

# General Capital Limited

## Independent Adviser's Report

### In Respect of Share Transactions Involving Borneo Capital Limited

## Appraisal Report

### In Respect of the Allotment of Shares to Borneo Capital Limited

*July 2021*

#### Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## 1. Introduction

### 1.1 Background

General Capital Limited (**General Capital** or the **Company**) is a financial services group consisting of:

- General Finance Limited (**GFL**) – a non bank deposit taker (**NBDT**) that accepts deposits from the public and lends funds to borrowers secured over property
- Investment Group Research Limited (**IRG**) – a research house and investment banking firm.

The Company acquired the 98.46% of the shares in Corporate Holdings Limited (**CHL**) that it did not own on 3 August 2018 (the **CHL Acquisition**). The CHL Acquisition was a backdoor listing of CHL into the Company.

General Capital's shares are listed on the main equities securities market (the **NZX Main Board**) operated by NZX Limited (**NZX**) with a market capitalisation of approximately \$9.6 million as at 16 July 2021. Its audited total equity as at 31 March 2021 was approximately \$9.5 million.

A profile of General Capital is set out in section 4.

### 1.2 Proposed Share Transactions

#### *Capital Raising Transactions*

##### *Wholesale Capital Raise*

General Capital is proposing to raise up to \$5.0 million of fresh equity through the issue of ordinary shares (the **Wholesale Capital Raise**). The shares will be issued at a price that the Company's board of directors (the **Board**) believes is fair and reasonable to the Company and its shareholders (but at not less than \$0.0575 per share) (the **Wholesale Issue Price**) to such persons who are not related persons of the Company (the **Wholesale Shareholders**). The Wholesale Capital Raise process is expected to be completed within 12 months of shareholder approval.

##### *Borneo Allotment*

In conjunction with the Wholesale Capital Raise, General Capital proposes to issue up to 8,333,333 new ordinary shares to Borneo Capital Limited (**Borneo**) (the **Borneo Allotment**). The new shares will be at \$0.06 per share (the **Borneo Allotment Price**), raising \$0.5 million.

##### *Borneo Acquisition*

In conjunction with the Wholesale Capital Raise and the Borneo Allotment, Borneo intends to acquire the 12,377,869 ordinary shares currently held by Belian Holdings Limited (**Belian**) (the **Borneo Acquisition**). The shares will be acquired at \$0.06 per share (the **Borneo Acquisition Price**) for a total consideration of \$742,672.

We refer to the Borneo Allotment and the Borneo Acquisition collectively as the **Borneo Transactions**.

We refer to the Wholesale Capital Raise, the Borneo Allotment and the Borneo Acquisition collectively as the **Share Transactions**.

### **Borneo Capital Limited**

Borneo is the Company's largest shareholder. It currently holds 42,249,755 ordinary shares, representing 25.94% of the Company's shares on issue.

Borneo is wholly owned by Rewi Bugo. Mr Bugo is the non-executive chair of General Capital and a director of Borneo.

### **Belian Holdings Limited**

Belian is the Company's 4<sup>th</sup> largest shareholder. It currently holds 12,377,869 ordinary shares, representing 7.60% of the Company's shares on issue.

Belian is owned by Graeme Brown. Mr Brown is a non-executive director of General Capital and the sole director of Belian.

## **1.3 Shareholding Levels Post the Share Transactions**

The table below shows the number of shares that will be held by Borneo, Belian and the current General Capital shareholders not associated with Borneo or Belian (the **Non-associated Shareholders**) immediately following the Borneo Transactions.

<b>General Capital Shareholding Levels Post the Borneo Transactions</b>				
	<b>Borneo</b>	<b>Belian</b>	<b>Non-associated Shareholders</b>	<b>Total</b>
Current	42,249,755	12,377,869	108,246,155	162,873,779
-%	25.94%	7.60%	66.46%	100.00%
Borneo Allotment	8,333,333	-	-	8,333,333
Post Borneo Allotment	50,583,088	12,377,869	108,246,155	171,207,112
-%	29.54%	7.23%	63.23%	100.00%
Borneo Acquisition	12,377,869	(12,377,869)	-	-
Post Borneo Transactions	62,960,957	-	108,246,155	171,207,112
-%	36.77%	0.00%	63.23%	100.00%

Following the Borneo Transactions (and before the Wholesale Capital Raise), Borneo will hold 36.77% of the Company's shares, Belian will hold no shares and the Non-associated Shareholders will collectively hold 63.23% of the shares.

