



**ASX ANNOUNCEMENT  
9 DECEMBER 2014**

**Notice of Extraordinary General Meeting  
for Approval of Equal Access Off-Market Share Buy-Back  
and Issue of Preference Shares**

On 9 December 2014, PAYCE Consolidated Limited (**PAYCE**) released a Notice of Extraordinary General Meeting and Explanatory Statement.

PAYCE is seeking Shareholder approval for an equal access off-market buy-back of up to 20,938,426 of PAYCE's Ordinary Shares, representing 70.4% of PAYCE's issued share capital (**Buy-Back**).

The consideration for the Buy-Back by PAYCE of each Ordinary Share will be:

- \$0.50 cash paid upon cancellation of the Ordinary Shares;
- \$0.50 cash paid 12 months after the cancellation of the Ordinary Shares; and
- One Preference Share issued at \$7.50 on the terms contained within the Explanatory Statement

An Extraordinary General Meeting will be held at 11:30am on Tuesday 13<sup>th</sup> January 2015 for Shareholders to vote on the proposal.

ENDS

Brian Bailison  
Company Secretary



## NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY STATEMENT

In relation to the Extraordinary General Meeting of Shareholders of  
PAYCE Consolidated Limited ABN 19 001 566 310  
to be held as follows:

<b>Date:</b>	Tuesday 13 January 2015
<b>Time:</b>	11.30am AEDT
<b>Location:</b>	Pulse, 9 The Crescent, Wentworth Point, 2127, New South Wales

This Notice of Extraordinary General Meeting and Explanatory Statement should be read in its entirety. If you are in doubt as to how you should vote, you should seek advice from your accountant, solicitor or professional advisor.

This Notice of Extraordinary General Meeting and Explanatory Statement is dated 9 December 2014.

# IMPORTANT NOTICE

## What is this document?

This Notice of Extraordinary General Meeting and Explanatory Statement has been prepared and is issued by PAYCE Consolidated Limited ("**PAYCE**") to allow Shareholders to vote on Resolutions to be put to Shareholders in general meeting.

## No investment advice

The information contained in this Notice of Extraordinary General Meeting and Explanatory Statement does not constitute financial product advice, and has been prepared without reference to Shareholders' particular investment objectives, financial situation, taxation position, and needs. It is important that you read the Notice of Extraordinary General Meeting and Explanatory Statement in its entirety before making any decision on how to vote on the Resolutions. If you are in any doubt, you should consult your professional adviser.

## Responsibility

PAYCE Consolidated Limited has prepared this document.

## Questions

If you have any questions about your holding of Ordinary Shares or the Resolutions, please call + 617 3009 9887 or consult your own professional adviser.

## Date

This Notice of Extraordinary General Meeting and Explanatory Statement is dated 9 December 2014.

# KEY DATES

11 January 2015 11.30am AEDT	Latest date and time for receipt of Proxy Forms for the Extraordinary General Meeting.
11 January 2015 7.00pm AEDT	Entitlement time and date for determining eligibility to vote at the Extraordinary General Meeting, for the purposes of Corporations Regulation 7.11.37.
13 January 2015 11.30am AEDT	Extraordinary General Meeting to be held at Pulse, 9 The Crescent, Wentworth Point, 2127, New South Wales.

All references to time in this Explanatory Statement are to Sydney time. This timetable is indicative only. PAYCE reserves the right to vary the timetable set out above.

## GLOSSARY

Term	Definition
Acceptance Form	the personalised acceptance form to be provided to Eligible Shareholders in relation to the Buy-Back
ASIC	Australian Securities and Investments Commission
associated entities	has the meaning given to it in section 50AAA of the Corporations Act, and includes the expression ' <i>entities associated with</i> ' and similar terms
ASX	ASX Limited ACN 008 824 691 or the financial market operated by it as the context requires
Buy-Back	the transaction contemplated by Resolution 1 in the Notice of Extraordinary General Meeting and Explanatory Statement
Buy-Back Record Date	the time and date for determining Shareholders eligible to participate in the Buy-Back, being 7.00pm on 20 January 2015
Closing Date	The last day of the Offer Period for the Buy-Back, being 11 February 2015
Corporations Act	the <i>Corporations Act</i> 2001 (Cth)
Directors	the Directors of PAYCE as at the date of the Notice of Extraordinary General Meeting, who include Brian Boyd and the Independent Directors
Dividend	non-cumulative dividends of 6% per annum proposed to be paid quarterly on the Preference Shares, subject to such Dividends being declared at the discretion of PAYCE
Dividend Payment Date	the date on which a Dividend is scheduled to be paid on the Preference Shares (being each 16 May, 16 August, 16 November, and 16 February), subject to such Dividends being declared at the discretion of PAYCE
Dividend Payment Restriction	<p>a restriction imposed on PAYCE's ability to:</p> <ul style="list-style-type: none"> <li>• declare or pay dividends on any class of share capital other than Preference Shares; or</li> <li>• redeem, reduce, cancel buy-back or acquire for any consideration any share capital,</li> </ul>

Term	Definition
	as summarised in section 2.2(f) and set out in clause 3.7 of Schedule 1
Eligible Shareholder	a Shareholder who is a registered holder of Ordinary Shares on the Buy-Back Record Date
Ex-Entitlement Date	the date on which Ordinary Shares commence trading without an entitlement to participate in the Buy-Back, 16 January 2015
Explanatory Statement	the Explanatory Statement accompanying the Notice of Extraordinary General Meeting
Extraordinary General Meeting	the meeting of Shareholders called for 13 January 2015 as convened by the attached Notice of Extraordinary General Meeting
Independent Directors	Mr Roger Short and Mr Christopher Gabriel, who are non-executive Directors of PAYCE
Listing Rules	the listing rules of ASX
Notice of Extraordinary General Meeting or Notice	the notice of meeting giving notice to Shareholders of the Extraordinary General Meeting, accompanying the Explanatory Statement
Offer	the offer to Eligible Shareholders to participate in the Buy-Back on the basis set out in Section 6
Offer Document	the document setting out the Offer to Eligible Shareholders, including the terms of the Buy-Back, a prospectus for the issue of Preference Shares, and a personalised Acceptance Form
Offer Period	the period for accepting the Offer to participate in the Buy-Back
Opening Date	the first day of the Offer Period for the Buy-Back, being 21 January 2015
Ordinary Resolution	a resolution passed by at least 50% of total votes cast by Shareholders entitled to vote on the Resolution
Ordinary Share	an ordinary share in the capital of PAYCE
PAYCE	PAYCE Consolidated Limited ABN 19 001 566 310
Preference Shares	the securities which are to be issued to Shareholders in partial

Term	Definition
	consideration for the Buy-Back, the terms of which are summarised in Section 2.2 and set out in detail in Schedule 1 of this Notice of Extraordinary General Meeting
<b>Preference Share Holder</b>	a registered holder of Preference Shares in PAYCE
<b>Preference Share Terms</b>	the terms and conditions on which the Preference Shares are to be issued, as set out in in Schedule 1 of this Notice of Extraordinary General Meeting.
<b>Proxy Form</b>	the proxy form enclosed with this Notice of Extraordinary General Meeting
<b>Register</b>	the register of members of PAYCE maintained in accordance with the Corporations Act
<b>Registry</b>	Boardroom Pty Limited, which operates the Register
<b>Resolutions</b>	the resolutions set out in this Notice of Extraordinary General Meeting
<b>Shareholder</b>	a registered holder of Ordinary Shares in PAYCE
<b>Special Resolution</b>	a resolution passed by at least 75% of total votes cast by Shareholders entitled to vote on the Resolution

# CONTENTS

IMPORTANT NOTICE.....	2
KEY DATES .....	2
GLOSSARY.....	3
CONTENTS.....	6
LETTER TO SHAREHOLDERS .....	8
NOTICE OF EXTRAORDINARY GENERAL MEETING.....	9
VOTING & ELIGIBILITY .....	10
EXPLANATORY STATEMENT.....	12
1. Overview.....	12
2. Resolution 1 – Approval of Share Buy-Back .....	14
3. Advantages and Disadvantages of the Buy-Back for Shareholders.....	26
4. Independent Directors’ Commentary Regarding the Buy-Back.....	30
5. Risks.....	33
6. Terms on which the Buy-Back will be Undertaken.....	36
7. Australian Taxation Implications for Shareholders.....	43
8. Resolution 2 – Approval for the Issue of Preference Shares.....	45
9. Additional Information.....	48
Terms of Preference Shares.....	52
1. Definitions.....	52
2. Description.....	53
3. Dividends .....	54
4. Call Option .....	57
5. General Rights And Obligations of Preference Shares.....	58

6. Voting Rights .....	60
7. Amendments To The Terms Of Issue.....	60
8. Interpretation .....	60
CORPORATE DIRECTORY .....	61



# LETTER TO SHAREHOLDERS

9 December 2014

Dear Shareholder

## EXTRAORDINARY GENERAL MEETING

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We are pleased to provide you with the Notice of Extraordinary General Meeting and Explanatory Statement in relation to the meeting of Shareholders of PAYCE Consolidated Limited to be held on 13 January 2015.

The Directors of PAYCE Consolidated Limited (**PAYCE**) are seeking Shareholder approval for an equal access off-market buy-back of up to 20,938,426 of PAYCE's Ordinary Shares, representing 70.4% of PAYCE's issued share capital (**Buy-Back**).

The consideration for the Buy-Back by PAYCE of each Ordinary Share will be:

- \$0.50 cash paid upon cancellation of the Ordinary Shares;
- \$0.50 cash paid 12 months after the cancellation of the Ordinary Shares; and
- one Preference Share issued at \$7.50 on the terms summarised in Sections 2.2 and set out in greater detail in Schedule 1 of the Explanatory Statement.

The Directors of PAYCE are of the opinion that the proposal to undertake the Buy-Back of Ordinary Shares, and issue Preference Shares as partial consideration, is in the best interests of Shareholders.

This document contains a Notice of Extraordinary General Meeting and Explanatory Statement, and is accompanied by a Proxy Form for the Extraordinary General Meeting of PAYCE to be held at 11.30am on 13 January 2015.

### Recommendation for Share Buy-Back

This proposal is being put to Shareholders as part of PAYCE's ongoing commitment to manage its capital structure. The Directors believe that the proposed Ordinary Share Buy-Back and issue of Preference Shares are in the best interests of PAYCE.

The Directors **recommend** that you **vote in favour of the Resolutions to approve the Buy-Back and issue Preference Shares**.

### Your vote is important

Shareholders are encouraged to vote by completing and returning the **enclosed Proxy Form** in the mail, by fax or online, or alternatively to attend the Meeting itself. Proxy Forms must be received no later than 11.30am on 11 January 2015.

### Further information

If you have any questions in relation to the Extraordinary General Meeting, please call +61 7 3009 9887.

Yours sincerely

PAYCE Consolidated Limited

# NOTICE OF EXTRAORDINARY GENERAL MEETING

PAYCE Consolidated Limited ABN 19 001 566 310 gives notice that an Extraordinary General Meeting of Shareholders will be held at Pulse, 9 The Crescent, Wentworth Point, 2127, New South Wales on 13 January 2015 at 11.30am AEDT to consider the Resolutions set out below:

## BUSINESS OF THE EXTRAORDINARY GENERAL MEETING

### 1. Resolution 1: Approval of Share Buy-Back

To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

*'That, subject to and conditional upon the passing of Resolution 2, in accordance with section 257C(1) of the Corporations Act and for all other purposes, approval is given for PAYCE to conduct an off-market buy-back of up to 20,938,426 of PAYCE's issued Ordinary Shares on the terms detailed in the Explanatory Statement which accompanies this Notice of Extraordinary General Meeting.'*

The Directors recommend that you vote in favour of the Resolution.

### 2. Resolution 2: Approval for the Issue of Preference Shares

To consider and, if thought fit, pass the following resolution as a Special Resolution:

*'That, subject to and conditional upon the passing of Resolution 1, in accordance with section 254A(2) of the Corporation Act and for all other purposes, approval be and is hereby given to the issue of up to 20,938,426 Preference Shares on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Extraordinary General Meeting.'*

The Directors recommend that you vote in favour of the Resolution.

DATED 9 December 2014

By Order of the Directors

Brian Bailison

Company Secretary

## VOTING & ELIGIBILITY

### How to vote

To vote on the Resolutions, you may either:

- complete the enclosed Proxy Form and return it to the Registry no later than 11.30am AEDT on 11 January 2015; or
- attend the Extraordinary General Meeting to be held at Pulse, 9 The Crescent, 2127, Wentworth Point NSW on 13 January 2015 at 11.30am AEDT.

Details of how to complete the Proxy Form are set out on the form itself.

### Voting intentions of the Chair

The Chair intends to vote any undirected proxies appointing the Chair as proxy **in favour of the Resolutions**.

