Warrants are exercised, the Company would benefit from receiving additional cash resources up to a maximum of \$3,568,160 that could be applied to future investment opportunities.

The Company advises that it has sought and been granted approval by NZX Regulation to list the Warrants on the NZAX. Subject to the liquidity and depth of trading of the Warrants, this would provide Warrant holders including NZ Silveray and existing Vetilot shareholders the opportunity to sell their Warrants (or acquire additional Warrants) should they wish to do so. It is not possible to predict the level of liquidity nor the price of the Warrants at this time.

### ***Appointment of Additional Directors***

As a further condition of the Proposed Transaction, NZ Silveray is seeking the appointment of two directors to the Board of Vetilot. NZ Silveray has advised Vetilot that its two nominees to the Vetilot Board would be the current sole director of NZ Silveray Mr Xia, together with Tingsong (“Spencer”) Zhang, an employee of NZ Silveray. Further information on Mr Xia and Mr Zhang is provided in Section 4.

Vetilot has indicated that, in the event the Proposed Transaction proceeds, the Company will retain at least two of its current three Directors. The appointment of a further two directors would bring the total size of the Vetilot Board to at least four. Further discussion regarding potential changes in voting and control at the Board and shareholder level as a result of the Proposed Transaction is provided in Section 2.5.

## **2.4 Subscription Price vs Value of Vetilot Shares**

Under the Proposed Transaction NZ Silveray will subscribe for 1.25 billion new ordinary shares in Vetilot at an issue price of 0.1 cents per share. We have assessed the value of Vetilot shares by reference to:

- The price at which Vetilot shares have recently traded prior to announcement of the Proposed Transaction.
- The value of Vetilot’s net assets (including our assessed value of Vetilot’s listing on the NZAX).

Based on our analysis, as set out in Section 5 of this Report, we assess the aggregate value of Vetilot (assuming the Debt Forgiveness) to be in the range of \$0.38 million to \$0.48 million. Accordingly, we assess the value of Vetilot to be in the range of 0.07 to 0.09 cents per share.

The subscription price negotiated with NZ Silveray marginally exceeds our assessed value range for each Vetilot share.

We note that, following allotment of shares to NZ Silveray, any remaining tax losses available to Vetilot will be lost due to the breach of shareholder continuity rules.

## **2.5 Impact on Ownership and Control of Vetilot**

### ***Ownership***

Vetilot currently has 534,080,173 ordinary shares on issue. A list of the top ten current Vetilot shareholders is provided in Section 3.

The Company has three substantial shareholders (>5%) comprising:

- GA Sego (53.39%), associated with Vetilot Director Rewi Sego,
- Snowdon (17.75%), associated with Vetilot Director Brent King, and;
- Prakash Pandey (5.34%).

We note that Rewi Bugo and Brent King also hold small parcels of shares directly in their own names.

The Table below presents the current holdings of the substantial shareholders of Vetilot, including their respective Associates where applicable.

<b>Vetilot Current Ownership Structure</b>		
<b>Shareholder</b>	<b>Current</b>	
	<b>Shares</b>	<b>%</b>
G A Sego Ltd & Rewi Bugo	285,572,954	53.47%
Snowdon Peak Investments Ltd & Brent King	96,143,602	18.00%
Prakash Pandey	28,513,333	5.34%
Other shareholders (655)	123,850,284	23.19%
NZ Silveray Group Ltd	0	0.00%
<b>Total Shares on Issue</b>	<b>534,080,173</b>	<b>100.00%</b>

In the event that the Proposed Transaction proceeds, Vetilot will issue 1.25 billion new ordinary shares to NZ Silveray and 1,784,080,173 new Warrants to Vetilot shareholders (including NZ Silveray), as shown in the table below.

<b>Vetilot Ownership Structure following the Proposed Transaction</b>				
<b>Shareholder</b>	<b>Post-Transaction</b>			
	<b>Shares</b>	<b>%</b>	<b>Warrants</b>	<b>%</b>
G A Sego Ltd & Rewi Bugo	285,572,954	16.01%	285,572,954	16.01%
Snowdon Peak Investments Ltd & Brent King	96,143,602	5.39%	96,143,602	5.39%
Prakash Pandey	28,513,333	1.60%	28,513,333	1.60%
Other shareholders (655)	123,850,284	6.94%	123,850,284	6.94%
NZ Silveray Group Ltd	1,250,000,000	70.06%	1,250,000,000	70.06%
<b>Total Shares/Warrants on Issue</b>	<b>1,784,080,173</b>	<b>100.00%</b>	<b>1,784,080,173</b>	<b>100.00%</b>

Existing Vetilot shareholders will be diluted by a factor of approximately 3.34x i.e. for every 1% interest in shares held in Vetilot prior to the Proposed Transaction, would become a 0.3% interest in Vetilot shares after the Proposed Transaction.

As a result of the allotment of shares to NZ Silveray it will become the largest shareholder in Vetilot with 70.06% of the ordinary shares on issue and existing Vetilot shareholders will be significantly diluted.

The current major shareholder GA Sego will be diluted from 53.39% to 15.98% of the ordinary shares on issue and Snowdon will be diluted from 18.00% to 5.39% of the ordinary shares on issue. Other shareholders including Prakash Pandey will be collectively diluted from 28.53% to 8.54% of the ordinary shares on issue.

