

11 December 2013

NZX Limited  
Wellington

### PRE-BREAK ANNOUNCEMENT

The following is issued by Speirs Group Limited (SGL) as a "Pre-Break Announcement", pursuant to NZAX Listing Rules 10.2.1. Clause 21 of SGL's constitution permits it to adopt the Pre-Break Announcement Procedure.

#### Overview and rationale for the Proposed Transactions

- 1 The SGL group and a New Zealand domiciled investor propose to create a new finance business together. The business will fund motor vehicles and commercial plant that is to be acquired by small to medium sized New Zealand businesses and consumers.
- 2 The SGL group will have a 25% interest in the finance business (and the profits derived from the finance business). SGL will also receive interest on a subordinated loan of \$1,000,000 that it will make to the finance business.

#### Summary of Proposed Transactions

- 3 The SGL group proposes to enter into the following transactions:
  - 3.1 the SGL group proposes to partner in the creation of a new finance business (the *Finance Business*) for the funding of motor vehicles and commercial plant with a major New Zealand domiciled private equity firm (the *Investor*). The identity of the Investor is expected to be announced once the documents for the transactions have been signed;
  - 3.2 the Finance Business is to be established in a limited partnership to be called Speirs Finance (NZ) Limited Partnership (the *Limited Partnership*). Speirs General Partner (NZ) Limited (the *General Partner*) is to be the general partner of the limited partnership. The Limited Partnership's sole limited partner will be a holding limited partnership (*Holdco LP*) and the SGL group and the Investor will be the limited partners in Holdco LP;
  - 3.3 the establishment of the structure, which will involve:
    - (a) SGL acquiring certain assets, including intellectual property in relation to the Speirs Finance brand, a proprietary software system for the origination and servicing of loans and leases and knowhow (the *Assets*) from Speirs Securitisation Limited Partnership (a limited partnership wholly owned and controlled by the SGL group) (*SSLP*) for their current book value (nil, as they were acquired from the receivers of Allied Nationwide Finance Limited for no ascribed cost). SSLP has subsequently upgraded the proprietary software for the purposes of this transaction. The aggregate value of the Assets is \$250,000 plus GST (if any), which has been established through arm's length negotiations;
    - (b) SGL then transferring the upgraded Assets to the General Partner in exchange for shares in the General Partner being issued to SGL (or another SGL group member) to take the SGL group's shareholding in the General Partner to 25%. The Assets will then be transferred by the General Partner to its wholly-owned subsidiary Speirs Finance (NZ) Limited (the *Manager*) in return for additional shares in the Manager;

- (c) the Investor providing cash equity of \$5,000,000 to Holdco LP and Holdco LP in turn providing that equity to the Limited Partnership as a capital contribution. The Investor will also contribute up to \$15,000,000 as a subordinated loan to the Limited Partnership;
- (d) SGL (as the current sole limited partner of the Limited Partnership) transferring all of its interests in the Limited Partnership to Holdco LP in exchange for SGL (or another SGL group member) acquiring a 25% interest in Holdco LP;
- (e) the Limited Partnership paying SGL an arrangement fee of \$1,300,000 (exclusive of GST (if any)) using funds it receives from the Investor (via Holdco LP); and
- (f) SGL then lending \$1,000,000 of the arrangement fee to the Limited Partnership as an interest bearing subordinated loan (the *Subordinated Loan*) to be used in the Finance Business. The interest rate on the Subordinated Loan will be based on a bank bill rate plus a margin. The loan will be secured over the assets of the Limited Partnership, but on a subordinated basis. The Subordinated Loan is a long term loan that is not expected to be repaid unless the business of the Limited Partnership is sold, however it may be repaid earlier in certain circumstances.

SGL has income tax losses that cover any potential taxable income resulting from these transactions;

- 3.4 the original proprietary software is currently used by SSLP to service the SGL group's amortising motor vehicle loan portfolio. SSLP will either complete the servicing of the SGL group's amortising vehicle loan portfolio 'in house' or contract with the Finance Business to enable it to service those loans until the loan portfolio is repaid in approximately 6 months' time;
- 3.5 the Investor will assume responsibility for the provision of all equity (via Holdco LP) and additional subordinated loans to the Limited Partnership which may be required as the Finance Business grows, other than for the amount discussed in paragraph 3.3(f) above. SGL will not have any cash commitment to the Limited Partnership, Holdco LP or the General Partner, other than that referred to in paragraph 3.3(f) above. However, the SGL group may choose to invest further capital in HoldCo LP in the future;
- 3.6 senior debt of up to \$100,000,000 is intended to be provided to the Limited Partnership by a major New Zealand trading bank;
- 3.7 on the completion of the establishment steps described above, the SGL group will have a 25% interest in Holdco LP and the General Partner, while the Investor will have a 75% interest in Holdco LP and the General Partner. Effectively, the SGL group will have an indirect 25% interest in the Limited Partnership and the Investor will have an indirect 75% interest in the Limited Partnership;
- 3.8 as part of the transactions, the SGL group proposes to grant options over up to a total of 300,000 of interests in Holdco LP to selected employees of the Manager (the *Options*). Each Option would give the holder of it the right to purchase one interest in Holdco LP for \$1 (i.e. a total exercise price of up to \$300,000) and would generally be exercisable by those employees after 3 years. Based on the SGL group's interest in Holdco LP on completion of the establishment steps described above, if all the Options were granted and exercised, it is expected that the SGL group's interest in Holdco LP would be reduced to approximately 20.5%;