### Voting

Resolution 1	is an Ordinary Resolution which must be passed by at least 50% of total votes cast by Shareholders entitled to vote on the Resolution.
Resolution 2	is a Special Resolution which must be passed by at least 75% of total votes cast by Shareholders entitled to vote on the Resolution.

### Entitlement to vote

All Shareholders recorded on the register at 7.00pm AEDT on 11 January 2015 are entitled to attend and vote at the Extraordinary General Meeting. Transfers registered after this time will be disregarded in determining entitlements to vote at the Extraordinary General Meeting.

### Jointly held interests

If an interest in PAYCE is held jointly, and more than one Shareholder votes in respect of that interest, only the vote of the Shareholder whose name appears first in the register of Shareholders will be counted.

### Appointment of proxy

If you are entitled to vote at the Extraordinary General Meeting, you have the right to appoint a proxy. A Proxy Form is enclosed with this Notice of Extraordinary General Meeting. The proxy does not need to be a Shareholder in PAYCE.

Instructions regarding completion of the Proxy Form are set out on the form.

### Corporate Representative

If a representative of a corporate Shareholder or proxy is to attend the meeting you will need to provide the appropriate 'Certificate of Appointment of Corporate Representative' prior to admission to the meeting.

A form of the certificate may be obtained from the Registry on request.

Shareholders can vote by proxy or in person. Instructions on how to complete your Proxy Form are set out on the form itself. Your Proxy Form should be:

POSTED TO: Boardroom Pty Limited  
GPO Box 3993  
SYDNEY NSW 2001

OR FAXED TO: +61 2 9290 9655

OR DELIVERED TO: Boardroom Pty Limited  
Level 7, 207 Kent Street  
SYDNEY NSW 2000

OR ONLINE AT: [www.votingonline.com.au/payceegm2015](http://www.votingonline.com.au/payceegm2015)

# EXPLANATORY STATEMENT

## 1. OVERVIEW

### 1.1. THE OFFER

This Explanatory Statement provides background and information relevant to the consideration of the Resolutions proposed to be considered at PAYCE's meeting to be held on 13 January 2015 concerning the equal access off-market buy-back of Ordinary Shares in PAYCE and the issue of Preference Shares as partial consideration for the Buy-Back.

This Explanatory Statement has been prepared to assist Shareholders in understanding the Resolutions to be proposed at the Extraordinary General Meeting. You are encouraged to read this Explanatory Statement carefully before deciding how to vote on the Resolutions.

The Resolutions are interdependent, meaning that Shareholders must pass both Resolutions for the Buy-Back to proceed, and the Preference Shares to be issued.

This Explanatory Statement is not intended to provide financial or tax advice and has been prepared without taking into account the personal circumstances of any person. Each Shareholder should obtain their own independent professional advice before making any decisions regarding the content of this Explanatory Statement or the Notice of Extraordinary General Meeting, or how to vote on the Resolutions.

### 1.2. DEFINITIONS AND INTERPRETATION

Capitalised words and expressions used in the Notice of Extraordinary General Meeting and Explanatory Statement are defined in the Glossary section of this document.

### 1.3. PURPOSE

The purpose of this Explanatory Statement is to explain the potential effect and implications of:

- (a) the Resolutions proposed in the Notice of Extraordinary General Meeting; and
- (b) the proposed Buy-Back of Shares and issue of Preference Shares which will take place if the Resolutions are approved.

### 1.4. TIMETABLE

The indicative timetable for the proposed Buy-Back is set out below. Subject to the Corporations Act and the Listing Rules, PAYCE reserves the right to amend this indicative timetable without prior notice to Shareholders.

Event	Date
Extraordinary General Meeting Record Date (Date for determining entitlement to vote at the Extraordinary General Meeting)	7.00pm on 11 January 2015
Proxy cut off time (Proxy Forms and the authority under which they are signed (if any) must be lodged by this time)	11.30am on 11 January 2015
Extraordinary General Meeting	11.30am on 13 January 2015
Ex-Entitlement Date for the Buy-Back	16 January 2015
Buy-Back Record Date (Date for determining entitlement to participate in the Buy-Back)	20 January 2015
Despatch of Offer Document to Eligible Shareholders	21 January 2015
Opening Date	21 January 2015
Closing Date	11 February 2015
Announcement of the outcome of the Buy-Back	12 February 2015
Transfer to PAYCE of Ordinary Shares bought back and cancellation of those Ordinary Shares	On or before 16 February 2015
Payment of initial portion of cash consideration and issue of Preference Shares as consideration for the Buy-Back	On or before 16 February 2015
Despatch of holding statements for Preference Shares	On or before 16 February 2015
Payment of deferred portion of cash consideration.	16 February 2016

All times are references to Sydney time.

## 2. RESOLUTION 1 – APPROVAL OF SHARE BUY-BACK

### 2.1 THE PROPOSAL

At the Extraordinary General Meeting, Shareholders will be asked to consider the proposed Buy-Back, the details of which are summarised below. Please refer to Section 6 of this document for further details of the terms and conditions on which PAYCE proposes to undertake the Buy-Back.

Question	Answer
What is a buy-back?	Under a buy-back, a company purchases its own shares back from shareholders who elect to participate in the buy-back offer. Shareholders may elect to participate in the buy-back at their discretion. The shares bought back are cancelled, which reduces the total amount of shares which the company has on issue by the number of shares bought back.
What is an equal access scheme?	<p>An 'equal access' scheme is a type of buy-back. Section 257B of the <i>Corporations Act</i> prescribes that, in an equal access buy-back:</p> <ul style="list-style-type: none"><li>(a) the offers must relate only to ordinary shares;</li><li>(b) the offers must be made to every person who holds ordinary shares to buy-back the same percentage of their ordinary shares;</li><li>(c) all of those persons must have a reasonable opportunity to accept offers made to them;</li><li>(d) buy-back agreements must not be entered into until a specified time for acceptance of offers has closed; and</li><li>(e) the terms of the offers must be the same.</li></ul>
Consideration for the Buy-Back	<p>PAYCE is proposing to undertake an equal access buy-back of Ordinary Shares.</p> <p>In consideration for the buy-back of their Ordinary Shares, Shareholders who elect to participate in the Buy-Back, will receive the following for each Ordinary Share bought back:</p> <ul style="list-style-type: none"><li>• \$0.50 cash paid upon cancellation of the Ordinary Shares;</li><li>• \$0.50 cash* paid 12 months after the cancellation of the Ordinary Shares; and</li><li>• one Preference Share issued at \$7.50.</li></ul>

Question	Answer
	<p>* Interest at 6% per annum will be payable on this latter payment of \$0.50 partial consideration annually in arrears.</p>
Eligibility to participate	<p>Eligible Shareholders are Shareholders who hold Ordinary Shares in PAYCE on the Buy-Back Record Date, as recorded on the Register. Participation in the Buy-Back is voluntary.</p>
Shares that may be accepted into the Buy-Back	<p>Eligible Shareholders may accept the Buy-Back offer in relation to some or all of the Ordinary Shares held by the Eligible Shareholder on the Buy-Back Record Date.</p> <p>As Lanox Pty Ltd, which is an associate of Mr Boyd, will not be participating in the Buy-Back, the number of Ordinary Shares being offered to be bought back (20,938,426) equates to all the other Ordinary Shares on issue. As a result, no scaling back of Shareholders electing to participate in the Buy-Back will occur.</p> <p>Ordinary Shares acquired on or after the Ex-Entitlement Date (currently anticipated to be 16 January 2015), will not be registered in the new Shareholder's name in time for the Buy-Back Record Date, and therefore will not be able to participate in the Buy-Back.</p>
Process for offer and acceptance	<p>Subject to the approval of both Resolutions, the Buy-Back period will commence on 21 January 2015, and remain open until 11 February 2015. Personalised Acceptance Forms will be sent to Shareholders who are determined to be eligible to participate in the Buy-Back on 21 January 2015.</p> <p>Eligible Shareholders will have from the Opening Date of 21 January 2015 until the Closing Date of 11 February 2015 to accept the Offer in respect of some or all of their Ordinary Shares.</p> <p>An Offer Document for the Preference Shares to be issued as partial consideration for the Buy-Back will be distributed to Shareholders in due course. Subject to Shareholder approval of the Resolutions for the Buy-Back and issue of Preference Shares being obtained, personalised Acceptance Forms will be despatched by</p>



Question	Answer
	<p>21 January 2015 to Eligible Shareholders holding Shares on the Buy-Back Record Date of 20 January 2015.</p> <p>PAYCE reserves the right to withdraw the Offer if the Directors determine it is necessary to do so.</p>
Cancellation of Shares Bought	All Shares bought back by PAYCE will be cancelled upon being bought back. This will reduce the total number of Ordinary Shares on issue.

## 2.2 FEATURES OF PREFERENCE SHARES

The consideration for the Buy-Back of Shares will comprise a combination of both cash and Preference Shares. Set out below is a summary of the key features of the Preference Shares. Further details are set out in Schedule 1:

Feature	Details
(a) Issue price	<p>Preference Shares will be issued as partial consideration for the Buy-Back of Ordinary Shares in PAYCE. The consideration for the Buy-Back of each Ordinary Share in PAYCE will be:</p> <ul style="list-style-type: none"> <li>• \$0.50 cash paid upon cancellation of the Ordinary Shares;</li> <li>• \$0.50 cash* paid 12 months after the cancellation of the Ordinary Shares; and</li> <li>• one Preference Share issued at \$7.50 upon cancellation of the Ordinary Shares.</li> </ul> <p>* Interest at 6% per annum will be payable on this latter payment of \$0.50 partial consideration annually in arrears.</p>
(b) No right to have Preference Shares purchased or bought back	<ul style="list-style-type: none"> <li>• The Preference Shares have no fixed maturity date.</li> <li>• Holders of Preference Shares do not have the right to have those securities purchased or bought-back.</li> </ul>
(c) Call Option	<ul style="list-style-type: none"> <li>• Each holder of Preference Shares grants PAYCE an option to purchase or buy back those Preference Shares for a cash consideration of \$7.50 each on any Dividend Payment Date, subject to the requirements of the Corporations Act and Listing Rules. PAYCE must give Preference Share Holders at least 30 days prior notice that it intends to exercise this option.</li> </ul>

Feature	Details
(d) Change in Control Event	<ul style="list-style-type: none"> <li>• If a Change in Control Event (as defined in clause 1 in Schedule 1) occurs, PAYCE may also exercise its call option to purchase or buy back the Preference Shares for a cash consideration of \$7.50 per Preference Share.</li> </ul>
(e) Dividends	<ul style="list-style-type: none"> <li>• Non-cumulative Dividends of 6% per annum, proposed to be paid quarterly on the Dividend Payment Dates, subject to such Dividends being declared at the discretion of PAYCE.</li> <li>• On each five year anniversary of the issue of the Preference Shares, the dividend rate will increase by an additional 3% per annum. For example: <ul style="list-style-type: none"> <li>○ After five years from the date of issue, the dividend rate will increase to 9% per annum.</li> <li>○ After ten years from the date of issue, the dividend rate will increase to 12% per annum.</li> </ul> </li> <li>• If PAYCE elects to pay a Dividend on the Preference Shares, it has the discretion to pay the Dividends by either cash, the issue of additional Preference Shares at \$7.50 each (plus any outstanding dividend entitlement in cash), or a combination of cash and Preference Shares.</li> </ul>
(f) Dividend Payment Restriction	<ul style="list-style-type: none"> <li>• Dividends are proposed to be paid quarterly on the Dividend Payment Dates, subject to such Dividends being declared at the discretion of PAYCE.</li> <li>• If no Dividends are paid on the Preference Shares on the Dividend Payment Date, PAYCE is prohibited from paying dividends or making any other distribution on any class of its share capital other than Preference Shares or reducing or buying back any share capital, unless: <ul style="list-style-type: none"> <li>○ consecutive scheduled Dividends in respect of a 12 month period have been paid to Preference Share Holders <ul style="list-style-type: none"> <li>➤ for example, if a Dividend was not paid on the scheduled Dividend Payment Date of 16 February, PAYCE would be required to ensure that Dividends were paid on Preference Shares on the following four quarterly Dividend Payment Dates, before it would be permitted pay dividends to any other class of shareholders;</li> </ul> </li> </ul> </li> </ul>

Feature	Details
	<p>or</p> <ul style="list-style-type: none"> <li>○ an amount equal to unpaid scheduled Dividends for the period of 12 months immediately preceding the date of payment of that amount (<b>Optional Dividend</b>) has been paid to Preference Share Holders; or</li> <li>○ all Preference Shares have been purchased or bought-back.</li> </ul> <ul style="list-style-type: none"> <li>• For the avoidance of doubt, the non-payment of a Dividend on a scheduled Dividend Payment Date, does not constitute a breach of the terms of the Preference Shares. However, if PAYCE elects not to pay a Dividend on a scheduled Dividend Payment Date, PAYCE is restricted from paying dividends on, or buying back, any other class of share capital. If, despite this restriction, PAYCE pays dividends on or buys back another class of shares, this constitutes breach of the Dividend Payment Restriction, the consequences of which are set out below.</li> </ul>
(g) Consequences of breach of Dividend Payment Restriction	<p>In the event that PAYCE breaches the Dividend Payment Restriction outlined above (for example, by not paying a Dividend on Preference Shares on a scheduled Dividend Payment Date but subsequently paying a dividend on Ordinary Shares), and does not remedy that breach within 90 days, the Preference Shares will be exchanged for redeemable preference shares which are redeemable immediately at the option of holders. Each Preference Share will be exchanged for one redeemable preference share. See clauses 3.8 to 3.10 of Schedule 1 for further details.</p>
(h) Status and Ranking	<p>The Preference Shares will rank equally among themselves, and ahead of Ordinary Shares in relation to dividends and the return of capital, but will have no entitlement to share in any surplus in the event of a winding up.</p>
(i) Voting	<p>Generally, the Preference Shares will carry no right to vote at any general meeting of Shareholders of PAYCE. However, in limited circumstances as set out in the Preference Share Terms in Schedule 1, holders of Preference Shares may vote on the basis of one vote per Preference Share.</p>

Feature	Details
(j) Participation	Preference Shares do not carry any right to participate in issues of securities or capital reconstructions of PAYCE.
(k) Selling Restrictions	Preference Shares will not be listed on the ASX, however will be transferable.