The table below shows the number of shares that will be held by Borneo, Belian, the Non-associated Shareholders and the Wholesale Shareholders immediately following the Share Transactions (assuming 86,956,522 shares are issued under the Wholesale Capital Raise).

<b>General Capital Shareholding Levels Post the Share Transactions</b>				
	<b>Borneo</b>	<b>Non-associated Shareholders</b>	<b>Wholesale Shareholders</b>	<b>Total</b>
Post Borneo Transactions	62,960,957	108,246,155	-	171,207,112
-%	36.77%	63.23%	0.00%	100.00%
Wholesale Capital Raise <sup>1</sup>	-	-	86,956,522	86,956,522
Post Share Transactions	62,960,957	108,246,155	86,956,522	258,163,634
-%	24.39%	41.93%	33.68%	100.00%

<sup>1</sup> Assumes the maximum number of shares are issued at a Wholesale Issue Price of \$0.0575 per share

Following the Share Transactions, Borneo will hold 24.39% of the Company's shares, Belian will hold no shares, the Non-associated Shareholders will collectively hold 41.93% of the shares and the Wholesale Shareholders will collectively hold 33.68% of the shares (assuming 86,956,522 shares are issued under the Wholesale Capital Raise).

## 1.4 Summary of Opinions

### *Takeovers Code*

Our evaluation of the merits of the Borneo Allotment and the Borneo Acquisition as required under the Takeovers Code (the **Code**) is set out in section 2.

In our opinion, after having regard to all relevant factors, the positive aspects of the Borneo Allotment and the Borneo Acquisition outweigh the negative aspects from the perspective of the Non-associated Shareholders.

### *NZX Listing Rules*

Our evaluation of the fairness of the Borneo Allotment as required under the NZX Listing Rules (the **Listing Rules**) is set out in section 3.

In our opinion, after having regard to all relevant factors, the terms and conditions of the Borneo Allotment are fair and reasonable to the Non-associated Shareholders.

## 1.5 Annual Meeting

The Non-associated Shareholders will vote on ordinary resolutions in respect of the Borneo Allotment (resolution 2 - the **Borneo Allotment Resolution**) and the Borneo Acquisition (resolution 3 - the **Borneo Acquisition Resolution**) at the Company's annual meeting of shareholders on 25 August 2021.

An ordinary resolution is passed by a simple majority of the votes cast.

Borneo and its associated persons / associated parties are not permitted to vote on the Borneo Allotment Resolution.

Borneo and Belian and their respective associated persons / associated parties are not permitted to vote on the Borneo Acquisition Resolution.

The Company's shareholders will also vote on:

- resolution 1 – an ordinary resolution in respect of the Wholesale Capital Raise
- resolution 4 – an ordinary resolution in respect of the issue of up to 17,000,000 warrants to the Company's senior management
- resolution 5 – an ordinary resolution in respect of the fixing of the fees of the Company's auditor
- resolution 6 – an ordinary resolution in respect of the re-election of Brent King as a director of the Company
- resolution 7 – an ordinary resolution in respect of the re-election of Graeme Brown as a director of the Company
- resolution 8 – an ordinary resolution in respect of the re-election of Simon McArley as a director of the Company.

## 1.6 Regulatory Requirements

### *Takeovers Code*

General Capital is a code company as defined by the Code and is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person and that person's associates who hold or control no voting rights or less than 20% of the voting rights in a code company from increasing their holding or control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

Borneo currently holds 42,249,755 shares in General Capital, representing 25.94% of the voting rights in the Company.

The Borneo Allotment will result in Borneo controlling 29.54% of the voting rights in General Capital (prior to the Borneo Acquisition and the Wholesale Capital Raise).

Accordingly, the Non-associated Shareholders and Belian will vote at the Company's annual meeting on the Borneo Allotment Resolution in accordance with the Code. Borneo and its associated persons / associated parties are not permitted to vote on the Borneo Allotment Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

Another one of the exceptions, set out in Rule 7(c) of the Code, enables a person and its associates to increase their holding or control of voting rights by an acquisition of shares if the acquisition is approved by an ordinary resolution of the code company.

