

VERITAS INVESTMENTS LIMITED

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS AND EXPLANATORY NOTES

6 June 2018

Important Dates:

- **Meeting time/date:** 11:30am, 25 June 2018
- **Venue:** Danny Doolans Newmarket, 414 Khyber Pass Road, Newmarket, Auckland 1023
- **Last date for receipt of Voting/Proxy Forms:** 11:30am, 23 June 2018

1. CHAIRMAN'S LETTER

Dear Shareholder,

Please find enclosed notice of Veritas Investment Limited's ("**Company**" or "**Veritas**") special meeting which will be held on 25 June 2018 at Danny Doolans Newmarket, 414 Khyber Pass Road, Newmarket, Auckland 1023, starting at 11:30am.

On 21 May 2018, Veritas announced its entry into conditional agreements to refinance the group's ANZ debt facilities in their entirety with Pacific Dawn Limited, a wholly-owned subsidiary of Nomura Asia Holding N.V (together with its related and associated entities, "**Nomura**"), and to grant warrants to Nomura which are convertible into ordinary shares in the Company (the "**Transaction**"). Due to the nature of the Transaction, Veritas shareholder approval is required by way of a special resolution.

Subject to satisfaction of the conditions of the Transaction, which include Veritas shareholder approval, Nomura will provide up to \$22.5 million in credit facilities to the group to refinance the group's ANZ debt. In addition, up to \$5 million of financing may be used towards capital expenditure and future growth of the group.

The refinancing allows Veritas to focus on a core business area, beverage and hospitality, where the Company has identified significant growth opportunities and where we have a strong presence already through the Better Bar Company. With the support of Nomura through growth funding, the Company is looking to grow revenue, profitability and scale in what the Directors believe is a very buoyant commercial sector.

As part of the consideration for Nomura agreeing to provide the facilities, Veritas has agreed to grant to Nomura, subject to shareholder approval, warrants (effectively options) allowing Nomura to acquire up to 19.9% of the ordinary shares of Veritas for no consideration at any time during the two years following the first year after drawdown.

A summary of the proposed terms of Nomura lending, and of the warrants, is contained in the Explanatory Notes that accompany the Notice of Meeting.

As shareholders are aware, the group's existing debt facilities with ANZ are due for repayment at the end of June 2018. ANZ has indicated that it will not be refinancing those facilities. The commercial terms of the Transaction reflect the difficult financial position that the group has been in.

The Board believes that the Transaction will be a positive step for the Company. The facilities with Nomura that the Board has been able to arrange will not only allow the Company to refinance the ANZ debt, but will provide funds for future growth. The alternative to entering into the Transaction is for the group to default on its obligations to ANZ – which may lead to receivership or liquidation of the group.

The Directors unanimously recommend that shareholders vote in favour of the Transaction.

Finally, as announced on 25 May 2018, Michael Morton has notified the Board of his intention to step down from the Board at the conclusion of the special meeting to make way for new directors with appropriate hospitality experience to come onto the Board. The Board would like to acknowledge Mr Morton for his significant contribution to the Veritas group during his time as a director. The Board is working diligently to find a replacement director or directors before the special meeting.

Yours faithfully,
Veritas Investments Limited

Tim Cook
Independent Chairman

2. NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a special meeting of the shareholders of Veritas Investments Limited (the “**Company**”) will be held at Danny Doolans Newmarket, 414 Khyber Pass Road, Newmarket, Auckland 1023 on 25 June 2018 commencing at 11:30am.

Special Business

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

That the transaction described in the Explanatory Notes be approved for all purposes of the Companies Act 1993, the NZX Main Board Listing Rules and the constitution of the Company, including without limitation the following approvals:

- (a) approval of the guarantee by the Company of the financial facilities described in the Explanatory Notes, as a “major transaction” under section 129 of the Companies Act 1993; and
- (b) approval of the issue of the warrants described in the Explanatory Notes for the purposes of Rule 7.3.1(a) of the NZX Main Board Listing Rules.