While the ultimate allotment of shares to each Vetilot Warrant holder as a result of the future exercise of the Warrants is unknown, we note that NZ Silveray will have the right to utilise the waiver provided for under Clause 9 of Part 2 of the Takeovers Code (Class Exemptions) Notice (No 2) 2001 (**Class Exemption Notice 2001**). This waiver allows a holder of voting control to increase its voting percentage back to a level it was reduced from as a

result of dilution through a pro-rata offer, provided that it does so within six months of the decrease in voting control.

Under the Class Exemption Notice 2001, NZ Silveray would be entitled to exercise its Warrants, but only to the extent that it would increase its shareholding in Vetilot back to a maximum percentage holding of 70.06% reflecting its position prior to the allotment of the Warrants, provided that it does so prior to the six month anniversary of the decrease in voting control.

NZ Silveray will not be able to increase its percentage shareholding in Vetilot in the future unless it complies with the provisions of the Code and NZAX listing rules. Effectively this means that it will only be able to acquire a greater shareholding percentage in Vetilot if:-

- It makes a full or partial takeover offer, or;
- The acquisition of further shares by NZ Silveray is approved by way of an ordinary resolution of Vetilot shareholders, or;
- The Company makes an allotment of shares which is approved by way of an ordinary resolution of Vetilot shareholders, where NZ Silveray would be precluded from voting on such a resolution due to the operation of NZAX Listing Rule 9.3.1, or;
- By virtue of holding more than 50% of the voting securities of Vetilot, NZ Silveray would be able to “creep” towards a 90% threshold at a rate of up to 5% per annum whether by allotment or acquisition, including the exercise of the Warrants, (after a twelve month stand-down period from the closing date of the Proposed Transaction) as permitted under the Takeovers Code.

### ***Shareholder Voting***

Ordinary resolutions require passing by more than 50% of votes of holders of securities who are eligible to vote and voting. Special resolutions require passing by 75% or more of votes of holders of securities who are eligible to vote and voting. A shareholder holding more than 25% of a company is able to block a special resolution. A shareholder holding more than 50% of the voting securities of a company is able to pass an ordinary resolution. A shareholder holding 50% or more of the voting securities of a company is able to block an ordinary resolution. A shareholder holding 75% or more of the voting securities of a company is able to pass (or block) both ordinary resolutions and special resolutions.

A shareholder’s ability to influence voting on ordinary or special resolutions may be impacted by other legal and regulatory factors such as the Companies Act, Takeovers Code, NZAX Listing Rules, and the Company’s constitution.

The typical powers that can be exercised by an ordinary resolution of shareholders include:

- adoption of financial statements;
- appointment or removal of directors;
- appointment of auditors;
- alteration of shareholder rights; and
- decisions involving remuneration and other benefits.

The typical powers that can be exercised by a special resolution of shareholders include:

- adopting, altering or revoking the company's constitution;
- approval of a major transaction;
- approval of an amalgamation; and
- placing the company into liquidation.

A shareholder may also be able to influence voting on ordinary or special resolutions in the event that other shareholders choose not to vote (to the extent that this increases the effective voting power of those shareholders that do vote). In our view it is likely that, given the large number of current Vetilot shareholders with small share parcels and the low level of liquidity in the Company's shares, a material proportion of Vetilot shares would not be voted on for any given resolution.

In the event that the Proposed Transaction proceeds, NZ Silveray would hold more than 50% (but less than 75%) of the voting securities of the Company. In our view NZ Silveray would therefore, in its own right, be able to pass or block ordinary resolutions and would be able to block, and may be able to pass, special resolutions.

**In our view, the effect of the Proposed Transaction is that NZ Silveray will have effective shareholder control over the Company.**

#### ***Board of Directors***

In the event the Proposed Transaction proceeds there will be fundamental changes to the Board of Directors of the Company. Two new directors will be appointed to the Board as representatives of NZ Silveray as follows:

- Mr Yang Xia, and;
- Mr Tingsong Zhang.

Upon settlement of the Proposed Transaction at least two of the three existing Vetilot directors will remain on the Board of the Company.

The initial Board post-transaction would therefore comprise a total of at least four directors. NZ Silveray would not have a majority of seats on the Vetilot Board. However, NZ Silveray would have the ability to appoint or remove directors. It is anticipated that the Board of Vetilot would, at its first meeting post-transaction, discuss and appoint a new Chairman.

**In our view, the effect of the Proposed Transaction is that NZ Silveray will have effective control over the Board and governance of the Company.**

## **2.6 Impact on Vetilot's Share Price & Liquidity**

As a shell company, Vetilot is a very illiquid stock. In the year prior the announcement of the Proposed Transaction on 11 February 2015, Vetilot shares were very rarely traded, with a total of just under 1.8 million shares changing hands, representing just 0.34% of the total share on issue.

The recent share price over the past 90 days prior to the Proposed Transaction has ranged between 0.1 and 0.2 cents per share. However this was based on trading of only 7,760

shares. The market capitalisation of Vetilot at this share price range was approximately \$0.53 - \$1.07 million.

We note that, since the announcement of the Proposed Transaction on 11 February 2015, the Vetilot share price has increased from 0.2 to 0.3 cents per share as at 6 March 2015, an increase of 50%, during this 23 day period a total of 1.4 million shares were traded representing 0.3% of the total shares on issue. At the current share price Vetilot has a market capitalisation of approximately \$1.60 million.

Whilst it is not possible to predict the future price of Vetilot shares, the recapitalisation of the Company and introduction of a new investor seeking to use Vetilot as an investment vehicle may lead to increased interest in, and demand for the Company's shares. Ultimately the future share price and liquidity will likely be impacted by a wide range of factors including the future financial performance of the Company and its investments as well as wider macro-economic and other factors.