The Borneo Acquisition represents the transfer of 7.60% of the Company's current shares on issue. The Borneo Acquisition will result in Borneo controlling 36.77% of the voting rights in General Capital (assuming the Borneo Allotment is approved and before the Wholesale Capital Raise).

Accordingly, the Non-associated Shareholders will vote at the Company's annual meeting on the Borneo Acquisition Resolution in accordance with the Code. Borneo and Belian and their respective associated persons / associated parties are not permitted to vote on the Borneo Acquisition Resolution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an acquisition under Rule 7(c).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 15(h).

### **Listing Rules**

Listing Rule 4.1.1 stipulates that an Issuer must only issue Equity Securities with approval by ordinary resolution in accordance with Listing Rule 4.2.1.

Borneo is wholly owned by Rewi Bugo. Mr Bugo is the non-executive chair of General Capital and a director of Borneo.

Listing Rule 7.8.5 (b) requires an Appraisal Report to be prepared where a meeting will consider a resolution in respect of the issue of Financial Products (ie the Borneo Allotment) as required by Listing Rule 7.8.4 and more than 50% of the Financial Products to be issued are intended or likely to be acquired by Directors or Associated Persons of Directors (ie Mr Bugo).

## **1.7 Purpose of the Report**

The directors of General Capital not associated with Borneo or Belian, being Brent King, Hwei Min (Lyn) Lim and Simon McArley (the **Non-associated Directors**) have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Borneo Allotment and the Borneo Acquisition in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 23 June 2021 to prepare the Independent Adviser's Report.

The Non-associated Directors have also engaged Simmons Corporate Finance to prepare an Appraisal Report on the fairness of the Borneo Allotment in accordance with the Listing Rules.

Simmons Corporate Finance was approved by NZ RegCo on 29 June 2021 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Independent Adviser's Report and Appraisal Report to the Non-associated Directors for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Borneo Allotment Resolution and the Borneo Acquisition Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Borneo Allotment and the Borneo Acquisition and the fairness of the Borneo Allotment in relation to each shareholder. This report on the merits of the Borneo Allotment and the Borneo Acquisition and the fairness of the Borneo Allotment is therefore necessarily general in nature.

This Independent Adviser's Report and Appraisal Report is not to be used for any other purpose without our prior written consent.

## 2. Evaluation of the Merits of the Borneo Allotment and the Borneo Acquisition

### 2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Borneo Allotment and the Borneo Acquisition having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel Guidance Note on Independent Advisers dated 11 March 2021
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

Given that the Borneo Allotment and the Borneo Acquisition are integral components of the Share Transactions, we are of the view that an assessment of the merits of the Borneo Allotment and the Borneo Acquisition cannot be undertaken in isolation and needs to be considered in conjunction with the merits of the Wholesale Capital Raise. Accordingly, we are of the view that an assessment of the merits of the Borneo Allotment and the Borneo Acquisition should focus on:

- the rationale for the Share Transactions
- the fairness of the terms of the Share Transactions
- the impact of the Share Transactions on the financial position of General Capital
- the impact of the Share Transactions on the control of General Capital
- the dilutionary impact of the Share Transactions
- the impact of the Share Transactions on General Capital's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Share Transactions
- the benefits and disadvantages to Borneo of the Borneo Transactions
- the implications if the Borneo Allotment Resolution and / or the Borneo Acquisition Resolution are not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.



## 2.2 Summary of the Evaluation of the Merits of the Borneo Allotment and the Borneo Acquisition

**In our opinion, after having regard to all relevant factors, the positive aspects of the Share Transactions (including the Borneo Allotment and the Borneo Acquisition) outweigh the negative aspects from the perspective of the Non-associated Shareholders.**

Our evaluation of the merits of the Share Transactions (including the Borneo Allotment and the Borneo Acquisition) is set out in detail in sections 2.3 to 2.17.