By order of the Board

Tim Cook
Independent Chairman
Auckland
6 June 2018

3. PROCEDURAL NOTES

Voting and Proxies

You may exercise your right to vote at the special meeting either by being present in person, by appointing a proxy to attend and vote in your place, or by postal vote. A voting / proxy form is enclosed with this notice. If you wish to lodge a proxy vote or a postal vote, you must complete the form and produce it to Link Market Services Limited (the Company's share registrar) so as to be received **no later than 11:30am on 23 June 2018**. Shareholders may elect to lodge their proxy appointment or postal vote at:

<https://investorcentre.linkmarketservices.co.nz/voting/VIL>

Online proxy appointments or online postal votes (direct votes) must be lodged **no later than 11:30am on 23 June 2018**.

Link Market Services Limited has been authorised by the Board to receive and count postal votes.

A proxy need not be a shareholder of Veritas. You may direct your proxy how to vote, or give your proxy discretion to vote as he or she sees fit. If you wish to give your proxy such discretion you should mark the appropriate box on the proxy form accordingly. If you do not mark any box, then your proxy may vote or abstain from voting as he or she sees fit.

You may appoint the Chairman of the meeting as your proxy. If you do not name a person as your proxy, the Chairman of the meeting will act as your default proxy. If you do not name a person as your proxy but have indicated on the voting / proxy form how you wish to vote, the Chairman of the meeting will vote in accordance with your express instructions. If the Chairman is appointed as your proxy but you have not directed him how to vote on the resolution, then the Chairman will vote your shares in favour of the resolution.

Special Resolution

The resolution is a special resolution, which requires the support of a majority of 75% or more of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy or by post.

Minority Buy Out Rights

If the resolution is passed, and any shareholder has cast all the votes attached to the shares registered in that shareholder's name and having the same beneficial owner, against the resolution, then that shareholder is entitled to require the Company to purchase those shares in accordance with section 110 of the Companies Act 1993 ("**Companies Act**").

If this right is validly exercised by any shareholders, the Companies Act provides for the Company to acquire (or procure the acquisition of) the relevant shares at a fair and reasonable price as at the close of business on 24 June 2018 (being the day before the date of the special meeting), disregarding any value attributable to the shares from the Transaction.

Shareholders should note that they are entitled to object to the price offered in accordance with the process provided for by the Companies Act, in which case a fair and reasonable price will be determined by arbitration. These are referred to as "**Minority Buy-Out Rights**" for the purpose of this Notice of Meeting. The Appendix to this Notice of Meeting sets out the procedure for Minority Buy-out Rights.

Shareholders who become entitled to exercise this right are encouraged to first seek independent advice from a financial adviser.

NZX Review and Approval

NZX Limited has reviewed and approved this Notice of Meeting and Explanatory Notes under Listing Rule 6.1.1, but does not take any responsibility for any statement contained in this document.

4. EXPLANATORY NOTES

1 Background information

- 1.1 As described in Veritas' 2017 Annual Report and further market announcements, the Board of Veritas has been considering a number of strategic options for the group which have included the potential sale or merger of business units with external parties, or recapitalisation and/or refinancing of the group with alternative banking arrangements, or some combination of all of these.
- 1.2 On 23 March 2018 the Mad Butcher franchisor business was sold and the proceeds were applied to reducing the group's indebtedness to ANZ. Following completion of that transaction, the Board has been seeking a new funder to refinance the remaining ANZ indebtedness. On 27 April 2018, Veritas announced that it had signed an indicative term sheet with a new funder. On 21 May 2018, Veritas announced that it had entered into conditional agreements to refinance its ANZ debt with facilities from Nomura.