## **2.7 NZ Silveray's Intentions for Vetilot**

NZ Silveray was incorporated in New Zealand on 20 February 2014 and is a wholly-owned subsidiary of Chinese private investment company Guangdong YinRui Investment & Management Co. Limited (**GYIMC**). We are advised by Vetilot that GYIMC is beneficially owned and controlled by Mr Xia. A profile on NZ Silveray is provided in Section 4.

We understand that GYIMC holds interests in various private companies as well as in public company Janus (Dongguan) Precision Components Company Limited (**Janus**), listed on the Shenzhen Stock Exchange in China. In the event the Proposed Transaction proceeds, GYIMC (via NZ Silveray) will control Vetilot.

NZ Silveray has indicated that the balance of new funds (i.e. \$1.1 million) held by Vetilot following the Proposed Transaction are to be invested with New Zealand registered banks and/or in securities of New Zealand issuers.

Whilst the longer term strategic intentions of NZ Silveray with respect to Vetilot are not known, the Company has advised that it intends to undertake a review of its New Zealand investment options at Vetilot's next Annual General Meeting to be held later in 2015.

## **2.8 No Material Change in Business Risk for Vetilot**

The Proposed Transaction will not, prima facie, significantly change Vetilot's business risk profile as a listed investment company. However, the Company's risk profile may change in the future depending on the nature of any investments that Vetilot subsequently makes.

We note that the Proposed Transaction would deliver a significant reduction in Vetilot's financial risk due to the recapitalisation of the Company's financial position and cash reserves as outlined in Section 2.2.



## **2.9 Alternatives to the Proposed Transaction**

The Directors of Vetilot advise that they are not currently considering any alternatives to the Proposed Transaction. The Directors have examined numerous other potential investment opportunities over the last two years prior to entering into the conditional subscription agreement with NZ Silveray. The Directors consider that the Proposed Transaction with NZ Silveray will deliver value for existing Vetilot shareholders and enable the Company to recapitalise its financial position and continue to operate on a more sustainable basis.

## **2.10 Implications if the Resolutions Are Not Approved**

All Resolutions must be approved by Vetilot shareholders as a condition of settlement of the Proposed Transaction.

In the event that the Proposed Transaction does not proceed then the Directors of Vetilot intend to meet urgently to consider the future of the Company. There is no guarantee that Vetilot will be able to rely on the continued financial support of its existing major shareholder GA Segó and the Directors may need to consider alternative options such as de-listing, sale or liquidation of the Company.

## **2.11 Alternatives for Vetilot Shareholders Who Do Not Wish To Retain Their Investment**

In the event the Proposed Transaction proceeds and existing shareholders of Vetilot do not wish to retain their shares they could potentially sell their shares on-market. However, the level of media and investor interest for Vetilot shares post-transaction is uncertain. Therefore the ability to sell on market may be constrained by an ongoing lack of liquidity in the trading of Vetilot shares.

If the special resolutions approving the Proposed Transaction are passed, those shareholders who voted against the approved resolutions are (subject to certain conditions) entitled to require the Company to buy their shares in accordance with provisions of the Companies Act 1993. Further information on minority buy-out rights are provided in Section 1.8 and in the Notice of Meeting.

## **2.12 Summary of Evaluation of Merits**

In our view the Proposed Transaction will have important benefits for Vetilot shareholders including:

- The recapitalisation of the Company would improve Vetilot's net asset position from (\$0.96) million to approximately \$1.13 million post-transaction and maintain the financial and operating viability of the Company.
- The subscription for \$1.25 million in new Vetilot shares by NZ Silveray will increase cash reserves of Vetilot to approximately \$1.1 million post-transaction.
- Forgiveness of existing secured and unsecured loans totalling \$1,039,327 as at 30 September 2014.

- The issue, for nil consideration, of Warrants on a pro-rata basis to all Vetilot shareholders (including NZ Silveray) that will be quoted on the NZAX.
- Introduce a new cornerstone shareholder with access to capital via its parent company and an interest in broadening its investment base in New Zealand.
- The subscription price agreed by NZ Silveray of 0.1 cents per Vetilot share is marginally above our assessed value range of 0.07 to 0.09 cents per share.
- The recapitalisation of Vetilot and introduction of a new cornerstone investor may lead to increased interest in, and demand for, the Company's shares. This has the potential to improve both the share price and liquidity (i.e. the number of shares traded).
- Vetilot has been a listed shell company for over two years and has survived largely due to the ongoing support of its major shareholders, particularly GA Sego. In the event that the Proposed Transaction does not proceed there is no guarantee that GA Sego will continue to provide financial support to the Company.

The Proposed Transaction will have some negative features for Vetilot shareholders including:

- Existing Vetilot shareholders will be diluted by a factor of approximately 3.34x i.e. for every 1% interest in shares held in Vetilot prior to the Proposed Transaction, would become a 0.3% interest in Vetilot shares after the Proposed Transaction.
- By virtue of holding 70.06% of the voting securities and the appointment of two NZ Silveray-nominated Directors to the Board of Vetilot, NZ Silveray will have effective control over the Company and its future direction. We note however, that Vetilot is already currently majority owned by a single shareholder, GA Sego and therefore NZ Silveray will be effectively replacing GA Sego as the majority owner of the Company.
- Vetilot will lose the remaining \$2.707 million balance of available tax losses currently held by the Company. We note that approximately \$1.039 million of these tax losses will be utilised to offset the tax liability arising from the Debt Forgiveness.