In summary, the key factors leading to our opinion are:

- the rationale for the Share Transactions is sound:
  - the Wholesale Capital Raise and the Borneo Allotment will raise up to \$5.5 million of fresh equity to enable the Company to grow its borrowing and lending business while maintaining a prudent capital ratio
  - the Borneo Acquisition will enable an orderly sale of Belian's 7.60% shareholding, thereby avoiding potential downward pressure on the Company's share price during the Wholesale Capital Raise process
- the terms of the Share Transactions are fair:
  - the Borneo Allotment Price and the Borneo Acquisition Price of \$0.06 per share is fair to the Non-associated Shareholders as it approximates General Capital's recent volume weighted average share price (VWAP) measured between one month and 6 months. Given that the Borneo Transactions will be at a price in line with the current market value of the Company's shares, the Borneo Transactions will not be value-dilutionary to the Non-associated Shareholders
  - the Wholesale Issue Price will be set at a price and on terms that the Board considers to be fair and reasonable to the Company and its shareholders (but not less than \$0.0575 per share)
- the Share Transactions will have a significant positive impact on the Company's financial position, increasing total equity by up to \$5.5 million, thus enabling General Capital to issue additional deposits and grow its loan book
- the Borneo Transactions will not increase Borneo's level of control over the Company to any significant degree
- the dilutionary impact of the Borneo Allotment on the Non-associated Shareholders will result in their proportionate shareholdings in the Company reducing by 4.9%
- the dilutionary impact of the Wholesale Capital Raise is more significant, resulting in dilution of up to a further 33.7% on the Non-associated Shareholders' shareholding (following the Borneo Allotment)
- the Borneo Transactions are unlikely to have any significant impact on General Capital's share price as the Borneo Allotment Price and the Borneo Acquisition Price is in line with the Company's current share price
- the Borneo Transactions will have no impact on the liquidity of General Capital's shares as the number of shares held by the Non-associated Shareholders will not change
- the Share Transactions will not change the risk profile of General Capital

- the attraction of General Capital as a takeover target is unlikely to change
- the implication of the Borneo Allotment Resolution not being approved by the Non-associated Shareholders and Belian is that the Borneo Allotment will not proceed and therefore the Company will not raise up to \$0.5 million of fresh equity from Borneo. The Company will need to seek this capital from alternative sources, which may not be available on terms as favourable to the Company as the Borneo Allotment's terms. In the event the capital cannot be accessed, this may restrict the Company's ability to continue its growth
- the implication of the Borneo Acquisition Resolution not being approved by the Non-associated Shareholders is that the Borneo Acquisition will not proceed. Belian may seek to sell its 7.60% shareholding by other means (eg on-market), which may result in downward pressure on the Company's share price. This in turn may impact negatively on the Wholesale Issue Price that the Board may negotiate with the Wholesale Shareholders.

## 2.3 Rationale for the Share Transactions

### *Wholesale Capital Raise and Borneo Allotment*

Since the CHL Acquisition in August 2018, General Finance's finance business (operated through GFL) has grown significantly. The Company had over \$53 million of loan receivables and over \$57 million of term deposits as at 31 March 2021.

The Board is of the view that for GFL to reach critical or optimal scale, the business needs to achieve total assets of between \$100 million and \$150 million.

As additional assets are acquired by GFL through additional deposit funding, the Company is required to contribute additional capital to GFL in order to satisfy the prudent capital ratio determined by GFL's independent board of directors or otherwise required under the Non-bank Deposit Takers Act 2013 (the **N-bDT Act**). The independent board of GFL currently maintains a capital ratio (as defined by the N-bDT Act) of 15%.

The Wholesale Capital Raise will raise up to \$5.0 million of fresh equity from the Wholesale Shareholders and the Borneo Allotment will raise up to an additional \$0.5 million from Borneo.

The Board has assessed that \$5.5 million of additional capital will enable GFL to increase total deposits by up to \$63.7 million in the coming year and therefore lend or otherwise acquire additional financial assets of up to \$69.8 million (based on the same weighted asset mix as at 31 March 2021).

Conversely, the inability to raise additional capital through the Wholesale Capital Raise and the Borneo Allotment will restrict the Company's ability to continue to grow its business.

### *Borneo Acquisition*

Belian has informed the Board that it wishes to sell its 7.60% shareholding in General Capital, which it acquired via the CHL Acquisition in August 2018. This represents the 4<sup>th</sup> largest shareholding bloc in the Company.

The Borneo Acquisition is intended to facilitate an orderly sale of Belian's 7.60% shareholding off-market.