2 The proposed Transaction

- 2.1 The Transaction proposed involves a wholly-owned subsidiary of the Company, called The Better Bar Company Limited ("**BBC**"), borrowing from Nomura. The Company will guarantee the liability of BBC in respect of that borrowing. The principal terms of the borrowing are summarised in section 3 (*Terms of borrowing*) below.
- 2.2 At the time that Nomura lends to BBC, the Company will issue to Nomura warrants which allow Nomura to subscribe for up to 19.9% of the ordinary shares of the Company. Nomura will not pay anything for the warrants, or for the ordinary shares issued on exercise of the warrants. The warrants, and those shares, will be issued in exchange for Nomura agreeing to provide the lending. The principal terms of the warrants are summarised in section 4 (*Terms of warrants*) below.

3 Terms of borrowing

- 3.1 **Amount:** BBC may borrow from Nomura up to \$27.5 million in aggregate. That amount will be used to refinance the debt owed to ANZ, to pay fees and expenses in connection with the Transaction, and to fund capital expenditure and acquisitions approved by Nomura.
- 3.2 **Facilities:** There are three tranches of facilities being provided by Nomura as follows:
- (a) a \$5 million term loan amortising over the three year term of the facility;
 - (b) a \$17.5 million term loan repayable in one sum at the end of the three year term of the facility; and
 - (c) a \$5 million acquisition and capital expenditure facility repayable in one sum at the end of the three year term. That facility may be drawn only with the consent of Nomura.
- 3.3 **Conditions:** Drawdown under the Nomura facilities is subject to a number of conditions precedent that are customary for financing arrangements of this nature, including:
- (a) no event or circumstance arising that has a material adverse effect on the Company or BBC; and
 - (b) shareholder approval (which is being sought at this special meeting).

3.4 **Repayment:** The facilities must be repaid not later than three years after drawdown. BBC may prepay any facility early, but is required to pay a prepayment penalty equal to 12 months interest on the amount prepaid.

3.5 **Interest:** BBC will pay a rate of interest on the facilities equal to a margin of 6.5% over the bank bill rate from time to time.

3.6 **Fees:** BBC will pay the following fees to Nomura:

- (a) a fee of 2.5% of the initial aggregate amount of the facilities ("**Original Facility Amount**"), paid on the date of drawdown; and
- (b) an "exit fee" payable on the earlier of the expiry date of the facilities and when the facilities are repaid in full, of the greater of 1% of the Original Facility Amount, and 2% of the principal amount of the facilities outstanding on the expiry date or repayment date (as applicable).

BBC will also pay a commitment fee of 3.25% per annum on any undrawn amount of the acquisition and capital expenditure facility described in paragraph 3.2(c) above. This fee is payable quarterly on the same date as interest is paid under the facilities.

3.7 **Board:** Nomura is entitled to appoint an observer to attend Veritas Board meetings. Changes to the Board of Veritas or BBC will require Nomura's consent. Michael Morton will be replaced on the Veritas Board by a new director approved by Nomura.

3.8 **Financial Covenants:** The facilities contain financial covenants in respect of the group as follows:

- (a) the gearing ratio of total net debt to EBITDA is not to exceed 4.00x on 30 June 2019, 3.25x on 30 June 2020, and 2.5x on 30 June 2021;
- (b) EBITDA for the 12 months ending on each financial quarter is not less than an amount as stated in the Facility Agreement, being \$4.4 million for each financial quarter until 31 March 2019 and increasing thereafter;
- (c) EBITDA before deducting operating lease expenses for any period must be at least 1.3x the aggregate of interest, scheduled amortisation and operating lease expenses for that period;
- (d) annual capital expenditure must not exceed an amount set out in the annual budget that is approved by Nomura; and
- (e) within 6 months of drawdown and at all times thereafter, the minimum cash balance of the group must not be less than \$500,000.

3.9 **Security:** The Nomura facilities will be secured by cross guarantees between Veritas and BBC and first ranking security over all assets of Veritas and BBC. The guarantee from Veritas means that Veritas will be responsible for all of BBC's obligations under the Nomura facilities, as if Veritas was the principal borrower under the facilities.

3.10 **Cash sweep:** Cash that is available after deducting total debt service costs and the minimum \$500,000 cash balance will be applied towards prepayment of the facilities on an annual basis.

