



## ASX ANNOUNCEMENT ASX Code BUG

28 October 2016

### AMD and Wattle Transaction Update

Further to the Company's announcement on 5 October 2016, the Company is pleased to announce today that it has entered into a Transaction Implementation Agreement, Placement Agreement, Convertible Note Agreement and Underwriting Agreement (together, the **Transaction Documents**) with Asia Mark Development Limited (**AMD**) and Wattle Hill RHC Fund 1 SPV1 L.P., acting through its general partner Wattle Hill RHC Fund 1 SPV1 Ltd (**the Fund**), as relevant.

The parties have agreed that the Company will:

- issue to AMD 6,504,463 ordinary shares at \$0.40 per share, raising approximately \$2.6 million (before costs and expenses) (**Placement**);
- conduct a pro rata renounceable rights issue of ordinary shares, on a 1 for 2 basis at \$0.36 per share, fully underwritten by AMD, to raise approximately \$9.0 million (before costs and expenses) ( **Underwritten Rights Issue**); and
- issue 25,000,000 Convertible Notes to the Fund and 12,500,000 Convertible Notes to AMD at an issue price of \$0.40 each to raise \$15 million (less reasonable costs of AMD and the Fund, capped at \$400,000) (**Convertible Notes Issue**),

together the **Transaction**.

As noted in the Company's announcement dated 5 October 2016, the purpose of the Transaction is to:

- substantially reduce the Company's bank debt;
- develop in-house manufacturing capability for processes currently outsourced;
- develop and market new products;
- increase distribution into export markets, including China, assisted by AMD and the Fund; and
- facilitate further vertical integration.

The key terms of the Transaction Documents are summarised in the Schedule to this announcement.

#### Indicative timetable

Shareholders will be required to approve each component of the Transaction for the Company to proceed. Each component of the Transaction is inter-conditional with the others, so that if one element of it is not approved by shareholders, or is otherwise terminated, the entire Transaction (to the extent not already implemented) will not proceed.

The Company anticipates that it will convene a general meeting in December 2016. A notice of meeting will be circulated to shareholders, which will contain an explanatory memorandum and an independent expert's report commissioned by the Company as to whether the Transaction is reasonable to shareholders.

It is intended that the Placement and Convertible Notes Issue will occur two business days after the conditions precedent in the Transaction Implementation Deed have been satisfied or waived in accordance with its terms.

An indicative timetable is provided below. The dates are indicative only and may be subject to change.

Event	Date
Announcement of executed definition agreements	28 October 2016
Despatch of notice of meeting to shareholders	16 November 2016
Meeting to approve the Resolutions	20 December 2016
Proposed completion date for Placement (on the basis that there are no other remaining condition precedent to be satisfied or waived)	22 December 2016
Proposed completion date for Convertible Notes Issue (on the basis that there are no other remaining condition precedent to be satisfied or waived)	22 December 2016

End.

For further information please contact:  
Steve Morrow, Chairman on 0408 363 161  
Roger Masters, CEO on 0418 777 346  
Andrew Bond, CFO/Company Secretary on 0400 912 023

## Schedule – Terms of definitive agreements

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### The Transaction Implementation Deed

The key terms of the Transaction Implementation Deed are summarised below:

1. **(Board recommendation)** the Board must recommend to Shareholders, in the absence of a superior proposal, to vote in favour of the Resolutions.
2. **(conditions precedent)** Completion of the Placement and the Convertible Notes Issue are conditional upon satisfaction or waiver of the following conditions precedent:
  - (a) **(security)** the Company and its subsidiaries providing second ranking security to AMD and the Fund satisfactory to those parties;
  - (b) **(Rabobank waiver)** Rabobank provides written confirmation to AMD and the Fund, in a form satisfactory to those parties, that it will:
    - (i) waive any covenant breaches by the Company which occurred prior to the date of the Transaction Implementation Deed, and which occur between the date of the deed and completion, and not enforce any security rights in respect of those breaches against the Company or its assets if the Proposed Transactions complete; and
    - (ii) reset the covenants as soon as reasonably practicable following Completion such that the Investors are satisfied that the Company will be in a position to comply with those covenants;
  - (c) **(shareholder approvals)** the shareholders approve, by the requisite majorities, each of the resolutions required to be put forward to shareholders in respect of the Transaction;
  - (d) **(independent expert's report)** the independent expert's report opining that the Transaction is reasonable to the shareholders, and the opinion is not withdrawn prior to the date of the general meeting;
  - (e) **(Company regulatory approvals)** all approvals or consents that are required by law, or by ASIC or ASX, as are necessary to implement the Transaction are granted, given, made or obtained on an unconditional basis (or on terms acceptable to the parties), remain in full force and effect in all respects, and do not become subject to any notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew the same;
  - (f) **(investor regulatory approvals)** AMD and the Fund, and its direct and indirect equity holders (present and future), have received all necessary authorisations from a government agency in relation to the Transaction either without conditions or requirements, or with conditions and requirements that are acceptable to the AMD or the Fund (acting reasonably);
  - (g) **(insolvency events)** no insolvency event occurs in respect of the Company at any time before completion Placement and Convertible Notes Issue;
  - (h) **(legal impediments)** between the date of this deed and completion of the Placement and Convertible Notes Issue there is not in effect any restraining order, or any other legal restriction or prohibition and no action or investigation is announced or commenced by any government agency, which restrains, prohibits or otherwise materially adversely impedes or impacts upon (or could reasonably be expected to restrain, prohibit or otherwise adversely impede or impact upon) completion of all or any part of the Proposed Transaction.
3. **(completion)** completion under the Placement Agreement and Convertible Note Agreement will occur two business days after satisfaction (or waiver) of all conditions precedent set out in the Transaction Implementation Deed.

4. **(Board and consultancy positions)**
  - (a) as soon as reasonably practicable following completion of the Placement and Convertible Notes Issue, Mr Shane Templeton will resign from the Board and AMD and the Fund will each have the right to nominate one person to be appointed as Director;
  - (b) within six months of completion of the Placement Shares and Convertible Notes, the Board must resolve to appoint an additional Director of the Company which person must be approved by the Fund and AMD; and
  - (c) subject to completion of the Placement and Convertible Notes Issue, AMD and the Fund may by notice in writing require the Company to appoint a nominee as a paid consultant, with such remuneration not to exceed \$100,000 per annum and otherwise on arms' length terms.
5. **(warranties)** the Company has provided warranties to AMD and the Fund that are customary for transactions of this nature.
6. **(reimbursement amount)** in the event that the Transaction does not complete by 14 February 2017 as a result of the Board recommending a competing proposal or a breach by the Company of the Transaction Implementation Deed, the Underwriting Agreement, the Placement Agreement or the Convertible Note Agreement, the Company must pay to AMD and the Fund an amount equal to \$200,000.
7. **(no disposal of assets)** until completion of the Placement and Convertible Notes Issue, the Company must not, without the prior written consent of AMD and the Fund, agree to dispose of any material assets of the Company.
8. **(exclusivity)** between 5 October 2016 and the first business day following the day on which all of the resolutions to be voted on at the general meeting are passed, the Company must not:
  - (a) solicit or encourage any discussions or negotiations with any person that could reasonably be expected to lead to a competing proposal;
  - (b) subject to a customary fiduciary carve-out, participate in any discussions or negotiations with any person that could reasonably be expected to lead to a competing proposal; and
  - (c) subject to a customary fiduciary carve-out, allow any person to receive non-public information in connection with formulating, develop or finalising a competing proposal.
9. **(matching right)** if any Director proposes to change his recommendation to vote in favour of the resolutions to be voted on at the general meeting to recommend a superior proposal, the Company must first give notice to AMD and the Fund, and such parties will then have five business days to provide a counter proposal which would be more favourable to shareholders than the superior proposal.
10. **(termination)** any party may terminate the Placement Agreement at any time by notice in writing to the other party if:
  - (a) the conditions precedent are not satisfied or waived on or before 7 February 2017;
  - (b) a party commits a breach of its obligations under the Transaction Implementation Deed and that breach is not remedied within 5 business days of receiving written notice from the other party specifying the breach and stating an intention to terminate the Transaction Implementation Deed; or
  - (c) either of the Transaction Implementation Deed, Convertible Note Agreement or the Underwriting Agreement is terminated in accordance with its terms.