**Having given due regard to all of the above factors we consider that, on balance, the benefits of the Proposed Transaction substantially outweigh its negative features.**

### **2.13 Voting for or Against the Resolutions**

If shareholders vote against Resolution 1 or 2 then none of the Resolutions will take effect and the Proposed Transaction will not proceed.

Voting for or against the Resolutions in respect of the Proposed Transaction is a matter for individual shareholders to consider based on their own view as to value, control issues, future market conditions, state of the global economy, risk profile and other factors. Shareholders will need to consider carefully these consequences and consult their own professional adviser as appropriate.

### 3. PROFILE ON VETILOT LIMITED

---

#### 3.1 Background and History

Vetilot was incorporated on 10 April 2006 as Viking Capital Limited (**Viking**). The Company originally listed on the NZAX in June 2006 as an investment company founded by current Chairman Brent King. Viking Capital offered 60M shares at 25c per share (aggregate value \$15M) plus associated warrants.

In March 2007 the Company acquired Investment Research Group (**IRG**) for \$2.5M in cash and shares. In April 2007 it sold the data division of IRG to the New Zealand Stock Exchange for \$1.4M. Also in 2007 Viking increased its stake in listed entity ICP Biotechnology. However in May 2008 ICP Biotechnology was placed into Receivership.

In May 2008 Viking expanded its funds management and investment media portfolio through the acquisition by IRG of Equity Investment Advisors and Sharebrokers and MoneyOnLine, and in August 2008 Viking announced that it would change its name to Investment Research Group.

In May 2009 IRG announced that it had agreed to sell its Auckland-based funds management business to Macrocapa Holdings Ltd for \$500,000 in cash.

In 2011/12 Vetilot was adviser on the listing of Mykris, a predominantly Malaysian owned internet service provider business which began trading on the NZAX in January 2012. However continued losses resulted in the Vetilot Board announcing in June 2012 its decision to market for sale the IRG business assets and retain the Company as a listed shell.

This sale process took place via a number of transactions completed during the latter half of 2012:

- On 9 August 2012 IRG announced it had sold its Tauranga office for an undisclosed sum.
- On 4 September 2012 IRG announced the sale of its Auckland advisory business, IRG Equity Investment Advisors Ltd to Forsyth Barr for an initial deposit with on-going payments based on performance.
- On 18 September 2012 IRG announced that it had sold the NZ Investor Magazine to McEwen Investment Report Ltd for an undisclosed sum.
- On 28 September 2012 IRG announced the conditional sale of the residual operating assets of the Company to Brent King. As part of this transaction IRG was required to change its name and was subsequently renamed Vetilot Limited on 14 January 2013.

Subsequent to these transactions IRG arranged a loan of \$750,000 with a company associated with its major shareholder GA Segó. The funds from this loan were used to fully repay loan facilities provided by the Bank of New Zealand.

Since completion of the sale of its operating assets, the Board of Vetilot has sought an appropriate investment opportunity to acquire a suitable business or engage in a transaction with potential to add value for Vetilot shareholders.

On 11 February 2015 (amended 12 February 2015) Vetilot announced details of the Proposed Transaction with NZ Silveray, as described in more detail in Section 1 of this Report.

### **3.2 Board of Directors**

The current directors of Vetilot are:

#### ***Brent King, Director and Chairman***

Mr King is the founder of Viking Capital Ltd (now Vetilot). Brent was the founder and the Managing Director of the Dorchester Group of companies for 17 years until he resigned on 1 December 2005. Brent holds a number of public and private directorships, including his role as independent Director of NZAX-listed company Mykris Ltd.

He has more than 25 years experience in financial, investment banking, underwriting, capital raising and accounting areas and has assisted a number of public and private companies.

Mr King's investment company Snowdon Peak Investments Ltd is the second-largest shareholder in Vetilot with 94,824,602 shares representing 17.75% of the total ordinary shares on issue. He also holds a further 1,319,000 shares directly.

#### ***Rewi Bugo, Director***

Rewi Hamid Bugo is a graduate of the University of Canterbury, Christchurch where he obtained a Bachelor of Science in Management Science and a Master of Commerce in Business Administration. He has business experience in several sectors including oil and gas, property development, insurance broking and travel and tourism.

Mr Bugo sits on the board of several private companies in Malaysia and New Zealand and is Vice Chairman of the Sarawak Chapter of the Malaysia New Zealand Chamber of Commerce. Mr Bugo's family interests, via GA Segoo, hold the largest shareholding in Vetilot with 285,156,618 shares representing 53.39% of the total ordinary shares on issue. Mr Bugo also holds a further 416,336 shares directly. Interests associated with Mr Bugo have also provided unsecured and secure loans to the Company.

#### ***Colin Gardner, Independent Director***

Colin Gardner graduated from the University of Port Elizabeth in South Africa. He is a Chartered Accountant (CA) and was a KPMG Partner for nearly 29 years before his retirement from the profession at the end of February 2009 (20 years with KPMG in South Africa and nearly 9 years with KPMG in the CIS, based in Moscow).

He has more than 40 years of experience in the profession and has provided professional services and advice to both private and public entities across a broad spectrum of industries and business sectors.

Mr Gardner has a beneficial interest in 1,500,000 shares in Vetilot via Niloc Investments Ltd.