3.9 after the establishment of the Finance Business, the Manager will provide loan servicing and management services to the Limited Partnership. The Manager will use the Assets and its employees to provide the services and will receive fees from the Limited Partnership for doing so; and

3.10 the SGL group will be a minority shareholder/partner in the General Partner and Holdco LP, so its oversight of the Finance Business will be limited. However, it will have the right to appoint one director to the board of the General Partner (provided that the SGL group has at least a 15% shareholding in the General Partner). The consent of the Investor is expected to be required to any transfer by the SGL group of its shares in the General Partner and interests in Holdco LP,

(the *Proposed Transactions*). The Proposed Transactions are subject to the usual sorts of conditions precedent for this type of transaction, such as agreeing formal documentation and the approval of SGL's shareholders (by way of this Pre-Break Announcement). The conditions precedent are currently required to be satisfied in early 2014.

**Why is this Pre-Break Announcement being made?**

4 NZAX Listing Rule 9.1.1 provides that an Issuer shall not enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange, or otherwise dispose of (otherwise than by way of charge) assets of the Issuer, or assets to be held by the Issuer:

4.1 which would change the essential nature of the business of the Issuer (NZAX Listing Rule 9.1.1(a)); or

4.2 in respect of which the value is in excess of 50% of the Issuer's Average Market Capitalisation (NZAX Listing Rule 9.1.1(b)),

in the absence of:

4.3 the prior approval of the Issuer's shareholders; or

4.4 following a Pre-Break Announcement and satisfaction of the other requirements of NZAX Listing Rule 10.2.

5 SGL's Market Capitalisation as at the date that the Proposed Transactions were announced to the market was approximately \$453,000. It is expected that the value of the assets involved in the Proposed Transactions will exceed 50% of SGL's Average Market Capitalisation, as:

5.1 SGL will transfer the Assets with an aggregate value of \$250,000 (plus GST (if any)) to the General Partner in exchange for shares in the General Partner being issued to SGL (or another SGL group member);

5.2 SGL will receive the arrangement fee and invest \$1,000,000 of that fee in the Subordinated Loan; and

5.3 the SGL group may grant the Options to selected employees of the Manager with an exercise price of up to a total of \$300,000.

As a result, SGL must comply with NZAX Listing Rule 9.1.1(b).

6 While the Proposed Transactions are not expected to change the essential nature of the SGL group's business immediately, such a change may occur over time as the Finance Business grows. At the date of this Pre-Break Announcement, the SGL group is primarily a fresh food production and nationwide distribution business, with an amortising motor vehicle loan portfolio.

- 7 The Board of SGL has elected to comply with this rule by following the “pre-break announcement” procedure, rather than by calling a special meeting of shareholders and obtaining the approval of the shareholders to the Proposed Transactions at that meeting. Provided that no shareholders’ meeting is called by shareholders holding more than 5% of the shares in SGL within 10 business days of the date of this announcement, SGL will be entitled to implement the Proposed Transactions.

**Terms of the Proposed Transactions**

- 8 The key components of the Proposed Transactions are outlined below. However, these may be subject to change, as the Proposed Transactions are still being negotiated and remain subject to certain conditions precedent, and, as a result, the key components have not yet been finalised or are still subject to confidentiality provisions (including the identity of the Investor). If there is a material change to the Proposed Transactions described in this Pre-Break Announcement, SGL will issue another pre-break announcement or call a special meeting of shareholders and obtain the approval of the shareholders to the Proposed Transactions at that meeting. In summary:
- 8.1 the Finance Business is to be created to fund motor vehicles and commercial plant. Customers are expected to be small to medium size New Zealand businesses and consumers;
- 8.2 the establishment of the structure is expected to involve:
- (a) SGL acquiring the Assets from SSLP for no consideration;
  - (b) SGL then transferring the Assets to the General Partner in exchange for shares in the General Partner being issued to SGL (or another SGL group member) to take the SGL group’s shareholding in the General Partner to 25%. The General Partner will then transfer the Assets to the Manager in return for additional shares in the Manager;
  - (c) the Investor providing cash equity of \$5,000,000 to Holdco LP and Holdco LP in turn providing that equity to the Limited Partnership as a capital contribution. The Investor will also contribute up to \$15,000,000 of subordinated debt to the Limited Partnership;
  - (d) SGL transferring all of its interests in the Limited Partnership to Holdco LP in exchange for SGL (or another SGL group member) acquiring a 25% interest in Holdco LP;
  - (e) the Limited Partnership paying SGL an arrangement fee of \$1,300,000 (exclusive of GST (if any)) using funds it receives from the Investor (via Holdco LP); and
  - (f) SGL then lending \$1,000,000 of the arrangement fee to the Limited Partnership as an interest bearing Subordinated Loan to be used in the Finance Business. The interest rate on the Subordinated Loan will be based on a bank bill rate plus a margin. The loan will be secured over the assets of the Limited Partnership, but on a subordinated basis. The Subordinated Loan is a long term loan that is not expected to be repaid unless the business of the Limited Partnership is sold, however it may be repaid earlier in certain circumstances.
- 8.3 the Investor intends to provide or take responsibility for the provision of cash equity (via Holdco LP) and subordinated loans to the Limited Partnership and the General Partner, other than that referred to in paragraph 8.2(f) above. However, the SGL group will have no obligation to provide further capital, although it may choose to provide further capital to Holdco LP in the future to take advantage of similar opportunities;
- 8.4 on completion of the establishment steps described above, the SGL group will have a 25% interest in Holdco LP and the General Partner, while the Investor will have a 75% interest in