## 2.3 POTENTIAL OUTCOMES FOR SHAREHOLDERS UNDER THE BUY-BACK

Shareholders who participate in the Buy-Back will receive as consideration for each Ordinary Share:

- \$0.50 cash paid upon cancellation of the Ordinary Shares;
- \$0.50 cash\* paid 12 months after the cancellation of the Ordinary Shares; and
- one Preference Share issued at \$7.50.

\* Interest at 6% per annum will be payable on this latter payment of \$0.50 partial consideration annually in arrears.

To enable Shareholders to consider whether to participate in the Buy-Back, set out below is the Pro-Forma Consolidated Balance Sheet for PAYCE prior to any Ordinary Shares being bought back. Column 1 summarises the audited PAYCE Balance Sheet as at 30 June 2014, and column 3 is the Pro-Forma Balance Sheet assuming the completion of the following transactions:

- the settlement of the sale of the development site at Hurstville (refer ASX Announcements dated 18 July 2014 and 13 October 2014);
- the Platinum residential development is completed and settled;
- the residential portion of the East Village Project is completed and settled (refer ASX Announcements dated 14 October 2014 and 29 October 2014);
- the retail component of the East Village Project is completed and retained (refer ASX Announcements dated 14 October 2014 and 29 October 2014);
- the acquisition of land at Melrose Park in joint venture with Sekisui House (refer ASX Announcements dated 15 August 2014 and 2 September 2014); and
- the acquisition of land at Auburn (refer ASX Announcement dated 26 August 2014).

The below Pro-Forma Balance Sheet should be read in conjunction with the 30 June 2014 Annual Financial Statements, which are available on the websites of PAYCE ([www.payce.com.au](http://www.payce.com.au)) and PAYCE's announcements page on ASX ([www.asx.com.au](http://www.asx.com.au)).

	Audited Consolidated Balance Sheet 30 June 14 \$'000	Future Transactions \$'000	Pro-Forma Consolidated Balance Sheet \$'000
<b>Current Assets</b>			
Cash and cash equivalents	25,769	19,794	45,563
Trade and other receivables	14,303	0	14,303
Properties held for development and resale	216,818	(216,818)	0
Other assets	7,526	0	7,526
<b>Total Current Assets</b>	<b>264,416</b>	<b>(197,024)</b>	<b>67,392</b>
<b>Non-Current Assets</b>			
Trade and other receivables	9,873	(204)	9,669
Properties held for development and resale	202,807	95,962	298,769
Investment Property	0	235,000	235,000
Investments accounted for using the equity method	19,480	(17,825)	1,655
Property, plant and equipment	6,269	0	6,269
Financial assets	2,310	0	2,310
Deferred tax asset	13,195	(11,927)	1,268
Other assets	8,858	0	8,858
<b>Total Non-Current Assets</b>	<b>262,792</b>	<b>301,006</b>	<b>563,798</b>
<b>Total Assets</b>	<b>527,208</b>	<b>103,982</b>	<b>631,190</b>
<b>Current Liabilities</b>			
Trade and other payables	30,293	0	30,293
Financial liabilities	222,276	(222,276)	0
Short-term provisions	986	0	986
<b>Total Current Liabilities</b>	<b>253,555</b>	<b>(222,276)</b>	<b>31,279</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	132,875	193,000	325,875
Long-term provisions	50	0	50
Deferred tax liability	7,080	32,641	39,721
<b>Total Non-Current Liabilities</b>	<b>140,005</b>	<b>225,641</b>	<b>365,646</b>
<b>Total Liabilities</b>	<b>393,560</b>	<b>3,365</b>	<b>396,925</b>
<b>Net Assets</b>	<b>133,648</b>	<b>100,617</b>	<b>234,265</b>
<b>Equity</b>			
Issued Capital	45,382	0	45,382
Reserves	2,042	0	2,042
Retained Earnings	83,756	97,742	181,498
Parent Interest	131,180	97,742	228,922
Minority equity interest	2,468	2,875	5,343
<b>Total Equity</b>	<b>133,648</b>	<b>100,617</b>	<b>234,265</b>
<b>Net Asset Value per Ordinary Share (based on 29,745,225 Ordinary Shares on issue)</b>	<b>\$4.49</b>		<b>\$7.88</b>

In addition, the table below illustrates the potential outcomes for Shareholders who elect not to participate in the Buy-Back, in terms of PAYCE's net assets, net asset value per Ordinary Share and cash position:

Total Shareholders electing NOT to participate in the Buy-Back (%)	100%	75%	50%	29.6%
Net Assets post Buy-Back (\$'000)	\$234,265	\$226,829	\$219,392	\$213,327
Net asset value per Ordinary Share post Buy-Back (\$)	\$7.88	\$7.63	\$7.38	\$7.17
Cash and cash equivalents post Buy-Back (\$'000)	\$45,563	\$41,845	\$38,127	\$35,094

## 2.4 IMPLICATIONS OF THE BUY-BACK FOR PAYCE

### (a) Introduction

This section sets out the implications of the Buy-Back for PAYCE, on the assumption that the Resolutions are approved and the Buy-Back is implemented.

### (b) How will the Buy-Back be paid and funded?

The consideration for the Buy-Back will be \$8.50 for each Ordinary Share in PAYCE, of which:

- (i) \$0.50 will be paid in cash upon cancellation of the Ordinary Shares;
- (ii) \$0.50\* will be paid in cash 12 months after the cancellation of the Ordinary Shares; and
- (iii) one Preference Share will be issued at \$7.50.

\* Interest at 6% per annum will be payable on this latter payment of \$0.50 partial consideration annually in arrears.

Further details regarding the characteristics and features of the Preference Shares are set out in Section 2.2 and Schedule 1 of this document.

### (c) Effect on PAYCE's financial position

Assuming acceptances are received in respect of the maximum number of Ordinary Shares able to be acquired under the Buy-Back, the Buy-Back will reduce PAYCE's cash reserves by \$10,469,000 upon cancellation of the Ordinary Shares and a further \$10,469,000 twelve months after the cancellation of the Ordinary Shares.

Section 2.3 sets out the Pro-Forma Consolidated Balance Sheet including the impact of upcoming project completions and contracted property acquisitions. A matrix has

then been included outlining the net assets, net asset value per Ordinary Share, and cash position of PAYCE at various levels of Shareholder participation in the Buy-Back.

As the Buy-Back price of \$8.50 includes a component of unfranked dividends (\$6.96 per Ordinary Share), no franking credits will be utilised in relation to the Buy-Back .

As the major portion of the Buy-Back consideration is represented by the value of Preference Shares, ordinary share capital and retained earnings will be reduced whilst Preference Share capital will increase.

(d) Effect on PAYCE's capital structure

As at the date of this Explanatory Statement, PAYCE has 29,745,225 fully paid Ordinary Shares on issue. All of the Ordinary Shares that are bought back under the Buy-Back will be cancelled. Consequently, the Buy-Back will reduce the total number of Ordinary Shares on issue.

If PAYCE buys back the maximum number of Ordinary Shares under the Buy-Back, being 20,938,426 Ordinary Shares (or 70.4% of Ordinary Shares currently on issue) (taking into consideration the intention of PAYCE's largest Shareholder), then the number of Ordinary Shares on issue will be reduced by 20,938,426 to 8,806,799.

Whilst the number of fully paid Ordinary Shares will decrease, the number of Preference Shares will increase by the same number. If PAYCE issues the maximum number of Preference Shares, then the number of Preference Shares on issue will be 20,938,426.

(e) Effect on control of PAYCE

As a consequence of the cancellation of Ordinary Shares bought back by PAYCE if the Buy-Back is implemented, the percentage shareholding and voting power of Shareholders who do not participate in the Buy-Back will increase.

This may materially alter the ownership makeup of PAYCE. At this point, it is not possible to determine the precise extent to which the ownership makeup of PAYCE will change, as that will depend on the level of participation in the Buy-Back. Shareholders should, however, take into account the following considerations:

(i) Position of PAYCE's largest shareholder

PAYCE's largest Shareholder is Lanox Pty Ltd, which is associated with Mr Brian Boyd, the Managing Director of PAYCE. Mr Boyd has advised PAYCE that Lanox Pty Ltd, which holds 8,806,799 Ordinary Shares, will not participate in the Buy-Back, but will continue to maintain its shareholding.

Mr Boyd is also associated with Ruz Pty Ltd, which holds 2,718,661 Ordinary Shares. Mr Boyd has advised that this entity intends to participate in the Buy-

Back. However, the extent to which Ruz Pty Ltd will participate is undetermined as at the date of this Notice.

\* Taking into account the above intentions, the table below illustrates the potential outcomes in terms of ownership percentage and voting power at different levels of Shareholder participation in the Buy-Back, noting that the reference to '*% of Shareholders\**' represents the maximum number of Ordinary Shares which could be bought back under the Buy-Back, and therefore excludes the Ordinary Shares held by Lanox Pty Ltd. It does, however, include all of the Ordinary Shares held by Ruz Pty Ltd, the other shareholding entity associated with Mr Boyd. As indicated above, it is not known whether Ruz Pty Ltd will participate in the Buy-Back, and if so, to what degree.

Level of participation in the Buy-Back	0% of Shareholders	25% of Shareholders*	50% of Shareholders*	75% of Shareholders*	100% of Shareholders*
Ordinary Shares bought back	Nil	5,234,606	10,469,213	15,703,819	20,938,426
Total Ordinary Shares on issue following Buy-Back	29,745,225 (current level)	24,510,619	19,276,012	14,041,406	8,806,799
Number of Ordinary Shares held by entities associated with Brian Boyd following Buy-Back	11,525,460	8,806,799	8,806,799	8,806,799	8,806,799
Percentage of post Buy-Back Ordinary Shares and voting power of entities associated with Brian Boyd	38.7%	35.9%	45.7%	62.7%	100%

Notes:

- The total number of Ordinary Shares on issue prior to the Buy-Back is 29,745,225.
- Calculations are rounded up to the nearest whole Ordinary Share where necessary.

Accordingly, in deciding how to vote on the Buy-Back, Shareholders should take into account the information below regarding PAYCE's largest Shareholder.



(ii) About PAYCE's largest shareholder

As noted above, PAYCE's largest Shareholder is Lanox Pty Ltd, which is associated with Mr Boyd. As PAYCE's Managing Director, Mr Boyd has over 32 years' experience in the property development industry and brings a wealth of commercial experience and knowledge to development projects.

Lanox Pty Ltd has advised that it will not participate in the Buy-Back, but will continue to maintain its shareholding in PAYCE. Depending on the rate of participation of other Shareholders in the Buy-Back, Lanox Pty Ltd's voting power in PAYCE is anticipated to increase as the Buy-Back is undertaken.

However, although the shareholding of Lanox Pty Ltd in PAYCE is likely to increase, it is anticipated that the implications of having Lanox Pty Ltd remain a Shareholder of PAYCE, will not have a material impact on the direction of PAYCE. Mr Boyd, through associated entities, has historically held a significant interest in PAYCE. Mr Boyd has indicated that he will continue to act in the best interests of PAYCE in his capacity as both a Shareholder and Director, and that he believes that it is in the best interests of PAYCE that Lanox Pty Ltd not participate in the Buy-Back.

