



# MEETING OF SHAREHOLDERS OF PAYCE CONSOLIDATED LIMITED

## CHAIRMAN'S ADDRESS

**10:30am on 31 October 2016**

Good morning ladies and gentlemen. My name is Chris Gabriel, I am an independent director of PAYCE, and the Court ordered Chairman for today's meetings.

With me today is my fellow independent director of PAYCE, Roger Short, the managing director of PAYCE, Brian Boyd and the company secretary and CFO, Brian Bailison. Representatives of our share registry, Boardroom Pty Ltd, are also present today to assist in conducting the poll for today's meeting. I appoint Mr. Steve Hodkin of Boardroom to act as Returning Officer and Alyson Lewis of KPMG as the Scrutineer. Mr. Hodkin and Ms Lewis have agreed to act in their respective capacities.

### ORDINARY SCHEME MEETING

This meeting has been convened in accordance with orders made by the Federal Court of Australia on 23 September 2016, the PAYCE Constitution and the Corporations Act. The purpose of this meeting is for you to consider, and if you think fit, agree to (with or without any modification approved by the Court) a scheme of arrangement under which Bellawest Pty Limited (whom I will refer to as "**Bellawest**"), an entity associated with Brian Boyd, will acquire all the ordinary shares in PAYCE other than those held by Bellawest and Lanox Pty Ltd, as long as all conditions to the Schemes are satisfied or waived.

Approval of the Ordinary Scheme is interdependent on the approval of the Preference Scheme, as well as the other transaction resolutions to be considered at the General Meeting and Preference General Meeting, both of which will follow the closure of this meeting.

I refer to the Notice of Ordinary Scheme Meeting contained in Annexure G of the Explanatory Booklet that sets out the resolution proposed for today's meeting. As the Explanatory Booklet was to shareholders on 29 September 2016 I will take the Notice of Ordinary Scheme Meeting as read, unless there are any objections.

The Explanatory Booklet, which you will have had the opportunity to review, provides a comprehensive statement of the reasons for Ordinary Shareholders to vote in favour of the Ordinary Scheme and the potential reasons to vote against the Ordinary Scheme.

## ORDINARY SCHEME

If the Schemes are implemented, Ordinary Scheme Shareholders will be entitled to receive for each Ordinary Share held on the Record Date:

- \$12.60 cash; or
- one Bellawest Note, being an unsecured note issued by Bellawest, with a face value of \$12.60 per note and attaching coupon of 6.5% per annum with a maturity date of 2 years after issue.

Each Ordinary Scheme Shareholder has been given the right to elect the amount of the Ordinary Scheme Consideration (which may be none, some or all) to be satisfied by issue of Bellawest Notes, by filling out the Election Form which was included in the mail-out with your Explanatory Booklet.

Ineligible Foreign Shareholders and other Ordinary Scheme Shareholders who fail to make a valid election will receive cash. To be effective, elections to receive Bellawest Notes must be received by Boardroom on or before 5.00pm on Wednesday 16 November 2016. So if you have not returned your Election Form and you would like to receive Bellawest Notes, please do so.

Grant Thornton, as an Independent Expert has concluded that the Ordinary Scheme is fair and reasonable and hence in the best interests of Ordinary Shareholders.

Your Independent Directors gave careful consideration to the advantages and disadvantages of the Ordinary Scheme prior to entering into the Scheme Implementation Deed. They also reviewed in detail the Independent Expert's Report and the prospects for obtaining a superior proposal in the foreseeable future, and, for the reasons set out in the Explanatory Booklet, unanimously recommend that Ordinary Shareholders vote in favour of the Ordinary Scheme. My fellow Independent Director Roger Short intends to vote all Ordinary Shares held or controlled by him in favour of the Ordinary Scheme, noting that I hold no Ordinary Shares and as such cannot vote other than in respect of undirected proxies in my capacity as Chairman.

## STATUS OF CONDITIONS

As previously noted, the condition relating to the Independent Expert opining that the Ordinary Scheme is fair and reasonable and hence in the best interests of shareholders has been satisfied.