3.11 **Other Covenants:** The facilities contain covenants by BBC and Veritas which are conventional for similar facilities, but also covenants which:

- (a) require BBC to deliver monthly management accounts for the Veritas group;

- (b) require BBC to deliver the Veritas group's annual financial budget broken down by month for Nomura's approval; and
- (c) restrict the circumstances in which VIL may make shareholder distributions (including dividends). There is also a prohibition on Veritas declaring and paying dividends or other distributions under the terms of the warrants (see below at paragraph 4.3).

In addition, the facilities provide for usual events of default, on the occurrence of which the facilities may be required to be repaid. BBC and Veritas have also given conventional representations and warranties in favour of Nomura as lender.

- 3.12 **Review Events:** There are various "Review Events" which may lead to a requirement for the facilities to be repaid, including material revenue decline, changes to key staff and leases, material change to laws and regulations which may have a material adverse effect on BBC, and any financial budget for the Veritas group described in paragraph 3.11(b) above not being approved by Nomura.

4 Terms of warrants

- 4.1 **Nature:** The warrants to be issued by Veritas will entitle the warrant holders to subscribe for up to 19.9% of the ordinary shares of Veritas (being up to 10,759,072 new ordinary shares of Veritas on the basis of 43,306,618 ordinary shares presently on issue, subject to adjustment as described in paragraph 4.6 below) for no consideration.
- 4.2 **Exercise and transfer:** The warrants may be exercised, and the holder may subscribe for shares, at any time between one year after the date of issue of the warrants and three years after that date. The warrants are freely transferable and will lapse if not exercised within three years after the date of issue of the warrants.
- 4.3 **Covenants:** The warrant terms contain covenants by Veritas, including:
- (a) Veritas will not during the term of the warrants pay any dividend, or make any share buyback or other distribution; and
 - (b) Veritas will not during the term of the warrants amend its constitution in a manner which could frustrate the obligation of Veritas to issue shares on exercise of the warrants.
- 4.4 **Rights attaching to warrants:** Subject to paragraph 4.5 (*Company's right to cash settle*) below, each warrant gives the holder a right to be issued one ordinary share in Veritas for no further consideration. Each warrant may only be exercised once, and will be cancelled upon exercise. A warrant does not afford the holder any rights to:
- (a) receive dividends from Veritas;
 - (b) attend or vote at meetings of Veritas;
 - (c) receive any reports, notices or communications that are sent to Veritas' shareholders from time to time; or
 - (d) share in any surplus assets of Veritas on liquidation.
- 4.5 **Company's right to cash settle:** If any warrants are exercised, Veritas may at its discretion elect to pay the market price for ordinary shares for each warrant being exercised, instead of issuing ordinary shares in Veritas to the warrant holder. Such market price will be the volume weighted average price for Veritas ordinary shares

trading on the NZX Main Board during the 20 business days prior to the date on which the notice of exercise of the warrants is given by the relevant warrant holder.

- 4.6 **Adjustments:** The warrants contain terms for their adjustment if Veritas makes a bonus issue of shares, or consolidates or subdivides its shares, so as to maintain the right of the warrant holders to receive 19.9% of the capital of Veritas on exercise of the warrants. Also, if during the term of the warrants Veritas makes any other share issue, the warrant holders will remain entitled to 19.9% of capital, for no consideration, after that share issue. The preceding sentence does not however apply if the share issue is made as consideration for a merger of, or acquisition by, Veritas, or is made to fund an acquisition by Veritas.
- 4.7 **Shares issued:** Ordinary shares issued on exercise of the warrants will rank equally with all other issued ordinary shares of Veritas.

5 Potential effect of the resolution not being passed

The group's existing debt facilities with ANZ will fall due for repayment at the end of June 2018 and ANZ has indicated that it will not be refinancing the existing facilities. If the resolution is not passed and the Transaction not completed, then the group will not be in a position to repay its debts to ANZ and this will cause the group to default on its obligations to ANZ.