(f) Impact on the liquidity of Ordinary Shares

As noted above, the Buy-Back may have the effect of significantly concentrating the ownership of Ordinary Shares. The cancellation of Ordinary Shares under the Buy-Back, combined with the potential for a significant concentration of ownership of the remaining Ordinary Shares, may reduce the liquidity of those remaining Ordinary Shares, especially if there is a high level of participation in the Buy-Back.

(g) What are the general tax implications for PAYCE?

It is unlikely that the Buy-Back will result in any adverse income tax implications for PAYCE.

The Buy-Back may impact upon PAYCE's ability to utilise prior year tax losses against future taxable income of PAYCE.

(h) PAYCE's intentions following the Buy-Back

After the Buy-Back, PAYCE intends to continue with its principal activity of undertaking property development projects.

(i) ASX Spread Requirement

Under ASX Listing Rule 12.4.1, PAYCE must maintain a spread (that is, dispersion) of Shareholders which, in the opinion of the ASX, is sufficient to ensure that there is an orderly and liquid market in its securities.

As noted above, the Buy-Back may have the effect of significantly concentrating the ownership of Ordinary Shares following the implementation of the Buy-Back, which may impact PAYCE's ability to satisfy the ASX spread requirements.

The effect of Listing Rule 12.4.1 is that if the ASX determines that PAYCE does not have a sufficient spread of Shareholders, it may require PAYCE to do the following:

- obtain the required spread within 3 months after the date the ASX requires it to do so; and
- inform all Shareholders in writing that if the required spread is not obtained within 3 months, the ASX may suspend quotation of Ordinary Shares.

If PAYCE is unable to achieve the required level of spread, the ASX may exercise its discretion to suspend quotation of the Ordinary Shares, which would materially adversely affect the ability of Shareholders to buy and sell Ordinary Shares.

## 2.5 OTHER ALTERNATIVES CONSIDERED BY THE DIRECTORS

The Directors have considered a variety of capital management strategies which may offer Shareholders liquidity in an otherwise illiquid stock, and maintain PAYCE's financial position and ability to maintain its business operations. As a result of these deliberations, the Directors have determined that the proposed Buy-Back is the most appropriate available option as it provides existing Shareholders with the opportunity to restructure their current investment in PAYCE by participating in the Buy-Back, and receiving:

- a cash payment; and
- discretionary quarterly dividends,

in circumstances where the equity market for Ordinary Shares has historically been illiquid.

The other alternatives considered included a proposal to Buy-Back Shares and issue subordinated unsecured notes. On 14 October 2014, PAYCE issued an ASX Announcement advising that it was seeking amendment to the conditions of secured corporate notes that it had on issue in order to allow for the issue of the proposed subordinated unsecured notes.

As announced to ASX on 31 October 2014, these proposed amendments were not approved by the noteholders.

As a result, PAYCE is limited in terms of the capital management alternatives available at this time.

### 3. ADVANTAGES AND DISADVANTAGES OF THE BUY-BACK FOR SHAREHOLDERS

#### 3.1 INTRODUCTION

Set out below are the advantages and disadvantages of the Buy-Back for Shareholders as identified by the Directors.

In recognition of the potentially differing objectives of Shareholders, the advantages and the disadvantages are addressed as follows:

- (a) advantages of the Buy-Back for Shareholders who sell their Ordinary Shares;
- (b) disadvantages of the Buy-Back for Shareholders who sell their Ordinary Shares;
- (c) advantages of the Buy-Back for Shareholders who retain their Ordinary Shares; and
- (d) disadvantages of the Buy-Back for Shareholders who retain their Ordinary Shares.

The Directors consider that the Buy-Back is the most appropriate option for PAYCE and its Shareholders given the different objectives of Shareholders. Accordingly, the Directors recommend that Shareholders **vote in favour** of the Buy-Back resolution.

#### 3.2 ADVANTAGES OF THE BUY-BACK FOR SHAREHOLDERS WHO SELL THEIR ORDINARY SHARES

- (a) The Buy-Back price provides a value which is a premium to recent share trading prices and net asset value per Ordinary Share for PAYCE.

Below is a table that reflects the premium offered by the proposed Buy-Back (\$8.50) against recent share trading measures.

	\$ per Ordinary Share	% Premium offered
Closing price of latest trade on ASX occurring at 15 October 2014	\$4.21	101.9%
30 day VWAP	\$4.21	101.9%
Highest trading price since 1 January 2014	\$4.21	101.9%
Lowest trading price since 1 January 2014	\$4.07	108.8%
Net Tangible Asset per Ordinary Share (per 30 June 2014 ASX Appendix 4E)	\$4.49	89.3%

	\$ per Ordinary Share	% Premium offered
Net Asset Value per Ordinary Share (Per Section 2.3 of Explanatory Statement)	\$7.88	7.9%

Given the historical illiquidity of the Ordinary Shares, there is no guarantee that Shareholders could achieve such a return on-market if the Buy-Back does not proceed.

- (b) Ability to realise all or a proportion of current investment

Historically, PAYCE's Ordinary Shares have been thinly traded on the ASX. The Buy-Back provides Shareholders with an opportunity to sell all or a proportion of their Ordinary Shares in an efficient and cost effective manner, in consideration for a combination of a cash payment and Preference Shares which carry a discretionary dividend.

There is no guarantee that Shareholders could dispose of their current investment in an efficient manner if the Buy-Back does not proceed.

- (c) No brokerage or other selling costs

Shareholders do not pay brokerage or selling costs under the Buy-Back. In contrast, Ordinary Shares sold on market may attract brokerage and/or other selling costs.

- (d) Discretionary dividends

By participating in the Buy-Back, Shareholders may, at the discretion of PAYCE, receive a quarterly dividend on their Preference Shares which is paid by either cash, a further issue of Preference Shares, or a combination of cash and Preference Shares.

### 3.3 DISADVANTAGES OF THE BUY-BACK FOR SHAREHOLDERS WHO SELL THEIR ORDINARY SHARES

- (a) Loss of potential benefits

Shareholders who sell their Ordinary Shares under the Buy-Back will forego, to the extent they sell down their shareholding, any benefits of remaining a holder of Ordinary Shares.

- (b) Preference Shares received as partial consideration with no public market for resale

Shareholders who sell their Ordinary Shares under the Buy-Back will receive a Preference Share as the primary portion of their consideration. Whilst transferable,

these Preference Shares are likely to be illiquid as they will be unlisted securities with no public market available for resale.

- (c) Dividends on Preference Shares are payable only if so declared at the discretion of PAYCE

Whilst the Preference Shares offer a fixed rate of return in the form of Dividends, the declaration and payment of these Dividends on the scheduled Dividend Payment Dates remains at the discretion of PAYCE.

- (d) Dividends on Preference Shares may be paid via the issuance of additional Preference Shares

When a Dividend is declared as payable on the Preference Shares, PAYCE has the discretion of paying the Dividend through the issue of additional Preference Shares rather than a cash payment.

### **3.4 ADVANTAGES OF THE BUY-BACK FOR SHAREHOLDERS WHO RETAIN THEIR ORDINARY SHARES**

- (a) Flexibility

Implementation of the Buy-Back does not prevent a Shareholder from deciding in the future that they would like to sell their Ordinary Shares in PAYCE (although the liquidity and market value of Ordinary Shares may be reduced).

- (b) Increase in voting power

The cancellation of Ordinary Shares bought back under the Buy-Back will have the effect of increasing the percentage shareholding, and voting power, of Shareholders who do not participate in the Buy-Back. The extent of the increase will depend on the number of Ordinary Shares bought back and cancelled under the Buy-Back.

- (c) Increase in Earnings Per Ordinary Share (EPS)

Subject to the level of future profits earned by PAYCE, Shareholders who retain their Ordinary Shares may derive a higher EPS, depending on the level of Ordinary Shares bought back under the Buy-Back.

### **3.5 DISADVANTAGES OF THE BUY-BACK FOR SHAREHOLDERS WHO RETAIN THEIR ORDINARY SHARES**

- (a) Reduction in cash

There will be a reduction in the overall cash held by PAYCE following implementation of the Buy-Back, as the consideration for each Ordinary Share will comprise \$1.00 cash (50% payable on cancellation of Ordinary Shares and 50% plus 6% per annum interest payable 12 months after cancellation of Ordinary Shares) and Preference

Shares issued at \$7.50. The amount of the cash reduction will depend on the level of Shareholder participation in the Buy-Back and the number of Ordinary Shares bought back.

(b) Potential impact on liquidity

A reduction in PAYCE's capital base following implementation of the Buy-Back and the potential for additional Ordinary Share ownership concentration in the event that large Shareholders elect not to participate in the Buy-Back may materially adversely affect the trading liquidity in the Ordinary Shares following the implementation of the Buy-Back. This in turn may adversely affect the trading price of the Ordinary Shares.

(c) Subordination of dividends

Under the terms of issue for the Preference Shares, PAYCE is prohibited from paying dividends or making any other distribution on any other class of shares (including Ordinary Shares), unless and until holders of Preference Shares have had their dividend entitlements paid, or those Preference Shares have been purchased or bought back by PAYCE.

(d) Ranking in return of capital

In the event of a winding-up of PAYCE, Shareholders will rank after holders of Preference Shares in respect of participating in the return of any capital.

## 4. INDEPENDENT DIRECTORS' COMMENTARY REGARDING THE BUY-BACK

### 4.1 INDEPENDENT DIRECTORS

This Section sets out the commentary of the Independent Directors regarding the Buy-Back.

ASIC Regulatory Guide 110 recommends that a commentary of this nature be provided by the Independent Directors of a company undertaking a significant share buy-back.

### 4.2 RECOMMENDATION TO VOTE IN FAVOUR

The Independent Directors consider that the Buy-Back is an appropriate option for PAYCE and its Shareholders, which responds to the different objectives of Shareholders. Accordingly, the Independent Directors **recommend that Shareholders vote in favour of the Buy-Back Resolution**. This recommendation has been made by the Independent Directors having regard to the advantages and disadvantages associated with the Buy-Back.

Although the Independent Directors recommend that Shareholders vote in favour of and approve the Buy-Back Resolution, they make no recommendation to Shareholders as to whether they should accept the Offer to buy-back their Ordinary Shares. Such a decision is a matter for each Shareholder to determine having regard to their own individual circumstances and if appropriate or required, after taking into account professional and financial advice and the contents of this Explanatory Statement.

The Independent Directors also wish to provide the following commentary and guidance regarding the Buy-Back for consideration by Shareholders.

### 4.3 CONSIDERATIONS

The Independent Directors believe that Shareholders should have regard to the following matters:

- (a) advantages for participating Shareholders:
  - (i) opportunity for Shareholders who are seeking to realise their current investment in a relatively illiquid stock, to restructure their investment in Ordinary Shares in PAYCE and receive a cash payment and a discretionary fixed dividend on Preference Shares; and
  - (ii) no selling costs associated with the Buy-Back;
- (b) disadvantages for non-participating Shareholders:
  - (i) potential for relative increase in shareholding by PAYCE's largest Shareholder, who has indicated they will be retaining a large portion of their shareholding; and

- (c) other factors:
- (i) decrease in number of Ordinary Shares on issue and potential impact on future liquidity;
  - (ii) tax liability for Shareholders;
  - (iii) share price of PAYCE in the absence of the proposed Buy-Back; and
  - (iv) no recognised market for Preference Shares.

#### 4.4 THE BUY-BACK

(a) Introduction

The Independent Directors believe that the Buy-Back provides a means to appropriately address the differing investment objectives of PAYCE's Shareholder base, by providing the opportunity for the following outcomes:

- **Retain Ordinary Shares and provide other Shareholders with the opportunity to participate in the Buy-Back:** Those Shareholders who wish to retain their Ordinary Shares in PAYCE can consider voting in favour of the Buy-Back to authorise the implementation of a Buy-Back to provide other Shareholders with different investment objectives an opportunity to sell down their current investment in PAYCE.
- **Realise and restructure current investment in PAYCE:** Those Shareholders who wish to sell their Ordinary Shares in PAYCE, can consider voting in favour of the Buy-Back and, if the Buy-Back Resolution is approved at the Extraordinary General Meeting, participate in the Buy-Back for up to 100% of their Ordinary Shares. The Buy-Back provides a means for Shareholders to realise their current investment without incurring selling costs, in return for a combination of cash and Preference Shares.
- **Rebalance:** Those Shareholders who wish to rebalance their holding of Ordinary Shares by realising some but not all of their current investment, can consider voting in favour of the Buy-Back and, if the Buy-Back Resolution is approved at the Extraordinary General Meeting, participate in the Buy-Back for some (but not all) of their Ordinary Shares.