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## The Placement Agreement

The key terms of the Placement Agreement are summarised:

1. **(conditions precedent)** completion under the Placement Agreement is conditional on all of the conditions precedent set out in the Transaction Implementation Deed being satisfied or waived, and also the Transaction Implementation Deed not being terminated.
2. **(completion)** completion under the Placement Agreement will occur two business days after satisfaction (or waiver) of all conditions precedent set out in the Transaction Implementation Deed.
3. **(termination)** either the Company or AMD may terminate the Placement Agreement at any time before completion under the Placement Agreement by notice in writing to the other party if:
  - (a) the condition precedent is not satisfied or becomes incapable of being satisfied on or before 7 February 2017;
  - (b) the Company is prevented from issuing or allotting any of the placement shares by the order of a court of competent jurisdiction or by a government agency;
  - (c) a party commits a material breach of its obligations under the Placement Agreement and that breach is incapable of remedy, or if capable of remedy, is not remedied within five business days of receiving written notice from the other party specifying the breach and stating an intention to terminate the Placement Agreement. However, a party may not rely on a breach of its own obligations under this Placement Agreement to terminate the agreement under this sub-section; or
  - (d) either of the Transaction Implementation Deed, Convertible Note Agreement or the Underwriting Agreement is terminated in accordance with its terms.

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## The Underwriting Agreement

The key terms of the Underwriting Agreement are summarised below:

1. **(underwriting)** The Company appoints AMD as underwriter in relation to the 24,933,777 Shares proposed to be offered under the Company's pro rata rights issue on a 1 for 2 basis on the terms and conditions of the Underwriting Agreement. No underwriting fee will be payable by the Company in respect of the underwriting.
2. **(foreign holders)** In accordance with section 615 of the Corporations Act and ASX Listing Rule 7.7, the Company will appoint a nominee to sell the entitlements to subscribe for Shares that foreign Shareholders that do not have a registered address in Australia or New Zealand would have otherwise received under the offer if they were eligible Shareholders, for the purpose of the nominee remitting the net proceeds of sale to the ineligible Shareholders on a pro rata basis.
3. **(mutual termination)** either the Company or AMD may terminate the Underwriting Agreement at any time before completion under the Underwriting Agreement by notice in writing to the other party if:
  - (a) either of the Transaction Implementation Deed, Convertible Note Agreement or the Placement Agreement is terminated in accordance with its terms;
  - (b) the subscription and issue of the Placement Shares (pursuant to the Placement Agreement) and the convertible notes (pursuant to the Convertible Note Agreement) have not occurred as and when required under those agreements;
  - (c) the settlement date has not occurred on or before 14 February 2017 in respect of the rights issue.

