

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR ATTENTION**

**You should read this document in its entirety. If you are in any doubt as to how to deal with this document, you should consult your professional adviser.**



## **Treyo Leisure and Entertainment Limited**

**ABN 93 131 129 489**

Notices of Meeting and Explanatory Memorandum relating to a proposed selective reduction of capital

**This document contains notice of:**

- a General Meeting of Treyo Leisure and Entertainment Limited to be held at Level 15, 485 Bourke Street Melbourne VIC 3000 on Monday, 16 November 2015 at 10.00 am (Melbourne time); and
- a Special Meeting of Shareholders who are Exiting Shareholders which will commence promptly following the conclusion or adjournment of the General Meeting.

The Independent Expert, Grant Thornton Corporate Finance Pty Ltd, has concluded that the Capital Reduction is not fair but reasonable to the Exiting Shareholders. You should read the Independent Expert's Report, which is included in this document, in full.

**The Independent Directors recommend the Exiting Shareholders vote IN FAVOUR OF the Capital Reduction at the Special Meeting.**

## IMPORTANT DATES

EVENT	DATE
Market announcement	<b>Monday, 12 October 2015</b>
Date of this Explanatory Memorandum	<b>Tuesday, 13 October 2015</b>
General Meeting Voting Entitlement Date (i.e. time for determining entitlements to vote at the General Meeting)	<b>7.00 pm (Melbourne time) on Saturday, 14 November 2015</b>
Deadline for lodgement of proxy forms for the General Meeting	<b>10.00 am (Melbourne time) on Saturday, 14 November 2015</b>
Special Meeting Voting Entitlement Date (i.e. time for determining entitlements to vote at the Special Meeting)	<b>7.00 pm (Melbourne time) on Saturday, 14 November 2015</b>
Deadline for lodgement of proxy forms for the Special Meeting	<b>11.00 am (Melbourne time) on Saturday, 14 November 2015</b>
General Meeting	<b>10.00 am (Melbourne time) on Monday, 16 November 2015</b>
Special Meeting	<b>Promptly following the conclusion or adjournment of the General Meeting on Monday, 16 November 2015</b>
Treyo lodges notice of the Resolutions approving the Capital Reduction with ASIC	<b>Monday, 16 November 2015*</b>
Treyo notifies ASX that the Resolutions have been passed	<b>Monday, 16 November 2015*</b>
Treyo notifies ASX that it is 14 days after it lodged the notice of the Resolutions approving the Capital Reduction with ASIC	<b>Monday, 30 November 2015*</b>
Last day of trading of Shares on ASX	<b>Tuesday, 1 December 2015*</b>
Record Date for determining entitlements to Capital Reduction consideration	<b>Friday, 4 December 2015*</b>
Shares held by Exiting Shareholders are cancelled	<b>Thursday, 10 December 2015*</b>
Consideration distributed to Exiting Shareholders	<b>Thursday, 10 December 2015*</b>
Application to delist from ASX	<b>Friday, 11 December 2015*</b>

\*Dates for events specified in the table above are indicative only and subject to change. The occurrence of events after the General Meeting and the Special Meeting is conditional on the passing of the Resolutions at the General Meeting and the Special Meeting.

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## IMPORTANT INFORMATION AND NOTICES

This Explanatory Memorandum is dated 13 October 2015 and is given by Treyo Leisure and Entertainment Limited ABN 93 131 129 489 (**Treyo**) to Treyo's shareholders (**Shareholders**) in relation to a proposed selective reduction of capital. Shareholders should read this Explanatory Memorandum in full before making a decision on if and how to vote on the Resolutions to be considered at the Meetings.

### No investment or financial product advice

This is an important document which requires your attention. This Explanatory Memorandum provides Shareholders with information which will assist them in evaluating the Capital Reduction.

Please note that this Explanatory Memorandum does not take into account your investment objectives, financial situation or particular needs. Before deciding whether or not to attend and vote at the relevant Meetings and how to vote in respect of the Resolutions, you should consider the contents of this Explanatory Memorandum in light of your personal circumstances (including financial and taxation issues) and seek professional advice from an accountant, lawyer or other professional adviser.

Treyo is not licensed to provide financial product advice in relation to the Shares or any other financial products.

### Disclaimer as to forward looking statements

Certain statements in this Explanatory Memorandum relate to the future or are forward looking statements. Forward looking statements may be identified by words such as 'expects', 'anticipates', 'intends', 'believes', 'seeks', 'estimates' or 'will' or words of similar meaning and include, without limitation, forward looking statements regarding Treyo's financial position and performance and its business strategy, plans and objectives for future operations. These forward looking statements are based on Treyo's current expectations about future events.

Shareholders are cautioned not to place undue reliance on forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to Treyo as well as matters pertaining to general economic conditions and the state of the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of Treyo, any of its directors or officers or any person named in this Explanatory Memorandum or involved in the preparation of this Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. The forward looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum.

### ASIC and ASX lodgement

This Explanatory Memorandum (including the Notices of Meeting, the Explanatory Information, the Independent Expert's Report and the Taxation Report) has been lodged with ASIC in accordance with section 256C(5) of the Corporations Act. It has also been provided to ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Explanatory Memorandum.

### Other sources of information

In addition to the information set out in this Explanatory Memorandum (including the Notices of Meeting, the Explanatory Information, the Independent Expert's Report and the Taxation Report), you may wish to review information contained in the following documents in deciding whether or not to attend and vote at the relevant Meetings and on how to vote in respect of the Resolutions:

- (1) ASX announcements made by Treyo;

- (2) the 2014 Annual Report of Treyo; and
- (3) information regarding Treyo which is available on its website: [www.treyo.com.au](http://www.treyo.com.au)

A copy of any of the ASX announcements made by Treyo and the 2014 Annual Report of Treyo may also be obtained by contacting Treyo or visiting Treyo's website at <http://www.treyo.com.au/>.

Please note that none of the above documents forms part of this Explanatory Memorandum or any accompanying document.

### **Supplementary information**

Treyo will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following prior to the Meetings:

- (1) a material statement in this Explanatory Memorandum is false or misleading;
- (2) a material omission from this Explanatory Memorandum;
- (3) a significant change affecting a matter in this Explanatory Memorandum; or
- (4) a significant new matter has arisen and it would have been required to be included in this Explanatory Memorandum if known at the date of this Explanatory Memorandum to Shareholders.

Depending on the nature and the timing of the changed circumstances and subject to obtaining any relevant approvals, Treyo may circulate and publish any supplementary document by any or all of the following means:

- (1) placing an advertisement in a newspaper;
- (2) posting the supplementary document on Treyo's website;
- (3) making an announcement to the ASX; or
- (4) sending a copy of the supplementary document to Shareholders.

## 2 Letter from Treyo's Independent Directors

13 October 2015

Dear Shareholders,

The purpose of this Explanatory Memorandum is to provide you with information to assist you in assessing the proposed selective reduction of capital by Treyo (**Capital Reduction**).

### 1. Capital Reduction

To implement the Capital Reduction, the Shareholders are required to approve the Resolutions at the Meetings. The Meetings are scheduled to be held at Level 15, 485 Bourke Street Melbourne VIC 3000 on Monday, 16 November 2015 commencing from 10.00 am (Melbourne time).

This Explanatory Memorandum contains Notices of the General Meeting and the Special Meeting at which Shareholders will be asked to approve the Capital Reduction. The Capital Reduction involves the privatisation of Treyo through the cancellation of all Shares in Treyo other than those held by Matoury Overseas Corp., Balatina Group Limited, Legheny Group Limited, Laury Commercial Inc. and Yerigton Assets Inc. (together, the **Controlling Shareholders**) in exchange for the payment of A\$0.13 per Share.

In respect of the cancellation of the Shares held by all Shareholders other than the Controlling Shareholders (**Exiting Shareholders**), the Capital Reduction will provide Exiting Shareholders consideration of A\$0.13 per Share for each of their Shares. This consideration is expected to comprise a capital component of A\$ 0.11 per Share and a dividend component of A\$0.02 per Share. This position is subject to confirmation by the ATO in the form of a Class Ruling for the benefit of Shareholders. Treyo will apply for this Class Ruling from the ATO, however, it cannot be guaranteed that a favourable Class Ruling will be provided. Treyo will continue to keep Shareholders informed of any material developments. See sections 8.9 and 8.10 of this Explanatory Memorandum, for further information.

### 2. Role of Independent Directors

The role of the Independent Directors is to consider the merits of the Capital Reduction and make a recommendation to Exiting Shareholders, oversee the Capital Reduction process and be satisfied that Shareholders are provided with sufficient information to make an informed decision on the Resolutions.

As part of this process, the Independent Directors appointed Grant Thornton Corporate Finance Pty Limited (**Independent Expert**) to prepare an Independent Expert's Report that considered whether the Capital Reduction is fair and reasonable to the Exiting Shareholders. The Independent Expert has concluded that the Capital Reduction is not fair but reasonable to the Exiting Shareholders. Despite it not being fair, the Independent Expert concluded that it is reasonable given there are sufficient reasons for the Exiting Shareholders to accept the offer in the absence of any higher or alternative offer. Also, this is the best possible transaction for the Exiting Shareholders based on the current market conditions. The Independent Expert's Report is included in full in section 9 of this Explanatory Memorandum and should be read by Shareholders in its entirety.

The Independent Directors have also engaged Norton Rose Fulbright to prepare a Taxation Report for Exiting Shareholders in relation to the Capital Reduction. This Taxation Report, which highlights some of the key taxation issues, is included in full in section 10 of this Explanatory Memorandum and should be read by Shareholders in its entirety.

### 3. Recommendation of the Independent Directors

The purpose of this letter is to confirm to you that your Independent Directors unanimously recommend that Exiting Shareholders vote **IN FAVOUR OF** the Special Meeting Resolution at the Special Meeting (and **DO NOT VOTE AGAINST** the General Meeting Resolution at the General Meeting). We believe the Capital Reduction provides an effective means by which you may realise the value of your investment in Treyo in the absence of a superior offer.

#### 4. Independent Directors' Interests

One of the Independent Directors, Mr Roger Smeed has a beneficial interest in 100,000 Shares (0.03% of the total number of Shares) held by Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust). Another Independent Director, Mr Edward Byrt has a beneficial interest in 100,000 Shares (0.03% of the total number of Shares) held by Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund).

Accordingly, both Roger Smeed and Associates Pty Ltd Ltd (as trustee for RF Investment Trust) and Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) are Exiting Shareholders and will each receive a consideration of approximately \$13,000 for the Shares they hold, if the Capital Reduction is implemented.

Despite Mr Smeed's and Mr Byrt's interest in the outcome of the Resolutions, they have advised the directors of Treyo that the aggregate of this interest is not a material personal interest and, in respect of the Shares, is an interest shared in common with the other Exiting Shareholders. The directors of Treyo have accepted both Mr Smeed's and Mr Byrt's advice and consider their interest does not affect their independence in respect of the Capital Reduction. Accordingly, the other Independent Director, Mr Yu considers that it is appropriate that Mr Smeed and Mr Byrt remain as Independent Directors who make a recommendation to Shareholders in respect of the Resolutions.

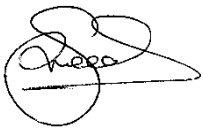
Both Mr Smeed and Mr Byrt through Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) and Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) respectively intend to vote in favour of the Special Meeting Resolution, and not to vote at all on the General Meeting Resolution.

#### 5. Voting Instructions

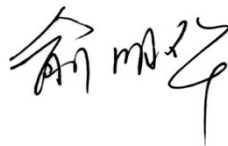
Voting instructions for the Meetings are contained in section 7 of this Explanatory Memorandum and personalised proxy forms are enclosed. Your vote is important and we encourage you to vote at the Special Meeting either in person or by proxy. If you are unsure as to how to vote, we recommend that you consult your professional adviser.

We look forward to your participation at the Special Meeting on Monday, 16 November 2015.


Yours faithfully



**Roger Smeed**  
Independent Non-Executive  
Deputy Chairman



**Minghua Yu**  
Independent Non-Executive  
Director



**Edward Byrt**  
Independent Non-Executive  
Director

*Note: This letter contains general information only, and has been prepared without taking account of the objectives, financial situation or needs of any particular person. Accordingly, before acting on any information in this letter, you should consider the appropriateness of the information for your objectives, financial situation and needs and consult a professional adviser where necessary. Treyo is not licensed to provide financial product advice.*

### 3 Executive Chairman's Letter

13 October 2015

Dear Shareholders

Treyo has received a proposal from its Controlling Shareholders to undertake a Capital Reduction involving the cancellation of all Shares held by the Exiting Shareholders. Two of the Controlling Shareholders, Balatina Group Limited and Laury Commercial Inc. are companies I control and with which I am associated. Mr Guohua Wei, who is Treyo's Executive Director, controls and is associated with one of the Controlling Shareholders, Matoury Overseas Corp. In addition, Mr Zhongliang Zheng, who is also Treyo's Executive Director, is associated with one of the Controlling Shareholders, Yerigton Assets Inc.

The Capital Reduction proposed is subject to Shareholder approval of the Resolutions being obtained at Meetings to be held on Monday, 16 November 2015. Each of the Resolutions are special resolutions and Treyo will not proceed with the Capital Reduction unless both Resolutions are passed by the required 75% majority. The Explanatory Memorandum (including both Notices of Meeting) accompanies this letter.

Under the Capital Reduction, Treyo will pay approximately A\$6.63 million (in aggregate) to the Exiting Shareholders as consideration for the cancellation of their Shares. The Capital Reduction will be funded from Treyo's cash reserves.

Shareholders who have their Shares cancelled will receive A\$0.13 for each Share, comprising for tax purposes a capital component and a dividend component. It is expected that, A\$ 0.11 per Share will constitute a return of capital and A\$ 0.02 per Share will constitute a dividend. See sections 8.9 and 8.10 for further information.

If the Capital Reduction is approved and implemented, all of Treyo's Shares will be held by the Controlling Shareholders. The Controlling Shareholders currently hold 260,000,000 Shares. The collective voting power in Treyo held by the Controlling Shareholders is approximately 83.60%.

The Independent Directors commissioned Grant Thornton Corporate Finance Pty Ltd (**Independent Expert**) to prepare an Independent Expert's Report on whether the Capital Reduction is fair and reasonable to the Exiting Shareholders. The Independent Expert has concluded that the Capital Reduction is not fair but reasonable to the Exiting Shareholders. Despite concluding it is not fair, the Independent Expert concluded it is reasonable as there are sufficient reasons and advantages for the Exiting Shareholders to accept the offer in the absence of any higher offer and the fact that it is unlikely that a third party will make a superior proposal in the current circumstances. The Independent Expert's Report is included in full as section 9 of this Explanatory Memorandum.

For the reasons set out in this Explanatory Memorandum and in particular the advantages set out in section 8.2, the Independent Directors have unanimously recommended that Exiting Shareholders vote in favour of the Special Meeting Resolution (and do not vote against the General Meeting Resolution). The Board of Directors has resolved that the Capital Reduction is fair and reasonable to Treyo's Shareholders as a whole.

The Controlling Shareholders have informed Treyo that they will vote in favour of the General Meeting Resolution.

I urge you to consider this document carefully and, if you are in any doubt as to the action you should take, please contact your professional adviser immediately.

Yours faithfully



**Ling (Allan) Mao**  
Executive Chairman



*Note: This letter contains general information only, and has been prepared without taking account of the objectives, financial situation or needs of any particular person. Accordingly, before acting on any information in this letter, you should consider the appropriateness of the information for your objectives, financial situation and needs and consult a professional adviser where necessary. Treyo is not licensed to provide financial product advice.*

## 4 Notice of General Meeting

### Treyo Leisure and Entertainment Limited

ABN 93 131 129 489

(Company)

### Notice of General Meeting to approve reduction of capital

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Notice is hereby given that a general meeting of the Company will be held at Level 15, 485 Bourke Street Melbourne VIC 3000 at 10.00 am on 16 November 2015 (**General Meeting**). Shareholders will be asked at the General Meeting to consider and, if thought fit, approve the resolution below as a special resolution.

Terms used in this Notice of General Meeting have the meaning given to them in section 11.

#### Resolution – Selective Share Capital Reduction

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

*That, subject to the Special Meeting Resolution being passed, Treyo reducing its Share Capital by:*

- (a) *debiting to Treyo's Share Capital account an amount equal to the product of A\$0.11 and the total number of Shares cancelled as provided in paragraph (c) of this resolution;*
- (b) *debiting to an account of Treyo other than its Share Capital account as determined by the directors of Treyo an amount equal to the product of A\$0.02 and the total number of Shares cancelled as provided in paragraph (c) of this resolution;*
- (c) *cancelling all Shares held by Exiting Shareholders as at the Record Time (each as defined in the Explanatory Memorandum accompanying this Notice of Meeting) with effect on and from the Record Time; and*
- (d) *paying each Exiting Shareholder, the sum of A\$ 0.13 for each Share held by the Exiting Shareholder as at the Record Time and cancelled with effect on and from the Record Time as provided in paragraph (c) of this resolution,*

*is approved for the purposes of section 256C(2) of the Corporations Act.*

#### Voting Restrictions

Votes cast in favour of the General Meeting Resolution by Shareholders who are Exiting Shareholders or their associates will be disregarded. However, such Shareholders and their associates may vote against the General Meeting Resolution.

See the information on how to vote at this General Meeting in section 7 of this Explanatory Memorandum.

#### Interdependence of Resolutions

The Capital Reduction will not proceed and the General Meeting Resolution will not take effect unless the Special Meeting Resolution set out in section 5 of this Explanatory Memorandum is also passed by the requisite majority of Exiting Shareholders at the Special Meeting.

**Jo-Anne Dal Santo**

Secretary

Date: 13 October 2015

## 5 Notice of Special Meeting

### Treyo Leisure and Entertainment Limited

ABN 93 131 129 489

(Company)

#### Notice of special meeting

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Notice is hereby given that a meeting of Shareholders other than the Controlling Shareholders will be held at Level 15, 485 Bourke Street Melbourne VIC 3000 on Monday, 16 November 2015 promptly following the conclusion or adjournment of the General Meeting (**Special Meeting**). Shareholders other than the Controlling Shareholders will be asked at the Special Meeting to consider and, if thought fit, approve the resolution below as a special resolution.

Terms used in this Notice of Special Meeting have the meaning given to them in section 11 of this Explanatory Memorandum in which this Notice of Special Meeting is contained.

#### Resolution – Selective Share Capital Reduction

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

*That, subject to the General Meeting Resolution being passed, the selective reduction of Share Capital described in the General Meeting Resolution and involving the cancellation of all Shares held by Exiting Shareholders as at the Record Time (each as defined in the Explanatory Memorandum accompanying this Notice of Meeting) is approved for the purposes of section 256C(2) of the Corporations Act.*

#### Attendance and Voting Restrictions

Please note that this Special Meeting is a meeting of Shareholders other than Controlling Shareholders.

Treyo's Executive Chairman, Mr Ling (Allan) Mao is an associate of two Controlling Shareholders, being Laury Commercial Inc. and Balatina Group Limited. Treyo's Executive Director, Mr Guohua Wei, is an associate of a Controlling Shareholder, Matoury Overseas Corp. Treyo's Executive Director, Mr Zhongliang Zheng, is an associate of a Controlling Shareholder, Yerigton Assets Inc.

The Controlling Shareholders, including the Executive Chairman Mr Ling (Allan) Mao, Mr Guohua Wei and Mr Zhongliang Zheng will not attend or vote at the Special Meeting other than as proxy or representative of one or more Shareholders who are Exiting Shareholders.

See the information on how to vote at this Special Meeting in section 7 of this Explanatory Memorandum.

#### Interdependence of Resolutions

The Capital Reduction will not proceed and the Special Meeting Resolution will not take effect unless the General Meeting Resolution set out in section 4 of this Explanatory Memorandum is also passed by the requisite majority of Shareholders at the General Meeting.

**Jo-Anne Dal Santo**

Secretary

Date: 13 October 2015

## **6 Director's recommendations and voting intentions**

### **6.1 Independent Directors**

For the reasons set out in this Explanatory Memorandum and in particular the advantages set out in section 8.2, the Independent Directors:

- (1) unanimously recommend that:
  - (a) the Exiting Shareholders vote in favour of the Special Meeting Resolution at the Special Meeting; and
  - (b) the Exiting Shareholders do not vote against the General Meeting Resolution at the General Meeting; and
- (2) intend to vote the Shares they control or open proxies they hold in favour of the Resolutions to the extent that they are not excluded from doing so.

As noted in the letter from the Independent Directors and in section 8.11 of this Explanatory Memorandum, Mr Roger Smeed and Mr Edward Byrt have a beneficial interest in Shares held by Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) and Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund). Mr Smeed and Mr Byrt intend to cause Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) and Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) to vote in favour of the Special Meeting Resolution and not to vote at all on the General Meeting Resolution.

### **6.2 Non-Independent Directors**

The Non-Independent Directors intend to vote the Shares they hold in favour of the General Meeting Resolution to the extent that they are not excluded from doing so.

Mr Ling (Allan) Mao, is the executive chairman of Treyo and is associated with Balatina and Laury. Therefore, he makes no recommendation to Shareholders in relation to how they should vote in respect of the Resolutions.