Considering each of these possibilities in turn:

(b) The Buy-Back and Shareholders who wish to retain their Ordinary Shares:

Shareholders who continue to hold their Ordinary Shares following the implementation of the Buy-Back may have the potential to:



- subject to the level of future profits earned by PAYCE, derive a higher EPS, depending on the level of Ordinary Shares bought back under the Buy-Back; and
- increase their percentage holding of Ordinary Shares and voting power in PAYCE. .

Taking into account these considerations, the Independent Directors therefore believe that the Buy-Back may be more acceptable to those Shareholders who are willing to accept the advantages and disadvantages associated with remaining a Shareholder following implementation of the Buy-Back as set out in Section 3, and the risks of such a strategy as summarised in Section 5.

For such Shareholders, the Independent Directors recommend that they vote in favour of the Resolution, and consider not participating (or at least, not participating in full) in the Buy-Back.

- (c) The Buy-Back and Shareholders who wish to realise and restructure their current investment in PAYCE:

The Independent Directors acknowledge that there are also Shareholders who are seeking to realise their investment in PAYCE. The Buy-Back offers these Shareholders the opportunity to restructure their current investment for consideration which combines a cash payment as well as scheduled (but discretionary) quarterly dividends on Preference Shares paid by either cash, Preference Shares, or a combination of cash and Preference Shares, at the discretion of PAYCE.

The Buy-Back provides these Shareholders with an opportunity to realise their current investment in Ordinary Shares in exchange for combined cash/Preference Share consideration, in circumstances where liquidity in Ordinary Shares has been limited in the past.

Accordingly, for those Shareholders who do not wish to accept the risk and uncertainties of remaining a holder of Ordinary Shares in PAYCE, and agree that the consideration of combined cash and / or Preference Shares carrying discretionary quarterly dividends is fair and reasonable, the Independent Directors recommend that those Shareholders vote in favour of the Resolution and consider participating in the Buy-Back.

- (d) The Buy-Back and Shareholders who wish to rebalance their investment:

The Independent Directors also understand that some Shareholders may wish to realise a proportion of their Ordinary Shares in PAYCE, as well as retain some of their holding of Ordinary Shares. The Buy-Back would enable these Shareholders to restructure part of their current investment in PAYCE.

The Independent Directors recommend that such Shareholders vote in favour of the Resolution, and consider participating in the Buy-Back for some, but not all, of their Ordinary Shares.

## 5. RISKS

### 5.1 INTRODUCTION

This section describes the material risks that Shareholders may face to the extent that they continue to hold Ordinary Shares after implementation of the Buy-Back. Individually or in combination, these risks may adversely affect the future financial position, performance or prospects of PAYCE.

A number of these risks are risks to which Shareholders already have some exposure.

Additional risks and uncertainties not currently known to PAYCE, or which PAYCE currently considers to be immaterial, may also have an adverse effect on the future financial position, performance or prospects of PAYCE or the value of an investment in PAYCE. The information set out below does not purport to be, nor should it be construed as representing, an exhaustive summary of all possible risks.

Shareholders should also take into account the advantages and disadvantages associated with the Buy-Back set out in Section 3 when considering what action they should take in relation to the Buy-Back.

### 5.2 RISKS SPECIFIC TO PAYCE

#### (a) Liquidity Risk – Ordinary Shares

Section 3 describes the factors which may materially adversely affect the trading liquidity in the Ordinary Shares following the implementation of the Buy-Back. A material adverse effect on liquidity in the Ordinary Shares may in turn adversely affect the trading prices of the Ordinary Shares.

#### (b) Subordination of dividends

Under the terms of issue for the Preference Shares, PAYCE is prohibited from paying dividends or making any other distribution on any other class of shares (including Ordinary Shares), unless and until holders of Preference Shares have had their proposed Dividend entitlements paid, or those Preference Shares have been purchased or bought back by PAYCE.

#### (c) Ranking in return of capital

In the event of a winding-up of PAYCE, Shareholders will rank after holders of Preference Shares in respect of participating in the return of any capital.

### 5.3 GENERAL RISKS

Shareholders should also note the following general risks that are associated with an investment in a listed company such as PAYCE. Both holders of Ordinary Shares and holders of Preference Shares may be exposed to these risks:

(a) Dependence on general economic conditions

Changes in Australian and international economic conditions may adversely affect PAYCE's financial performance, financial position or prospects, or the value or price of Ordinary Shares. Amongst other things, these general conditions may impact on the availability of new investment opportunities, the availability, terms and costs of funding and PAYCE's operating costs.

(b) Share market conditions

There are risks associated with an investment in shares (such as Ordinary Shares in PAYCE) that are listed on a stock exchange. Share price movements can affect the value of an investment in PAYCE. The value of listed shares can be expected to fluctuate depending upon a number of general factors including changes in international and local share markets, changes in the economic conditions, inflation, interest rates, government fiscal, monetary and regulatory policies and investor perceptions. These risk factors are unpredictable and may have implications for the price or value of shares that are unrelated or disproportionate to the operating performance of PAYCE.

(c) Governmental or regulatory actions

PAYCE's operations could be affected by government actions. The possible extent of introduction of additional legislation, regulations, standards (including accounting standards), guidelines or amendments to existing legislation that might affect PAYCE's business is difficult to predict.

Any such government action may require increased capital or operating expenditures and could prevent or delay the execution of PAYCE's plans or have a material adverse effect on PAYCE's business and financial condition.

(d) Taxation

PAYCE and its group entities are and will be subject to taxation and other imposts in Australia. Future changes in taxation laws, including changes in interpretation or application of existing laws by the courts or taxation authorities, may affect the tax liabilities of PAYCE or its group companies, or the taxation treatment of holding or disposing of Ordinary Shares and Preference Shares.

(e) Disputes and litigation

Disputes or litigation may arise from time to time in the course of PAYCE's business activities. There is a risk that material or costly disputes or litigation which PAYCE may become party to or be required to assist with could adversely affect financial performance. PAYCE has insurance to cover certain risks where it appears appropriate to PAYCE to do so. To the extent that any such claims are not covered by insurance, the costs of responding to the claim and any adverse outcome from any claim may materially adversely affect PAYCE's financial position.

## **6. TERMS ON WHICH THE BUY-BACK WILL BE UNDERTAKEN**

### **6.1 INTRODUCTION**

The Buy-Back will only proceed if both Resolutions are approved by Shareholders at the Extraordinary General Meeting. If both Resolutions are approved, PAYCE will undertake the Buy-Back following the Extraordinary General Meeting on the basis described in this Section 6.

### **6.2 OFFER**

This document summarises the offer to Eligible Shareholders to participate in the Buy-Back on the basis set out in this Section 6 (**Offer**).

### **6.3 BUY-BACK PROCESS**

- (a) If both Resolutions are approved, PAYCE will be able to proceed with the Buy-Back.
- (b) Subject to Shareholder approval of the Resolutions being obtained, personalised Acceptance Forms will be despatched together with an Offer Document to Eligible Shareholders following the Buy-Back Record Date of 20 January 2015.
- (c) The Buy-Back period will commence on 21 January 2015, and remain open until 11 February 2015.
- (d) Eligible Shareholders may accept the Offer in respect of some or all of their Ordinary Shares on and from 21 January 2015 (Opening Date), by completing and returning the Acceptance Form attached to the Offer Document in accordance with the instructions on that form.
- (e) Eligible Shareholders will have until the Closing Date (11 February 2015) to accept the Offer in respect of some or all of their Ordinary Shares.

### **6.4 SHAREHOLDERS WHO WILL BE ENTITLED TO PARTICIPATE IN THE BUY-BACK**

Shareholders who are listed on the Register on the Buy-Back Record Date (being 7.00pm on 20 January 2015) will be eligible to participate in the Buy-Back. Shareholders entitled to participate in the Buy-Back are referred to as Eligible Shareholders.

Entitlement to participate in the Buy-Back will be personal. An Eligible Shareholder will not be able to transfer their right to participate in the Buy-Back.

### **6.5 PARTICIPATION IS NOT COMPULSORY**

Participation in the Buy-Back will be optional. If an Eligible Shareholder does not wish to participate, they will not need to do anything.

Shareholders who do not participate in the Buy-Back will continue to hold their Ordinary Shares. Shareholders who do not believe they will participate in the Buy-Back should carefully

consider the considerations relevant to, and the risks associated with, remaining a Shareholder in these circumstances.

## **6.6 SHARES THAT MAY BE ACCEPTED INTO THE BUYBACK**

An Eligible Shareholder may accept the Offer in respect of some or all of the Ordinary Shares held by them on the Buy-Back Record Date, provided that at 7.00pm (Sydney time) on the Closing Date (being 11 February 2015), they hold at least as many Ordinary Shares as they accept into the Offer.

Ordinary Shares acquired on or after the Ex-Entitlement Date (being 16 January 2015) will not be registered in your name by the Buy-Back Record Date (being 20 January 2015) and therefore will not carry an entitlement to participate in the Buy-Back.

If an Eligible Shareholder purports to accept the Offer in respect of more Ordinary Shares than they are the registered holder of at the Buy-Back Record Date, PAYCE may, in its absolute discretion and without prejudice to its other rights or remedies, reject the acceptance or treat the acceptance as relating to the maximum number of Ordinary Shares the Eligible Shareholder is the registered holder of on the Buy-Back Record Date.

Shareholders should note that it will be a term of the Buy-Back that they warrant to PAYCE that:

- any of their Ordinary Shares accepted into the Offer will, at the date of the transfer to PAYCE, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, including any restrictions on transfer;
- they have full power and capacity to sell and transfer their Ordinary Shares to PAYCE; and
- they are a person who may lawfully participate in the Buy-Back.

Please see Section 6.10 for further details.

## **6.7 CONSIDERATION FOR THE BUY-BACK**

The consideration which PAYCE will pay for each Ordinary Share bought back will be:

- \$0.50 cash paid upon cancellation of the Ordinary Shares;
- \$0.50 cash\* paid 12 months after the cancellation of the Ordinary Shares; and
- one Preference Share issued at \$7.50 (refer Section 2.2 for further details).

\* Interest at 6% per annum will be payable on this latter payment of \$0.50 partial consideration annually in arrears.

## 6.8 MAXIMUM LIMIT OF THE BUY-BACK

The maximum number of Ordinary Shares which can participate in the Buy-Back is 20,938,426.

## 6.9 OFFER PERIOD

The Offer Period is currently scheduled to open on the Opening Date of 21 January 2015.

Shareholders may accept the Offer at any time from that date until 7.00pm on the Closing Date. PAYCE may reschedule, withdraw or extend the Offer Period, but does not currently plan to. If the Closing Date is changed, the change will be announced to the ASX.

You will be taken to have submitted your acceptance when the Registry receives your validly signed and completed Acceptance Form. If you have an issuer sponsored holding or, if you have a CHESS Holding, your acceptance is processed by your controlling participant through CHESS.

## 6.10 THE EFFECT OF ACCEPTING THE OFFER

The Acceptance Form will contain detailed instructions for how to accept the Offer.

The effect of participating in the Buy-Back is that you will accept the Offer to sell your Ordinary Shares on the terms and conditions set out below.

An Eligible Shareholder who submits an Acceptance Form will be agreeing to sell to PAYCE the number of Ordinary Shares nominated in the Acceptance Form, or such lesser number of Ordinary Shares as may result from the application of any adjustment to the number of Ordinary Shares accepted into the Offer, on the following basis:

- (a) the consideration which PAYCE will pay for each Ordinary Share bought back will be:
  - \$0.50 cash paid upon cancellation of the Ordinary Shares;
  - \$0.50 paid 12 months after the cancellation of the Ordinary Shares (with interest at 6% per annum payable on this amount annually in arrears); and
  - one Preference Share issued at \$7.50.
- (b) on the basis that both Resolutions are approved at the Meeting, a contract to buy-back your Ordinary Shares will be formed upon the Board receiving your Acceptance Form and posting an announcement on its website, and the purchase of the relevant Ordinary Shares is taken to occur at that point (the date being referred to as the Buy-Back Date);
- (c) PAYCE posting an announcement on the ASX website is an effective communication by PAYCE of the agreement to buy-back your Ordinary Shares;

- (d) you waive any requirement to receive further notice or communication from PAYCE of the agreement to buy-back your Ordinary Shares;
- (e) you warrant to PAYCE that:
  - (i) you are the registered holder of the Ordinary Shares and that all your Ordinary Shares (including any rights and entitlements attaching to those Ordinary Shares) that are transferred to PAYCE under the Buy-Back will, at the date of the transfer of them to PAYCE, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
  - (ii) you have full power and capacity to sell and to transfer the Ordinary Shares together with all rights attaching to such Ordinary Shares; and
  - (iii) you are a person to whom the Offer may lawfully be made, can receive the proceeds of the sale of your Ordinary Shares and whose participation in the Buy-Back is permitted under the laws of the jurisdiction in which you are resident;
- (f) you authorise PAYCE (and its officers, agents, contractors and advisers) to correct any error in or omission from your Acceptance Form, and to insert any missing details;
- (g) you undertake not to sell or offer to sell Ordinary Shares to any other person if, as a result, you will at any time after you submit your Acceptance Form until the Buy-Back Date hold fewer Ordinary Shares than the number of Ordinary Shares you have accepted into the Buy-Back;
- (h) you authorise PAYCE to procure the number of Ordinary Shares accepted into the Buy-Back to be transferred to a subposition on the Register which will prevent them from being dealt with following receipt of your Acceptance Form otherwise than in accordance with the Buy-Back;
- (i) you acknowledge that neither PAYCE nor any other party involved in the Buy-Back has provided you with financial product advice, or any securities recommendation, or has any obligation to provide this advice or recommendation, concerning your decision to participate in the Buy-Back;
- (j) you accept the responsibility for fully observing the laws and regulatory requirements of the relevant jurisdiction that applies to you in connection with this Buy-Back, including the obtaining of any governmental, exchange control or other consents, the making of any filings that may be required, the compliance with other necessary formalities and the payment of any taxes or other requisite payments due in such jurisdiction;
- (k) you recognise damages are not an adequate remedy for breach of these covenants, undertakings, agreements, representations and warranties;



- (l) you undertake that if you breach any of these covenants, undertakings, agreements, representations or warranties you will indemnify PAYCE for all its costs or losses arising from the breach; and
- (m) any obligation of PAYCE to buy-back Ordinary Shares from you is conditional on your compliance with the covenants, undertakings, agreements, representations and warranties listed above.