4. (**underwriter termination events**) AMD may at any time by notice given to the Company immediately, without cost or liability to itself, terminate the Underwriting Agreement so that it is relieved of all its obligations under the agreement if any of the following events occurs before completion of the Underwriting Agreement:
- (a) (**Takeovers Panel**) the Takeovers Panel makes a declaration of unacceptable circumstances in respect of the underwriting of the rights issue by AMD pursuant to the agreement;
  - (b) (**ASIC action**) ASIC:
    - (i) applies for an order under Part 9.5 of the Corporations Act in relation to the rights issue or any offer document in connection with the rights issue;
    - (ii) holds, or gives notice of its intention to hold, a hearing or investigation in relation to the rights issue under the Corporations Act or the *Australian Securities and Investments Commission Act 2001* (Cth); or
      - o prosecutes or gives notice of an intention to prosecute; or
      - o commences proceedings against, or gives notice of an intention to commence proceedings against, the Company or any of its officers, employees or agents in relation to the rights issue;
  - (c) (**ASX approval**) any ASX approvals obtained is withdrawn, qualified (other than by conditions acceptable to AMD acting reasonably) or withheld (or ASX indicates to the Company or AMD that the approval is likely to be withdrawn, qualified or withheld);
  - (d) (**ASIC and ASX Waivers**) any ASIC Waivers or ASX Waivers are withdrawn, revoked or amended without the prior written approval of AMD;
  - (e) (**offer documents**) either:
    - (i) an offer document contains a statement which is untrue, inaccurate, misleading or deceptive or likely to mislead or deceive (whether by inclusion or omission); or
    - (ii) an offer document does not contain all information required to comply with all applicable laws;
  - (f) (**insolvency**) the Company or subsidiary becomes insolvent, or an act occurs or an omission is made which may result in the Company or a subsidiary becoming insolvent;
  - (g) (**material breach**) the Company fails to comply with any of its material obligations under the Underwriting Agreement, or any representation or warranty by the Company in the agreement is or becomes incorrect;
  - (h) (**material change in law**) there is introduced or there is announced a proposal to introduce into any legislature or like body a new law or the Reserve Bank of Australia, any other like authority in any other jurisdiction or any government agency in any jurisdiction adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement) which does or is likely to prohibit or regulate the business of the Company or a subsidiary, the rights issue, capital raisings generally or stock markets generally which results in a material adverse effect on the Company taken as a whole;
  - (i) (**material adverse change in financial markets**) any of the following occurs:
    - (i) any material adverse change or material disruption to the political conditions or financial markets of Australia, Japan, the United Kingdom, the United States of America or the international financial markets or any change or development involving a prospective change in national or international political, financial or economic conditions,
    - (ii) a general moratorium on commercial banking activities in Australia, the United States of America, Japan or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries; or

- (iii) trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for more than two consecutive business days on which that exchange is open for trading;
  - (j) **(unauthorised alterations)** without the prior written consent of the AMD, the Company alters its share capital or its constitution; or
  - (k) **(Directors and senior management)**
    - (i) a Director or any member of senior management is charged with a criminal offence relating to any financial or corporate matter;
    - (ii) Any government agency commences any public action against the Company, any of the Directors or any member of senior management; or
    - (iii) any Director is disqualified under the Corporations Act from managing a corporation.
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### The Convertible Notes Agreement

The agreed key terms of the Convertible Notes Agreement are summarised below:

1. **(drawdown date / issue date)**: the convertible notes will be issued two business days after satisfaction (or waiver) of all conditions precedent set out in the Transaction Implementation Deed.
2. **(security)**: the convertible notes will be secured by mortgages of the Company's Australian and United States land and factories, second-ranking to the existing security interests currently held by Rabobank.
3. **(interest)**: the coupon on the convertible notes is 4.5% per annum, payable annually in arrears or (with agreement of the noteholder) accrued as a liability and payable no later than 12 months after the relevant due date for the interest payment.
4. **(conversion)**: each convertible note may be converted into one fully paid ordinary share at any time prior to maturity of the convertible note (the conversion ratio is subject to customary adjustments for alterations to the capital of the Company).
5. **(maturity and repayment)** except to the extent already converted, the convertible notes mature on the third anniversary of the issue date of the notes, at which time the face value of the notes (plus any unpaid interest) is repayable to the noteholder.
6. **(redemption)** AMD or the Fund may at its election require the Company to redeem the convertible notes not converted and held by it on the maturity date by seven days notice in writing, and the Company must pay the face value for each convertible note.
7. **(transferability)** AMD and the Fund may transfer the convertible notes.
8. **(notes not quoted)** the convertible notes will not be listed on ASX or any other securities exchange.
9. **(use of funds)** The proceeds of the subscription must be used by the Company to repay debt currently owing to Rabobank or in a manner agreed between the Company, AMD and the Fund. While the convertible are on issue, the Company undertakes that the total consolidated indebtedness of the Company and its subsidiaries to Rabobank and each other lender who holds first ranking security, must not exceed \$10 million, provided that such undertaking shall not prevent the Company from incurring further indebtedness of up to \$2 million (in aggregate) or as agreed between AMD, the Fund and the Company