In a worst case scenario, this may result in ANZ appointing receivers to the Veritas group and putting the group into receivership, or the Board appointing liquidators to manage the wind-up and realisation of the group's assets. Under either a receivership or liquidation scenario, there may not be any financial return to Veritas' shareholders.

6 NZX Waiver

NZX has granted to Veritas a waiver from NZX Main Board Listing Rule 8.1.7, to permit Veritas to agree to the provisions for adjustment to the number of shares to be issued on exercise of the warrants, referred to in paragraph 4.6 above (*Adjustments*). A copy of that waiver may be viewed at <http://www.veritasinvestments.co.nz/>.

Appendix

Minority Buy-Out Rights

Section 110 of the Companies Act may confer Minority Buy-Out Rights on shareholders who vote against the resolution.

For a shareholder to exercise those Minority Buy-Out Rights, the shareholder must cast all the votes attached to shares registered in the shareholder's name and having the same beneficial owner against the resolution. If the resolution is nevertheless passed, to exercise Minority Buy-Out Rights such a shareholder must, within 10 working days of the passing of the resolution, give written notice to the Company that the shareholder requires the Company to purchase the shareholder's shares.

Within 20 working days of receipt of the notice, the Board must:

- (a) agree to purchase the shares; or
- (b) arrange for some other person to agree to purchase the shares; or
- (c) apply to the Court for an order exempting the Company from purchasing the shares under section 114 or section 115 of the Companies Act; or
- (d) arrange, before the resolution becomes effective, for the resolution to be rescinded by special resolution in accordance with section 106 of the Companies Act or decide in the appropriate manner not to take the action concerned (as the case may be).

Written notice of the Board's decision must be given to the relevant shareholder(s).

Where the Board agrees to the purchase of the shares by the Company, it must give notice to the relevant shareholder(s), within 5 working days after the notice referred to in the preceding paragraph, setting out the price the Board offers to pay for those shares. That price must be a fair and reasonable price as at the close of business on the day before the resolution was passed calculated using a default methodology designed to achieve a pro rata portion of the fair and reasonable value of all shares in the Company adjusted to exclude any fluctuation in the value of all shares that occurred and that was due to, or in expectation of the Transaction. **Because the buy-out price would not include the value of the Transaction, the Board considers that it would not be in shareholders' interests for them to exercise their Minority Buy-Out Rights.**

The Board may use a different methodology to calculate the fair and reasonable price if using the default methodology would be clearly unfair to the shareholder or the Company (and in that case the Board must also state in the notice why calculating the price under the default methodology would be clearly unfair).

A shareholder may object to the price offered by the Board by giving written notice to the Company no later than 10 working days after the date the Board gave notice of the price offered by the Board. If, within that 10 working day period, no objection to the price offered by the Board has been received by the Company, it must, purchase the shares at the nominated price. If within those 10 working days an objection to the price has been received by the Company, the fair and reasonable price must be submitted to arbitration. The Company must within 5 working days of receiving the objection pay on a provisional basis a price equal to the price originally nominated by the Board. The arbitration is to be conducted in accordance with the Arbitration Act 1996. If the price determined by the arbitrator:

- (a) exceeds the provisional price paid by the Company, then the arbitrator must order the Company to pay the balance owing to the shareholder; or
- (b) is less than the provisional price paid by the Company, then the arbitrator must order the shareholder to pay the excess to the Company.

The arbitrator must award interest on any balance payable or excess to be repaid except in exceptional circumstances.

If a balance is owing to the shareholders the arbitrator may award, in addition to or instead of interest, damages for loss attributable to the shortfall in the initial payment.

If the Board arranges for some other person to agree to purchase the shares, the provisions set out in the preceding paragraphs will (with all appropriate modifications) apply to the purchase of shares by such person and, in addition, the Company must indemnify the shareholder in respect of any losses suffered by the shareholder by reason of the failure by the person to purchase the shares at the price nominated or fixed by arbitration, as the case may be.