Dispatch of cheques or electronic funds transfer is expected to be completed within five Business Days after the announcement of the outcome of the Buy-Back.

## 6.11 WITHDRAWING OR AMENDING ACCEPTANCES

Set out below are the procedures for withdrawing or amending your acceptance. The effect of withdrawing or amending one or more of your acceptances will be to withdraw those acceptances, and, in the case of an amendment, to replace the relevant acceptances with new acceptances.

Withdrawals or amendments made in accordance with these procedures may not take immediate effect. You should take this into account if you wish to sell any Ordinary Shares which you have accepted into the Buy-Back.

### (a) Issuer sponsored holdings

To withdraw or amend an acceptance that has been received by the Registry, you will need to complete and submit a Withdrawal/Amendment Form, using the procedures set out on the back of the Withdrawal/Amendment Form.

You will need to submit your form to the address noted on the form, so that it is received by no later than 7.00pm (Sydney time) on the Closing Date. Any forms received after this time will not be effective for withdrawing or amending your acceptance.

A copy of the Withdrawal/Amendment Form is available by telephoning the Registry on 1300 737 760 (within Australia) or +61 1300 737 760 (outside Australia).

### (b) CHESS Holdings

If you have a CHESS Holding, you will need to instruct your controlling participant in sufficient time for them to process your withdrawal or amendment by 7.00pm (Sydney time) on the Closing Date.

If you have a CHESS Holding, you should NOT send a Withdrawal/Amendment Form to the Registry.

After your controlling participant has withdrawn or amended your acceptance, you will be sent written confirmation from CHESS of the withdrawal/amendment made in relation to your holding by your controlling participant. Irrespective of its wording,

this confirmation is not an acceptance by PAYCE of the withdrawal or amendment of your acceptance.

#### **6.12 RESTRICTION ON TRADING ACCEPTED ORDINARY SHARES**

Ordinary Shares accepted into the Buy-Back at any time during the Offer Period must not be sold or otherwise transferred to any other person unless they have first been withdrawn from the Buy-Back pursuant to a withdrawal or amendment made in accordance with the procedures described above.

The number of Ordinary Shares in respect of which an Eligible Shareholder accepts the Offer will be removed from their holding and placed in a "subposition" in the Register. The Eligible Shareholder will not be able to deal with those Ordinary Shares until they have been released from the subposition. For the Ordinary Shares to be released from that subposition, the Eligible Shareholder must withdraw or amend their acceptance in accordance with the procedures described above.

If an Eligible Shareholder sells Ordinary Shares after submitting an acceptance such that at the Buy-Back Date they do not hold at least the number of Ordinary Shares they successfully accepted into the Buy-Back, PAYCE may, in its absolute discretion and without prejudice to its other rights and remedies, reject their acceptance in its entirety or treat the acceptance as if they had accepted the Offer in respect of the number of Ordinary Shares held by them at 7.00pm on the Closing Date.

#### **6.13 PAYCE'S RIGHT TO VARY DATES AND TIMES**

While PAYCE does not presently anticipate changing any of the dates and times in relation to the Buy-Back (including the Closing Date and the Buy-Back Date), it reserves the right to vary them where lawful to do so.

Any change in date or time will take effect from the time it is authorised by the Directors and will be publicly announced on the ASX as soon as practicable following the Directors' authorisation. Any such change will be taken to amend this document (and the Acceptance Form and/or Withdrawal/Amendment Form) accordingly.

PAYCE may also decide not to proceed with the Buy-Back. Without limitation, PAYCE reserves the right to terminate the Buy-Back at any time prior to the date on which PAYCE enters into the contracts to buy-back its Ordinary Shares, by making an announcement to the ASX to that effect.

#### **6.14 PAYCE'S RIGHT TO ADJUST OR REJECT ACCEPTANCES**

PAYCE may, in its absolute discretion and at any time, deem any acceptance it receives to be a valid acceptance, disregard or not accept any acceptance and may waive any or all of the requirements for making, amending or withdrawing an acceptance. It may do each of these things in relation to some, all or any number of acceptances it receives.

#### 6.15 CANCELLATION OF ORDINARY SHARES ACCEPTED AT THE BUY-BACK

In accordance with the Corporations Act, all Ordinary Shares bought back under the Buy-Back will be cancelled.

#### 6.16 GOVERNING LAW

This document is governed by the law in force in New South Wales.

## **7. AUSTRALIAN TAXATION IMPLICATIONS FOR SHAREHOLDERS**

### **7.1 INTRODUCTION**

This Section 7 contains a summary of the potential Australian taxation implications of the Buy-Back for Shareholders that hold Ordinary Shares on capital account.

The tax implications for Shareholders arising from the Buy-Back will vary depending on a Shareholder's particular circumstances.

The information set out below is provided by way of a general guide, and should not be regarded as tax advice in relation to the specific circumstances of Shareholders. The information provided does not represent a complete analysis of all potential tax implications associated with the Buy-Back.

Shareholders should consult their own tax advisors in relation to the potential taxation consequences relevant to their particular circumstances.

### **7.2 INCOME TAX CONSEQUENCES OF THE BUY-BACK FOR AUSTRALIAN RESIDENT SHAREHOLDERS**

Australian Resident Shareholders participating in the Buy-Back will be entitled to receive \$8.50 per Ordinary Share which will comprise a capital component of \$1.54 per Ordinary Share and an unfranked dividend component of \$6.96 per Ordinary Share. As the Buy-Back amount will be applied to the issue of the respective Preference Shares, all income derived from the Buy-Back will be reflected in the 30 June 2015 financial year (see comments below).

To the extent that the market price of the Ordinary Shares (calculated in accordance with the Australian Taxation Office Guidelines) exceeds the \$8.50 per Ordinary Share, then an additional deemed capital component will be included in the income tax returns of the respective participating shareholders. PAYCE will provide all participating Shareholders with details to assist with the preparation of their respective 2015 income tax returns.

Australian Resident Shareholders will make a capital gain where the amount of the capital component of the Buy-Back exceeds the cost base of their Ordinary Shares. Otherwise, they will make a capital loss where the amount of the Buy-Back is less than the reduced cost base of their Ordinary Shares.

Australian Resident Shareholders who have held their Ordinary Shares for at least 12 months prior to the sale (excluding the day of acquisition and the day of disposal) and are individuals, trustees of a trust, or a complying superannuation fund, may be eligible to apply a CGT discount to reduce the amount of the taxable capital gain. Individuals and trusts are entitled to a 50% CGT discount and complying superannuation funds are entitled to a 33⅓% CGT discount. Companies are not entitled to the CGT discount.

Australian Resident PAYCE Shareholders must include the unfranked dividend component of the Buy-Back in their assessable income in the income year of the Buy-Back.

Australian Resident Shareholders will need to bring to account as assessable income the interest income they derive on the \$0.50 deferred consideration for the Buy-Back.

Australian Resident Shareholders who have not supplied their Tax File Number ('TFN') to the Registry prior to the Closing Date for participating in the Buy-Back, will have TFN withholding tax of 49% deducted from the unfranked dividend component of the consideration as well as the interest income. The TFN withholding tax deducted will be remitted to the Australian Taxation Office. Australian Resident Shareholders that have had TFN withholding tax deducted will be able to claim a credit for the TFN withholding tax withheld in their corresponding Income Tax Returns.

### **7.3 INCOME TAX CONSEQUENCES OF THE BUY-BACK FOR NON-RESIDENT SHAREHOLDERS**

Non-Resident Shareholders will have dividend withholding tax of 30% (subject to reduction under a Double Tax Agreement and depending on the residency of the shareholder) deducted from the unfranked dividend component of the dividend. The dividend withholding tax deducted will be remitted to the Australian Taxation Office. Non Resident Shareholders may be able to claim a credit for the dividend withholding tax withheld in their country of residence.

Non-Resident Shareholders will have interest withholding tax of 10% deducted from the interest income they are paid on the \$0.50 deferred consideration for the Buy-Back

Non Resident Shareholders should obtain their own independent tax advice as to the broader tax implications of participating in the buy-back.

### **7.4 GST AND STAMP DUTY**

GST and stamp duty will not be payable on the transfer and cancellation of Ordinary Shares following acceptance of Offers.

## 8. RESOLUTION 2 – APPROVAL FOR THE ISSUE OF PREFERENCE SHARES

### 8.1 BACKGROUND TO RESOLUTION 2

PAYCE is seeking approval to issue Preference Shares pursuant to section 254A(2) of the Corporations Act, so that they may form partial consideration for the Buy-Back proposed in Resolution 1.

Resolution 1 and Resolution 2 are interdependent, meaning that Shareholders must pass both Resolutions for the Buy-Back to proceed, and the Preference Shares to be issued.

### 8.2 INFORMATION REQUIRED UNDER SECTION 254A(2) OF THE CORPORATIONS ACT

Pursuant to and in accordance with section 254A(2) of the Corporation Act, the following information is provided in relation to the proposed issue of Preference Shares:

Feature	Details
Repayment of capital	<ul style="list-style-type: none"><li>• The Preference Shares have no fixed maturity date.</li><li>• Holders of Preference Shares do not have the right to have those securities purchased or bought-back.</li><li>• Each holder of Preference Shares grants PAYCE an option to purchase or buy back those Preference Shares for a cash consideration of \$7.50 each on any Dividend Payment Date, subject to the requirements of the Corporations Act and Listing Rules.</li></ul>
Participation in surplus assets and profits	The Preference Shares have no entitlement to share in any surplus assets or profits in the event of a winding up.
Dividends	<ul style="list-style-type: none"><li>• Non-cumulative Dividends of 6% per annum, proposed to be paid quarterly, subject to such Dividends being declared at the discretion of PAYCE.</li><li>• On each five year anniversary of the issue of the Preference Shares, the dividend rate will increase by an additional 3% per annum. For example:<ul style="list-style-type: none"><li>○ After five years from the date of issue, the dividend rate will increase to 9% per annum.</li><li>○ After ten years from the date of issue, the dividend rate will increase to 12% per annum.</li></ul></li><li>• If PAYCE elects to pay a Dividend on the Preference Shares, it has the discretion to pay the Dividends by either cash, the issue of additional Preference Shares at \$7.50 each (plus any outstanding dividend entitlement in cash), or a combination of cash and Preference Shares.</li><li>• If no Dividends are paid on the Preference Shares on the</li></ul>

Feature	Details
	<p>Dividend Payment Date, PAYCE is prohibited from paying dividends or making any other distribution on any other class of its share capital or reducing or buying back any share capital until one of the following occurs:</p> <ul style="list-style-type: none"> <li>○ consecutive scheduled Dividends in respect of a 12 month period have been paid to Preference Share Holders; or</li> <li>○ an amount equal to unpaid scheduled Dividends for the period of 12 months immediately preceding the date of payment of that amount (<b>Optional Dividend</b>) has been paid to Preference Share Holders; or</li> <li>○ all Preference Shares have been purchased or bought-back.</li> </ul> <ul style="list-style-type: none"> <li>• In the event that PAYCE breaches the Dividend Payment Restriction outlined above, and does not remedy that breach within 90 days, the Preference Shares will be exchanged for redeemable preference shares which are redeemable immediately at the option of holders. Each Preference Share will be exchanged for one redeemable preference share.</li> </ul>
Voting	<p>Generally, the Preference Shares will carry no right to vote at any general meeting of Shareholders of PAYCE. However, holders of Preference Shares may vote on the basis of one vote per Preference Share in the following circumstances:</p> <ul style="list-style-type: none"> <li>(a) on a proposal: <ul style="list-style-type: none"> <li>(i) to reduce the share capital of PAYCE;</li> <li>(ii) that affects rights attached to the Preference Share;</li> <li>(iii) to wind up PAYCE; or</li> <li>(iv) for the disposal of the whole of the property, business and undertaking of PAYCE;</li> </ul> </li> <li>(b) on a resolution to approve the terms of a buy-back agreement;</li> <li>(c) during a period in which a Dividend or part of a Dividend on the Preference Share is in arrears; or</li> <li>(d) during the winding up of PAYCE.</li> </ul>
Priority of payment of capital and dividends in relation to other shares or classes of preference shares	<p>The Preference Shares will rank equally among themselves, and ahead of Ordinary Shares in relation to dividends and the return of capital.</p>

For further information, the terms of the Preference Shares are summarised in section 2.2 and detailed in Schedule 1 of this document.