As such the Ordinary Scheme is now conditional upon:

1. Ordinary Shareholders passing the resolution to approve the Ordinary Scheme at this meeting;
2. The Preference Scheme Resolution and the related Financial Assistance, Capital Reduction and Cancellation Resolutions being passed at the meetings to be held after this meeting is closed;
3. Operational and procedural type conditions usual for a transaction of this nature, which are described in the Explanatory Booklet, being either satisfied or waived before the start of the Second Court Hearing; and
4. The Federal Court of Australia approving the Schemes at the Second Court Hearing, currently scheduled for this Thursday 3 November 2016.

Subject to the satisfaction of these conditions, the Ordinary Scheme will become legally effective and will bind all Ordinary Shareholders holding Ordinary Shares at the Record Date being 5.00pm on Friday 11 November 2016.

## **GENERAL MEETING**

### **FINANCIAL ASSISTANCE RESOLUTION**

As part of the overall transaction involving the Schemes, PAYCE Finance Pty Ltd, a wholly owned subsidiary of PAYCE entered into a Loan Agreement with Bellawest Pty Ltd, who is the bidder under the Ordinary Scheme.

It is proposed that, subject to the Schemes becoming effective, PAYCE Finance will lend existing cash reserves to Bellawest pursuant to the Loan Agreement for the purpose of Bellawest funding the payment of the cash component of the Ordinary Scheme Consideration, up to maximum of \$120 million, to acquire the Ordinary Shares in PAYCE. The provision of the loan to Bellawest by PAYCE Finance would constitute PAYCE Finance financially assisting Bellawest to acquire shares in PAYCE.

The proposed Financial Assistance Resolution is vital to the provision of the Ordinary Scheme Consideration under the Ordinary Scheme, and the Schemes will not proceed unless the Financial Assistance Resolution is passed.

### **CAPITAL REDUCTION RESOLUTION**

To effect the Preference Scheme, PAYCE proposes to undertake a reduction of capital pursuant to which all Preference Shares will be cancelled. The consideration provided to each Preference Shareholder will be the Preference Scheme Consideration, which will be provided by way of a court ordered scheme of arrangement, if approved by Preference Shareholders.

Under section 256C(2)(a) of the Corporations Act a selective reduction of capital must be approved by a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or their Associates.

The proposed Capital Reduction Resolution is vital to the provision of the Preference Scheme Consideration under the Preference Scheme, and the Schemes will not proceed unless the Capital Reduction Resolution is passed.

## PREFERENCE SCHEME MEETING

This meeting has been convened in accordance with orders made by the Federal Court of Australia on 23 September 2016, the PAYCE Constitution and the Corporations Act. The purpose of this meeting is for you to consider, and if you think fit, agree to (with or without any modification approved by the Court) a selective reduction of capital and cancellation of all Preference Shares on issue, the consideration for which to be provided under a scheme of arrangement between PAYCE and its Preference Shareholders, as long as all conditions to the Schemes are satisfied or waived.

Approval of the Preference Scheme is interdependent on the approval of the Ordinary Scheme, as well as the other transaction resolutions to be considered at the General Meeting and Preference General Meeting, which will follow the closure of this meeting.

I refer to the Notice of Preference Scheme Meeting contained in Annexure I of the Explanatory Booklet that sets out the resolution proposed for today's meeting. As the Explanatory Booklet was mailed to shareholders on 29 September 2016 I will take the Notice of Preference Scheme Meeting as read, unless there are any objections.

The Explanatory Booklet, which you will have had the opportunity to review, provides a comprehensive statement of the reasons for Preference Shareholders to vote in favour of the Preference Scheme and the potential reasons for them to vote against the Preference Scheme.

## PREFERENCE SCHEME

If the Schemes are implemented, Preference Shareholders will be entitled to receive for each Preference Share held on the Record Date:

- \$1.00; plus
- one unsecured note issued by PAYCE with a face value representing a principal amount of \$6.50 per note, 4 year maturity and attaching coupon of 7.5% per annum; plus
- an additional cash amount calculated to reflect the pro-rata amount of any dividend accrued and unpaid on the Preference Share up to the Preference Scheme Implementation Date.