Mr Guohua Wei, as an executive director and the controlling shareholder of Matoury. Therefore, he makes no recommendation to Shareholders in relation to how they should vote in respect of the Resolutions.

Mr Zhongliang Zheng, is an executive director of Treyo and is associated with Yerigton. Therefore, he makes no recommendation to Shareholders in relation to how they should vote in respect of the Resolutions.

Mr Kwong Fat Tse, is a non-executive director of Treyo and does not hold any Shares. He recommends that the Shareholders vote in favour of the Resolutions and the Exiting Shareholders to not vote against the General Meeting Resolution at the General Meeting.

### **6.3 Board of Directors**

The Board of Directors of Treyo has resolved that, having regard in particular to the advantages set out in section 8.2 of this Explanatory Memorandum, the proposed Capital Reduction is fair and reasonable to Treyo's Shareholders as a whole, and that they are satisfied that the proposed Capital Reduction will not materially prejudice Treyo's ability to pay its creditors.

## **7 How to vote**

If you are entitled to vote at the Meetings, you may vote by attending the Meetings in person or by attorney, proxy or, in the case of corporate shareholders, corporate representative. For the purposes of the Meetings, Shareholders will be taken to be persons who are registered holders of the Shares as at 7.00 pm on Saturday, 14 November 2015.

### **7.1 Voting in person or by attorney**

You may vote in person or by attorney. If you wish to vote by attorney you must lodge the power of attorney with the Company or Computershare at least 48 hours prior to the Meetings at the physical or fax addresses specified below (if you have not already done so).

### **7.2 Voting by proxy**

A proxy form accompanies the Notices of Meeting. Please refer to the proxy form for further information on how to vote. Additional proxy forms may be obtained from Treyo or its share registrar, Computershare Investor Services Pty Ltd.

To be valid, the proxy form appointing the proxy and the power of attorney or other authority (if any) under which it is signed or proof of the power or authority to the satisfaction of the directors of Treyo must be lodged, or received by fax, at least 48 hours prior to the Meetings at which the proxy proposes to vote:

- (1) at Computershare Investor Services Pty Limited, GPO Box 242 Melbourne VIC 3001; or
- (2) successfully transmitted by facsimile to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).

Custodian voting is for Intermediary Online subscribers only. Custodians please visit [www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intentions.

### **7.3 Voting by bodies corporate**

A body corporate may appoint an individual as a representative to exercise all or any of the powers of the body corporate may exercise at the Meetings or in the capacity of a Shareholder's proxy. The appointment may be a standing one. Unless otherwise stated in the appointment, the representative may exercise, on the body corporate's behalf, all of the powers that the body corporate could exercise at the Meetings or in voting on the Resolutions.

### **7.4 Attendance and voting restrictions at the General Meeting**

The following will apply:

- (1) All Shareholders including Exiting Shareholders and their associates may attend the General Meeting.
- (2) Shareholders who are Exiting Shareholders and their associate may not vote in favour of the General Meeting Resolution.
- (3) Shareholders who are Exiting Shareholders and their associate may vote against or abstain from voting on the General Meeting Resolution.
- (4) Any votes in favour of the General Meeting Resolution cast by Shareholders who are Exiting Shareholders or their associates will be disregarded. Any votes against the General Meeting Resolution cast by Shareholders who are Exiting Shareholders or their associates will be counted and will not be disregarded.

## 7.5 Attendance and voting restrictions at the Special Meeting

The following will apply:

- (1) Only Shareholders who are Exiting Shareholders may attend the Special Meeting, in person or by attorney, proxy or corporate representative.
- (2) Shareholders who are Exiting Shareholders may vote in favour of or against the Special Meeting Resolution, or may abstain from voting on the Special Meeting Resolution.
- (3) Controlling Shareholders will not attend or vote at the Special Meeting other than as proxy or representative of one or more Shareholders who are Exiting Shareholders.

## **8 Explanatory Information**

### **8.1 Background to the Capital Reduction**

#### **(1) Purpose of the Capital Reduction**

The Capital Reduction involves a selective capital reduction of Treyo. Under the Capital Reduction, all Shares which are not held by the Controlling Shareholders will be cancelled in consideration for the payment of A\$0.13 cash per Share.

The Capital Reduction relates to 51,008,000 Shares (in aggregate), which equates to approximately 16.40% of the total number of Shares. If the Capital Reduction is implemented, the aggregate consideration to be paid to the Exiting Shareholders for the cancellation of their Shares will amount to approximately A\$6,631,040.00. The number of Shares to be cancelled may vary depending on whether the Controlling Shareholders acquire or dispose any Shares prior to the Record Time.

The purpose of the Capital Reduction is to privatise Treyo and provide an efficient means of capital distribution to the Shareholders who are Exiting Shareholders. The Capital Reduction will also provide a mechanism through which the Shareholders who are Exiting Shareholders can realise their investment in Treyo and unlock value.

#### **(2) Details of the Capital Reduction**

The Capital Reduction can only proceed if:

- (a) the General Meeting Resolution is passed at the General Meeting, with no votes being cast in favour of the General Meeting Resolution by the Shareholders who are Exiting Shareholders or their associates (although such Shareholders may vote against the General Meeting Resolution); and
- (b) the Special Meeting Resolution is passed at the Special Meeting by the requisite majority of Shareholders who are Exiting Shareholders.

Both Resolutions are special resolutions, which must be passed by at least 75% of the votes cast by Shareholders entitled to vote on the Resolutions.

If the Capital Reduction is approved, the following will occur:

- (a) Treyo will implement the Capital Reduction without any further input from the Exiting Shareholders;
- (b) all of the Shares of the Exiting Shareholders will be cancelled with effect on and from 7.00 pm (Melbourne time) on or around Thursday, 10 December 2015;
- (c) on or around Thursday, 10 December 2015, Treyo will pay to each Exiting Shareholder A\$0.13 for each Share held; and
- (d) the Controlling Shareholders will become the only Shareholders in Treyo.

#### **(3) Implications of not proceeding with the Capital Reduction**

If the Capital Reduction is not approved, Treyo will continue to conduct its business in a manner broadly similar to that pursued over the last 12 months.

If the Capital Reduction is not implemented, the consideration of A\$0.13 per Share will not be paid to the Exiting Shareholders and the Shares held by the Exiting Shareholders will not be cancelled.

The potential advantages of the Capital Reduction being implemented are set out in section 8.2 of this Explanatory Memorandum. The possible disadvantages of its implementation are set out in section 8.3 of this Explanatory Memorandum.

## 8.2 Potential advantages of the implementation of the Capital Reduction

The following are reasons why it may be considered advantageous to the Shareholders as a whole and to the Exiting Shareholders if the Capital Reduction is implemented:

### (1) Shareholders will receive a premium for to the trading price of Shares

The Capital Reduction will have the effect of returning A\$0.13 per Share to the Exiting Shareholders. The consideration offered represents a premium over the VWAP of Shares over the one day, one month and three months periods to 12 October 2015. This is shown in the table below.

VWAP Period (to 12 October 2015)	VWAP	Premium of Capital Reduction consideration to VWAP
1 day	\$0.11	18%
1 month	\$0.11	18%
3 months	\$0.11	18%

The Capital Reduction provides the Exiting Shareholders with an opportunity to divest their Shares at a premium to recent trading prices and at a price that is unlikely to be available to the Exiting Shareholders in the absence of an alternative proposal.

Further information regarding the Share price and trading volume history is set out in section 8.10(2) of this Explanatory Memorandum and in section 4.4.2 of the Independent Expert's Report (see section 9 of this Explanatory Memorandum).

For further information regarding the Independent Expert's conclusions on its assessment, see section 9 of this Explanatory Memorandum.

### (2) Relatively low liquidity of the Shares

The majority of the Shares (83.6%) are held by the Controlling Shareholders. Practically, given the Controlling Shareholders do not normally engage in the trading of their Shares, only Shares held by the remaining Shareholders are available to be traded. Also, approximately 90% of the Exiting Shareholders are located in China. These Exiting Shareholders have no experience in investing in the Australian share market and have very limited access to dealings on the ASX. It is also difficult for Treyo to attract new investors in Australia due to cultural difference and limited market exposure of mahjong in Australia.

As a result of these factors, there is a limited free float of the Shares and market liquidity is relatively low. Low levels of liquidity may constrain Shareholders' ability to acquire and dispose their Shares.

### (3) Highly competitive market and low profitability

As stated in Treyo's 2014 Annual Report, Treyo has been presented with several market challenges. Despite China's rapid economic growth over the last few years, the Chinese Government has forecast a slight slowing of growth to around 7% for 2015. As a result, there is a slight tightening of the consumer market in China.

In addition, the Chinese Government has implemented a significant campaign against corruption and extravagant spending which has had a material adverse impact on Treyo's target market, being the high-end entertainment and food services industry in China. The campaign includes a prohibition on



officials, civil servants and state-owned enterprises staff from entering high-end entertainment venues and clubs. The campaign is expected to continue to depress the market through to at least 2017.

Treyo is constantly subject to high levels of competition from other providers of automated mahjong tables in the form of reduced pricing and imitation products. This has forced Treyo to invest more heavily in research and development, which is translated into higher distribution and selling costs. In the 2014 financial year, Treyo realised an after tax profit of A\$4,961,723, which is a 5% decrease from the previous year's after tax profit of A\$5,228,134. Treyo forecasts its sales revenue to continue to decrease in the near future and is looking to reposition itself in the market to accommodate the changing market as well as consumer demand.

Therefore, given current market conditions, the Capital Reduction may be seen as an attractive opportunity for Exiting Shareholders to realise their investment.

**(4) An opportunity for Exiting Shareholders to realise the value of their investment and avoid the risks of an ongoing investment in Treyo**

For the reasons set out in section 8.2(3) above, Treyo's primary business of manufacturing and selling automated mahjong tables is facing significant challenges and continuing to hold Shares in Treyo may be regarded as risky.

In addition, Treyo has a significant investment in a Chinese partnership, Shangzuo Asset Management Centre (Limited Partnership) (**Partnership**) with a professional investment advisor, Shenzhen Shangzuo Investment Management Co Ltd (**Manager**). Treyo contributed an initial principal of RMB 198 million (approximately A\$41.5 million) to the Partnership upon its inception in 2013 and holds a 99% interest in the Partnership's contributed equity. The activities of the Partnership have a higher risk profile than Treyo's core business of the manufacture and sale of automated mahjong tables, mostly due to the terms of the Partnership, the broadness of the investment mandate to the Manager and the limited control that Treyo is able to exercise over the Manager.

The Capital Reduction provides the Exiting Shareholders an opportunity to realise their investment in Treyo and eliminate the risk attached to continuing to hold an investment in Treyo.

**(5) Ability to sell non-marketable parcels**

Most of Treyo's Shareholders have held their Shares since the IPO in 2008/2009 and have been unable to sell their Shares at a reasonable price. The Capital Reduction will provide an efficient means for the Exiting Shareholders to realise their investment in Treyo, especially for Exiting Shareholders that hold small parcels of Shares which are non-marketable parcels on the ASX, at a price that is reasonable having regard to current market conditions and the absence of any alternative offers.

**(6) Ability to sell larger parcels of Shares**

Given the low liquidity of the Shares, any attempt to sell a large parcel of Shares would likely to result in a substantial reduction in Treyo's trading price. The Capital Reduction will allow Exiting Shareholders with larger parcels of Shares realise their investment at a price that is known with certainty.

**(7) No brokerage costs associate with the Capital Reduction**

As the Capital Reduction involves the cancellation of the Shares held by the Exiting Shareholders rather than the sale of those Shares, the Exiting Shareholders will have the opportunity to dispose their Shares without incurring brokerage fees.

**(8) The unlikelihood of an alternative transaction emerging in respect of the Exiting Shareholders' Shares**

It is considered unlikely that a third party will make a higher offer for, or a superior proposal in respect of, the Shares held by the Exiting Shareholders. The Controlling Shareholders' interest of

approximately 83.6% in Treyo and the relative illiquidity of the Shares should be taken into consideration. Alternatively, the Exiting Shareholders could dispose their Shares on market, however, this would likely result in the realisation of a lower price than Capital Reduction due to the low liquidity of the Shares. Therefore, the Capital Reduction represents the best possible transaction for the Exiting Shareholders based on the current market conditions.

(9) **The costs of being ASX-listed are impacting on Shareholder value without sufficient corresponding benefits for Shareholders**

One of Treyo's key objectives in listing on the ASX was to obtain access to the Australian equity and debt capital markets. In practice, this access has been limited. Further, any such access in the foreseeable future is likely to be limited.

The cost of being an ASX-listed company and complying with both the ASX Listing Rules and the sections of the Corporations Act that pertain to listed companies and disclosing entities are substantial. Such costs are difficult to justify in circumstances where access to Australian capital markets is limited. These costs will no longer be incurred if Treyo is privatised and is no longer listed on the ASX.

### **8.3 Possible disadvantages of the implementation of the Capital Reduction**

The following are reasons why it will not be advantageous to Shareholders as a whole and to the Exiting Shareholders if the Capital Reduction is implemented:

(1) **Foregoing the opportunity to consider a better offer in the future**

If the Capital Reduction is approved, the Exiting Shareholders will not be able to consider any potentially superior offer or proposal that might emerge in the future.

However, the Independent Directors note that, in light of the Controlling Shareholders' interest of approximately 83.6% in Treyo and the relatively low liquidity in the trading of the Shares, they consider it is unlikely that a third party will make a higher offer or put forward an alternative proposal for the Shares held by the Exiting Shareholders in the short term. As at the date of this Explanatory Memorandum, the directors of Treyo have not received any alternative offers or proposals for Treyo. In addition, the Controlling Shareholders have informed Treyo that they have no current intention to dispose their Shares.

(2) **Exiting Shareholders will forgo any opportunity to participate and benefit from any potential upside in Treyo**

If the Capital Reduction is implemented, the Exiting Shareholders will no longer have exposure to any potential benefits associated with holding an investment in Treyo. Treyo is planning to reposition its brand and diversifying its product offering through the development of ancillary products as well as repositioning itself to the lower end of the range of mahjong tables to regain market share.

However, there are also risks and uncertainties involved in continuing to hold Shares, including exposure to Chinese Government policies and regulations, share market conditions as well as Treyo's ongoing business risks such as exiting cost pressures and high level of competition. The Independent Directors note the possible disadvantages to Shareholders if the Capital Reduction is implemented and consider the potential advantages to Shareholders if the Capital Reduction is implemented outweighs any possible disadvantages. This is an important factor in the Independent Directors' unanimous recommendation that Shareholders vote in favour of the Resolutions (and do not vote against the General Meeting Resolution) so that the Capital Reduction may be implemented.

### **8.4 Entitlement to participate in the Capital Reduction**

If the Resolutions are passed, all Shareholders other than the Controlling Shareholders at the Record Time, will be paid A\$0.13 for each Share held as at that time and each of those Shares will be cancelled effective from that time.

### **8.5 Shareholder approval process**

(1) **Process under the Corporations Act**

Under sections 256B and 265C of the Corporations Act, Treyo may only implement the Capital Reduction if:

- (a) the Capital Reduction is fair and reasonable to Shareholders as a whole;
- (b) the Capital Reduction does not materially prejudice Treyo's ability to pay its creditors; and
- (c) Treyo obtains Shareholder approval by way of special resolution at the General Meeting and the Special Meeting. Two separate meetings will be held successively, one promptly following the conclusion or adjournment of the other. This is required because the Capital Reduction involves both a selective capital reduction and the cancellation of Shares.

Both Meetings will be held on Monday, 16 November 2015 at Level 15, 485 Bourke Street Melbourne VIC 3000. The General Meeting will commence at 10.00 am (Melbourne time) with the Special Meeting to commence promptly after the conclusion or adjournment of the business of the General Meeting.

(2) **Requirements of Meetings**

The relevant details and requirements of each Meeting are described below:

(a) **General Meeting**

Entitlement to vote

At the General Meeting (which will be held prior to the Special Meeting), all Shareholders may cast a vote on the General Meeting Resolution, which relates to the proposal to implement the Capital Reduction.

Requirements to pass General Meeting Resolution

The General Meeting Resolution must be approved by the requisite majority of Shareholders. Given it is a special resolution, it must be approved by at least 75% of the votes cast on the General Meeting Resolution (either in person or by proxy or representative).

Voting restrictions

Under the Corporations Act, any votes cast in favour of the General Meeting Resolution by the Shareholders who are Exiting Shareholders and their associates will not be taken into account as Exiting Shareholders will receive consideration under the Capital Reduction. However, votes cast against the General Meeting Resolution by the Exiting Shareholders and their associates will be taken into account.

The Controlling Shareholders currently hold 260,000,000 Shares. The Controlling Shareholders have informed Treyo that they will vote their Shares in favour of the General Meeting Resolution.

(b) **Special Meeting**

Entitlement to vote

At the Special Meeting, only the Shareholders who are Exiting Shareholders may vote on the Capital Reduction because their Shares will be cancelled if the Capital Reduction is implemented. All votes cast by the Exiting Shareholders at the Special Meeting will be counted in this vote (regardless of whether it is for or against the Special Meeting Resolution).

Requirements to pass the Special Meeting Resolution

Given it is a special resolution, the Special Meeting Resolution must be approved by at least 75% of the votes cast on the Special Meeting Resolution (either in person or by proxy or representative).

Voting restrictions

The Controlling Shareholders and their associates may not attend or vote at the Special Meeting (other than as a proxy or representative of one of more Exiting Shareholders).

## 8.6 Amount of Share Capital to be returned

As at the date of this Explanatory Memorandum, Treyo has 311,008,000 Shares on issue. The number of Shares held by the Controlling Shareholders is 260,000,000 Shares, which is approximately 83.60% of the total number of Shares. As at the date of this Explanatory Memorandum, Exiting Shareholders hold 51,008,000 Shares, which is approximately 16.40% of the total number of Shares.

Based on the assumption that all the Exiting Shareholders hold the same number of Shares on the Record Date, the Share Capital will be reduced by a total of AUD\$6,631,040 representing A\$ 0.13 per Share for each of the 51,008,000 Shares held by the Exiting Shareholders.

## 8.7 Funding of Consideration

The payment of consideration by Treyo to the Exiting Shareholders pursuant to the Capital Reduction will be funded from Treyo's cash reserves.

## 8.8 Effect on control of Treyo

Treyo is already controlled by its majority shareholder, Matoury (57.68%). If the Capital Reduction is implemented, there will be no impact on control. The only remaining shareholders in Treyo will be the Controlling Shareholders.

## 8.9 Tax implications

Information in this section 8.9 and the Taxation Report in section 10 of this Explanatory Memorandum is based on the taxation law and practice in effect as at the date of this Explanatory Memorandum. Neither this section 8.9 nor the Taxation Report in section 10 is intended to be an authoritative or complete statement or analysis of the taxation laws applicable to the particular circumstances of every Shareholder.

It is important that Exiting Shareholders seek their own independent taxation advice, specific to their own circumstances, to determine their own tax implications resulting from the proposed Capital Reduction. The summary of the tax implications outlined in this section should not be substituted for a complete taxation advice.

The consideration for the cancellation of Shares held by Exiting Shareholders will be a cancellation payment of A\$0.13 per Share (**Cancellation Payment**). Of that amount, it is expected that, for tax purposes:

- \$0.02 per Share will be treated as a dividend (**Dividend Component**); and
- the balance of \$0.11 will be treated as a capital receipt (**Capital Component**).

The expected split between the Dividend Component and the Capital Component is based on assumptions that are set out in detail in the Taxation Report.

Set out below is a summary of the expected tax treatment of the Cancellation Payment for Exiting Shareholders who hold their Shares on capital account only. It is provided on the basis of certain background facts and assumptions which are set out in the Taxation Report at section 10 of this Explanatory Memorandum.

Exiting Shareholders who hold their Shares on revenue account (for example, Exiting Shareholders who are engaged in the business of trading or investment, who are banks and insurance companies, or who acquired their Shares for the purpose of resale at a profit) will be subject to different tax consequences.

A fuller discussion of the tax consequences of the Capital Reduction for Exiting Shareholders (including those who hold their Shares on revenue account) is provided in the Taxation Report at section 10 of this Explanatory Memorandum.

**(1) Treatment of Dividend Component**

The Dividend Component received by each Exiting Shareholder will be treated for tax purposes as a dividend. The Company intends that the Dividend Component will be unfranked, and also intends to declare the Dividend Component to be conduit foreign income on the distribution statement accompanying the Cancellation Payment.

Australian resident Exiting Shareholders should include the Dividend Component in their assessable income.

Non-Australian resident Exiting Shareholders should not be subject to Australian income tax in respect of the Dividend Component (either by assessment or by way of withholding tax), on the basis that it will be conduit foreign income for purposes of the Tax Act.

**(2) Treatment of Capital Component**

Australian resident Exiting Shareholders who hold their Shares on capital account should:

- (a) derive a capital gain where the Capital Component exceeds their cost base;
- (b) incur a capital loss where the Cancellation Payment is less than their reduced cost base; or
- (c) in any other situation, have nil capital gain or loss.