### 8.3 Recommendation of Directors

Each of the Directors **recommends** that Shareholders **vote in favour of this Resolution**.



## 9. ADDITIONAL INFORMATION

### 9.1 RECENT FINANCIAL INFORMATION

PAYCE released its Financial Report for the year ending 30 June 2014 to the ASX on 22 August 2014.

### 9.2 DIRECTORS' INTERESTS

No Director will receive any payment or benefit of any kind as a consequence of the Buy-Back other than in their capacity as a Shareholder in PAYCE.

Directors who hold Ordinary Shares at the Buy-Back Record Date will be able to participate in the Buy-Back to the same extent as all other Shareholders.

As at the date of this document, the Directors either directly or indirectly have the following interests in Ordinary Shares. The intentions of the Directors and/or their associated entities (if any) to participate in the Buy-Back are also indicated below:

Director	Ordinary Shares	Percentage of total Ordinary Shares on issue	Intention to accept	Intention to not accept
Brian Boyd*	11,525,460	38.7%	Undecided	Not less than 8,806,799
Roger Short	65,000	0.2%	Undecided	Undecided
Christopher Gabriel	0	0.0%	N/A	N/A

\* As noted in section 2.4(e)(i), Lanox Pty Ltd which is associated with Mr Boyd, has indicated that it will not participate in the Buy-Back. The intentions of the other entity associated with Mr Boyd have yet to be confirmed.

### 9.3 DOCUMENTS INCORPORATED BY REFERENCE

All documents that PAYCE has lodged with ASIC or ASX contain important information for Shareholders and their professional advisors. PAYCE also includes by reference the announcements referred to below for full disclosure of relevant information to Shareholders:

Date	Title	Description of the document
28/11/2014	Completion of acquisition of industrial site	Advised that PAYCE, along with its joint venture partner Sekisui House, have completed the acquisition of industrial site in Melrose Park, Sydney
17/11/2014	Cancellation of Shares	To lodge copies of ASIC Forms from 2011 previously not lodged on ASX Platform.
11/11/2014	AGM	Announcements in relation to the annual general meeting
31/10/2014	Noteholder Resolution Result	Advised that the Resolution being voted on by Noteholders to approve changes to the Conditions of the Notes was not passed.
29/10/2014	East Village – Victoria Park, New South Wales	Provided a further update from ASX Announcement dated 14 October 2014 on progress of 'East Village' project.
14/10/2014	Proposed amendment of Conditions of Senior Secured Notes	Advised of PAYCE's intention to seek approval from the holders of the 9.50% Notes due 3 December 2018, to amend the Conditions attaching to those Notes.
14/10/2014	East Village – Victoria Park, New South Wales	Advised that the 206 residential units forming part of the mixed use 'East Village' project had reached practical completion with settlements commencing.
13/10/2014	Completion of sale of development land	Advised of completion of the sale of a development site in Hurstville, Sydney.
08/10/2014	Annual Report to Shareholders	Financial Report of PAYCE for the year ending 30 June 2014
08/10/14	Notice of Annual	Notice of PAYCE's annual general meeting, scheduled for 11 November 2014 to

Date	Title	Description of the document
	General Meeting 2014	consider the financial reports, the election of Roger Short as director, the adoption of a new Constitution, and the renewal of the non-marketable parcels rule.
02/09/14	Land Acquisition & Joint Operation	<p>Advised of completion of contract to acquire a 2 hectare industrial site in Melrose Park, Sydney for \$23.5 million.</p> <p>Advised that site is adjacent to site acquired and disclosed via an ASX Announcement dated 15 August 2014.</p> <p>Advised that PAYCE has entered into a 50:50 Joint Operation with Sekisui House on both sites.</p>
26/08/14	Acquisition of Land - Auburn	Confirmation of the exchange of contracts for the acquisition of two industrial lots located in Auburn, in Sydney's western suburbs for \$50 million.
22/08/14	Full year Statutory Accounts	Financial Report, Directors' Report and auditor's report for PAYCE Consolidated Limited for the year ended 30 June 2014
22/08/14	Preliminary Financial Report	Preliminary Final Report for PAYCE Consolidated Limited for the year ended 30 June 2014.
15/08/14	Acquisition of land	Confirmation of the exchange of contracts for the acquisition of a 14 hectare industrial site in the western suburbs of Sydney for \$95 million.
18/07/14	Sale of land	Confirmation of the execution of contracts for the sale of a development site in Hurstville, Sydney for \$43 million.

These documents may be accessed via PAYCE'S website at [www.payce.com.au](http://www.payce.com.au). In addition, copies of these documents have been lodged with ASIC and the ASX, and may be obtained from PAYCE's announcement page on ASX ([www.asx.com.au](http://www.asx.com.au)).

#### 9.4 NO OTHER ADDITIONAL INFORMATION

Other than as set out in this Explanatory Statement, there is no other additional information that is known to the Directors that may reasonably be expected to be material to the making of a decision by Shareholders whether or not to vote in favour of the Resolutions.

#### 9.5 APPLICABLE LAW

This document and the Buy-Back are governed by the laws of New South Wales.

#### 9.6 LODGMENT

In accordance with section 257C(3) of the *Corporations Act*, a copy of the Notice of Extraordinary General Meeting and the Explanatory Statement has been lodged with ASIC.

# Schedule 1

## TERMS OF PREFERENCE SHARES

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### 1. DEFINITIONS

In these terms of issue for Preference Shares, the following words and expressions have the following meanings:

**'ASIC'** means the Australian Securities and Investments Commission;

**'ASX'** means ASX Limited ACN 008 824 691 or the financial market operated by it as the context requires;

**'Business Day'** has the meaning given to that term in the ASX Listing Rules;

**'Call Option'** means PAYCE's option to Repurchase the Preference Share pursuant to clause 3.8;

**'Change in Control Event'** means, on any date, an event where a person (and its associates) or such persons acting together which held, whether directly or indirectly, 40% or less of the issued Ordinary Shares of PAYCE as at the Issue Date (and including a zero holding) subsequently holds, whether directly or indirectly, more than 40% of the issued Ordinary Shares of PAYCE on that date;

**'PAYCE'** means PAYCE Consolidated Limited ABN 19 001 566 310;

**'Directors'** means the directors of PAYCE from time to time;

**'Dividend'** means a dividend payable at the discretion of PAYCE on the Preference Shares in accordance with clause 3;

**'Dividend Payment Date'** means each 16 May, 16 August, 16 November, and 16 February until the Preference Shares are purchased or bought back;

**'Dividend Payment Restriction'** means the restrictions imposed on PAYCE if a Dividend is not paid on the Preference Shares, as set out in clause 3.7;

**'Dividend Period'** means the period from, and including, the Issue Date or the preceding Dividend Payment Date (whichever is later) until, but not including, the next Dividend Payment Date;

**'Dividend Rate'** means:

- (a) from the Issue Date until (but excluding) the day which is five years from the Issue Date: 6% per annum;

- (b) on each 5 year anniversary of the Issue Date, the Dividend Rate will increase by an additional 3% per annum. For example:
- (i) from the day which is five years from the Issue Date, until (but excluding) the day which is ten years from the Issue Date: 9% per annum;
  - (ii) from the day which is ten years from the Issue Date, until (but excluding) the day which is fifteen years from the Issue Date: 12% per annum,

and thereafter as adjusted in accordance with these terms;

**'Face Value'** means the face value of the Preference Shares, being \$7.50, as adjusted in accordance with these terms;

**'Issue Date'** means the date on which the Preference Shares are issued;

**'Issue Price'** deemed to be \$7.50 per Preference Share;

**'Law'** and **'Corporations Law'** means the Corporations Act 2001 and the Corporations Regulations;

**'Listing Rules'** means the official listing rules of ASX;

**'Ordinary Shares'** means an ordinary share in the capital of PAYCE;

**'Preference Share'** means a preference share in the capital of PAYCE issued in accordance with these terms and conditions;

**'Preference Share Exchange Date'** has the meaning given to it in clause 3.8(b);

**'Preference Share Holder'** means the registered holder of a Preference Share;

**'Redeemable Preference Shares'** are those shares issued in accordance with clause 3.8;

**'Repurchase'** in relation to a Preference Share means to buy-back or cancel the Preference Share in any manner permitted by the Corporations Law and the Listing Rules;

**'Shareholders'** means the holders of Ordinary Shares in PAYCE.

## **2. DESCRIPTION**

### **2.1 Terms of issue**

These are the terms of issue on which PAYCE will issue the Preference Shares.

### **2.2 Issue Price**

The Preference Shares will be issued as partial consideration for a buy-back of Ordinary Shares undertaken by PAYCE on or around December 2014, with a deemed Face Value of \$7.50 each.

### 3. DIVIDENDS

#### 3.1 Dividends

Subject to clause 3.2, PAYCE shall pay to Preference Share Holders, on each Dividend Payment Date, a preferential Dividend on each Preference Share. The Dividend per Preference Share will be calculated as follows:

$$\text{DIV} = \frac{\text{DR} \times \text{FV} \times \text{D}}{365}$$

Where:

- **DIV** is the amount of the dividend payable on each Preference Share on the Dividend Payment Date (the '**Dividend Entitlement**');
- **DR** is the Dividend Rate applicable for that Dividend Period;
- **FV** is the Face Value; and
- **D** is the number of days in that Dividend Period.

#### 3.2 Payment of Dividend

- (a) The Dividend may at the discretion of PAYCE, be paid by either or a combination of:
- (i) a cash payment; and/or
  - (ii) the issue of further Preference Shares with a face value of \$7.50 each, representing an amount equivalent to the Dividend Entitlement (with any fractional amount remaining paid in cash).
- (b) The payment of a Dividend is subject to:
- (i) the Directors, at their discretion, declaring the Dividend to be payable or otherwise resolving to pay the Dividend;
  - (ii) there being funds legally available for the payment of dividends; and
  - (iii) compliance with these terms of issue, including but not limited to the restriction set out in clause 3.7.

#### 3.3 Record Dates

A Dividend is only payable to those persons registered as holders of Preference Share at the date on which the books of PAYCE close for Preference Share Holders in respect of each relevant Dividend.

#### 3.4 Calculation of Dividends

All calculations to be undertaken with respect to Dividends will be to four decimal places. For the purposes of making a dividend payment in respect of a Preference Share Holder's aggregate holding, any fraction of a cent will be disregarded.

### 3.5 Dividends are non-cumulative

Dividends are non-cumulative. If all or any part of a scheduled Dividend is not declared or paid (**Unpaid Dividend**) on the relevant Dividend Payment Date because of the restrictions in clause 3.2(b), PAYCE has no liability to pay the Unpaid Dividend and no Preference Share holder has any claim in respect of any Unpaid Dividend. No interest accrues on any Unpaid Dividend and no Preference Share Holder has any claim or entitlement in respect of interest on any Unpaid Dividend.

### 3.6 Optional dividend

Without limiting clause 3.2(b) or clause 3.5, PAYCE may at its absolute discretion, elect at any time to pay Preference Share Holders an optional dividend in an amount equal to the unpaid amount of the scheduled Dividends for a period of 12 months immediately preceding the payment date of the optional dividend (**Optional Dividend**).