The current Directors of Vetilot received no Directors fees or other remuneration in the last financial year ended 31 March 2014.

### 3.3 Current Ownership & Capital Structure

Vetilot currently has 534,080,173 ordinary shares on issue held by 658 shareholders. All shares have equal rights and there are currently no warrants, options and/or convertible notes on issue.

Vetilot is closely held with the top three shareholders collectively holding 76.48% of the voting securities on issue and the top ten shareholders collectively holding 87.96% of the voting securities on issue. Details of the top ten shareholders as at 10 February 2015 are set out below:

<b>Vetilot - Top 10 Shareholders</b>			
	<b>Notes</b>	<b>Shares Held</b>	<b>%</b>
G A Segro Ltd		285,156,618	53.39%
Snowdon Peak Investments Ltd		94,824,602	17.75%
Prakash Pandey		28,513,333	5.34%
A E Falkenstein & I D Malcolm		22,347,222	4.18%
JBWere Nominees Ltd		10,444,444	1.96%
G K Baker, D J Baker & L T Grant		9,370,372	1.75%
Yee Industries Ltd		7,633,388	1.43%
Simon Apperley		4,444,444	0.83%
D A Burgess		3,788,882	0.71%
LJ Christie		3,250,000	0.61%
Other (648)		64,306,868	12.04%
<b>Total Shares on Issue</b>		<b><u>534,080,173</u></b>	<b><u>100.00%</u></b>

The largest Vetilot shareholder is GA Segro with 285,156,618 shares (53.39% of the voting securities on issue). As the holder of more than 50% of the voting securities GA Segro has a significant level of control over Vetilot, including the ability to pass or block ordinary resolutions of the Company and the ability to appoint or remove Directors.

### 3.4 Financial Results

A summary of Vetilot's audited results for the three financial years ending 31 March and the unaudited half year ending 30 September 2014 are set out on the following page.

<b>Vetilot Limited - Summary Financial Performance</b>					
<b>NZ\$000</b>		<b>12 Mths Mar-12 Audited</b>	<b>12 Mths Mar-13 Audited</b>	<b>12 Mths Mar-14 Audited</b>	<b>6 Mths Sep-14 Unaudited</b>
<b>Income</b>					
Total income		2,061	824	5	13
<b>Expenses</b>					
Employee benefits		1,089	697	-	-
Finance costs		88	78	59	31
Other costs		2,025	1,409	107	15
Total expenses		3,202	2,184	166	47
<b>Loss before income tax</b>		<b>(1,141)</b>	<b>(1,360)</b>	<b>(161)</b>	<b>(34)</b>
Income tax		-	-	-	-
<b>Net loss for the period</b>		<b>(1,141)</b>	<b>(1,360)</b>	<b>(161)</b>	<b>(34)</b>
Change in fair value of available-for-sale financial assets		(87)			
Other comprehensive income		-	87	-	-
<b>Total comprehensive income for the period</b>		<b>(1,227)</b>	<b>(1,273)</b>	<b>(161)</b>	<b>(34)</b>

<b>Vetilot Limited - Summary Financial Position</b>					
<b>NZ\$000</b>	<b>Notes</b>	<b>12 Mths Mar-12 Audited</b>	<b>12 Mths Mar-13 Audited</b>	<b>12 Mths Mar-14 Audited</b>	<b>6 Mths Sep-14 Unaudited</b>
<b>Current Assets</b>					
Bank Balances		(372)	64	2	16
Trade and other receivables		211	22	31	32
Loans receivable		78	107	100	45
Other investments		250	-	-	-
		168	193	133	92
<b>Non-Current Assets</b>					
Loans receivable		78	85	-	-
Customer databases and websites		1,357	-	-	-
Other non-current assets		120	-	-	-
		1,555	85	-	-
<b>Current Liabilities</b>					
Trade and related party payables		162	190	32	1
Income in advance and accruals		128	98	15	7
Unsecured Loans	1	-	-	180	180
Secured loans	2	1,000	750	828	859
		1,290	1,038	1,054	1,047
<b>Net Assets</b>		<b>433</b>	<b>(760)</b>	<b>(921)</b>	<b>(955)</b>

**Notes**

- On 6 May 2013 G A Sego Ltd advanced unsecured loans to the Company of \$180,000.
- On 20 November 2012 Bay of Islands Property Ltd, a company associated with its major shareholder G A Sego Ltd, provided a loan of \$750,000 in order to refinance facilities from BNZ.

<b>Vetilot Limited - Summary Cashflow</b>					
<b>NZ\$000</b>		<b>12 Mths Mar-12 Audited</b>	<b>12 Mths Mar-13 Audited</b>	<b>12 Mths Mar-14 Audited</b>	<b>6 Mths Sep-14 Unaudited</b>
Cash flows from operating activities		(1,081)	(702)	(337)	(43)
Cash flows from investing activities		(90)	1,093	95	56
Cash flows from financing activities		1,247	46	180	-
<b>Net Increase / (decrease)</b>		<b>76</b>	<b>437</b>	<b>(62)</b>	<b>13</b>

The financial performance and position of Vetilot over the past 3.5 financial years reflects the progression of the Company from an investment company with interests in financial and investment-related services trading at a material loss, transitioning through to a listed shell company with no operating assets and negligible revenues, trading at a minimal loss.