A capital loss can only be offset against a capital gain, but can be carried forward to later income years, subject to satisfaction of the loss recoupment rules.

Australian resident Exiting Shareholders who are individuals, trusts or complying superannuation funds, and who have held their Shares for at least 12 months before the cancellation date, may be entitled to discount any capital gain they derive in respect of the Capital Reduction. The discount percentage is 50% for individuals and trusts, and 33.33% for complying superannuation funds.

Non-Australian resident Exiting Shareholders who hold their Shares on capital account will not be subject to Australian tax (or be entitled to any Australian tax losses) on the Capital Component on the basis that their Shares are not taxable Australian property under the Tax Act. It should be the case that Shares are not taxable Australian property, provided that the Exiting Shareholder:

- (a) has not used their Shares at any time in carrying on a business through a permanent establishment in Australia; and
- (b) has not previously been an Australian resident and chosen to disregard a capital gain or capital loss arising in respect of their Shares on ceasing to be a resident.

## 8.10 Treyo

### (1) Overview of Treyo

Treyo was listed on the ASX on 2 January 2009. It is the parent company of Treyo International Holdings (HK) Ltd (**Treyo HK**), a company incorporated in Hong Kong. Treyo HK is the intermediate parent entity of Matsuoka Mechatronics (China) Co., Limited (**Matsuoka**), a wholly foreign-owned limited liability company incorporated in the People’s Republic of China. Matsuoka is an industry leader and designs, manufactures and markets automatic mahjong tables under the “Treyo” trademark. Due to continued research and development activity, it has grown rapidly to become the largest automatic mahjong table manufacturer in the world and currently holds approximately 70% of the premium market for automated mahjong tables.

The Controlling Shareholders are the registered holders of 260,000,000 Shares, representing approximately 83.6% of the total number of Shares. See section 8.11 for information on the Controlling Shareholders.

### (2) Treyo’s Share price and trading history

The diagram below provides a general indication of the historical trading price of Shares and the trading volume of Shares from Treyo’s admission to the official list of ASX in January 2009 to 9 October 2015, being the last day on which Shares traded on ASX before the announcement of the Capital Reduction.

Further information regarding the Share price and trading history is included in section 4.4.2 of the Independent Expert’s Report (see section 9 of this Explanatory Memorandum).

**Diagram 1: Treyo’s share price and trading activity: January 2009 to 9 October 2015**



(3) **Treyo's financial performance – for the year ended 31 December 2014**

Treyo's consolidated statement of financial performance for the year ended 31 December 2014 is set out below:

	2014 (\$)	2013 (\$)
Revenue	70,418,618	76,154,772
Cost of goods sold	(55,386,695)	(58,837,827)
<b>Gross profit</b>	<b>15,031,923</b>	<b>17,316,945</b>
Other income	864,447	1,214,352
Share of Partnership result using the equity method	1,930,975	1,125,393
Distribution and selling expenses	(4,314,403)	(4,165,500)
Administrative expenses	(7,366,239)	(8,483,084)
Finance costs	(184,606)	(348,546)
Profit before income tax	5,962,097	6,659,560
Income tax expense	(1,000,374)	(1,431,426)
<b>Profit For The Year</b>	<b>4,961,723</b>	<b>5,228,134</b>
<b>Other Comprehensive Income for the year, net of tax</b>		
<i>Items that may be classified subsequently to profit or loss:</i>		
Exchange gain differences arising on the translation of foreign operations	5,392,791	9,550,335
<b>Total Comprehensive Income for the year attributable to members</b>	<b>10,354,514</b>	<b>14,778,469</b>
<b>Profit attributable to members of the parent entity</b>	<b>4,961,723</b>	<b>5,228,134</b>
<b>Total comprehensive income attributable to members of the parent entity</b>	<b>10,354,514</b>	<b>14,778,469</b>
<b>Earnings per share (on profit attributable to ordinary equity holders)</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per share (cents per share) on continuing operations	1.60	1.68
Diluted earnings per share (cents per share) on continuing operations	1.60	1.68



(4) **Treyo's statement of financial position – for the year ended 31 December 2014**

	2014 (\$)	2013 (\$)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	30,052,250	24,228,920
Trade and other receivables	1,003,998	687,018
Prepayments and other current assets	1,215,889	1,329,511
Inventories	6,903,782	5,170,096
Held to maturity financial assets	-	9,399,300
<b>TOTAL CURRENT ASSETS</b>	<b>39,175,919</b>	<b>40,814,845</b>
<b>NON CURRENT ASSETS</b>		
Investments accounted for using the equity method	42,953,707	37,730,408
Property, plant and equipment	13,591,302	13,149,546
Intangible assets	126,058	154,269
<b>TOTAL NON-CURRENT ASSETS</b>	<b>56,671,067</b>	<b>51,034,223</b>
<b>TOTAL ASSETS</b>	<b>95,846,986</b>	<b>91,849,068</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payable	19,676,936	20,446,466
Notes payable	5,483,500	5,917,873
Financial liabilities	-	5,529,000
Current tax liabilities	339,835	484,404
<b>TOTAL CURRENT LIABILITIES</b>	<b>25,500,271</b>	<b>32,377,743</b>
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liability	520,876	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>520,876</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>26,021,147</b>	<b>32,377,743</b>
<b>NET ASSETS</b>	<b>69,825,839</b>	<b>59,471,325</b>
<b>EQUITY</b>		
Issued capital	23,302,770	23,302,770
Foreign exchange translation reserve	7,541,534	2,148,743
Statutory general reserve	1,132,522	1,132,522
Retained earnings	37,849,013	32,887,290
<b>TOTAL EQUITY</b>	<b>69,825,839</b>	<b>59,471,325</b>

(5) **Treyo's pro forma statement of financial position**

	<b>Audited 2014 (\$)</b>	<b>Proforma adjustments (\$)</b>	<b>Proforma 2014 (\$)</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	30,052,250	(6,931,040)	23,121,210
Trade and other receivables	1,003,998	-	1,003,998
Prepayments and other current assets	1,215,889	-	1,215,889
Inventories	6,903,782	-	6,903,782
Held to maturity financial assets	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>39,175,919</b>	<b>(6,931,040)</b>	<b>32,244,879</b>
<b>NON CURRENT ASSETS</b>			
Investments accounted for using the equity method	42,953,707	-	42,953,707
Property, plant and equipment	13,591,302	-	13,591,302
Intangible assets	126,058	-	126,058
<b>TOTAL NON-CURRENT ASSETS</b>	<b>56,671,067</b>	<b>-</b>	<b>56,671,067</b>
<b>TOTAL ASSETS</b>	<b>95,846,986</b>	<b>(6,931,040)</b>	<b>88,915,946</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payable	19,676,936	-	19,676,936
Notes payable	5,483,500	-	5,483,500
Financial liabilities	-	-	-
Current tax liabilities	339,835	-	339,835
<b>TOTAL CURRENT LIABILITIES</b>	<b>25,500,271</b>	<b>-</b>	<b>25,500,271</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	520,876	-	520,876
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>520,876</b>	<b>-</b>	<b>520,876</b>
<b>TOTAL LIABILITIES</b>	<b>26,021,147</b>	<b>-</b>	<b>26,021,147</b>
<b>NET ASSETS</b>	<b>69,825,839</b>	<b>(6,931,040)</b>	<b>62,894,799</b>
<b>EQUITY</b>			
Issued capital	23,302,770	(5,610,880)	17,691,890
Foreign exchange translation reserve	7,541,534	-	7,541,534
Statutory general reserve	1,132,522	-	1,132,522
Retained earnings	37,849,013	(1,320,160)	36,528,853
<b>TOTAL EQUITY</b>	<b>69,825,839</b>	<b>(6,931,040)</b>	<b>62,894,799</b>

The following proforma adjustments have been included in the preparation of the proforma statement of financial position:

- The payment of the Selective Reduction in Capital totalling A\$6,631,040. The consideration for the cancellation of Shares held by Exiting Shareholders will be a cancellation payment of A\$0.13 per Share represented by:
  - the Dividend Component A\$0.02 per Share totalling A\$1,020,160; and
  - the Capital Component of A\$0.11 per Share totalling A\$5,610,880.
- The payment of costs associated with the Selective Reduction of Capital inclusive of legal, accounting and compliance fees estimated at approximately A\$300,000.

(6) **Treyo's business outlook**

At the Annual General Meeting of Treyo held in May 2015, Treyo's Executive Chairman stated:

*"As we have previously announced to the market, I advise that the Treyo Group realised an after tax profit of AUD\$5 million for the 2014 financial year. Unfortunately, due to difficult market conditions, this represents a decrease of 5% on the previous year."*

The Executive Chairman also indicated at this Annual General Meeting that sales revenue for the year has decreased by 7.5%. Due to the slow of economic growth in China, the sale of Treyo's automatic mahjong tables is expected to be challenging throughout 2015 until there are positive signs from the consumer market in China. The economic growth and consumer demand in China will continue to have a direct impact on the financial performance and the business outlook of Treyo in 2015.

In particular, Treyo has identified the following factors that may affect its trading conditions in 2015:

- (a) the slowing of growth in China, which has been forecasted to around 7% in 2015;
- (b) the Chinese Government has implemented a significant campaign against corruption and extravagant spending which has had a material adverse impact on Treyo's target market, being the high-end entertainment and food services industry in China. The campaign includes a prohibition on officials, civil servants and state-owned enterprises staff from entering high-end entertainment venues and clubs. The campaign is expected to continue to depress the market through to at least 2017;
- (c) the competitive pressures including price competition and competitors attempting to imitate Treyo's technology in its products; and
- (d) the lack of consumer demand and uprising of alternative substitutes like online mahjong services and games have also increased the competitive pressures on Treyo.

## 8.11 Controlling Shareholders

### (1) Overview of the Controlling Shareholders

The table below shows the shareholding of each Controlling Shareholder as of the date of this Explanatory Memorandum:

Controlling Shareholder	Number of Shares	% of ordinary shares
Matoury	179,400,000	57.68%
Balatina	48,100,000	15.47%
Legheny	16,900,000	5.43%
Yerigton	7,800,000	2.51%
Laury	7,800,000	2.51%
<b>Total</b>	<b>260,000,000</b>	<b>83.6%</b>

Further information on each of the Controlling Shareholders is set out below.

#### (a) Matoury

Matoury is the registered holder of 179,400,000 Shares, representing approximately 57.68% of the total number of Shares. Mr Guohua Wei, Treyo's Executive Director has a beneficiary interest in Matoury.

#### (b) Balatina

Balatina is the registered holder of 48,100,000 Shares, representing approximately 15.47% of the total number of Shares. Mr Ling (Allan) Mao, Treyo's Executive Chairman has a beneficiary interest in Balatina.

#### (c) Legheny

Legheny is the registered holder of 16,900,000 Shares, representing approximately 5.43% of the total number of Shares.

#### (d) Yerigton

Yerigton is the registered holder of 7,800,000 Shares, representing approximately 2.51% of the total number of Shares. Mr Zhongliang Zheng, Treyo's Executive Director has a beneficiary interest in Yerigton.

#### (e) Laury

Laury is the registered holder of 7,800,000 Shares, representing approximately 2.51% of the total number of Shares. Mr Ling (Allan) Mao, Treyo's Executive Chairman has a beneficiary interest in Laury.

### (2) Dealings in Shares

There are no dealings in Shares by Controlling Shareholders since the IPO of Treyo in 2008.

(3) **Controlling Shareholders' intentions**

The Controlling Shareholders have informed Treyo that if the Capital Reduction is approved by the Shareholders and becomes effective, and as a result the Controlling Shareholders own all of the Shares, they will:

- (a) procure that Treyo seeks to be removed from the official list of ASX;
- (b) continue to manage the existing business with current plans and in substantially the same manner in which it has been managed over the last 12 months; and
- (c) procure that Treyo complies with existing and future contractual obligations.

(4) **Controlling Shareholder's voting intentions**

The Controlling Shareholders have informed Treyo that they intend to vote in favour of the General Meeting Resolution at the General Meeting.

The Controlling Shareholders and their associates will not attend or vote at the Special Meeting (other than as proxy or representative of one or more Exiting Shareholders).

## 8.12 Independent Expert’s Report

The Independent Expert has concluded that the Capital Reduction is not fair but reasonable to the Exiting Shareholders.

Below is a summary of the key aspects of the Independent Expert’s Report set out in section 9 of this Explanatory Memorandum. This summary should not be considered as a substitute for the contents of the Independent Expert’s Report and should be read in its entirety.

The Independent Expert’s opinion that the Capital Reduction is not fair but reasonable to the Exiting Shareholders is based solely on information available at the date of the Independent Expert’s Report.

### Summary

#### (1) Fairness

In accordance with its basis of evaluation of the Capital Reduction (as set out in section 5 of the Independent Expert’s Report), the Independent Expert has assessed whether the Capital Reduction is fair to the Exiting Shareholders with reference to the comparison of the consideration of A\$0.13 per Share to the Independent Expert’s assessed value of a Share.

The results of the Independent Expert’s analysis are summarised in the table below:

	LOW	HIGH
Independent Expert’s valuation per Share	A\$0.1728	A\$0.2274
Capital Reduction consideration	A\$0.1300	A\$0.1300

As illustrated in the table above, the consideration in respect of the Capital Reduction is lower than the Independent Expert’s assessed lowest value per Share of A\$0.1728 and lower than the assessed highest value of a Share of A\$0.2274. On this basis, the Independent Expert considers that the Capital Reduction is not fair to the Exiting Shareholders.

However, despite the Independent Expert’s assessment that the Capital Reduction is not fair, it considered it to be reasonable as there are sufficient reasons for the Exiting Shareholders to accept the offer in the absence of any alternative or superior proposal. The Independent Expert has taken into consideration various factors to conclude the Capital Reduction is reasonable and this is described further in the paragraph below.

#### (2) Reasonableness

The table below summarises the Independent Expert’s analysis of the advantages and disadvantages of the Capital Reduction.

ADVANTAGES	DISADVANTAGES
Premium over trading price	Comparison with fair market value
Reduced exposure to Treyo’s ongoing risk	Controlling Shareholders will benefit
Lack of liquidity of Treyo’s Shares	Forego opportunity to participate in an alternative transaction
Opportunity for Minority Shareholders seeking to realise their investment in Treyo to do so via an off-	

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market transaction

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The Independent Expert also considered that the Capital Reduction is the best possible transaction for Exiting Shareholders by taking into consideration the Controlling Shareholders current shareholding of 83.6% and the low liquidity of Treyo's Shares. It is unlikely that a superior offer will emerge given the current stake of the Controlling Shareholders. Alternatively, the Exiting Shareholders can consider disposing their Shares on market. However, the lack of liquidity of the Shares would likely result in the realisation of a lower price than the Capital Reduction.

In the opinion of the Independent Expert, the advantages of the Capital Reduction outweigh the disadvantages. Therefore, the Independent Expert considers that the Capital Reduction is reasonable to the Exiting Shareholders.

Please refer to section 9 of this Explanatory Memorandum for a full copy of the Independent Expert's Report.

### **8.13 Compliance with sections 256B and 256C of the Corporations Act**

#### **(1) Section 256B of the Corporations Act**

Section 256B of the Corporations Act states that Treyo may reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- (a) is fair and reasonable to the Shareholders as a whole;
- (b) does not materially prejudice Treyo's ability to pay its creditors; and
- (c) is approved by Shareholders under section 256C of the Corporations Act.

As stated in the Independent Expert's Report in section 9 of this Explanatory Memorandum, the Independent Expert has concluded that the Capital Reduction is not fair but reasonable to the Exiting Shareholders. The Independent Expert also concluded that the Capital Reduction is not detrimental for Treyo's creditors and will not impact its ability to repay its liabilities as and when they fall due.

The Board of Directors of Treyo have resolved that, having regard in particular to the advantages set out in section 8.2 of this Explanatory Memorandum, that the proposed Capital Reduction is fair and reasonable to Treyo's Shareholders as a whole, and that they are satisfied that the proposed Capital Reduction will not materially prejudice Treyo's ability to pay its creditors.

#### **(2) Sections 256B and 256C of the Corporations Act**

The Capital Reduction will be approved for the purposes of sections 256B and 256C of the Corporations Act if the Resolutions are passed accordingly in the Meetings (as provided in sections 4 and 5) and in accordance with the Shareholders approval process in section 8.5.

### **8.14 Interdependent Resolutions**

It is important to note that the Capital Reduction will not proceed unless all Resolutions are passed. Therefore, if the Exiting Shareholders intend for the Capital Reduction to proceed, they should:

- (1) vote in favour of the Special Meeting Resolution at the Special Meeting; and
- (2) not vote against the General Meeting Resolution at the General Meeting.

## 8.15 Director's disclosures

### (1) Directors of Treyo

As at the date of this Explanatory Memorandum, the directors of Treyo are:

- (a) Ling (Allan) Mao;
- (b) Roger Smeed;
- (c) Guohua Wei;
- (d) Kwong Fat Tse;
- (e) Zhongliang Zheng;
- (f) Minghua Yu; and
- (g) Edward Byrt.

### (2) Director's Interests

The following table sets out the interests held by or on behalf of each director of Treyo at the date of this Explanatory Memorandum:

Director	Ordinary Shares	% of total number of Shares
Ling (Allan) Mao	55,900,000 <sup>1</sup>	17.97%
Roger Smeed	100,000 <sup>2</sup>	0.03%
Guohua Wei	179,400,000 <sup>3</sup>	57.68%
Kwong Fat Tse	Nil	Nil
Zhongliang Zheng	7,800,000 <sup>4</sup>	2.51%
Minghua Yu	Nil	Nil
Edward Byrt	100,000 <sup>5</sup>	0.03%

<sup>1</sup> Mr Ling (Allan) Mao has a beneficial interest in Laury and Balatina.

<sup>2</sup> Mr Roger Smeed has a beneficial interest in Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust).

<sup>3</sup> Mr Guohua Wei has a beneficial interest in Matoury.

<sup>4</sup> Mr Zhongliang Zhang has a beneficial interest in Yerigton.

<sup>5</sup> Mr Edward Byrt has a beneficial interest in Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund).



## **9 Independent Expert's Report**



Grant Thornton

An instinct for growth™

# Treyo Leisure and Entertainment Limited

Independent Expert's Report and Financial Services Guide

12 October 2015



# Grant Thornton

An instinct for growth™

The Independent Directors  
Treyo Leisure and Entertainment Limited  
Level 2  
371 Spencer Street  
Melbourne VIC 3000

12 October 2015

**Grant Thornton Corporate Finance Pty Ltd**

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Dear Independent Directors

## Independent Expert's Report and Financial Services Guide

### Introduction

Treyo Leisure and Entertainment Limited ("TYO", "Treyo" or "the Company") is the parent company of Matsuoka Mechatronics (China) Co. Limited ("Matsuoka"), which is mainly engaged in the manufacture of automatic mah-jong machines<sup>1</sup>. TYO is listed on the Australian Securities Exchange ("ASX") and had a market capitalisation of approximately A\$34.2 million as at 12 October 2015.

Treyo has received a proposal from its Controlling Shareholders<sup>2</sup> to undertake a selective capital reduction ("Selective Capital Reduction") involving the cancellation of all Shares held by the minority shareholders of TYO not associated with the Controlling Shareholders ("Minority or Exiting Shareholders"). The Minority Shareholders hold 16.4% (ie 51,008,000 TYO Shares) of the equity interest in TYO.

Under the terms of the Selective Capital Reduction, Minority Shareholders will receive a fixed cash consideration of A\$0.13 per share ("Consideration"), which represents an 18% premium to the closing price of TYO of A\$0.11 as at 12 October 2015.

If the Selective Capital Reduction is completed:

- Total funds of approximately \$6.63 million will be drawn down from existing cash balances to pay for the Selective Capital Reduction<sup>3</sup>; and

<sup>1</sup> We note mah-jong is a traditional Chinese game played with 144 suited domino-like pieces (tiles) and dice, having the object of building a winning combination of pieces. Auto-mated mah-jong tables mainly assist in the automatic sorting and distribution of the tiles for playing mah-jong. For further information, refer to Section 3 (Industry overview) and Section 4 (Company overview).

<sup>2</sup> Include Matoury Overseas Corp, Balantina Group Limited, Legehny Group Limited, Laury Commercial Inc and Yerigton Assets Inc. ("Controlling Shareholders") collectively hold 83.6% (ie 260 million TYO Shares).

<sup>3</sup> Transaction costs of circa \$300,000 will be funded from TYO cash reserves.



- The shares bought back from the Minority Shareholders will be cancelled, resulting in a reduction of the total number of outstanding shares in TYO of 51,008,000 shares<sup>4</sup> (from 311,008,000 to 260,000,000).
- TYO will proceed to be delisted from the ASX.

**Purpose and scope of the report**

The independent directors of TYO (“Independent Directors”) have requested Grant Thornton Corporate Finance to prepare an independent expert’s report stating, whether in its opinion, the Selective Capital Reduction is fair and reasonable to the Minority Shareholders for the purposes of accompanying a notice of meeting and explanatory memorandum to be sent to the shareholders of the Company pursuant to Sections 256B and 256C of the Corporations Act, 2001 (“Corporations Act”) and Regulatory Guide 111 Content of expert reports (“RG 111”) issued by the Australian Securities and Investments Commission (“ASIC”).