Holdco LP and the General Partner. Effectively, the SGL group will have an indirect 25% interest in the Limited Partnership and the Investor will have an indirect 75% interest;

- 8.5 the Limited Partnership will not borrow money from New Zealand retail investors. Senior debt of up to \$100,000,000 is intended to be provided to the Limited Partnership by a major New Zealand trading bank;
- 8.6 as part of the Proposed Transactions, the SGL group proposes to grant the Options to selected employees of the Manager;
- 8.7 subject to satisfaction of certain conditions precedent (as discussed above in paragraph 3 above), the Proposed Transactions are expected to be completed in early 2014;
- 8.8 after the establishment of the Finance Business, the Manager will provide loan servicing and management services to the Limited Partnership. The Manager will use the Assets and its employees to provide the services and will receive fees from the Limited Partnership for doing so; and
- 8.9 the SGL group will be a minority shareholder/partner in the General Partner and Holdco LP, so its oversight of the Finance Business will be limited. However, it will have the right to appoint one director to the board of the General Partner (provided that the SGL group has at least a 15% shareholding in the General Partner). The consent of the Investor is expected to be required to any transfer by the SGL group of its shares in the General Partner and interests in Holdco LP.

#### **Effect of Proposed Transactions**

- 9 It is currently expected that the Proposed Transactions will result in a one off increase in SGL's shareholders' funds of approximately \$800,000 (being the amount of the arrangement fee less the estimated costs, such as legal fees and third party advisor fees, incurred by the SGL group in relation to the Proposed Transactions).
- 10 It is currently expected that the Proposed Transactions will provide the SGL group with future income from the 25% share of the profits of the Finance Business (i.e. profits from the funding of motor vehicles and commercial plant) and interest on the Subordinated Loan. Over time these amounts and the growth of the Finance Business may result in a change in the essential nature of the SGL group from primarily a fresh food production and nationwide distribution business with an amortising motor vehicle loan portfolio to a mix of both a food production and nationwide distribution business and interests in a motor vehicle and commercial plant financing business.
- 11 If the Finance Business is not profitable, the SGL group will not receive any profits and may not receive any interest or principal repayments on the Subordinated Loan. However, in that event, the SGL group would be in a substantially similar financial position to what it is currently in.

#### **Directors' Interests in the Proposed Transactions**

- 12 There are no directors interested in the Proposed Transactions.

#### **Shareholder right to call a shareholders' meeting**

- 13 As required by NZAX Listing Rule 10.2.2, the Proposed Transactions are conditional (in addition to the expiry of the 10 business day period from the date of this announcement) upon no special meeting of SGL's shareholders being called pursuant to section 121 of the Companies Act 1993, within that 10 business day period.
- 14 Under section 121 of the Companies Act 1993, the Board of SGL must call a special meeting of shareholders where shareholders (who together, hold shares together carrying not less than 5% of the

voting rights entitled to be exercised at a meeting of shareholders) submit a written request to the Board of SGL for a meeting.

- 15 The contact details for SGL for the delivery and acceptance of such a written request under section 121 of the Companies Act 1993 are:

Speirs Group Limited  
Unit 4, 251 Broadway Avenue  
PO Box 318  
Palmerston North  
New Zealand  
Attention: Lee Simpson, Company Secretary


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**Directors Certificate**

We, the undersigned directors of SGL, certify that the terms of the Proposed Transactions to be undertaken by SGL as described above:

- (a) are fair and reasonable to all security holders of SGL; and
- (b) are in the best interests of, all security holders of SGL.

Dated this 11<sup>th</sup> day of December 2013, and signed by all directors of Speirs Group Limited:



Keith Bruce Taylor



Derek Neil Walker



Richard Nelson Speirs