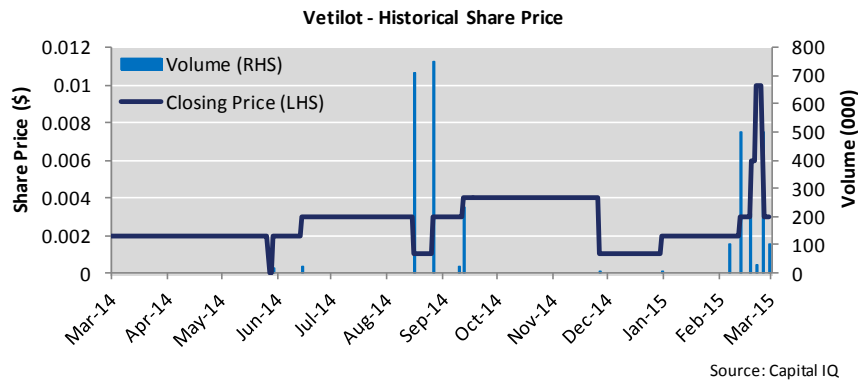
The financial position of the Company has deteriorated over this period as operating assets have been realised and loans refinanced and extended to fund ongoing operating losses. The initial loan of \$750,000 provided by Bay of Islands Property Ltd (an Associate of GA Sego) has subsequently increased to \$859,327 as at 30 September 2014. Interest is payable on this secured loan at 7.45% p.a. compounded quarterly.

Vetilot is now essentially a shell company with its only material asset comprising its listing on the NZAX. As at 30 September 2014 the Company's total liabilities exceeded its total assets by \$955,154.

### 3.5 Share Price History

The current share price of Vetilot as at 6 March 2015 is 0.3 cents per share. Trading of Vetilot shares has been sporadic with very limited liquidity.

Trading in the last 12 months to 6 March 2015 has totalled approximately 3.21 million shares representing only 0.6% of the total shares on issue. A share price graph for the past 12 months is shown below.



Since the announcement of the Proposed Transaction between Vetilot and NZ Silveray on 11 February 2015, the Vetilot share price has increased from 0.2 cents per share to 0.3 cents per share as at 6 March 2015.

## 4. PROFILE ON NZ SILVERAY GROUP LIMITED

---

### 4.1 Background & Ownership

NZ Silveray is a private New Zealand company incorporated on 20 February 2014 (NZBN:9429041049464). The company is wholly-owned by GYIMC, a China-based private company majority owned by Mr Xia, a Chinese national with extensive experience in commerce and finance. Further information on Mr Xia is provided in Section 4.3 below.

NZ Silveray has a wholly-owned New Zealand subsidiary National Dairy Group Limited (**NDG**).

Campbell MacPherson took the opportunity to meet with NZ Silveray representatives in Auckland.

### 4.2 GYIMC

We are advised by Vetilot that Mr Xia formed GYIMC in 2007 as a private investment company to pursue opportunities in China and internationally. The majority of Mr Xia's investments to date have been in China. As noted in Section 2.7 of this Report, GYIMC is a shareholder in Janus, listed on the Shenzhen Stock Exchange in China. Janus manufactures cell phone covers, screens, antennae, and other metal components for both cell phones and tablets, including Samsung, Huawei and others.

We understand that GYIMC originally held a 15% stake in Janus, diluted to 11.25% following the IPO of Janus in May 2010. According to CapitalIQ records GYIMC was historically the second largest shareholder in Janus. As at 30 June 2010 GYIMC held 22,500,000 shares in Janus representing an 11.25% equity interest in the company. The market value of GYIMC's stake in Janus (expressed in USD) at that time was approximately US\$47.2 million.

Over time GYIMC has progressively sold down its position in Janus. CapitalIQ indicates that the most significant of these sell downs occurred between March and June 2013 when GYIMC sold 15,291,200 Janus shares. Whilst we have no data on the exact sell price of these shares we note that the average daily closing price of Janus shares during this period (expressed in USD) was approximately US\$4.00 per share.

As at 31 December 2014 GYIMC remains the 13<sup>th</sup> largest shareholder in Janus with 1,853,000 shares representing 0.93% of the total shares on issue. The current market capitalisation of Janus as at 5 March 2015 (expressed in USD) is US\$887 million at a share price of US\$4.43 per share.

We understand that GYIMC also holds investments in various private companies in China. These include a minority stake in a Chinese supermarket and a minority stake in a concrete company, both located in the Anhui province. Both of these companies are pursuing public listing plans.



#### **4.3 Governance**

NZ Silveray has a single Director, Mr Yang Xia. Mr Xia has more than 30 years experience in commerce and finance. Prior to starting his own business, he held management and leadership roles in the Chinese Government's finance department and in major nationally owned Chinese companies. He is a former director general of the Anhui Chaohu Foreign Trade and Economic Relations Commission. He currently holds directorships in various Chinese companies spanning a range of industries.

Mr Xia is a Director and the majority-owner of GYIMC and has a particular interest in investing in pre-IPO companies and bringing those companies to market.

#### **4.4 NZ Silveray's Nominated Directors to the Board of Vetilot**

In the event that the Proposed Transaction proceeds NZ Silveray will appoint two new Directors. Summary profiles on each new Director are provided below based on information supplied by Vetilot.

##### ***Yang Xia***

Refer to Section 4.3 above.

##### ***Tingsong Zhang***

Tingsong Zhang (also known as Spencer Zhang) joined Mr Xia's investment management company, GYIMC as a Senior Investment Manager in 2011. Since 2014 Mr Zhang has been the Deputy General Manager of GYIMC.