**Summary of opinion**

**Grant Thornton Corporate Finance has concluded that the Selective Capital Reduction is NOT FAIR BUT REASONABLE to the Minority Shareholders.**

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Selective Capital Reduction is fair and reasonable to the Minority Shareholders and other quantitative and qualitative considerations.

***Fairness assessment***

In the assessment of the Selective Capital Reduction, Grant Thornton Corporate Finance has compared the Consideration of A\$0.13 per share (the “Consideration”) with the fair market value of TYO Shares on a control basis before the Selective Capital Reduction.

The following table summarises our fairness assessment:

Valuation Summary (A\$/share)	Reference	Low	High
The Consideration	Section 1	13.00	13.00
Fair Market Value per TYO Share (on control basis)	Section 6	17.26	22.72
<b>Premium/(Discount) to fair market value (A\$/share)</b>		<b>(4.26)</b>	<b>(9.72)</b>

As illustrated in the table above, the Consideration per share is below our assessed valuation range of TYO Shares on a controlling basis. Accordingly, consistently with the requirement of RG 111, we have concluded that the price per share offered for the Selective Capital Reduction is not fair to the Minority Shareholders.

<sup>4</sup> Assuming all the special resolutions for the Capital Reduction are approved



### ***Reasonableness assessment***

ASIC Regulatory Guide RG 111 “Content of expert reports” establishes that an offer is reasonable if it is fair. Despite an offer not being fair, it may be reasonable if there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the offer closes. In assessing the reasonableness of the Selective Capital Reduction, we have considered the following advantages, disadvantages and other factors.

### **Advantages**

#### *Ability to immediately realise TYO Shares and certainty of the cash consideration*

The Selective Capital Reduction represents an opportunity for the Minority Shareholders to immediately exit their investment in TYO free of any realisation costs and at a premium to the current quoted price of TYO Shares<sup>5</sup>.

In particular, we note that TYO Shares are illiquid with more than 80% of the issued capital held by the Controlling Shareholders. Less than 1% of the total issued capital of the Company has been traded over the last year. If the Selective Capital Reduction is implemented, it will provide an opportunity for the Minority Shareholders to exit an illiquid investment at a price that it is unlikely to be available to the Minority Shareholders in the absence of the Selective Capital Reduction.

#### *Remove exposure to the Company’s on-going risk*

The Company’s main business operations through its subsidiary is the manufacture of mahjong tables, the performance of which has declined over the last two years and whose outlook, at least in the short term, is not expected to improve given the challenges it faces. The Selective Capital Reduction provides an opportunity for the Minority Shareholders to realise their investment and eliminate the perceived increasing risk attached to continuing to hold an investment in TYO.

In addition, in our opinion the activities of the Partnership<sup>6</sup> arguably present a higher risk profile than the business of the manufacturing and sale of automated mahjong tables, mostly due to the terms of the Partnership, the broadness of the investment’s mandate to the manager and the limited control that TYO is able to exercise over the Manager.

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<sup>5</sup> The Consideration of A\$0.13 cash per TYO Share represents a premium to the prevailing trading prices at the date of our report of 18% to the closing price of TYO Shares of A\$0.11 on 12 October 2015. In addition, the Consideration also represents a premium of 18% to TYO’s VWAP for the last three months. However, TYO Shareholders should treat this premium with caution given that there has been nil trading of TYO Shares over the last three months.

<sup>6</sup> The Company also has a significant investment in a Chinese partnership, Shangzuo Asset Management Centre [Limited Partnership] (the “Partnership”) with professional investment advisor, Shenzhen Shangzuo Investment Management Co Ltd (the “Manager”) based in Shenzhen, Guangdong Province China. TYO contributed RMB 198 million (“Initial Principal”) equivalent to approximately A\$41.5 million to the Partnership upon inception in 2013 giving it a 99% interest in the Partnership’s contributed equity. The Manager holds the remaining 1% interest.



*Opportunity for Minority Shareholders seeking to realise their investment in TYO to do so via an off-market transaction*

As the Selective Capital Reduction involves the cancellation of TYO Shares as opposed to a sale of TYO Shares, the Minority Shareholders will not incur any brokerage fees that they might otherwise incur if they were selling their shares by other means.

### **Disadvantages**

*Comparison with fair market value*

The Consideration of A\$0.13 per TYO Share is below our assessed valuation range.

*Controlling Shareholders benefit*

In our opinion, the implementation of the Selective Capital Reduction may bring substantial benefits with limited downside risks for the Controlling Shareholders due to the following:

- The Selective Capital Reduction will be funded with existing cash resources, including transaction costs.
- Following completion of the Selective Capital Reduction, TYO will still hold cash resources of \$20.7 million.
- The Selective Capital Reduction has been timed when the financial performance of the mahjong business is contracting and the Partnership is still in its infancy.
- If the Selective Capital Reduction is completed and the Company is privatised, the Controlling Shareholders should be able to substantially reduce the corporate overheads and accordingly improve the operating performance of the business, all other things being equal.

*Participation in the Selective Capital Reduction will mean that the Minority Shareholders will forgo any opportunity to remain a shareholder and benefit from any potential upside*

Minority Shareholders will no longer have exposure to any potential benefits associated with holding an investment in TYO.

### **Other factors**

*Alternative transactions*

The Independent Directors are of the opinion that the Selective Capital Reduction is likely to represent the best possible option for the Minority Shareholders based on the current market conditions. Alternative methods of disposal could be pursued by the Minority Shareholders including an on-market sell-down of their interest, however due to the low liquidity of TYO Shares, this would likely result in the realisation of a lower price than the Consideration.

Furthermore, we believe that given the Controlling Shareholders current shareholding of 83.6% it is unlikely that a third party proposal will emerge.



An alternative superior option to the Selective Capital Reduction would be for TYO to exit the Partnership and distribute the cash back to the Shareholders. However, the Board of TYO has resolved that due to the associated exit costs and the stable performance of the Partnership to date, TYO would not seek termination of the Partnership in the short term to provide a return to TYO Shareholders as an alternative option to the Selective Capital Reduction. The Controlling Shareholders have also indicated their support for the retention of the investment in the Partnership. Accordingly, whilst a return of capital using the funds from the Partnership would represent a superior alternative option, this is unlikely to be available to the Minority Shareholders particularly with the lack of support from the Controlling Shareholder's.

*No detriment for Creditors of the Company*

In our opinion, the Selective Capital Reduction is not detrimental for the creditors of the Company due to the following:

- The Company will continue to hold significant net cash resources following implementation of the Selective Capital Reduction.
- Management believe that Selective Capital Reduction will not impact TYO's ability to fund its growth plans or repay its liabilities as and when they fall due.
- If the Selective Capital Reduction is completed and TYO is privatised, the corporate costs of the Company should be streamlined which should bring immediate improvements to the financial performance of the Company, all other things being equal.

*Independent Director's recommendation*

As set out in the Notice of Meeting and Explanatory Memorandum, at the date of this report, the Independent Directors of TYO have recommended that Minority Shareholders vote in favour of the Capital Reduction.

*Transaction costs*

Management of TYO estimate that the total costs associated with the Selective Capital Reduction will be approximately \$300,000. We note, however, that these costs are not contingent on the shareholders' approval of the Selective Capital Reduction and should be treated as sunk costs. These costs are one off and are not material to the financial results of the Company.

*Tax consequences*

If the Selective Capital Reduction is approved, Minority Shareholders will receive A\$0.13 in cash comprising a capital component of A\$0.11 per share and a dividend component of A\$0.02 for each TYO Share currently held. Depending upon individual shareholders' taxation position this may give rise to tax consequences at a time that may or may not be advantageous to individual TYO Shareholders. Refer to Section 10 of the Notice of Meeting for further details. TYO Shareholders should seek their own independent taxation advice regarding the taxation consequences of the Selective Capital Reduction.



*Reasonableness conclusion*

Based on the qualitative factors identified above, it is our opinion that the Selective Capital Reduction is **REASONABLE** to the Minority Shareholders.

*Overall Conclusion*

Based on the above, Grant Thornton Corporate Finance has concluded that the Selective Capital Reduction is **NOT FAIR BUT REASONABLE** to the Minority Shareholders.

**Finalisation of the terms to the Selective Capital Reduction**

Grant Thornton Corporate Finance has prepared this Report based on the terms of the Selective Capital Reduction as outlined in the draft Notice of Meeting and Explanatory Memorandum provided by TYO. Should there be a material change to the terms of the Selective Capital Reduction, we reserve the right to revise our assessment of the Selective Capital Reduction.

**Other matters**

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to approve the Selective Capital Reduction is a matter for each TYO Shareholder based on their own views of value of TYO and expectations about future market conditions, TYO performance, risk profile and investment strategy. If TYO Shareholders are in doubt about the action they should take in relation to the Selective Capital Reduction, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN  
Director

PHILLIP RUNDLE  
Director





## **1 Grant Thornton Corporate Finance Pty Ltd**

Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by TYO to provide general financial product advice in the form of an independent expert’s report in relation to the Capital Reduction. This report is included in the Company’s Notice of Meeting and Explanatory Memorandum.

## **2 Financial Services Guide**

This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

## **3 General financial product advice**

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

## **4 Remuneration**

When providing the Report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from TYO a fixed fee of \$30,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

## **5 Independence**

Grant Thornton Corporate Finance is required to be independent of TYO in order to provide this report. The guidelines for independence in the preparation of independent expert’s reports are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments



Commission (“ASIC”). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*“Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with TYO (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the transaction.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance’s out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 “Independence of expert” issued by the ASIC.”*

## **6 Complaints process**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West  
Melbourne, VIC 8007  
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

## **7 Compensation arrangements**

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.



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## **1 Overview of the Selective Capital Reduction**

### **1.1 Background information**

TYO is an Australian public company listed on the ASX. TYO, through its subsidiary, Matsuoka, is a leading manufacturer of automated mahjong tables<sup>7</sup> in the People's Republic of China ("China").

In mid-2015 the Controlling Shareholders of TYO submitted a proposal for TYO to undertake a Selective Capital Reduction and subsequent privatisation of the Company in order to simplify its structure, streamline corporate overheads and to allow Exiting Shareholders to realise value for their TYO Shares at a price higher than the current trading prices of TYO on the ASX. We note that the liquidity of TYO Shares on the ASX is extremely limited.

Under the Selective Capital Reduction, all TYO Shares held by the Exiting Shareholders will be cancelled in return for cash consideration of A\$0.13 cents per share ("the Consideration"), and as a result the Controlling Shareholders will become the only remaining shareholders in TYO. Currently, the Controlling Shareholders collectively hold 260,000,000 TYO Shares which represents approximately 83.6% of the equity interest in TYO.

We further note that out of the Controlling Shareholders; Balatina Group Limited and Laury Commercial Inc. are companies associated with the chairman of TYO, Mr. Ling (Allan) Mao, Matoury Overseas Corp. is associated with the Executive Director of TYO, Mr. Guohua Wei and Yerigton Assets Inc. is associated with Executive Director of TYO, Mr Zhongliang Zheng.

### **1.2 Selective Capital Reduction**

Set out below is a summary of the Selective Capital Reduction:

- The Consideration of A\$0.13 per share will comprise a capital component of A\$0.11 per share and a dividend component of A\$0.02 per share which is subject to an application for a Class Ruling from the Australian Tax Office. Refer to Section 10 of the Notice of Meeting for further details.
- the Selective Capital Reduction will only proceed if the following resolutions are both passed by the relevant TYO Shareholders:
  - The TYO Shareholders approve the Selective Capital Reduction by special resolution (passed by at least 75% of the votes cast) at the General Meeting (Exiting Shareholders only able to cast votes against this resolution). We understand the Controlling Shareholders have stated that they will vote in favour of this special resolution.
  - The Exiting Shareholders approve the Selective Capital Reduction by special resolution (passed by at least 75% of the votes cast) at the Special Meeting.

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<sup>7</sup> We note mah-jong is a traditional Chinese game played with 144 suited domino-like pieces (tiles) and dice, having the object of building a winning combination of pieces. Auto-mated mah-jong tables mainly assist in the automatic sorting and distribution of the tiles for playing mah-jong. For further information, refer to Section 3 (Industry overview) and Section 4 (Company overview).

- If the Selective Capital Reduction is approved:
  - Exiting Shareholders' collective holding of 51,008,000<sup>8</sup> TYO Shares (representing approximately 16.4% interest in TYO) will be cancelled for the Consideration.
  - Total funds of approximately A\$6.63 million will be drawn down from existing cash balances to finance the Selective Capital Reduction, including any associated transaction costs. We note TYO currently have approximately A\$27.6 million in cash and equivalents as at 30 June 2015.
  - The Controlling Shareholders will seek to remove TYO from the official list of ASX and continue to operate the business in substantially the same manner.

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<sup>8</sup> The total number of TYO Shares to be cancelled may vary depending on whether the Controlling Shareholders acquire or dispose of any TYO Shares prior to the Record Time. However, we note that as at the date of this report, we have not been made aware of any intentions by the Controlling Shareholders to acquire or dispose of any TYO Shares.

## 2 Scope of the report

### 2.1 Purpose

#### *Section 256B and 256C of the Corporations Act*

Section 256B of the Corporations Act 2001 (the “Corporations Act”) confers statutory authorisation on a company to reduce its share capital in a way that is not otherwise authorised by law, if the reduction:

- is fair and reasonable to the company’s shareholders as a whole;
- does not materially prejudice the company’s ability to pay its creditors; and
- is approved by the company’s shareholders under the procedures set out in section 256C of the Corporations Act.

Under Section 256B, a capital reduction may be either an equal reduction or a selective reduction. The reduction is an equal reduction if:

- it relates only to ordinary shares; and
- it applies to each holder of ordinary shares in proportion to the number of ordinary shares they hold; and
- the terms of the reduction are the same for each holder of ordinary shares.

As the Selective Capital Reduction does not satisfy these requirements it is a selective reduction.

Section 256C(2) of the Corporations Act allows a selective reduction by passing a special resolution at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates. This does not prevent affected shareholders from voting against the resolution. In addition, the reduction, as it involves a cancellation of shares, must also be approved by a special resolution passed at a meeting of shareholders whose shares are to be cancelled.

Section 256C(4) of the Corporations Act requires the company to include with the notice of meeting a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. An explanatory memorandum would usually accompany the notice of meeting. As suggested by Regulatory Guide 111 “Content of expert reports” (“RG 111”) issued by the Australian Securities and Investments Commission (“ASIC”), an Independent Expert’s Report will also accompany the notice of meeting and the explanatory memorandum.

### RG 111

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111.

In particular, we note that RG111.8(d) states a control transaction includes a selective capital reduction where a person acquires, or increases, a controlling stake in a company. RG 111.4 states if a company proposes to undertake a selective capital reduction transaction, the company should commission an Independent Expert's Report to accompany the explanatory memorandum and the notice of meeting to satisfy the information requirements under Section 256C(4) of the Corporations Act.

Accordingly, the Independent Directors of TYO have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion, the Selective Capital Reduction is fair and reasonable to the Minority Shareholders.

## **2.2 Basis of assessment**

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG111.

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. Whilst RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer, it states that similar considerations apply in relation to control transactions by way of a selective capital reduction under section 256B of the Corporations Act.

We have considered the Selective Capital Reduction as a control transaction in accordance with RG 111 based on the following:

- If the Selective Capital Reduction is approved by special resolution, Exiting Shareholders will have no option but to participate in the Selective Capital Reduction for the entirety of their shareholding; and
- The Selective Capital Reduction will result in the cancellation of the shares held by the Exiting Shareholders which will result in an increase in the Controlling Shareholders' interests in the equity of TYO to 100%<sup>9</sup>.

### Fairness

RG 111 states that an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.

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<sup>9</sup> Dependent on if the special resolution is passed



Reasonableness

RG 111 states that an offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. When deciding whether an offer is reasonable, an expert might consider:

- The bidder's pre-existing voting power in securities in the target.
- Other significant security holding blocks in the target.
- The liquidity of the market in the target's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target.
- Any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc.
- The likely market price if the offer is unsuccessful.
- The value to an alternative bidder and likelihood of an alternative offer being made.

**2.3 Independence**

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Selective Capital Reduction with reference to the ASIC Regulatory Guide 112 - Independence of Expert's Reports ("RG112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Selective Capital Reduction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report. Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Selective Capital Reduction.

We note that Grant Thornton Australia Limited is the auditor of TYO. The audit services provided by Grant Thornton Australia Limited are strictly for compliance purposes. In addition, the IER was predominately prepared outside of the audit procedures and we have strict internal protocols in relation to audit independence.

In our opinion, Grant Thornton Corporate Finance is independent of TYO and its Directors and all other relevant parties of the Selective Capital Reduction.

**2.4 Consent and other matters**

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 12 October 2015 in which this report is included, and is prepared for the





exclusive purpose of assisting the Minority Shareholders and the Independent Directors in their consideration of the Selective Capital Reduction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Selective Capital Reduction to the Minority Shareholders. We have not considered the potential impact of the Selective Capital Reduction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Selective Capital Reduction on individual shareholders.

The decision of whether or not to approve the Selective Capital Reduction is a matter for each TYO Shareholder based on their own views of value of TYO and expectations about future market conditions, TYO's performance, risk profile and investment strategy. If TYO Shareholders are in doubt about the action they should take in relation to the Selective Capital Reduction, they should seek their own professional advice.

### 3 Industry overview

TYO designs, manufactures and markets automated mahjong tables in the People’s Republic of China (“China”). The mahjong machine manufacturing sector (“the Industry”) is a niche and fragmented industry with many small, private operators. Based on our understanding of the sector, TYO is a large publically listed automatic mahjong machine manufacturer (the largest in the world), with a particular focus on high-end automatic tables.

#### 3.1 Introduction

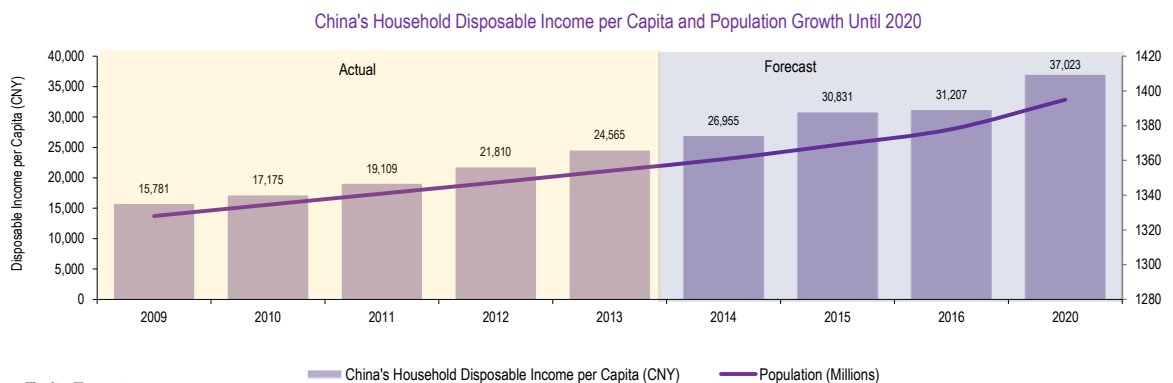
Mahjong is a multiplayer game (typically four players) that originated over 3,000 years ago during the Yin-Shang Dynasty in China. It is played with 144 suited domino-like pieces (tiles) and dice, having the object of building a winning combination of pieces. This game is most popular throughout eastern and south-eastern Asia and is played both casually and competitively in community chess and card rooms, hotels, restaurants, tea houses, cafes, in local parks and private homes. However, given TYO operates solely in China and China is the largest market for mahjong, for the purpose of this industry overview we have focused on the mahjong sector in China.

Mahjong is considered a traditional game and is generally played by over 35 year olds and retirees. The gaming equipment required for mahjong at its bare essential level includes just tiles and dice. Accordingly, the automated mahjong tables manufactured by TYO are suited more for commercial game centres, high end entertainment venues and for individuals looking to significantly enhance their gaming experience, rather than the casual player market.

#### 3.2 Industry key drivers and dynamics

The key drivers and trends impacting the Industry include:

- *China’s economic growth and real household discretionary income* – continual economic growth in China has resulted in substantial increases in real household discretionary income. This in turn has led to a fast expanding gaming market, with more disposable income available for expenditure on leisure products and at leisure venues. Between 2009 and 2013, China’s disposable income per capita increased on average 12.3% per annum. As set out in the graph below, the increase in household disposable income in China is forecast to continue to grow at a compounded annual growth rate (“CAGR”) of 3.7% per annum from 2015 to 2020. This combined with growth in the population of China at a CAGR of 0.4% over the same period is expected to support a highly dynamic and growing gaming market for the Industry.