The minimum additional cash amount payable per Preference Share will be nil and the maximum will be \$0.13125 cents per Preference Share. On the current indicative timetable, the expected additional cash amount to be paid per Preference Share is \$0.11507.

Ineligible Foreign Shareholders will not be entitled to receive any PAYCE Notes and will instead receive a cash equivalent, that is, \$6.50 per Preference Share in addition to the cash amounts described above.

Grant Thornton, as an Independent Expert has concluded that the Preference Scheme is fair and reasonable and hence in the best interests of Preference Shareholders.

Your Independent Directors gave careful consideration to the advantages and disadvantages of the Preference Scheme prior to entering into the Scheme Implementation Deed. They also reviewed in detail the Independent Expert's Report and the prospects for obtaining a superior proposal in the foreseeable future, and, for the reasons set out in the Explanatory Booklet, unanimously recommend that Preference Shareholders vote in favour of the Preference Scheme. My fellow Independent Director Roger Short intends to vote all Preference Shares held or controlled by him in favour of the Preference Scheme, noting that I hold no Preference Shares and as such cannot vote other than in respect of undirected proxies in my capacity as Chairman.

## **STATUS OF CONDITIONS**

As previously discussed, the condition in relation to the Independent Expert opining that the Preference Scheme is fair and reasonable and hence in the best interests of shareholders has now been satisfied.

As such the Preference Scheme is now conditional upon:

1. Preference Shareholders passing the resolution to approve the Preference Scheme at this meeting;
2. The Ordinary Scheme Resolution and the related Financial Assistance, Capital Reduction and Cancellation Resolutions being passed;
3. Operational and procedural type conditions usual for a transaction of this nature, which are described in the Explanatory Booklet, being either satisfied or waived before the start of the Second Court Hearing; and
4. The Federal Court of Australia approving the Schemes at the Second Court Hearing, currently scheduled for this Thursday 3 November 2016.

Subject to the satisfaction of these conditions, the Preference Scheme will become legally effective and will bind all Preference Shareholders holding Preference Shares at the Record Date, being 5.00pm on Friday 11 November 2016.

## **PREFERENCE GENERAL MEETING**

This meeting has been convened in accordance with the PAYCE Constitution and the Corporations Act. The purpose of this meeting is for you to consider, and if you think fit, approve the cancellation of all Preference Shares under the Preference Scheme.

I refer to the Notice of Preference General Meeting contained in Annexure J of the Explanatory Booklet that sets out the resolution proposed for today's meeting. As the Explanatory Booklet was mailed to shareholders on 29 September 2016 I will take the Notice of Preference General Meeting as read, unless there are any objections.

The Explanatory Booklet, which you will have had the opportunity to review, provides a comprehensive summary of the Cancellation Resolution.

## **CANCELLATION RESOLUTION**

Section 256C(2) of the Corporations Act prescribes that if any reduction of capital involves the cancellation of shares, the reduction must also be approved by a special resolution passed at a meeting of the shareholders whose shares are to be cancelled. By virtue of the Capital Reduction Resolution, which was passed by shareholders earlier today at the General Meeting, Preference Shareholders must therefore now also approve the Cancellation Resolution.

The Cancellation Resolution is vital to the provision of the Preference Scheme Consideration, and the Schemes will not proceed unless the Cancellation Resolution is passed.



## CONCLUSION

If any of the above resolutions fail, that means that the transaction as a whole will fail. It is an 'all or nothing' transaction which requires all resolutions to be passed. However, if any resolution fails, business will continue as usual and PAYCE will continue in striving to deliver excellent results for all its Shareholders.

If the resolutions are passed, the next step is for PAYCE to seek orders of the Federal Court of Australia approving the Schemes. This occurs at the Second Court Hearing, which is scheduled for 10.15am on Thursday 3rd November 2016.

If the Court approves the Schemes, the Ordinary Scheme Consideration and/or Preference Scheme Consideration, as applicable, will be provided to Shareholders in accordance with the Schemes and the indicative timetable listed in the Explanatory Booklet.

I urge all shareholders to keep following all ASX announcements, particularly in respect of the results of today's meetings.