### 3.7 Dividend Payment Restriction

If a scheduled Dividend has not been paid on Preference Shares in full for any reason within five business Days of the relevant Dividend Payment Date, PAYCE must not:

(a) declare or other determine to pay, or pay, a dividend or make any distribution on any class of its share capital other than Preference Shares; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration any share capital,

unless:

(a) where a scheduled Dividend has not been paid in full within five business Days of the relevant Dividend Payment Date, since that date, PAYCE has paid to Preference Share Holders in full:

(i) an Optional Dividend; or

(ii) consecutive scheduled Dividends in respect of a period of 12 months; or

(b) all Preference Shares have been purchased or bought back by PAYCE,

provided that nothing in this clause will be taken to prevent a payment by way of pro rata payments to Preference Share Holders and the holders of any security which ranks in respect of dividends or return of capital equally with the Preference Shares.

### 3.8 Consequences of breach of Dividend Payment Restriction

(a) If PAYCE breaches the Dividend Payment Restriction set out in clause 3.7, and fails to rectify such breach through the payment of Dividends on the Preference Shares within 90 days of such breach, PAYCE must on the expiration of that 90 day period give Preference Share Holders a notice, stating that on the Preference Share Exchange Date, all Preference Shares will be exchanged for redeemable preference shares (**Redeemable Preference Shares**) having the same rights as the Preference Shares with an additional right allowing holders to immediately (or at any time) require PAYCE to redeem those Redeemable Preference Shares. Each Preference Share will be



cancelled in exchange and consideration for the issue of one Redeemable Preference Share.

- (b) For the purposes of this clause, '**Preference Share Exchange Date**' means the date which is three Business Days after the date of the notice given under clause 3.8(a).
- (c) Notice given in accordance with clause 3.8(a) is irrevocable once given. Failure to give such notice when required under clause 3.8(a) does not affect the obligation of PAYCE to exchange the Preference Shares for Redeemable Preference Shares when required in accordance with these terms.
- (d) If, on a Preference Share Exchange Date, a Redeemable Preference Share is not issued in exchange for a Preference Share, that Preference Share remains on issue until the Redeemable Preference Share is issued to the holder or the Preference Share is purchased or bought back by PAYCE, and clause 3.7 continues to apply. This clause does not affect the obligation of PAYCE to issue the Redeemable Preference Shares when required in accordance with these terms.

### 3.9 Effect of exchange

- (a) Upon the exchange of Preference Shares for Redeemable Preference Shares on the Preference Share Exchange Date in accordance with clause 3.8, all other rights conferred or restrictions imposed on those Preference Shares will no longer have effect and those Preference Shares will be cancelled.
- (b) Each Preference Share Holder irrevocably:
  - (i) acknowledges and agrees that it is obliged to accept Redeemable Preference Shares upon an exchange of Preference Shares in accordance with these terms notwithstanding anything which might otherwise affect an exchange of Preference Shares for Redeemable Preference Shares, including:
    - A. any change in the financial position of PAYCE since the Issue Date;
    - B. any disruption to capital markets generally;
    - C. any breach by PAYCE of an obligation in connection with the Preference Shares or the Redeemable Preference Shares; or
    - D. it being impossible or impracticable to sell or otherwise dispose of Redeemable Preference Shares;
  - (ii) agrees to provide to PAYCE any information which PAYCE may consider necessary or desirable to give effect to the exchange of a Preference Share for a Redeemable Preference Share in accordance with these terms; and
  - (iii) appoints PAYCE as its agent and attorney with power in its name and on its behalf to do all things necessary to give effect to the exchange of a Preference

Share for a Redeemable Preference Share in accordance with these terms, including:

- A. completing and executing such instruments for and on its behalf as PAYCE considers necessary or desirable to give effect to an exchange of a Preference Share for a Redeemable Preference Share in accordance with these terms; and
- B. appointing in turn its own agent or delegate.

### **3.10 Redemption of Redeemable Preference Shares**

(a) Redeemable Preference Shares issued in accordance with clause 3.8(a) may be redeemed by the holder submitting a redemption notice (**Redemption Notice**) to PAYCE at any time which:

- (i) is in the form made available by PAYCE on request;
- (ii) specifies the Redeemable Preference Shares to which it relates; and
- (iii) is accompanied by evidence of title reasonably satisfactory to PAYCE.

Once the Redemption Notice has been given, the holder of the Redeemable Preference Shares must not deal with, transfer, dispose or otherwise encumber the Redeemable Preference Shares which are the subject of that Redemption Notice.

(b) PAYCE must within 90 days of receipt of a Redemption Notice, redeem the Redeemable Preference Shares the subject of that Redemption Notice and pay to the holder the redemption amount, which is the aggregate of:

- (i) the face value of the Redeemable Preference Shares (being \$7.50 per Redeemable Preference Share); and
- (ii) an amount equal to the unpaid amount of any scheduled Dividends which have not been paid on the Preference Shares and/or Redeemable Preference Shares for a period of 12 months immediately preceding the date on which the Redemption Notice is given under clause 3.10(a).

(c) If PAYCE does not redeem the Redeemable Preference Shares when required to do so in accordance with this clause, the Redeemable Preference Shares will remain on issue until they are redeemed, purchased or bought-back by PAYCE.

## **4. CALL OPTION**

### **4.1 Option to Repurchase**

(a) Each Preference Share Holder grants to PAYCE an option to Repurchase on any Dividend Payment Date some or all of the Preference Shares they may hold, for an amount equal to the Face Value of each Preference Share.

- (b) At least 30 days (but no more than 3 months) before the relevant Dividend Payment Date, PAYCE may give notice to one or more Preference Share Holders stating that it will exercise its option under clause 4.1(a) to Repurchase a specified number of Preference Shares from that Preference Share Holder in accordance with clause 4.3.

#### **4.2 Repurchase on Change in Control Event**

If a Change in Control Event occurs, PAYCE may at its discretion, Repurchase some or all of the Preference Shares, by giving notice to the Preference Share Holders at any time (but no later than 30 days after the date on which the event occurs) after the Change in Control Event occurs.

#### **4.3 Repurchase procedure**

- (a) Subject to PAYCE having obtained all necessary approvals and consents required under the Corporations Act, the ASX Listing Rules and PAYCE's constitution, PAYCE may, where it has given a notice pursuant to clause 4.1(b) that it proposes to Repurchase all or some of the Preference Shares, Repurchase the Preference Shares that were the subject of that notice on the relevant date.
- (b) The consideration for any Repurchase of a Preference Share under this clause 4.3 will be a cash payment equal to the Face Value of \$7.50 per Preference Share.
- (c) Each Preference Share Holder appoints PAYCE and each of the Directors, jointly and all severally, to be the lawful attorneys of the Preference Share Holder to accept all offers and to execute all notices and other documents necessary or desirable to effect a Repurchase of Preference Shares pursuant to this clause 4.3.

### **5. GENERAL RIGHTS AND OBLIGATIONS OF PREFERENCE SHARES**

#### **5.1 Ranking**

Preference Shares rank equally amongst themselves in all respects.

#### **5.2 Preferential Dividend**

Preference Shares rank in priority to Ordinary Shares for the payment of dividends.

#### **5.3 Return of Capital**

If there is a return of capital on a winding-up of PAYCE, Preference Share Holders will be entitled to receive out of the assets of PAYCE available for distribution to holders of shares, in respect of each Preference Share held, a cash payment equal to the sum of:

- (a) the amount of any Dividend Entitlement which has not been satisfied in full including any Dividend Entitlement which has accrued for the period from and including the date of the preceding Dividend Payment Date to the date of commencement of the winding-up; and
- (b) the Face Value,

before any return of capital is made to holders of Ordinary Shares or any other class of shares ranking behind the Preference Shares.

#### **5.4 Shortfall on Winding Up**

If, upon a return of capital, there are insufficient funds to pay in full the amounts referred to in clause 5.3 and the amounts payable in respect of any other shares in PAYCE ranking as to such distribution equally with the Preference Share on a winding-up of PAYCE, the Preference Share Holders and the holders of any such other shares will share in any distribution of assets of PAYCE in proportion to the amounts to which they respectively are entitled.

#### **5.5 Participation in Surplus Assets**

Preference Shares do not confer on their holders the right to participate in the surplus assets of PAYCE on a winding-up beyond the rights set out in clauses 5.3 and 5.4.

#### **5.6 Takeovers and Schemes of Arrangement**

If a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors, or the Directors recommend a member's scheme of arrangement, the Directors will use reasonable endeavours to procure that equivalent takeover offers are made to Preference Share Holders or that they participate in the scheme of arrangement.

#### **5.7 Participation in New Issues**

A Preference Share does not confer rights to subscribe for new securities in PAYCE or to participate in any bonus or rights/entitlement issues.

#### **5.8 Notices**

Preference Share Holders are entitled to the same rights as Ordinary Shareholders to receive notices, reports and audited accounts and to attend meetings.

#### **5.9 Transfers of Preference Shares**

A transfer of a Preference Share will only be accepted as a proper instrument of transfer in registrable form if it complies with the requirements of PAYCE's constitution and the Law.

#### **5.10 Holding statements**

Holding statements in respect of Preference Shares may be provided by PAYCE to members from time to time.

## **6. VOTING RIGHTS**

A Preference Share does not entitle its holder to vote at any general meeting of PAYCE except in the following circumstances:

- (a) on a proposal:
  - (i) to reduce the share capital of PAYCE;
  - (ii) that affects rights attached to the Preference Share;
  - (iii) to wind up PAYCE; or
  - (iv) for the disposal of the whole of the property, business and undertaking of PAYCE;
- (b) on a resolution to approve the terms of a buy-back agreement;
- (c) during a period in which a Dividend or part of a Dividend on the Preference Share is in arrears; or
- (d) during the winding up of PAYCE.

Under these circumstances, Preference Share Holders will be entitled to one vote per Preference Share.

## **7. AMENDMENTS TO THE TERMS OF ISSUE**

Subject to complying with all applicable laws, PAYCE may without the authority, assent or approval of Preference Share Holders amend or add to these terms of issue if such amendment or addition is, in the opinion of PAYCE:

- (a) of a formal, minor or technical nature;
- (b) made to correct a manifest error; or
- (c) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of Preference Share Holders.

## **8. INTERPRETATION**

- (a) Unless the context otherwise requires, if there is any inconsistency between the provisions of these terms of issue and PAYCE's constitution, then, to the maximum extent permitted by law, the provisions of these terms of issue will prevail.
- (b) If a calculation is required under these terms of issue, unless the contrary intention is expressed, the calculation will be performed to four decimal places.
- (c) Definitions and interpretation under PAYCE's constitution will also apply to these terms of issue.

# CORPORATE DIRECTORY

## SHARE REGISTRY

For general queries, please contact:

POSTAL ADDRESS	FAX	PHONE
Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001	+61 2 9290 9655	1300 737 760

## All Correspondence to:

✉ **By Mail** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001 Australia

Level 7, 207 Kent Street,  
Sydney NSW 2000 Australia

📠 **By Fax:** +61 2 9290 9655

💻 **Online:** [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

☎ **By Phone:** (within Australia) 1300 737 760  
(outside Australia) +61 2 9290 9600

## YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 11:30am AEDT on Sunday 11 January 2015.**

### 💻 TO VOTE ONLINE

**STEP 1: VISIT** [www.votingonline.com.au/payceegm2015](http://www.votingonline.com.au/payceegm2015)

**STEP 2: Enter your holding/investment type:**

**STEP 3: Enter your Reference Number:**

**STEP 4: Enter your Voting Access Code:**

### 📱 BY SMARTPHONE



Scan QR Code using smartphone  
QR Reader App

**PLEASE NOTE:** For security reasons it is important you keep the above information confidential.

### TO VOTE BY COMPLETING THE PROXY FORM

#### STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

#### Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together in the same envelope.

#### STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

#### Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

#### STEP 3 SIGN THE FORM

The form **must** be signed as follows:

**Individual:** This form is to be signed by the securityholder.

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

**Power of Attorney:** to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

#### STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **11:30am AEDT on Sunday 11 January 2015**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

💻 **Online** [www.votingonline.com.au/payceegm2015](http://www.votingonline.com.au/payceegm2015)

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited  
GPO Box 3993,  
Sydney NSW 2001 Australia

👤 **In Person** Level 7, 207 Kent Street,  
Sydney NSW 2000 Australia

#### Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

☐

### Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

## PROXY FORM

### STEP 1 APPOINT A PROXY

I/We being a member/s of **PAYCE Consolidated Limited** and entitled to attend and vote hereby appoint

☐

**Chairman of the Meeting (mark box)**

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

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 at the Extraordinary General Meeting of **PAYCE Consolidated Limited** to be held at **Pulse, 9 The Crescent, Wentworth Point NSW 2127 on Tuesday 13 January 2015 at 11:30am AEDT** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chairman of the Meeting will vote all undirected proxies in favour of all Items of business. If you wish to appoint the Chairman of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that resolution.

### STEP 2 VOTING DIRECTIONS

\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Item 1	Approval of Share Buy-Back	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2	Approval for the issue of Preference Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### STEP 3 SIGNATURE OF SHAREHOLDER(S)

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 20\_\_