- *Technological development and changing consumer preferences* – over the last decade, significant advances in technology has allowed material innovations in automated mahjong table designs and development. However, advancements in technology have also introduced significant competition into the Industry in the form of both online gaming and cheap imitation mahjong tables (somewhat exasperated by weak copyright and intellectual property protection in China). In particular, we note that online PC gaming revenues in China increased by approximately 22% to US\$14.5 billion in 2014 and is expected to increase by a further 54% to \$22.3 billion in 2019.<sup>10</sup> With the increasing availability of online and mobile games, consumers are also becoming more demanding for variety and the overall gaming experience.
- *Government policy and regulation* – since late 2012, the Government of China has executed a significant campaign against corruption and extravagant spending which have had a material adverse impact on TYO's key target market, the high-end entertainment and food services industry in China. The implementation of these measures were translated into the first negative growth rate in 2013 (-1.8%) in a decade for this end of the market. With continued pressure from the Government of China, many high-end establishments are now transitioning their strategy towards a mass-market position. Similarly, we understand TYO is also looking to introduce more affordable mahjong table models in order to suite the changing requirements of their customers.

### 3.3 Industry outlook

Based on the key drivers and industry dynamics discussed above, it is our opinion that whilst the Industry will benefit from a rapidly growing market, there will be significant challenges. In particular, the Industry will need to continue to undertake significant research and development in order to match changing consumer preferences, compete with alternative gaming platforms, and suit Government policies and regulations. Furthermore, companies like TYO will also be required to protect its brand and compete against cheap imitations.

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<sup>10</sup> Nicko Partner, 2015 China's PC Online Games Market Report



#### 4 Company overview

TYO is mainly engaged in the design, manufacturing and wholesale of automatic mahjong tables in China (“the Mahjong Business”). However, we note that the Company also has a significant investment in a Chinese partnership, Shangzuo Asset Management Centre [Limited Partnership] (the “Partnership”) with professional investment advisor, Shenzhen Shangzuo Investment Management Co Ltd (the “Manager”) based in Shenzhen, Guangdong Province China. TYO contributed RMB 198 million (“Initial Principal”) equivalent to approximately A\$41.5 million<sup>11</sup> to the Partnership upon inception in 2013, giving it a 99% interest in the Partnership’s contributed equity. The Manager holds the remaining 1% interest.

#### 4.1 The Mahjong Business

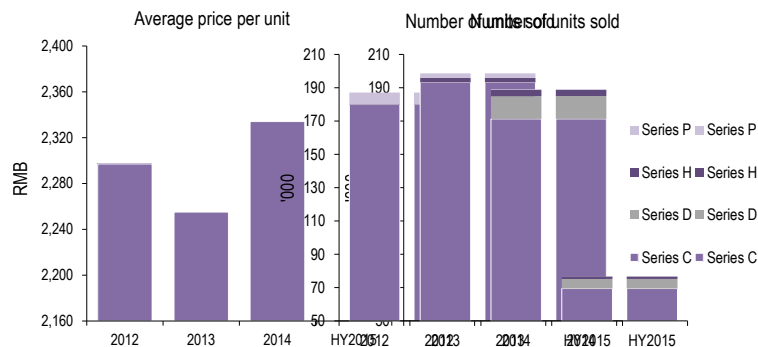
##### 4.1.1 Products

TYO primarily manufactures four main categories of mahjong tables favoured by high income households and business clubs. The categories (C series, D series, H series and P series) are characterised by differing aspects of design, some with high quality redwood frames and a range of functionality including dehumidification, MP3 players and LED control boards.

The P series is TYO’s low end product used in households and chess rooms and has an average price of under RMB 2,000 for each unit. The C series is a mid-range product and is the most commonly purchased unit. The C series is used by high income households and lower end clubs. This mid-range series is sold between the range of RMB 2,000 and RMB 2,999. The D series and H series are premium end tables used by high income households and business clubs and have a price range of over RMB 3,000. According to Management, TYO holds approximately 70% of the premium end of the market for automated mahjong tables.

TYO’s supply chain leverages off a large number of distributors to reach the end-customer (including hotels, restaurants, tea houses and community chess and card rooms, mostly located in China). As at 30 June 2015, TYO has approximately 600 distributors with the top 10 distributors typically accounting for about 20% of total revenues.

Set out below is TYO’s average price per unit and number of units sold from FY12 through to FY14:



Source: Management

<sup>11</sup> Calculated as 198,000,000 divided by 4.7661, being the exchange rate as at 30 June 2015

In relation to the graphs above, we note the following:

- Over the last few years, TYO has focused on growing revenues through the development of premium high-end tables with the introduction of the H series in 2012 and D series in 2014. This has resulted in a continual increase in the average price per unit sold since 2012.
- However, recently TYO has introduced the A series, which is a cheaper, low-end table that targets more mainstream leisure venues. As noted in our Industry overview, this is largely in response to market trends whereby the Government of China is making the high-end market increasingly more difficult for leisure venues to operate in. Furthermore, TYO has experienced growing pricing pressures from imitators and other brands. Going forward, we understand TYO will be increasing its focus on reducing prices and increasing unit sales.
- The business is subject to material seasonality. As a result, we have excluded HY2015 from our above analysis. Though we note the number of units sold is materially lower than Management expectations due to the issues as highlighted above.

In addition to manufacturing mahjong tables, TYO plans to expand its product range to include enhancements such as air filter systems, lighting and entertainment systems. However, as at the date of this report we note that no detailed strategy plan or studies have yet been undertaken in this regard.

## 4.2 The Partnership

In 2013, TYO entered into the Partnership with the Manager by contributing RMP 198 million for a 99% interest in the Partnership. The purpose of the investment in the Partnership was to enable TYO to earn a return above the usual cash return for term deposits in China on cash surplus to its Mahjong Business. The activities of the Partnership are solely to undertake various Chinese investment opportunities.

Currently, the Partnership's assets consist of three short-term, unsecured loans at interest rates of about 6% as shown in the table below.

Borrower	Amount (RMB)	Loan Inception Date	Maturity Date	Interest
Loan 1	15,090,000	17/07/2014	17/07/2015	6.00%
Loan 2	153,000,000	08/12/2014	07/12/2016	5.76%
Loan 3	50,000,000	26/03/2015	13/07/2015	5.75%
Total	218,090,000			

Note (1): Loan 1 was advanced to Zhejiang Zhongrong Zhengyang Investment Management Limited, a related party<sup>12</sup>.

Note (2): We have been advised that Loan 1 and Loan 3 have since been repaid. Whilst the free funds have not yet been reinvested, we understand similar investments will be sought by the Manager and investment undertaken shortly.

Based on discussion with Management, we understand the key terms of the Partnership Agreement are:

- The Manager is responsible for all investment decisions of the Partnership.

<sup>12</sup> TYO's director, Guohua Wei has a 50% interest in Zhejiang Zhongrong Zhengyang Investment Management Limited

- The Manager’s investment mandate is broad and it is only prevented from investing in equities or unlimited liability products.
- The Partnership does not have a set maturity date or termination date. Management has advised that the Partnership will most likely be terminated in ten years’ time, at which time the retained profits and Initial Principal will be distributed to TYO. However, we note that this time frame has not been Board approved and will depend on the Manager’s ability to continually generate a suitable return on the invested funds.
- TYO is entitled to a preferential return of 5.4% per annum on the Initial Principal of RMB 198 million (c. A\$42.3 million<sup>13</sup>) only and does not participate in any return generated by the Partnership over this level. We note that since inception, the Partnership has consistently generated a return on Initial Principal above 5.4%.
- TYO earns nil interest on any profits attributable to the Company that has been retained in the Partnership. As at 30 June 2015, there is approximately RMB 22.76 million (A\$4.9 million<sup>13</sup>) in aggregate profits attributable to TYO that has been retained in the Partnership and reinvested by the Manager.

### 4.3 Financial information

#### 4.3.1 Financial performance

Set out below are the consolidated income statements for the financial year ended 31 December 2012 (“FY12”), 31 December 2013 (“FY13”), 31 December 2014 (“FY14”) and half year ended 30 June 2014 (“HY14”) and 30 June 2015 (“HY15”).

Consolidated statement of profit or loss A\$'000s	FY12 Audited	FY13 Audited	FY14 Audited	HY15 Reviewed
Revenue	68,287	76,155	70,419	32,078
Cost of goods sold	(51,957)	(58,838)	(55,387)	(25,840)
<b>Gross profit</b>	<b>16,330</b>	<b>17,317</b>	<b>15,032</b>	<b>6,238</b>
<i>Gross profit margin</i>	<i>24%</i>	<i>23%</i>	<i>21%</i>	<i>19%</i>
Other income	372	173	343	61
Share of Partnership result using the equity method	-	1,125	1,931	1,116
Loss on sale of subsidiary	(235)	-	-	-
Distribution and selling expenses	(3,753)	(4,166)	(4,314)	(1,550)
Administrative expenses	(6,839)	(7,379)	(6,266)	(3,619)
<b>EBITDA</b>	<b>5,876</b>	<b>7,070</b>	<b>6,726</b>	<b>2,247</b>
<i>EBITDA margin</i>	<i>9%</i>	<i>9%</i>	<i>10%</i>	<i>7%</i>
Depreciation and amortisation	(1,025)	(1,104)	(1,100)	(392)
<b>EBIT</b>	<b>4,850</b>	<b>5,967</b>	<b>5,626</b>	<b>1,855</b>
<i>EBIT margin</i>	<i>7%</i>	<i>8%</i>	<i>8%</i>	<i>6%</i>
Interest income	1,354	1,042	521	260
Finance costs	(373)	(349)	(185)	1
<b>Profit before income tax</b>	<b>5,831</b>	<b>6,660</b>	<b>5,962</b>	<b>2,115</b>
Income tax expense	(961)	(1,431)	(1,000)	(445)
<b>Profit for the year</b>	<b>4,870</b>	<b>5,228</b>	<b>4,962</b>	<b>1,670</b>
Profit/(loss) from discontinuing operations	(33)	-	-	-
Exchange gain differences arising on the translation of foreign operations	(629)	9,550	5,393	5,052
<b>Total comprehensive income</b>	<b>4,207</b>	<b>14,778</b>	<b>10,355</b>	<b>6,722</b>

Source: TYO Annual Report 2012 and 2014, TYO YTD15 Management Accounts, and GTCF calculations

<sup>13</sup> Based on spot RMB/AUD exchange rate of approximately 4.677 as at 30 June 2015



We note the following with regard to the above:

- The underlying performance of the Mahjong Business has been adversely affected over the last three years due to changes in the economic environment and intense pricing competition which has impacted the underlying margin in TYO's local currency.
- Share of Partnership income relates to TYO's investment in the Partnership entered into in 2013 (refer to section 4.2 for further details).
- Interest income decreased in FY14 by circa 50% due to TYO's investment in the Partnership.
- Contributing to total comprehensive income is exchange gain differences. These gains arise as a result of most of TYO's transactions being carried out in RMB which once translated to A\$ results in exchange gains given the weakening of the A\$ against the RMB. In addition TYO has a Hong Kong bank deposit denominated in US dollars. Being a financial asset this also exposes TYO to currency risk. Owing to the weakening of the A\$ compared to the RMB (as shown in the graph below), TYO has recorded exchange gains.

**Historical \$CNY/A\$ (2011 - Present)**



Source: CapitalIQ



## 4.3.2 Financial position

Set out below are the consolidated balance sheets as at 31 December 2014 and 30 June 2015 for TYO.

Consolidated statement of financial position A\$'000s	31-Dec-14 Audited	30-Jun-15 Reviewed
<b>Current assets</b>		
Cash and cash equivalents	30,052	27,608
Trade and other receivables	1,004	1,560
Inventories	6,904	6,897
Prepayments and other current assets	1,216	2,517
<b>Total current assets</b>	<b>39,176</b>	<b>38,583</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	42,954	47,199
Property, plant and equipment	13,591	14,122
Intangible assets	126	113
<b>Total non-current assets</b>	<b>56,671</b>	<b>61,434</b>
<b>Total assets</b>	<b>95,847</b>	<b>100,016</b>
<b>Current liabilities</b>		
Trade and other payables	19,677	18,443
Notes payable	5,484	4,202
Current tax liabilities	340	94
<b>Total current liabilities</b>	<b>25,500</b>	<b>22,739</b>
<b>Non-current liabilities</b>		
Deferred tax liability	521	730
<b>Total non-current liabilities</b>	<b>521</b>	<b>730</b>
<b>Total liabilities</b>	<b>26,021</b>	<b>23,469</b>
<b>Net assets</b>	<b>69,826</b>	<b>76,548</b>

Source: TYO Annual Report 2014, TYO YTD15 Management Accounts, and GTCF calculations

We note the following in relation to the balance sheet above:

- TYO has strong cash reserves, which Management consider surplus to its business' requirements.
- Property, plant and equipment include land use rights and buildings which we are instructed by Management are used in their manufacturing process for the Mahjong Business.
- The net working capital position of TYO is consistently around negative \$12 million to \$16 million. We understand this is mainly attributable to the favourable trade receivable and payable terms TYO has continually maintained.
- Intangible assets held by TYO mainly consist of patents, trademarks and software.
- The notes payable are non-interest bearing and are guaranteed by an interest bearing short term bank deposit of approximately A\$1.4 million.
- The deferred tax liability relates to the Partnership profits which have yet to be distributed and will be taxable upon receipt.



#### 4.4 Capital Structure

As at the date of our report TYO has 311,008,000 TYO Shares outstanding.

##### 4.4.1 Substantial shareholders

The substantial shareholders of TYO as at 12 October 2015 are set out below:

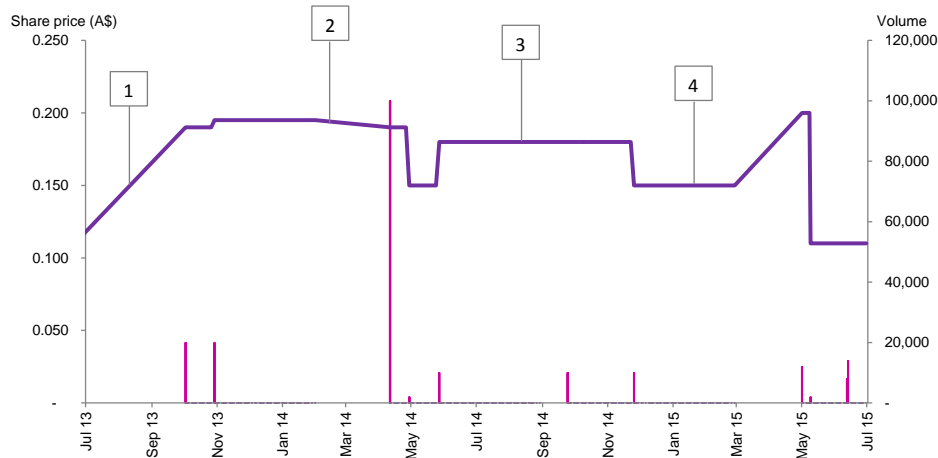
Top 10 Shareholders TYO	Number of shares	Percentage (%)
Matoury Overseas Corp.	179,400,000	57.68%
Balatina Group Limited	48,100,000	15.47%
Legheny Group Limited	16,900,000	5.43%
Laury Commercial Inc.	7,800,000	2.51%
Yerigton Assets Inc.	7,800,000	2.51%
Citicorp Nominees Pty Limited	5,350,000	1.72%
Mr Dibiao Shen	5,000,000	1.61%
Ms Feinan Lou	4,985,999	1.60%
Mr Jie Huang	3,000,000	0.96%
Mr Guan Cheng Zhu	3,000,000	0.96%
<b>Top 10 Shareholders</b>	<b>281,335,999</b>	<b>90.46%</b>
Other shareholders	29,672,001	9.54%
<b>Total</b>	<b>311,008,000</b>	<b>100.00%</b>

*Source: Management*



4.4.2 Share price and market analysis

Our analysis of the daily movements in TYO’s listed share price and volumes for the two year period to June 2015 is set out below:



Source: Capital IQ

In this period, the share price traded in the range of between A\$0.11 cents (July 2015) and \$0.20 per share (May 2015). Also, evident from the graph is the low volume of shares traded which make, in our opinion, the trading prices not reliable evidence to assess fair market value.

There are very few company announcements that would help explain TYO’s share price movement over the two year period displayed in the graph above. Considering TYO’s announcements we note the following:

Note	Date	Comments
1	29-Aug-2013	TYO released its half yearly report and accounts advising that company profit for the half year is down from A\$2.2 million to A\$1.6 million which represents a decrease of 35%.
2	28-Feb-2014	TYO released its preliminary final report announcing an after tax profit of \$AUD5.2 million for FY13 which represented a A\$0.4 million (7%) increase from FY12 which reported A\$4.8 million.
3	29-Aug-2014	TYO released its half yearly report and accounts advising that the Company’s profit for the half year including a profit contribution from the Partnership was A\$1.9 million which is an increase of 17% on the previous corresponding period of A\$1.6 million.
4	27-Feb-2015	TYO released its preliminary final report announcing an after tax profit of A\$5.0 million for FY14 which represented a A\$0.2 million (5%) increase from FY13 which reported A\$5.2 million.

## 5 Valuation methodologies

### 5.1 Introduction

In accordance with our adopted valuation approach as set out in section 2.1, our fairness assessment involves comparing the fair market value of TYO shares on a control basis with the Consideration.

Fair market value is commonly defined as:

*“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”*

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

### 5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, capital reductions, schemes of arrangement, takeovers and prospectuses. The indicated methodologies include:

- The discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets.
- The application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- The amount that would be available for distribution to security holders on an orderly realisation of assets.
- The quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix B to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and

most common market practice in valuing the entity or asset in question and the availability of relevant information.

### **5.3 Selected valuation methods**

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess TYO's equity value. The market value of net assets is based on the sum-of-parts of TYO's assets and liabilities relating to its Mahjong Business, Partnership and net cash position (as set out in TYO's draft balance sheet as at 30 June 2015 as set out in Section 4.4.2).

We note that in our valuation assessment of the business as a whole, we have not been able to utilise trading prices on the ASX due to the limited liquidity. Specifically, RG111<sup>14</sup> recommends the expert to consider using the quoted price for listed securities where there is a liquid and active market. In this regard we note that the liquidity of TYO's shares is limited with only a total of approximately 0.23% of free float shares (0.02% of total shares outstanding) traded over the last twelve months.

#### *Mahjong Business*

For the purpose of our assessment of the value of the Mahjong Business, Grant Thornton Corporate Finance has relied on the income approach – specifically a capitalisation of maintainable earnings method. This methodology is particularly suitable for businesses like TYO that have been trading profitably for a number of years. Notwithstanding TYO's recent deterioration in earnings we consider this method to be preferable given the limitations of the other alternative methods. We have cross-checked our valuation assessment based on the net assets backing.

#### *Partnership*

We have assessed the fair market value of the Partnership using our view of the marked to market value of the investment in the Partnership.

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<sup>14</sup> See RG111.69

## 6 Valuation Assessment of TYO Shares

### 6.1 Valuation summary

As discussed in Section 5, we have adopted the market value of net assets methodology to assess the equity value of TYO before the Selective Capital Reduction as set out below.

Valuation Assessment - TYO (A\$'000s)	Section Reference	Low	High
Assessed maintainable EBITDA	6.2.1	2,500	3,500
EBITDA Multiple (times)	6.2.2	1.00x	2.00x
<b>Enterprise value of the Mahjong Business</b>		<b>2,500</b>	<b>7,000</b>
Add: Fair market value of interest in the Partnership <sup>1</sup>	6.3	28,065	40,543
<b>Total enterprise value of TYO</b>		<b>30,565</b>	<b>47,543</b>
Add: Net Cash	6.4	23,406	23,406
Less: Non-contingent transaction costs relating to Selective Capital Reduction	6.5	(300)	(300)
<b>Fair Market Value of TYO Shares (on control basis)</b>		<b>53,671</b>	<b>70,650</b>
Total number of shares on issue ('000s)	4.4	311,008	311,008
<b>Fair Market Value per TYO Share on a controlling basis (cents/share)</b>		<b>17.26</b>	<b>22.72</b>

Note (1): The cash flows relating to the Partnership has not been considered in our capitalisation of earnings valuation for the Mahjong

Source: GTCF calculations

### 6.2 Valuation of the Mahjong Business

#### 6.2.1 Maintainable EBITDA of the Mahjong Business

When considering the future maintainable EBITDA of the Mahjong Business we have taken into account:

- Historical operating earnings over the period FY11 to FY14 and HY15.
- Board approved Budget for FY15 and Management's forecast for FY16<sup>15</sup>. However, we have not disclosed these figures in our report due to confidentiality and commercial sensitivity issues.
- Normalisation adjustments both in respect of non-recurring items of revenue and expense as well as other adjustments appropriate for the assessment of future maintainable EBITDA

The following table summarises the normalised historical reported EBITDA and annualised HY15 results of the Mahjong Business.

<sup>15</sup> FY16 forecast has not been approved by the Board.