The sale of a significant parcel of shares in a listed company can often place downward pressure on the company's share price if the number of shares available for sale greatly exceeds demand. Such a scenario could potentially lower the Wholesale Issue Price negotiated by the Board with the Wholesale Shareholders during the Wholesale Capital Raise process.

### **Conclusion**

We consider the rationale for the Share Transactions to be sound:

- the Wholesale Capital Raise and the Borneo Allotment will raise up to \$5.5 million of fresh equity to enable the Company to grow its borrowing and lending business while maintaining a prudent capital ratio
- the Borneo Acquisition will enable an orderly sale of Belian's 7.60% shareholding, thereby avoiding potential downward pressure on the Company's share price during the Wholesale Capital Raise process.

## **2.4 Terms of the Share Transactions**

### **Borneo Allotment**

Under the Borneo Allotment, Borneo will be issued up to 8,333,333 new ordinary shares at the Borneo Allotment Price of \$0.06 per share to raise up to \$0.5 million of fresh equity.

Our analysis of the fairness of the Borneo Allotment Price is set out in section 5.

The Borneo Allotment Price is broadly in line with General Capital's VWAP measured between one month and 6 months. Accordingly, we consider the Borneo Allotment Price to be fair to the Non-associated Shareholders and Belian as it is in line with the current market value of the Company's shares and therefore will not be value-dilutionary to the Non-associated Shareholders and Belian.

### **Borneo Acquisition**

Under the Borneo Acquisition, Borneo intends to acquire the 12,377,869 ordinary shares held by Belian at the Borneo Acquisition Price of \$0.06 per share.

We consider the Borneo Acquisition Price to be fair to the Non-associated Shareholders as it is in line with the current market value of the Company's shares and is the same as the Borneo Allotment Price.

### **Wholesale Capital Raise**

The Company is proposing to raise up to \$5.0 million of fresh equity through the Wholesale Capital Raise.

The Wholesale Issue Price will be a price that the Board believes is fair and reasonable to the Company and its shareholders (but at not less than \$0.0575 per share). We understand that the price will be determined by a process of negotiation by the Board with each prospective investor and will be influenced by the level of demand for the shares, the size of the proposed investment and the prevailing economic and market conditions at the time of issue of the shares.

The Wholesale Shareholders will be persons who the Board believes it is in the interests of the Company to become shareholders and who satisfy the definition of *wholesale investor* for the purposes of the Financial Markets Conduct Act 2013.

The allotment of shares under the Wholesale Capital Raise will be completed within 12 months of shareholder approval.

## 2.5 Impact on Financial Position

A summary of General Capital's recent financial position is set out in section 4.6.

For illustrative purposes, the table below shows General Capital's financial position assuming the Share Transactions occurred on 31 March 2021.

Illustrative Impact of the Share Transactions				
	As at 31 Mar 2021 \$000	Borneo Allotment \$000	Wholesale Capital Raise \$000	Post Share Transactions \$000
Total assets	68,164	500	5,000 <sup>1</sup>	73,664
Total liabilities	(58,639)	-	-	(58,639)
Total equity	<u>9,525</u>	<u>500</u>	<u>5,000<sup>1</sup></u>	<u>15,025</u>
No. of shares (000)	162,874	8,333	86,957 <sup>1</sup>	258,164
Net assets per share	\$0.0585	\$0.0600	\$0.0575 <sup>1</sup>	\$0.0582
Net tangible assets (NTA) per share	\$0.0405	\$0.0600	\$0.0575 <sup>1</sup>	\$0.0469

<sup>1</sup> Assumes the Wholesale Capital Raise involves the issue of 86,956,522 shares at a Wholesale Issue Price of \$0.0575 per share

Source: General Finance 2021 annual report

The illustrative position shows that following the Share Transactions, General Capital's total equity would increase by \$5.5 million from approximately \$9.5 million to approximately \$15.0 million.

Net assets per share would decrease marginally to \$0.0582 per share and NTA per share would increase by 16% from \$0.0405 to \$0.0469.

The Board has assessed that \$5.5 million of additional equity will enable GFL to increase total deposits by up to \$63.7 million in the coming year and thus lend or otherwise acquire additional financial assets of up to \$69.8 million. This increase in business activity is not reflected in the illustrative position above.