Prior to working for GYIMC he was a management trainee for Voith GmbH in China, and was a financial analyst for the Australian Chamber of Commerce in Shanghai. Mr Zhang's career started in 2010. Mr Zhang graduated with a BSc (Hons) in Management and Marketing from the University of Manchester in England in 2006, and obtained double masters in Finance and Commerce from RMIT University in Melbourne, Australia.

#### **4.5 NZ Silveray Business Strategy**

We understand that Mr Xia is seeking to expand his investment activities into Australia and New Zealand having founded NZ Silveray, and its subsidiary NDG in February 2014.

Vetilot provides Mr Xia and GYIMC with a majority ownership position in a public-listed platform from which to pursue new investment opportunities, including identifying and facilitating trading of New Zealand and Australian products into China.

#### **4.6 Other Investments**

NZ Silveray's wholly-owned subsidiary NDG is an exporter of dried milk products sourced from and packaged in New Zealand. NDG has acquired the rights to the Farmside brand of milk products. See <http://www.farmsidedairy.com/>

NDG distributes these products in China through its exclusive Chinese distributor Guangdong Farmside Dairy Development Co. New Zealand GMP Pharmaceuticals Limited is the contract manufacturer of Farmside milk powders.

## 5. VALUATION OF VETILOT

---

### 5.1 Proposed Transaction

Vetilot has entered into a conditional subscription agreement with NZ Silveray whereby NZ Silveray will subscribe for 1.25 billion new ordinary shares in Vetilot at an issue price of 0.1 cents per share, raising a total of \$1,250,000 in new equity capital.

We have assessed the value of Vetilot shares by reference to:

- The price at which Vetilot shares have recently traded prior to announcement of the Proposed Transaction.
- The value of Vetilot's net assets (including our assessed value of Vetilot's listing on the NZAX).

### 5.2 Value of Vetilot Shares

#### *Pre-Announcement Market Trading*

As discussed in Section 3 there has been very limited trading in Vetilot shares over the past 12 months. Prior to the announcement on 11 February 2015 detailing the Proposed Transaction, Vetilot shares traded at a 90 day VWAP of 0.125 cents per share. The total volume of shares traded during this period represented less than 0.01% of the total shares on issue (i.e. Vetilot shares only traded on two of the 90 days prior to the announcement of the Proposed Transaction).

Vetilot currently has 534,080,170 shares on issue. Based on a 90 day VWAP of 0.125 cents per share, the implied equity value of Vetilot is approximately \$668,000. However, given the extreme lack of liquidity, we do not consider that the use of market data provides a strong basis for determining the equity value of Vetilot.

#### *Net Assets of Vetilot*

As at 30 September 2014 Vetilot had unaudited Net Liabilities (excluding the value of its listing on the NZAX) of (\$955,154), equivalent to (0.18) cents per share. This comprised total assets of \$92,183 and total liabilities of \$1,047,337.

One of the conditions of the Proposed Transaction is that Vetilot's lenders forgive all existing debt owed by the Company. As at 30 September 2014 Vetilot's debt, which comprised both secured and unsecured advances, totalled \$1,039,327.

Assuming the Debt Forgiveness, Vetilot's adjusted net assets as at 30 September 2014 would have been approximately \$84,000 (excluding the value of its listing on the NZAX).

<b>Vetilot Limited - Adjusted Net Assets</b>	
<b>NZ\$000</b>	<b>6 Mths Sep-14</b>
Reported Net Liabilities	(955)
Plus Debt Forgiveness	
Unsecured Loans	180
Secured loans	859
	<u>1,039</u>
<b>Adjusted Net Assets</b>	<b><u>84</u></b>

### ***Tax Losses Carried Forward***

For a company to be able to carry forward a loss to a future tax year it must meet the shareholder continuity test. The shareholder continuity test will generally be met if there is a group of shareholders whose combined voting interest in the company during the “continuity period” is 49% or more.

Vetilot advises that it has current unaudited tax losses available of \$2.707 million. We have not subscribed any value to these tax losses given their contingent nature.

### ***Value of Vetilot’s NZAX Listing***

While intangible in nature, there is value inherent in Vetilot’s listing on the NZAX. The value ascribed to a listing on the NZAX reflects the time, risk and costs potentially saved by a company undertaking a reverse-listing rather than undertaking a direct compliance listing or initial public offering (IPO). Major costs associated with a direct compliance listing would likely include legal and other advisory fees, share registry expenses, accounting fees, NZX fees, disclosure statements and/or an investment statement and prospectus. A NZAX compliance listing would also require a Company to meet the minimum requirements of the NZAX Listing Rules including having a spread of at least 50 shareholders.

Increased compliance requirements and costs placed on NZX issuers involved in reverse listings has, in our view, reduced the attractiveness of reverse listings and therefore the value of a listing on the NZAX. Furthermore, the development of the NXT market by the NZX, which will provide small and mid-sized businesses with a platform to raise capital and publically trade their shares, may further reduce the attractiveness of reverse listings. The NXT market will have simplified listing rules and disclosure requirements, which should ultimately lessen the cost of listing a company. We note that the NXT market has not yet been launched.

The value ascribed to a NZSX or NZAX listing in reverse listing transactions often varies significantly and should be considered in the context of the individual transaction (e.g. the benefits to the target company need to be considered on a case-by-case basis). Based on our analysis of selected reverse listing transactions undertaken in New Zealand, the implied value of a listing has been in the range of \$0.2 million to \$1.2 million, with an average of \$0.5 million. More recent transactions have been in the range of \$0.2 million to \$0.4 million.