Future Maintainable EBITDA A\$'000s	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	HY15 Actual	FY15 Annualised
Reported EBITDA	6,738	5,876	7,070	6,726	2,247	5,279
<b>Normalisation adjustments</b>						
Less: Share of Partnership profit/(loss) using the equity method	-	-	(1,125)	(1,931)	(1,116)	(2,231)
Less: Discontinued operations (Shouken)	(607)	-	-	-	-	-
Add: Loss on sale of subsidiary	-	235	-	-	-	-
<b>Normalised EBITDA</b>	<b>6,131</b>	<b>6,110</b>	<b>5,945</b>	<b>4,795</b>	<b>1,131</b>	<b>3,047</b>
<i>Normalised EBITDA margin</i>	<i>9%</i>	<i>9%</i>	<i>8%</i>	<i>7%</i>	<i>4%</i>	<i>4%</i>
Average RMB/AUD exchange rate for period	6.67	6.54	5.97	5.54	4.79	NA
Spot RMB/AUD exchange rate as at 30 June 2015	4.77	4.77	4.77	4.77	4.77	NA
Exchange rate fluctuation adjustment factor	1.40	1.37	1.25	1.16	1.01	1.00
<b>Exchange rate fluctuation adjusted Normalised EBITDA</b>	<b>8,579</b>	<b>8,390</b>	<b>7,451</b>	<b>5,570</b>	<b>1,137</b>	<b>3,047</b>
<b>Grant Thornton assessed Future Maintainable EBITDA</b>					<b>2,500</b>	<b>to 3,500</b>

We note the following in relation to the above table:

- We have valued the Partnership separately as set out in Section 6.3. Accordingly, we have excluded its earnings from our valuation assessment of the Mahjong Business. This has had a significant impact on our valuation range.
- We note that the majority<sup>16</sup> of the reported EBITDA is earned in RMB and converted to AUD based on the average RMB/AUD exchange rate for the relevant period. However, over the last 5 years there has been a significant decrease in the RMB/AUD exchange rate (decrease of approximately 33% from January 2011 to July 2015). Accordingly for the purpose of calculating a normalised historical EBITDA, we have assessed an 'exchange rate fluctuation adjustment factor' to remove the impact of changes in the exchange rate over the last 5 years. This effectively assumes that the EBITDA for all periods are converted to AUD at the spot RMB/AUD exchange rate as at 30 June 2015.
- Annualised<sup>17</sup> FY15 EBITDA is expected decline by approximately 45% when compared to FY14 and to be approximately 23% behind Management's FY15 budget. We note that the FY15 budget is based on relatively high-level assumptions and have not been approved by the Board.
- Normalised EBITDA adjusted for exchange rate fluctuations has declined over the last four years (FY11 – FY14) at an increasing rate with FY14 recording a decline of approximately 25% from FY13. This has been mainly due to decreasing margins (normalised EBITDA margins have decreased from 9% in FY11 to 7% in FY14) as a result of the following:
  - The adverse impact on TYO's business from the Chinese Government's increased efforts to fight corruption and uphold integrity in the community via measures such as prohibition on officials, civil servants, personnel and other state-owned enterprises staff from entering

<sup>16</sup> We note that only a small proportion of head office costs are incurred in Hong Kong dollars and Australian dollars.

<sup>17</sup> We note that TYO typically generates a higher percentage of its full year EBITDA in the second half of the year (i.e. July to December). Accordingly, we have calculated the average ratio of EBITDA earned in the second half to the first half of each historical financial year from FY11 to FY14 (2.35x) to assist us in the annualisation of the FY15

amusement places and high-end clubs. These measures have had a negative impact on the prosperity of leisure and entertainment venues including restaurants. As the majority of TYO's clients are clubs, mahjong and chess rooms, and hotels, the prohibitive efforts of the Chinese Government have had a material impact on the demand for TYO's high-end mahjong tables. Management's view that the Chinese Government's strong stance on anti-corruption will continue to depress the market through to at least 2017.

- Fierce competition from other providers of automatic mahjong tables in the form of reduced pricing and imitation products. This has forced TYO to invest more heavily in research and development, and incur higher distribution and selling costs.
- A decline in demand for the Industry as a result of various other factors including the rise in prominence of on-line gaming, a substituting product.
- The downward trend of the Mahjong Business is expected to continue with Management forecasting a further material decline in forecast EBITDA for FY16 from FY15 budget.
- In assessing a level of future maintainable EBITDA for TYO, we have also considered how Management intends to respond to the Company's deteriorating performance. Management have advised that they intend to maintain sales by:
  - Continued investment in research and development to identify new table designs taking advantage of increasingly superior technology advancement. This should result in new product enhancements as well as reduced cost to customers.
  - Increasing its Treyo brand recognition by expanding its distributor network in China. This is likely to result in higher selling and distribution costs.
  - Diversifying its product offering through the development of ancillary products such as air purifying units and other complimentary items to offer premium player comfort. We understand this strategy is currently still at a relatively preliminary stage.
  - Repositioning itself to the lower end of the range of mahjong tables which currently presents a more attractive price point for end-customers.

Based on the historic decline in earnings, the continued pressure on TYO from competitors and other factors affecting the industry, Grant Thornton Corporate Finance has assessed future maintainable EBITDA in a range of A\$2.5 million to A\$3.5 million for the purpose of our valuation assessment of the Mahjong Business.

#### 6.2.2 EBITDA multiple

The selection of an appropriate EBITDA multiple is a matter of judgement and involves consideration of a number of factors including:

- The stability and quality of earnings.
- The nature and size of the business.

- The quality of the management team.
- Comparable company trading multiples which have been attributed by share market investors.
- The implied multiples of recent acquisitions of businesses involved in similar activities.
- Future prospects of the business.

For the purpose of assessing an appropriate EBITDA multiple range to value TYO, we have had regard to the trading multiples of listed on-line mahjong gaming companies, and gaming and casino equipment manufacturers with a China and/or Southeast Asia focus. We have also analysed EBITDA multiples implied by recent transactions. However, due to the limited level of comparability we have placed limited reliance on the recent transactions (see Appendix D for details).

### 6.2.3 Trading multiples

Summarised below are the trading multiples of the selected companies having regard to the trading prices:

Company	Market Capital (A\$m)	LTM <sup>2</sup> EV/	3M <sup>4</sup> EV/	Spot <sup>4</sup> EV/	LTM EV/	3M EV/	Spot EV/
		LTM EBITDA Actual	LTM EBITDA Actual	LTM EBITDA Actual	NTM <sup>3</sup> EBITDA Forecast	NTM EBITDA Forecast	NTM EBITDA Forecast
<b>Online mahjong game providers</b>							
Boyaa Interactive International Limited	524	7.4 x	7.4 x	3.5 x	3.6 x	3.6 x	1.7 x
GigaMedia Ltd.	52	NM	1.3 x	1.6 x	NA	NA	NA
Ourgame International Holdings Limited	682	15.8 x	28.3 x	19.5 x	6.4 x	11.5 x	7.9 x
<b>Gaming/ casino equipment manufacturers with China and/or Southeast Asia focus</b>							
China LotSynergy Holdings Ltd.	626	9.4 x	9.8 x	7.5 x	NA	NA	NA
REXLot Holdings Limited	735	7.0 x	7.0 x	5.8 x	5.7 x	5.7 x	4.7 x
Entertainment Gaming Asia Inc.	41	2.0 x	2.1 x	1.5 x	NA	NA	NA
IBASE GAMING Inc	48	12.0 x	11.0 x	10.0 x	NA	NA	NA
Astro Corporation	95	NM	NM	NM	NA	NA	NA
RGB International Bhd.	65	3.8 x	3.8 x	3.9 x	NA	NA	NA
<b>Average<sup>1</sup></b>	<b>319</b>	<b>6.9 x</b>	<b>6.0 x</b>	<b>4.8 x</b>	<b>4.6 x</b>	<b>4.6 x</b>	<b>3.2 x</b>
<b>Median<sup>1</sup></b>	<b>95</b>	<b>7.2 x</b>	<b>7.0 x</b>	<b>3.9 x</b>	<b>4.6 x</b>	<b>4.6 x</b>	<b>3.2 x</b>

Source: S&P Capital IQ and GTCF calculations

Note (1): Ourgame has been excluded from our median and average calculations as it is currently subject to a material share acquisition transaction for more than 20% interest in Ourgame. Accordingly, the share price of Ourgame is likely to incorporate a degree of control premium and/or special value.

Note (2): LTM - last twelve months

Note (3): NTM - next twelve months

Note (4): 3M - 3 months, Spot - based on share price as at 23 July 2015

A brief description of the companies listed in the table above is set out in Appendix C.

We note the following in relation to the comparable companies:

- The EBITDA multiples presented above reflect the value of the underlying companies on a minority basis and do not include a premium for control.
- Majority of the selected companies are considerably larger than TYO. All else being equal, larger companies tend to trade at higher multiples.



- Majority of the selected comparable companies are significantly more internationally diversified than TYO. Companies with globally diversified operations tend to have less exposure to country specific risks including political risks, exchange rate risks and other macroeconomic risks, and will consequently trade at higher multiples.
- Based on a detailed review of each comparable company, we have selected GigaMedia Limited (“Gigamedia”) and RGB International Bhd (“RGB”) as the most comparable to TYO. In relation to Gigamedia and RGB we note the following key similarities and differences:
  - Gigamedia is the largest provider of online mahjong in China. Whilst the company does not engage in the manufacturing of mahjong equipment, we consider the demand drivers for Gigamedia to be the most similar to TYO relative to the other comparable companies identified. Like TYO, we note Gigamedia has experienced deteriorating performance results over the last few years and is focused on increasing the diversity of its offerings. However, Gigamedia is an online operator with over 30 games on offer which allows it to appeal to a wider audience, although direct competition with other online game providers is likely more challenging.
  - RGB mostly manufactures and sells electronic gaming machines and equipment. It was established in Malaysia in 1986, making it a mature company. Similar to TYO, its end-customers are mainly leisure establishments such as casinos and gaming operators, rather than the casual individual player. RGB also has significant research and development costs like TYO in order to ensure its gaming machines and equipment remain competitive. However, we note RGB is geographically more diversified than TYO and also offers refurbishment, technical support, and maintenance of gaming and amusement machines and equipment.
- Whilst neither Gigamedia nor RGB is perfectly comparable to TYO, we consider the two companies provide reasonable benchmarks for assisting us in our selection of an appropriate EBITDA multiple for the Mahjong Business.

#### 6.2.4 Control premium

The trading multiples have been calculated based on the market price for minority or portfolio shareholdings and do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:

- The ability to realise basic synergistic benefits.
- Access to cash flows.
- Access to tax benefits.
- Control of the board of directors of the company.

Evidence from studies indicates that premiums for control on successful takeovers have frequently been in the range of 20% to 40% and that the premiums vary significantly from transaction to transaction.

We have incorporated a premium for control at the low end of the range in our assessment of the EBITDA multiple of listed comparable companies given the significant stake of 83.6% in TYO currently held by the Controlling Shareholders. We have also taken into consideration that the control premium is typically applied at an equity rather than enterprise value level.

#### 6.2.5 EBITDA multiple – Conclusion

Based on the analysis of listed comparable companies and comparable transactions, Grant Thornton Corporate Finance has assessed an EBITDA multiple for the valuation of TYO between 1 and 2 times on a control basis.

#### 6.2.6 Valuation cross check

Prior to reaching a conclusion, we have compared the enterprise value of the Mahjong Business based on the audited/reviewed accounts as at 31 December 2014 and as at 30 June 2015 with the enterprise value derived from the maintainable earnings methodology. Our calculations are set out in the table below.

Implied EBITDA Multiple based on net assets (A\$'000s)	Section Reference	FY14	HY15
Trade and other receivables	4.3.2	1,004	1,560
Inventories	4.3.2	6,904	6,897
Prepayments and other current assets	4.3.2	1,216	2,517
Property, plant and equipment	4.3.2	13,591	14,122
Intangible assets	4.3.2	126	113
Trade and other payables	4.3.2	(19,677)	(18,443)
Current tax liabilities	4.3.2	(340)	(94)
<b>EV based on net assets</b>		<b>2,824</b>	<b>6,673</b>
Spot RMB/AUD exchange rate as at 31 December 2014/ 30 June 2015		5.09	4.77
Spot RMB/AUD exchange rate as at 30 June 2015		4.77	4.77
Exchange rate fluctuation adjustment factor <sup>1</sup>		1.07	1.00
<b>Exchange rate fluctuation adjusted EV</b>		<b>3,014</b>	<b>6,673</b>

Note (1): We have assessed an 'exchange rate fluctuation adjustment factor' to remove the impact of changes in the exchange rate over the last 6 months.

Based on the above, we note that the book value of the enterprise of the Mahjong Business between A\$3.0 million and A\$6.7 million is not inconsistent with our assessment of the enterprise value between A\$2.5 million and A\$7 million based on the future maintainable earnings as set out in section 6.1. We also note that there is a degree of seasonality in the business, and that the half year book value of the enterprise of Mahjong Business tends to be materially higher than the full year.

Accordingly, we are of the opinion that our valuation assessment of TYO based on the future maintainable earnings is reasonable.

### 6.3 Valuation of TYO's interest in the Partnership

We have calculated the value of TYO's interest in the Partnership based on the marked to market of the investment made by TYO.

The key assumptions underlying the valuation assessment are summarised below:

- Face value of TYO's investment in the Partnership is RMB198 million.
- **Distributions to TYO** – based on discussions with Management, we understand TYO intends to defer the distributions of all profits generated by the Partnership until termination of the Partnership. We note that as at 30 June 2015, there was approximately RMB 22.76 million of attributable profits retained in the Partnership. We note that TYO earns nil interest on any profits attributable to the Company that has been retained in the Partnership. For the purpose of estimating the accumulated profits at termination date, we have assumed TYO will earn the maximum 5.4% preferential return per annum over the life of the Partnership.
- **Partnership Term** – Whilst the Partnership currently does not have a maturity date, for the purpose of our valuation assessment, we have adopted a termination date for the Partnership between five years (low end) and ten years (high end) from 30 June 2015 as set out below:
  - *10 year termination* – The ten year term is based on Management's view of the likely life of the Partnership if TYO consistently receive its 5.4% preferential return on the Initial Principal. We note this is based on Management's current best estimate and has not been approved by the Board. Given the present substantial cash balance of TYO and the lack of any alternative medium term investments including in the Company's business plans which would require TYO to access the Initial Principal and profits retained in the Partnership, we do not consider this to be an unreasonable assumption.
  - *5 year term* – The five year term is based on the expectation that TYO would likely seek earlier termination of the Partnership if the 5.4% preferential return is not consistently earned and/or if TYO perceives the risk of the Partnership investments to be inconsistent with TYO's objectives. We note that termination of the Partnership will require mutual consent from the Manager and would likely be subject to the time required to wind up investment on an orderly basis.
- **Tax rate** – Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income. We understand that tax is payable on the profits attributable to TYO upon distribution by the Partnership to the Company. Given the complexity of the Partnership structure, detailed tax advice will likely be required upon decision to terminate the Partnership and/or distribution of the funds retained in the Partnership.
- **Discount rate** – Grant Thornton Corporate Finance has applied a discount rate in the range of 5.4% to 8.0% to the estimated distributions from the Partnership at the termination date. The low end of our discount rate is consistent with the preferential return that TYO is entitled to receive from the Partnership as it could be reasonably expected that the Manager of the Partnership would seek to make investments that would at the minimum, generate TYO's

preferential return. Since inception of the Partnership in 2013, TYO has consistently received its 5.4% preferential return on the Initial Principal.

The high end of our discount rate is based on consideration of the following:

- The return of 5.4% to TYO is preferential, not guaranteed and is capped.
- Profits attributable to TYO and retained in the Partnership earn nil return even if reinvested by the Manager into Partnership investments.
- TYO has no control over the investment decisions of the Partnership and has limited visibility on the investments of the Partnership or the investment strategy of the Manager.
- The Partnership’s current investment portfolio consists of three short term unsecured loans at interest rates of about 6% (with over 90% of the loan amount made to a single external party). The Partnership has previously invested in short term unsecured loans at interest rates up to 8%.
- There are few limitations under the Partnership Agreement on the Manager in relation to investment choices other than no investment in equities or unlimited liability products, and no investments outside of China. Specifically, we note there are no requirements relating to credit rating, company size and seniority. Furthermore, we understand the Manager does not currently apply any limitations to the borrowers of the Partnership, which effectively allows the latter to invest in products the Manager is restricted from under the Partnership Agreement.

Valuation Assessment - Discounted Cash Flow Approach	Low	High
Grant Thornton assessed fair market value (RMB'000s)	133,759	193,234
RMB/A\$ exchange rate as at 30 June 2015 (sourced from RBA website)	4.7661	4.7661
<b>Grant Thornton assessed fair market value (A\$'000s)</b>	<b>28,065</b>	<b>40,543</b>

We note the assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by a pool of potential purchasers. We note that the assumptions used are inherently subject to considerable uncertainty, and that the value of the Partnership could vary materially based on changes in certain key assumptions. Accordingly, we have adopted a wider value range.

We have also conducted a sensitivity analysis, as illustrated below, to highlight the impact on the value of the Partnership caused by movements in certain key assumptions.



	Discount rate (%)	Maturity term (years)			
		2	5	10	15
	5.0%	207,620	196,943	177,284	128,335
	5.4%	206,047	<b>193,234</b>	170,669	121,220
	6.0%	203,721	187,827	161,251	111,326
	6.5%	201,813	183,459	153,839	103,738
	7.0%	199,931	179,212	146,799	96,700
	7.5%	198,076	175,083	140,113	90,169
	8.0%	196,246	171,068	<b>133,759</b>	84,106

Source: GTCF calculations

#### 6.4 Net cash and transaction costs

For the purpose of our valuation assessment, we have assessed net cash as the difference between cash and cash equivalents and notes payables<sup>18</sup>.

Management has advised that the estimated non-contingent transaction costs still outstanding as at 30 June 2015 are approximately \$300,000.

<sup>18</sup> Net cash calculated as \$A27.608 million (cash) less \$A4.202 million (notes payable)

## **7 Sources of information, disclaimer and consents**

### **7.1 Sources of information**

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Final Draft Notice of Meeting and Explanatory Memorandum.
- Annual reports of TYO for FY12, FY13 and FY14.
- Final Draft half year report for HY15.
- Releases and announcements by TYO on the ASX.
- TYO website.
- Capital IQ.
- Broker's reports.
- Other publicly available information.

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from Management of TYO and its advisers.

### **7.2 Qualifications and independence**

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to TYO and all other parties involved in the Capital Reduction with reference to the ASIC Regulatory Guide 112 "Independence of expert" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to TYO, its shareholders and all other parties involved in the Capital Reduction.

We note that Grant Thornton Australia Limited is the auditor of TYO. The audit services provided by Grant Thornton Australia Limited are strictly for compliance purposes. In addition, the IER was predominately prepared outside of the audit procedures and we have strict internal protocols in relation to audit independence. In our opinion, Grant Thornton Corporate Finance is independent of TYO and its Directors and all other relevant parties of the Selective Capital Reduction.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with TYO or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Capital Reduction. Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Capital Reduction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Capital Reduction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

### **7.3 Limitations and reliance on information**

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by TYO and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by TYO through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of TYO.

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 12 October 2015 in which this report is included, and is prepared for the exclusive purpose of assisting the Minority Shareholders and the Independent Directors in their consideration of the Selective Capital Reduction. This report should not be used for any other purpose.

TYO has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by TYO, which TYO knew or should have known to be false and/or reliance on information, which was material information TYO had in its possession and which TYO knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. TYO will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

### **7.4 Consents**

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of General Meeting and Explanatory Memorandum to be sent to TYO Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.



**Appendix A – Glossary**

A\$ or \$	Australian dollar
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Book value	Net assets
CAGR	Compound annual growth rate
Chapter 2J	Chapter 2J of the Corporations Act
Company	Treyo Leisure and Entertainment Limited
Controlling Shareholders	Matoury Overseas Corp, Balantina Group Limited, Legehny Group Limited, Lairy Commercial Inc and Yerigton Assets Inc.
Corporations Act	Corporations Act, 2001 (cth)
DCF	Discounted cash flow
EBITDA	Earnings before interest, tax, depreciation & amortisation
EBITDA multiple	EV to EBITDA multiple
EMH	Efficient Market Hypothesis
EPS	Earnings per share
EV	Enterprise Value
FSG	Financial Services Guide
FY/HY	Financial year/Half financial year
Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd
Management	Management of TYO
Minority or Exiting Shareholders	TYO Shareholders excluding Controlling Shareholders
Resolution	Resolution as defined in the Notice of Meeting
RG110	ASIC Regulatory Statement 110 “Share Buy-backs”
RG111	ASIC Regulatory Statement 111 “Content of expert reports”
RG112	ASIC Regulatory Statement 112 “Independence of experts”
TYO	Treyo Leisure and Entertainment Limited
TYO Shareholders	A holder of one or more Share
RMB	Renminbi
ROE	Return on equity
Shares	Fully paid ordinary shares in TYO
VWAP	Volume Weighted Average Price



## **Appendix B – Valuation methodologies**

### **Market value of quoted securities**

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

### **Capitalisation of future maintainable earnings**

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

### **Comparable market transactions**

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

### **Discounted future cash flows**

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

### **Orderly realisation of assets**

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.