<b>Selected Reverse Listing Transactions - Implied Listing Value</b>			
<b>Listed Vehicle</b>	<b>Acquisition</b>	<b>Acquisition Date</b>	<b>Implied Listing Value (\$000)<sup>1</sup></b>
Claridge Capital	Sea Dragon Marine Oils	Oct-12	400
Velo Capital	Voucher Mob	Aug-12	200
Holly Springs Investments	Retail Information Systems	Sep-09	300
RLV No 3	Minera Varry	Dec-08	200
Vistron	MFS New Zealand	Jul-07	1,200
Spectrum Resources	Charlies	Jul-05	700
RLV No 3	TJRE Holdings	Not completed	500
<b>Average</b>			<b>500</b>
<b>Median</b>			<b>400</b>

1. Rounded to the nearest 100,000.

Based on the above analysis, we have assessed the value of Vetilot's listing on NZAX to be in the range of \$0.3 million to \$0.4 million.

#### ***Assessed Value of Vetilot Shares***

We consider that the most relevant measure of the current value of Vetilot comprises the Company's net assets (adjusted for Debt Forgiveness) plus our assessed value of the Company's NZAX listing.

As summarised below, we assess the aggregate value of Vetilot (adjusted for Debt Forgiveness) to be in the range of \$0.38 million to \$0.48 million. Accordingly, we assess the value of each Vetilot share to be in the range of 0.07 cents to 0.09 cents per share.

<b>Vetilot - Assessed Value</b>		
<b>NZ\$000</b>	<b>Low</b>	<b>High</b>
Adjusted net assets as at Sep-14	84	84
Assessed value of Vetilot's NZAX listing	300	400
Assessed value of Vetilot	384	484
Number of shares on Issue (000's)	534,080	534,080
<b>Assessed Value per share (cents)</b>	<b>0.07</b>	<b>0.09</b>

## **APPENDIX I. SOURCES OF INFORMATION**

---

### **I.a Sources of Information**

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

- The Vetilot Notice of Meeting (Draft) in relation to the SGM.
- The Subscription Agreement relating to the Issue of Shares in Vetilot Limited to NZ Silveray Group Limited.
- Waiver applications made by Vetilot to NZX Regulation in relation to the Proposed Transaction and in relation to the listing of the Warrants.
- Vetilot audited annual reports for the years ended 31 March 2012 through 31 March 2013.
- Vetilot unaudited interim report for the six months ending 30 September 2014.
- New Zealand Companies Office records.
- Various NZAX announcements by Vetilot.
- Publicly available information on Guangdong YinRui Investment & Management Co. Limited, NZ Silveray Limited and National Dairy Group Limited.
- Director's memo relating to a visit by Mr Brent King to the Chinese operations/investments of Mr Xia in January 2015.
- Data in respect of Vetilot from NZX Data and CapitalIQ.
- Correspondence and/or discussions with the New Zealand-based Directors of Vetilot.
- Discussion with NZ-based representatives of NZ Silveray.

During the course of preparing this Report, we have had discussions with and/or received information from the Directors of Vetilot and their legal advisers.

The Directors of Vetilot have confirmed that we have been provided for the purpose of this Report with all information relevant to the Proposed Transaction 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 necessary for the purpose of preparing this Report.

In our opinion, the information set out in this Report is sufficient to enable the Directors and shareholders of Vetilot to understand all the relevant factors and to make an informed decision in respect of the Proposed Transaction.

### **I.b 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 Vetilot 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 Vetilot. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

#### **I.c 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 any forward-looking statements included in this Report.

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 our Report.

We have had no involvement in the preparation of the Notice of Meeting issued by Vetilot and have not verified or approved the contents of the Notice of Meeting. We do not accept any responsibility for the contents of the Notice of Meeting except for this Report.

#### **I.d Indemnity**

Vetilot has agreed that, to the extent permitted by law, it will indemnify Campbell MacPherson 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. Vetilot has also agreed to indemnify Campbell MacPherson and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Campbell MacPherson or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or terms of reference Campbell MacPherson shall reimburse such costs.

## **APPENDIX II. QUALIFICATIONS, DECLARATIONS & CONSENTS**

---

### **II.a Qualifications**

Campbell MacPherson is an Auckland based investment bank and corporate finance advisory firm. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice. The persons in the Company responsible for issuing this Report are Stephen Burns, Tony Haworth and Alistair Ward.

Campbell MacPherson has experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of transactions.

### **II.b Independence**

Campbell MacPherson does not have at the date of this Report, and has not had, any shareholding in or other relationship with Vetilot that could affect our ability to provide an unbiased opinion in relation to the Proposed Transaction. Campbell MacPherson has no conflict of interest that could affect its ability to provide an unbiased Report. Campbell MacPherson has not had any part in the formulation of the Proposed Transaction, or any aspects thereof.

Campbell MacPherson 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 Proposed Transaction. We will receive no other benefit from the preparation of this Report.

### **II.c Declarations**

Advance drafts of this Report were provided to the Vetilot Directors for their comments as to factual accuracy as opposed to opinions, which are the sole responsibility of Campbell MacPherson. Changes made to the Report as a result of the circulation of the drafts have not changed the methodology or conclusions reached by Campbell MacPherson. Our terms of reference for this engagement did not contain any term which materially restricted the scope of this Report.

### **II.d 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 Meeting to be sent to Vetilot 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.

6 March 2015  
Campbell MacPherson Ltd.