**Appendix C – Comparable companies**

Company	Description
<b>Online mahjong game providers</b>	
Boyaa Interactive International Limited	Boyaa Interactive International Limited, an investment holding company, engages in the development and operation of online card and board games in the People’s Republic of China, Hong Kong, Taiwan, and Thailand. It offers 16 online games, including 12 as Web-based and mobile games. The company’s games are card and board games based on long-lifespan classic card and board games; and casual shooting, casual virtual-pet-raising, 8-Ball Pool, and Mahjong games.
GigaMedia Ltd.	GigaMedia Limited provides online and mobile games, and cloud computing services in Taiwan and internationally. Its portfolio of online games include MahJong, a traditional Chinese title game; non-cash gambling or casino casual games through FunTown-branded platform; and chance-based games, including bingo, lotto, horse racing, Sic-Bo, slots, and various casual games. The company also provides Tales Runner, a multi-player online obstacle running game in which players competes by running, jumping, dashing and using items; Role playing games; and various mobile games.
Ourgame International Holdings Limited	Ourgame International Holdings Limited develops and operates online card and board games in the People’s Republic of China. It operates an integrated online game platform that offers PC and mobile games through various distribution channels, as well as a range of services. The company also provides Web games through its ourgame.com and lianzhong.com Websites, as well as through third-party distributors, including Web-based portals
<b>Gaming/ casino equipment manufactures with China and/or Southeast Asia focus</b>	
China LotSynergy Holdings Ltd.	China LotSynergy Holdings Limited, an investment holding company, provides technology and operation services of lottery systems, terminal equipment, and game products in the lottery market primarily in the People’s Republic of China. The company offers video lottery terminals, computer-generated ticket game (CTG) terminals, and high frequency and KENO-type lottery systems, as well as telephone lottery systems. It is also involved in the research, development, and manufacture of lottery ticket scanners and terminal equipment, as well as lottery systems and equipment; and research, development, and operation of sales platform for high frequency lottery systems.
REXLot Holdings Limited	REXLot Holdings Limited, an investment holding company, provides lottery related systems, machines, and services to the lottery market in the People’s Republic of China. The company provides systems and equipment for computer ticket games and scratch cards products; and develops and produces sports lottery machines, related operation software systems, and networks. It also provides maintenance service for lottery machines; lottery printing services; and services to paperless and electronic lottery platform
Entertainment Gaming Asia Inc.	Entertainment Gaming Asia Inc. owns and leases electronic gaming machines (EGMs) in resorts, hotels, and other venues in in Pan-Asia region. It operates in two segments, Gaming Operations and Gaming Products. The company also develops and operates regional casinos and gaming clubs in the Indo-China region under the Dreamworld brand; and designs, manufactures, and distributes gaming chips and plaques under the Dolphin brand.
IBASE GAMING Inc	IBASE Gaming Inc. designs, develops, manufactures, and supplies gaming systems. It also offers gaming boards; gaming solutions for slot games; and multi-player table game products. The company is based in Taipei, Taiwan.
Astro Corporation	Astro Corp. develops, markets, maintains, and operates casino machines and gaming products. The company’s products and services include digital entertainment and casual software; machine chine rental and point of sales; and customization and product outsourcing services. It also operates Play Land, an Internet digital entertainment platform.
RGB International Bhd.	RGB International Bhd., an investment holding company, primarily manufactures, markets, and sells electronic gaming and amusement machines and equipment. The company also offers refurbishment, technical support, and maintenance of gaming and amusement machines and equipment. It provides its products and services in the Philippines, Cambodia, Malaysia, Laos, Macau, Vietnam, and internationally.

Source: Capital IQ

**Appendix D – Comparable transactions**

Date	Target Company	Country	Stake (%)	Deal Value (A\$m)	Implied EV/EBITDA	Status
Apr-15	Ourgame International Holdings Limited	China	29%	203	20.4 x	Announced
Sep-14	Multimedia Games Holding Company, Inc.	United States	100%	1,195	9.5 x	Closed
Aug-14	Bally Technologies, Inc.	United States	100%	5,527	12.1 x	Closed
Jul-14	International Game Technology	United States	100%	6,216	7.4 x	Closed
Jul-14	Video Gaming Technologies, Inc.	United States	100%	1,372	8.2 x	Closed
Mar-14	GemGroup Inc.	United States	100%	25	5.5 x	Closed
Dec-13	Universal Entertainment Corporation	Japan	74%	1,416	3.6 x	Closed
Jul-13	SHFL entertainment, Inc.	United States	100%	1,499	16.1 x	Closed
Jan-13	WMS Industries Inc.	United States	100%	1,495	7.6 x	Closed
Sep-12	Cadillac Jack, Inc.	United States	100%	169	5.0 x	Closed
Aug-12	GameTech International Inc., Substantially All the Assets	United States	100%	19	7.5 x	Closed
<b>Average</b>				<b>1,740</b>	<b>9.4 x</b>	
<b>Median</b>				<b>1,372</b>	<b>7.6 x</b>	

Source: S&P Capital IQ and GTCF calculations

Target Company	Description
Ourgame International Holdings Limited	Ourgame International Holdings Limited develops and operates online card and board games in the People's Republic of China.
Multimedia Games Holding Company, Inc.	Multimedia Games Holding Company, Inc. designs, manufactures, and supplies gaming machines and systems to casino, lottery, and commercial bingo gaming facility operators in the United States and internationally.
Bally Technologies, Inc.	Bally Technologies, Inc., a gaming company, designs, manufactures, operates, and distributes electronic gaming machines (EGM), network and casino-management systems, table game products, and interactive applications in the United States, Canada, and internationally.
International Game Technology	International Game Technology designs, develops, manufactures, and markets casino-style gaming equipment, system technology, and game content for land-based and online markets worldwide.
Video Gaming Technologies, Inc.	Video Gaming Technologies, Inc. designs, manufactures, distributes, and installs mechanical and video Class II gaming machines for Native American casinos and emerging markets in the United States and Mexico. The company offers products for reel mechanical games, video games, Mexico games, and Bonus Blast games, as well as Live-Call bingo.
GemGroup Inc.	GemGroup Inc., through its subsidiaries, manufactures and sells GEMACO playing cards, calendars, information and game cards, gaming table layouts, and gaming chips internationally.
Universal Entertainment Corporation	Universal Entertainment Corporation develops, manufactures, and sells Pachislot and Pachinko machines, and other game machines and peripheral devices in Japan.
SHFL entertainment, Inc.	SHFL entertainment, Inc. manufactures and distributes gaming devices, operates inter-casino linked systems, slot machine routes, leases, licenses, and sells its products.
WMS Industries Inc.	WMS Industries Inc., through its subsidiaries, engages in the design, manufacture, and distribution of games, video and mechanical reel-spinning gaming machines, and video lottery terminals (VLTs) for the legalized gaming industry worldwide.
Cadillac Jack, Inc.	Cadillac Jack, Inc. designs, manufactures, and supplies games and systems to the gaming industry.
GameTech International Inc., Substantially All the Assets	GameTech International Inc., Substantially All the Assets engages in developing, manufacturing, and marketing gaming entertainment products and systems primarily in North America.

## 10 Taxation Report

13 October 2015

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**Your reference:**

**Our reference:**

Dear Sirs

## **Selective capital reduction – Australian income tax opinion**

We have acted as legal advisors for Treyo Leisure and Entertainment Limited (**Treyo**) in connection with a proposed selective reduction of capital (**Capital Reduction**). In this opinion, we provide advice in respect of the Australian income tax implications of the proposed Capital Reduction.

### **SCOPE AND BACKGROUND**

#### **1 Scope and limitations**

- 1.1 Our opinion is based on our understanding of the facts and background as set out in the Description of the Arrangement below. To the extent that any such matter is inaccurate or changes, our advice may be incorrect.
- 1.2 This opinion relates solely to matters governed by, and should be interpreted in accordance with, the laws of Australia as in force and as interpreted at 9.00am Melbourne time on the date of this opinion. We do not express any opinion in relation to the laws of any jurisdiction other than Australia or of a State or Territory of Australia. We have no obligation to inform you of any change in any relevant law or circumstances occurring after that time.
- 1.3 Our opinion is limited to the matters expressly addressed herein, and it is not to be extended by implication.
- 1.4 Norton Rose Fulbright Australia is not licensed to provide financial product advice under the *Corporations Act 2001* (Cth). Shareholders of Treyo should consider taking advice from the holder of an Australian Financial Services Licence before making a decision on the proposed Capital Reduction.

#### **2 Description of the Arrangement**

- 2.1 Treyo is a company listed on the ASX.

APAC-#27246755-v4

- 2.2 Treyo's only asset is its 100% shareholding in Treyo International Holdings (HK) Limited (**Treyo (HK)**), a company incorporated in Hong Kong, which in turn holds all of the shares in Matsuoka Mechatronics (China) Co. Limited (**Matsuoka**), a Chinese company which manufactures automatic mahjong machines in China.
- 2.3 Treyo's major shareholders are Matoury Overseas Corp, Balatina Group Limited, Legehny Group Limited, Laury Commercial Inc and Yerigton Assets Inc. (**Controlling Shareholders**). Between them, the Controlling Shareholders currently own 83.6% of the issued shares in Treyo.
- 2.4 The shareholders in Treyo other than the Controlling Shareholders (**Exiting Shareholders**) are a mix of Australian resident and non-resident individuals, companies and superannuation funds.
- 2.5 Treyo has announced to the ASX that it proposes to undertake the Capital Reduction. The proposal will be put to a vote at an adjourned Extraordinary General Meeting (**EGM**) for approval by Treyo shareholders. Shareholders will be provided with an explanatory statement detailing the terms of the proposal prior to the adjourned EGM.
- 2.6 Under the Capital Reduction, Treyo proposes to make a selective capital reduction by cancelling all of the 51,008,000 ordinary shares held by the Exiting Shareholders, in consideration for which the Exiting Shareholders will receive a payment of:
- (1) in the case of Exiting Shareholders which are recorded with Treyo's registrar as being resident in the Republic of China - the Renminbi (CNY) equivalent of \$0.13<sup>1</sup> per share, to be converted at the currently prevailing rate on the Cancellation Date which is anticipated will be approximately \$1.00 to ¥4.70; and
  - (2) in the case of all other Exiting Shareholders - \$0.13 per share,
- (Cancellation Payment).**
- 2.7 If the Capital Reduction proceeds, the Controlling Shareholders will then own all of the shares on issue in Treyo. Following completion of the Capital Reduction, Treyo will voluntarily delist from the ASX.
- 2.8 Of the Cancellation Payment of \$0.13 per share:
- (1) \$0.11 per share will be debited to Treyo's share capital account (**Capital Component**); and
  - (2) \$0.02 will be debited to Treyo's retained earnings account (**Dividend Component**).
- 2.9 The current issued share capital of Treyo is comprised of 311,008,000 fully paid ordinary shares, and the amount of Treyo's paid up share capital is \$34,525,617. The stand-alone financial statements of Treyo as at 30 June 2015 show retained losses of \$3,238,932 and total equity of \$31,286,683. If the Capital Reduction proceeds, after its completion, Treyo will have paid up share capital of \$28,914,717.
- 2.10 As at the date of this opinion, Treyo does not have any Australian franking credits to attach to payment of the Dividend Component. We understand that Treyo will cause Treyo (HK) to pay a dividend to it immediately prior to the Capital Reduction, to ensure that Treyo has sufficient foreign source income such that it can declare the unfranked Dividend Component to be conduit foreign income on the distribution statement accompanying the Cancellation Payment.
- 2.11 Treyo's share capital account is not a tainted share capital account within the meaning of Division 197 of the *Income Tax Assessment Act 1997* (**ITAA 1997**).

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<sup>1</sup> All references to "\$" in this Tax Report are references to Australian dollars.

- 2.12 We understand that Treyo does not, either directly or indirectly through Treyo (HK), Matusoka or interests in other entities, have any operations in Australia or own any assets in Australia (including, in particular, any interests in Australian real property).

## SUMMARY OF TAX TREATMENT

### 3 Summary

- 3.1 Our opinion in respect of the Australian income tax implications of the proposed Capital Reduction may be summarised as follows.
- 3.2 The Dividend Component of the Cancellation Payment received by each Exiting Shareholder will be treated for tax purposes as an unfranked dividend which is conduit foreign income. Australian resident Exiting Shareholders should include the Dividend Component in their assessable income. Non-Australian resident Exiting Shareholders should not be subject to Australian income tax in respect of the Dividend Component (either by assessment or by way of withholding tax).
- 3.3 Capital Component of the Cancellation Payment
- (1) Australian resident Exiting Shareholders
- (a) Australian resident Exiting Shareholders who hold their shares on capital account should:
- (i) derive a capital gain where the Capital Component exceeds their cost base;
- (ii) incur a capital loss where the Cancellation Payment is less than their reduced cost base; or
- (iii) in any other case, have nil capital gain or loss.
- (b) Australian resident Exiting Shareholders who hold their Shares as trading stock should include the Capital Component of the Cancellation Payment in their assessable income.
- (c) Australian resident Exiting Shareholders who hold their shares on revenue account (other than as trading stock) should:
- (i) if the Capital Component exceeds their cost in their Shares, include the amount of that excess in their assessable income; or
- (ii) if the Capital Component is less than their cost in their Shares, incur a deductible loss.
- (2) Non-Australian resident Exiting Shareholders
- (a) Non-Australian resident Exiting Shareholders who hold their shares on capital account should not be subject to Australian tax (or be entitled to any Australian tax losses) on the Capital Component, provided that;
- (i) they have not used their shares at any time in carrying on a business through a permanent establishment<sup>2</sup> in Australia; and

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<sup>2</sup> For these purposes, permanent establishment shall have the meaning given in any relevant international tax agreement, or if there is no such agreement, then shall have the meaning given in section 6(1) of the ITAA 1936.

(ii) they have not previously been an Australian resident and chosen to disregard a capital gain or capital loss arising in respect of the shares on ceasing to be a resident.

(b) Non-Australian resident Exiting Shareholders who hold their shares on revenue account (including as trading stock) should generally only be subject to Australian tax on the Capital Component if the Cancellation Payment is regarded as Australian source income derived by that Exiting Shareholder. This will include a situation where the Cancellation Payment is attributable to an Australian permanent establishment of the Exiting Shareholder. However, a double tax treaty may provide for a different treatment based on the circumstances of the Exiting Shareholder.

Any non-Australian resident Exiting Shareholders who hold their shares on revenue account should seek their own tax advice, as the rules on whether income has an Australian source are complex.

3.4 We consider the split of the Cancellation Payment between the Dividend Component and the Capital Component to be appropriate, such that the Commissioner should not treat any of the Capital Component as a dividend by application of the dividend streaming or capital benefit rules in sections 45A to 45C of the *Income tax Assessment Act 1936* (Cth) (**ITAA 1936**).

3.5 We will lodge a class ruling application with the ATO on behalf of Treyo and expect the class ruling issued by the ATO to provide confirmation of the position set out above.

## TAX ANALYSIS

### 4 Split dividend and capital return treatment

4.1 The Cancellation Payment of \$0.13 per share paid by Treyo to Exiting Shareholders in respect of the cancellation of a share under the Capital Reduction will be a distribution made by Treyo.

4.2 Any distribution made by a company to its shareholders, whether in money or property, is a dividend except where the distribution is debited against an amount standing to the credit of the share capital account of the company.<sup>3</sup> As the Dividend Component of the Cancellation Payment will be debited to Treyo's retained earnings, it will be regarded as a dividend for Australian tax purposes.

4.3 A company's share capital account is an account which the company keeps of its share capital, or any other account created on or after 1 July 1998 where the first amount credited to the account was an amount of share capital. However, an account is taken not to be a share capital account for most income tax purposes if it is tainted.<sup>4</sup> A share capital account is tainted if an amount to which Division 197 of the ITAA 1997 applies is transferred to the account. Broadly, Division 197 applies to an amount of any other account of the company, except certain specific categories of account which are in the nature of share capital.

4.4 We understand that Treyo's share capital account is not tainted. As the Capital Component of the Cancellation Payment will be debited to Treyo's share capital account, it should not be regarded as a dividend for Australian tax purposes, so long as the anti-avoidance rules discussed below do not apply.

### 5 The anti-avoidance provisions

5.1 Sections 45A and 45B of the ITAA 1936 are anti-avoidance provisions which, if they apply, allow the Commissioner to make a determination that part of a capital benefit received by shareholders is to

<sup>3</sup> See the definition of "dividend" in section 6(1) of the ITAA 1936.

<sup>4</sup> See subsection 975-300(1) and (3) of the ITAA 1997.



be treated as an unfranked dividend.<sup>5</sup> If applied, this could have the effect of deeming part of the Capital Component of the Cancellation Payment to be an unfranked dividend in the hands of Exiting Shareholders. These sections are discussed in detail in paragraphs 6 and 7 below, respectively.

- 5.2 Neither section 177EA of the ITAA 1936 nor section 204-30 of the ITAA 1997 have application as the Dividend Component will be unfranked.

## **6 Streaming of capital benefits – section 45A**

- 6.1 Section 45A of the ITAA 1936 is an anti-avoidance provision that applies in circumstances where capital benefits are streamed to certain shareholders (advantaged shareholders) who derive a greater benefit from the receipt of share capital than other shareholders (disadvantaged shareholders), and it is reasonable to assume that the other shareholders have received or will receive dividends.
- 6.2 Under the Capital Reduction, a capital benefit is provided to Exiting Shareholders in the form of the Capital Component.<sup>6</sup> However, there is no streaming as among the Exiting Shareholders, as each Exiting Shareholder is to receive the same split between Capital Component and Dividend Component.
- 6.3 The next question is to determine whether the Exiting Shareholders may be regarded as advantaged shareholders who would derive a greater benefit from the Capital Component as against the Controlling Shareholders.
- 6.4 The split between the Capital Component and the Dividend Component has been determined using the average capital per share (**ACPS**) methodology. The ACPS methodology is referred to by the ATO in Practice Statement *PS LA 2007/9* as the preferred methodology for determining the dividend/capital split in the context of an off-market share buy-back. There is no equivalent guidance made explicitly for capital reductions, however, a capital reduction is economically equivalent to a share buy-back and, in our view, the principles set out by the ATO should apply equally to a capital reduction as to a share buy-back. Applying the ACPS method, the Capital Component of \$0.11 was obtained by dividing Treyo's paid up share capital on 30 June 2015 (being \$34,525,617) by the number of shares on issue at 30 June 2015 (being 311,008,000). Neither Treyo's paid up share capital nor the number of shares it has on issue will change from the 30 June 2015 position before the Capital Reduction takes place.
- 6.5 The circumstances giving rise to the Capital Reduction are that the Controlling Shareholders seek to take full ownership of Treyo and de-list it from the ASX. The ACPS methodology has been used in determining the Capital Component of the Cancellation Payment, so that, on the Capital Reduction, each Exiting Shareholder receives a payment in the nature of capital, and each Controlling Shareholder retains an interest in the share capital of Treyo, which reflects their respective capital interests before the Capital Reduction. In our view, in the circumstances there is no intention to stream a capital benefit to certain shareholders such as would attract the application of section 45A of the ITAA 1936.
- 6.6 Based on the above, in our opinion section 45A of the ITAA 1936 has no application to the Capital Reduction.

## **7 Substitution of dividends – section 45B**

- 7.1 Section 45B of the ITAA 1936 applies to ensure that relevant amounts are treated as dividends for taxation purposes if, relevantly they are made in substitution for dividends.
- 7.2 Subsection 45B(2) of the ITAA 1936 is the operative provision and applies where:

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<sup>5</sup> Such a determination is made under section 45C of the ITAA 1936.

<sup>6</sup> See the definition of "capital benefit" in section 45A(3) of the ITAA 1936.

- (1) there is a scheme under which a person is provided with a demerger benefit or capital benefit by a company (paragraph 45B(2)(a) of the ITAA 1936);
  - (2) under the scheme, a taxpayer, who may or may not be the person provided with the demerger benefit or the capital benefit, obtains a tax benefit (paragraph 45B(2)(b) of the ITAA 1936); and
  - (3) having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, who entered into the scheme or carried out the scheme or any part of the scheme did so for a purpose, other than an incidental purpose, of enabling a taxpayer to obtain a tax benefit (paragraph 45B(2)(c) of the ITAA 1936).
- 7.3 The Capital Reduction is a scheme for the purposes of section 45B of the ITAA 1936, as the Capital Reduction constitutes an arrangement or course of action under which the Treyo shares are cancelled. Also, a capital benefit (as defined in subsection 45B(5) of the ITAA 1936) will be provided to Exiting Shareholders, being the distribution of share capital (refer to paragraph 45B(5)(b) of the ITAA 1936).
- 7.4 A tax benefit arises from the provision of a capital benefit if an amount of tax payable by the relevant taxpayer would, apart from the operation of section 45B of the ITAA 1936, be less than the amount that would otherwise have been payable, or would have been payable at a later time than it would have been payable had the capital benefit provided been a dividend. The Capital Reduction will therefore involve the provision of a tax benefit to Exiting Shareholders generally to the extent that the Cancellation Payment was allocated to capital as opposed to constituting the payment of a dividend, because it is generally the case that capital receipts are taxed more beneficially as compared to income receipts such as dividends.
- 7.5 We note that because the Dividend Component will be conduit foreign income, a non-resident Exiting Shareholder is likely to be indifferent, from an Australian tax perspective, to the split between dividend and capital. However, a tax benefit will still arise to the Australian resident Exiting Shareholders.
- 7.6 The requirements of paragraphs 45B(2)(a) and 45B(2)(b) of the ITAA 1936 have therefore been met. Consequently, it is necessary to determine whether it could be objectively concluded that a “more than incidental purpose” of one of the persons who is a party to the scheme is to enable a taxpayer to obtain the identified tax benefit. In this case, given that there are genuine commercial reasons for the Capital Reduction, in our view the requisite purpose of enabling the Exiting Shareholders to obtain a tax benefit (by way of a capital benefit) is not present.
- 7.7 The legislation sets out a number of relevant circumstances which are to be taken into account in determining whether the requisite purpose exists. We note in particular the following relevant factors:
- (1) one of relevant circumstance concerns the extent to which the capital benefit is attributable to profits of the company or of an associate of the company. It is stated in ATO guidance that:

*“The inquiry contemplated by the words ‘attributable to’ is essentially a practical one concerned with determining whether there is a discernible connection between the amount distributed as share capital and the share capital and profits that are realistically available for distribution, including the profits of an associate of the company.”<sup>7</sup>*
- The occasion for payment of the Capital Component as a return of capital is the cancellation of the Exiting Shareholders' shares. The cancellation of shares renders that part of the capital of the company surplus to the company's needs. The Capital Component of the

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<sup>7</sup> See the ATO's Practice Statement *PS LA 2008/10* at paragraph 61.

Cancellation Payment is not attributable to profits of Treyo, and the Capital Component does not represent a *de facto* return of profit;

- (2) it is apparent that the capital benefit provided to the Exiting Shareholders is reasonable on the basis that the ACPS method has been adhered to and therefore the capital and dividend components will be attributable to the capital and profits respectively of Treyo at the time of the Capital Reduction. Although *PS LA 2007/9* addresses buy-backs, in our opinion the ACPS approach as set out in that statement is an appropriate method to apply in the current circumstances, as the Capital Reduction is economically a similar transaction to a buy-back;
- (3) several of the relevant circumstances listed in the legislation refer to the tax characteristics of the taxpayer receiving the capital benefit, which in this case would be Australian-resident Exiting Shareholders. Treyo, as a listed entity, is unaware of or has not considered in detail the particular individual tax characteristics of its shareholders. Therefore, in our view those characteristics cannot point to a purpose of enabling the Exiting Shareholders to obtain a tax benefit; and
- (4) section 45B(3) incorporates by cross-reference relevant circumstances which are to be taken into account when considering whether a scheme falls within the general anti-avoidance rules in Part IVA of the ITAA 1936. Broadly, these include the manner in which the scheme was entered into or carried out, the form and substance of the scheme, the timing of the scheme, the financial, tax and non-tax effects of the scheme and the nature of any connection between the taxpayer and other parties to the scheme. The Capital Reduction is a straight forward, one-step transaction, which is part of a plan to de-list Treyo for commercial reasons. In our view, these factors point away from it being regarded as a complex, tax-motivated scheme.

7.1 In our opinion, the relevant circumstances outlined in subsection 45B(8) of the ITAA 1936 do not support the view that the purpose of the transaction is to obtain a tax benefit for the Exiting Shareholders. Rather, the factors in subsection 45B(8) of the ITAA 1936 indicate that the reasons for the Capital Reduction are related to management of Treyo's capital and the proposed de-listing of Treyo from the ASX. Accordingly, in our opinion the Commissioner should not make a determination under subsection 45B(3) of the ITAA 1936 that section 45C will apply to the whole or any part of the Capital Component of the Cancellation Payment received by Exiting Shareholders.

## 8 Treatment of the Dividend Component

8.1 For all Australian resident Exiting Shareholders, the Dividend Component should be included in their assessable income under subsection 44(1) of the ITAA 1936 on the basis that the Dividend Component satisfies the definition of a dividend in subsection 6(1) of the ITAA 1936, and is paid to the shareholders out of profits derived by the company from any source.

8.2 As the Dividend Component will be unfranked, non-resident Exiting Shareholders would generally be subject to Australian dividend withholding tax on the Dividend Component at a rate of 30% (or some other reduced rate, generally 15%, if a double tax treaty applies).

8.3 However, unfranked dividends which are declared to be "conduit foreign income" by the distributing company in the distribution statement are, for non-Australian residents:

- (1) non-assessable and non-exempt income; and
- (2) amounts to which Australian dividend withholding tax under section 128B of the ITAA 1936 does not apply (refer section 802-15 of the ITAA 1997).

The declaration must be made on or before the date on which the distribution is made.

8.4 Therefore, on the basis that Treyo will not frank the Dividend Component, and that Treyo will declare the Dividend Component to be conduit foreign income on distribution statements which will be issued on the Cancellation Date (when the Cancellation Payment is made), non-resident Exiting

Shareholders should not be subject to Australian income tax nor Australian dividend withholding tax in respect of the Dividend Component.

## 9 Treatment of the Capital Component

9.1 Depending on how the shares are held, the disposal will have different income taxation implications for Exiting Shareholders.

9.2 Exiting Shareholders who hold their Treyo shares on capital account will be subject to the CGT provisions. While Exiting Shareholders who hold their shares on revenue account are also technically subject to the CGT provisions, sections 118-20 and 118-25 of the ITAA 1997 (which are anti-overlap provisions) should operate so that no capital gain arises to those shareholders. Likewise, sections 118-25 and 110-55 of the ITAA 1997 (which exclude deductible costs from the reduced cost base for CGT purposes) should operate so that no capital loss arises to those shareholders.

### Shares held on capital account

9.3 For each Exiting Shareholder, CGT event C2 will occur on the Cancellation Date, when their Shares are cancelled.

9.4 Each Exiting Shareholder will:

- (1) make a capital gain to the extent the Capital Component of their Cancellation Payment exceeds their cost base in their Shares;
- (2) make a capital loss to the extent the Cancellation Payment is less than their reduced cost base; or
- (3) in any other case, have nil capital gain or loss.

9.5 We note that the capital proceeds from CGT event C2 are the total of the money and the market value of any property the Exiting Shareholder has received or is entitled to receive in respect of the event happening (section 116-20(1) of the ITAA 1997). Accordingly, the whole Cancellation Payment would be regarded as capital proceeds from the cancellation of the Shares. However, any capital gain the Exiting Shareholder would otherwise make is reduced if an amount arising from the CGT event is included as assessable income, exempt income or non-assessable non-exempt income of the Exiting Shareholder (section 118-20(1) and (3)). Therefore, the Capital Component only of the Cancellation Payment should be taken into account in calculating any capital gain arising from the Capital Reduction.

9.6 In calculating any capital loss, however, the whole of the Cancellation Payment should be taken into account.

9.7 We also note, that in our view, the Cancellation Payment should be accepted as the proceeds of disposal for CGT purposes, and the market value substitution rule in section 116-30 of the ITAA 1997 should not apply, on the basis that:

- (1) Treyo and the Exiting Shareholders will deal with each other at arm's length in connection with the Capital Reduction; and
- (2) the Cancellation Payment reflects a market value for the shares which would be paid by a willing but not anxious buyer to a willing but not anxious seller.

9.8 For Exiting Shareholders that are not Australian tax residents and who hold their shares on capital account, any gain or loss will be disregarded where the shares are not "taxable Australian property" for the purposes of Division 855 of the ITAA 1997. A Treyo share will only be taxable Australian property if:

- (1) the share is an “indirect Australian real property interest” under section 855-25 of the ITAA 1997;
  - (2) the share is used by the shareholder at any time in connection with carrying on a business through a permanent establishment in Australia; or
  - (3) the shareholder has previously been an Australian resident and chosen to disregard a capital gain or capital loss arising in respect of the share on ceasing to be a resident under section 104-165 of the ITAA 1997.
- 9.9 None of the Shares of the Exiting Shareholders will be “indirect Australian real property interests” on the basis that Treyo’s underlying value is not principally derived from Australian real property for purposes of section 855-30 of the ITAA 1997. Therefore, any capital gain or loss for non-resident Exiting Shareholders should be disregarded, unless one of the circumstances outlined in paragraph 9.8(2) or (3) applies.

Shares held on revenue account (including as trading stock)

- 9.10 Australian resident Exiting Shareholders who hold their shares as trading stock should include the Capital Component in their assessable income in accordance with section 70-80 of the ITAA 1997.
- 9.11 Australian resident Exiting Shareholders who hold their shares as revenue assets other than trading stock should include in their assessable income the Capital Component less the deductible costs of acquiring and holding the Shares, in accordance with the general principles of net profit accounting.
- 9.12 We note that in each of the above cases the amount is included as ordinary income taxable under section 6-5(1) of the ITAA 1997, and *prima facie* should take into account the entire Cancellation Payment. However, because in each of the above cases the Dividend Component is also treated as assessable income under section 44(1) of the ITAA 1936, section 6-25 of the ITAA 1997 operates so that the amount need only be brought to account once. As a result, the amount to be taxed may be determined by reference to the Capital Component of the Cancellation Payment only.
- 9.13 For non-resident Exiting Shareholders who hold their Shares as revenue assets, the same provisions and principles of income taxation apply as described above for resident shareholders. However, as mentioned, the amounts described above are included as ordinary income taxable under section 6-5 of the ITAA 1997. In accordance with section 6-5(3), non-resident Exiting Shareholders will only be subject to income taxation under section 6-5(1) of the ITAA 1997 to the extent that:
- (1) the income is regarded as derived directly or indirectly from an Australian source; or
  - (2) there is a provision which includes the income in a taxpayer’s assessable income on some basis other than having an Australian source.
- 9.14 We are not aware of any provision which would include the Capital Component of the Cancellation Payment in the assessable income of any non-resident Exiting Shareholder on a basis other than having an Australian source.
- 9.15 Accordingly, we consider that non-resident Exiting Shareholders who hold their Shares as revenue assets should be subject to Australian tax only to the extent that the Cancellation Payment is for any reason regarded as Australian source income derived by that Exiting Shareholder which is subject to tax under section 6-5(3)(a) of the ITAA 1997 (which will include a situation where the Cancellation Payment is attributable to an Australian permanent establishment of the Exiting Shareholder). This is subject to the qualification that a double tax treaty may provide for a different treatment based on the circumstances of the Exiting Shareholder.

**10 Analysis - Division 16K**

- 10.1 Division 16K of the ITAA 1936 provides for the taxation treatment of share buy-backs. Section 159GZZZK(a) of the ITAA 1936 states that a purchase is a buy-back where a company buys a share in itself from a shareholder in the company.
- 10.2 Treyo will not be buying-back its shares from Exiting Shareholders. Instead they will be cancelled in accordance with section 256B of the *Corporations Act 2001* (Cth). Therefore the Capital Reduction should not be treated as a buy-back for the purposes of Division 16K of the ITAA 1936.

Yours faithfully



Andrew Spalding  
Partner  
Norton Rose Fulbright Australia

## 11 Glossary

<b>\$ or A\$</b>	Australian dollars
<b>Annual General Meeting</b>	The annual general meeting of Treyo held on 28 May 2015
<b>ASIC</b>	The Australian Securities and Investments Commission
<b>associate</b>	The meaning given in the Corporations Act
<b>ASX</b>	ASX Limited ACN 008 624 691 or the Australian Securities Exchange operated by it, as the context requires
<b>ATO</b>	The Australian Taxation Office
<b>Balatina</b>	Balatina Group Limited, a company incorporated in the British Virgin Islands and Treyo's Executive Chairman, Mr Ling (Allan) Mao owns 100% of this company. At the date of this Explanatory Memorandum, Balatina is the holder of 48,100,000 Shares, being approximately 15.47% of the total number of Shares. See section 8.11
<b>Business Day</b>	a day which is not a Saturday, Sunday or a public holiday in Melbourne, Victoria
<b>Cancellation Payment</b>	A\$0.13 per Share, which is the consideration for the cancellation of Shares held by Exiting Shareholders
<b>Capital Component</b>	\$0.11 per Share, which is treated as a capital receipt for tax purposes
<b>Capital Reduction</b>	the proposed selective reduction of capital of Treyo to be effected by the cancellation of all Shares held by the Exiting Shareholders for the consideration of A\$0.13 per Share
<b>Controlling Shareholders</b>	The 5 largest shareholders in Treyo, being: <ul style="list-style-type: none"> <li>(1) Matoury (57.68%);</li> <li>(2) Balatina (15.47%);</li> <li>(3) Legheny (5.43%);</li> <li>(4) Yerigton (2.51%); and</li> <li>(5) Laury (2.51%)</li> </ul> <p>See section 8.11</p>
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth)
<b>Dividend Component</b>	\$0.02 per Share, which is treated as a dividend for tax purposes
<b>Exiting Shareholders</b>	All Shareholders, other than the Controlling Shareholders
<b>Explanatory Information</b>	The information set out in section 8 of this Explanatory Memorandum
<b>Explanatory Memorandum</b>	This document, including the Notice of General Meeting, the Notice of Special Meeting, the Explanatory Information, the Independent Expert's Report and the Taxation Report



<b>General Meeting</b>	The meeting of Shareholders called by Treyo as referred to in section 4 of this Explanatory Memorandum, at which the General Meeting Resolution will be proposed
<b>General Meeting Resolution</b>	A special resolution regarding the Capital Reduction in the form of the special resolution set out in section 4 of this Explanatory Memorandum that will be proposed at the General Meeting and at which votes cast in favour of the special resolution by Shareholders who will be Exiting Shareholders or their associates will be disregarded
<b>Independent Directors</b>	Mr Roger Smeed, Mr Minghua Yu and Mr Edward Byrt
<b>Independent Expert</b>	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987), a subsidiary or related entity of Grant Thornton Australia Ltd (ABN 41 127 556 389)
<b>Laury</b>	Laury Commercial Inc., a company incorporated in the British Virgin Islands and Treyo's Executive Chairman, Mr Ling (Allan) Mao owns 100% of this company. At the date of this Explanatory Memorandum, Laury is the holder of 7,800,000 Shares, being approximately 2.51% of the total number of Shares. See section 8.11
<b>Legheny</b>	Legheny Group Limited, a company incorporated in the British Virgin Islands. At the date of this Explanatory Memorandum, Legheny is the holder of 16,900,000 Shares, being approximately 5.43% of the total number of Shares. See section 8.11
<b>Manager</b>	Shenzhen Shangzuo Investment Management Co., Ltd, a company incorporated in the People's Republic of China and the professional investment advisor of the Partnership
<b>Matoury</b>	Matoury Overseas Corp., a company incorporated in the British Virgin Islands and Treyo's Executive Director, Mr Guohua Wei owns 100% of the company. At the date of this Explanatory Memorandum, Matoury is the holder of 179,400,000 Shares, being approximately 57.68% of the total number of Shares. See section 8.11
<b>Matsuoka</b>	Matsuoka Mechatronics (China) Co., Limited, a wholly foreign-owned limited liability company incorporated in the People's Republic of China and a subsidiary of Treyo
<b>Meetings</b>	The General Meeting and the Special Meeting
<b>Non-Independent Directors</b>	Mr Ling (Allan) Mao, Mr Guohua Wei, Mr Kwong Fat Tse and Mr Zhongliang Zheng
<b>Notice of General Meeting</b>	The notice of meeting of Shareholders as set out in section 4 of this Explanatory Memorandum
<b>Notices of Meeting</b>	The Notice of General Meeting and the Notice of Special Meeting
<b>Notice of Special Meeting</b>	The notice of meeting of Shareholders other than the Controlling Shareholders as set out in section 5 of this Explanatory Memorandum
<b>Partnership</b>	Shangzuo Asset Management Centre (Limited Partnership)
<b>Record Date</b>	The date is 4 Business Days after the date on which Treyo informs ASX that it is 14 days after Treyo lodged with ASIC a copy of the Resolutions approving the Capital Reduction. The Record Date is expected to be 4 December 2015 but may be an earlier date or a later date



<b>Record Time</b>	7.00pm (Melbourne time) on the Record Date, being the time at which the Capital Reduction will take effect
<b>Resolutions</b>	the General Meeting Resolution and the Special Meeting Resolution
<b>Share</b>	a fully paid ordinary share in the capital of Treyo
<b>Share Capital</b>	the share capital of Treyo
<b>Shareholder</b>	A holder of one or more Shares
<b>Special Meeting</b>	The meeting of Shareholders other than the Controlling Shareholders called by Treyo, as referred to in section 5 of this Explanatory Memorandum at which the special Meeting Resolution will be proposed
<b>Special Meeting Resolution</b>	A special resolution regarding the Capital Reduction in the form of the special resolution set out in section 5 of this Explanatory Memorandum that will be proposed at the Special Meeting
<b>Tax Act</b>	<i>Income Tax Assessment Act 1936 (Cth)</i>
<b>Taxation Report</b>	The report prepared by Norton Rose Fulbright as set out in section 10 of this Explanatory Memorandum
<b>Treyo</b>	Treyo Leisure and Entertainment Limited (ABN 93 131 129 489)
<b>Treyo (HK)</b>	Treyo International Holdings (HK) Ltd, a company incorporated in Hong Kong and a subsidiary of Treyo. It is also the intermediate parent entity of Matsuoka
<b>Yerigton</b>	Yerigton Assets Inc., a company incorporated in the British Virgin Islands. Treyo's Executive Director, Mr Zhongliang Zheng owns 100% of this company. At the date of this Explanatory Memorandum, Yerigton is the holder of 7,800,000 Shares, being approximately 2.51% of the total number of Shares. See section 8.11

## 12 CORPORATE DIRECTORY

### DIRECTORS

**Mr Ling (Allan) Mao**  
(Executive Chairman)

**Mr Roger Smeed**  
(Independent, Non-Executive Deputy Chairman)

**Mr Guohua Wei**  
(Executive Director)

**Mr Kwong Fat Tse**  
(Non-Executive Director)

**Mr Zhongliang Zheng**  
(Executive Director)

**Mr Minghua Yu**  
(Independent, Non-Executive Director)

**Mr Edward Byrt**  
(Independent, Non-Executive Director)

### COMPANY SECRETARY

**Ms Jo-Anne Dal Santo**

### REGISTERED OFFICE

Level 2, 371 Spencer Street  
Melbourne Victoria 3000

### INDEPENDENT EXPERT

Grant Thornton Corporate Finance Pty Ltd  
Level 17, 383 Kent Street  
Sydney New South Wales 2000

### LEGAL ADVISERS and TAXATION ADVISERS

Norton Rose Fulbright Australia  
RACV Tower, Level 15, 485 Bourke Street  
Melbourne Victoria 3000



**Treyo Leisure and Entertainment Ltd**  
ACN 131 129 489

**Lodge your vote:**



**By Mail:**

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

**For all enquiries call:**

(within Australia) 1300 850 505  
(outside Australia) +61 3 9415 4000

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MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030



**Proxy Form - General Meeting**

**XX**

**For your vote to be effective it must be received by 10.00 am (Melbourne time) on Saturday 14 November 2015**

**How to Vote on Items of Business**

All your securities will be voted in accordance with your directions.

**Appointment of Proxy**

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

**Signing Instructions**

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

**Attending the Meeting**

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** ➔



View your securityholder information, 24 hours a day, 7 days a week:

**[www.investorcentre.com](http://www.investorcentre.com)**

- Review your securityholding
- Update your securityholding

**Your secure access information is:**

**SRN/HIN: I9999999999**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

# Proxy Form - General Meeting

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Treyo Leisure and Entertainment Limited hereby appoint

the Chairman of the Meeting **OR**

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Treyo Leisure and Entertainment Limited to be held at Level 15, 485 Bourke Street Melbourne VIC on Monday, 16 November 2015 at 10.00am (Melbourne time) and at any adjournment or postponement of that meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Resolution 1 Selective Share Capital Reduction

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date \_\_\_\_ / \_\_\_\_ / \_\_\_\_

TYO

205949A

Computershare



Treyo Leisure and Entertainment Ltd  
ACN 131 129 489

### Lodge your vote:



**By Mail:**

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
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SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Proxy Form - Special Meeting

XX

For your vote to be effective it must be received by 11.00am (Melbourne time) on Saturday 14 November 2015

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** →



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**[www.investorcentre.com](http://www.investorcentre.com)**

- Review your securityholding
- Update your securityholding

**Your secure access information is:**

**SRN/HIN: I999999999**



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I 9999999999

I ND

# Proxy Form - Special Meeting

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Treyo Leisure and Entertainment Limited hereby appoint

the Chairman of the Meeting **OR**

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Special Meeting of Treyo Leisure and Entertainment Limited to be held at Level 15, 485 Bourke Street Melbourne VIC on Monday, 16 November 2015 to commence promptly after the conclusion or adjournment of the General Meeting which commences at 10.00 am (Melbourne time) and at any adjournment or postponement of the Special meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Resolution 1 Selective Share Capital Reduction

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date / /

TYO

205949B

Computershare +