## 2.6 Impact on Control

### Share Capital and Shareholders

General Capital currently has 162,873,779 fully paid ordinary shares on issue held by 739 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 9 July 2021 are set out in section 4.4.

General Capital currently has 4 shareholders who each hold more than 5% of the Company's shares and collectively hold 57.01% of the Company's shares.

The 10 largest shareholders collectively hold 79.21% of the Company's shares.

### **Shareholding Voting**

The Borneo Transactions will result in Borneo holding 36.77% of the shares in the Company (prior to the Wholesale Capital Raise).

Borneo currently has the ability to influence the outcome of shareholder voting to some degree. Borneo's control of 25.94% of the Company's voting rights enables it to block special resolutions (which require the approval of 75% of the votes cast by shareholders). However, Borneo cannot singlehandedly block or pass ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders).

The Borneo Transactions will not increase Borneo's ability to influence the outcome of shareholder voting to any significant degree. Following the Borneo Transactions, Borneo's control of the Company's voting rights will increase by 10.83% to 36.77%. Borneo will still not be able to singlehandedly block or pass ordinary resolutions or pass special resolutions.

The Wholesale Capital Raise will dilute Borneo's shareholding level from 36.77%. Depending on the number of shares issued under the Wholesale Capital Raise, Borneo's control of voting rights may reduce to as low as 24.39% if 86,956,522 shares are issued under the Wholesale Capital Raise. Such a shareholding level is marginally lower than Borneo's current level.

The Company currently has 322,984,884 warrants on issue that were granted in December 2018 (the **GENWB Warrants**) to all existing shareholders at a ratio of 2 GENWB Warrants for each ordinary share held at that time. GENWB Warrants were also granted to the Company's directors, senior management and contractors. The GENWB Warrants are convertible to ordinary shares at any time prior to 30 November 2021 at a conversion price of \$0.09 per share. Borneo holds 82,780,222 GENWB Warrants.

As the GENWB Warrants are currently out of the money, it is probable that a number of the GENWB Warrants will not be exercised. Nevertheless, for illustrative purposes, if all 322,984,884 GENWB Warrants are exercised, then Borneo's control of the Company's voting rights will be 25.08% if 86,956,522 shares are issued under the Wholesale Capital Raise. Such a shareholding level is marginally lower than Borneo's current level.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the Listing Rules and the Companies Act 1993 (the **Co's Act**).

### **Board Control**

As set out in section 4.3, the Company currently has 5 directors, one of whom is deemed to be an associate of Borneo (being Rewi Bugo) and one of whom is deemed to be an associate of Belian (being Graeme Brown).

We are advised by the Non-associated Directors that the Borneo Transactions are not expected to have any impact on the composition of the Board in the near term.

### **Operations**

We are advised by the Non-associated Directors that Borneo's influence over General Capital's operations is predominantly through Mr Bugo's board representation and that the Borneo Transactions will not change Borneo's level of influence over the Company's operations.

GFL is the Company's main subsidiary and it has an independent board of directors as required under the N-bDT Act. Mr Bugo is not a director of GFL.

### **Protection for Minority Shareholders**

While Borneo will have a degree of control over General Capital, it cannot act in an oppressive manner against minority shareholders. The Co's Act provides a level of protection to minority shareholders. Furthermore, any transactions between General Capital and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the Listing Rules with respect to transactions with related parties.

## **2.7 Dilutionary Impact**

The Share Transactions may result in the Non-associated Shareholders' shareholdings in the Company being significantly diluted:

- following the Borneo Allotment, each Non-associated Shareholder's interest in the Company will be diluted by 4.9%
- following the Wholesale Capital Raise, each Non-associated Shareholder's interest in the Company may be diluted by up to a further 33.7% (if 86,956,522 shares are issued under the Wholesale Capital Raise)
- the Borneo Acquisition will have no dilutionary impact as it is an acquisition of existing shares
- collectively, the Share Transactions may result in each Non-associated Shareholder's interest in the Company being diluted by up to 36.9% (if 86,956,522 shares are issued under the Wholesale Capital Raise).

While the potential dilutionary impact is significant, we are of the view that the Non-associated Shareholders' main focus should be on whether there is any dilutionary impact on the value of their respective shareholdings rather than on their level of voting rights. As stated in section 2.4, we are of the view that the Borneo Transactions are fair to the Non-associated Shareholders from a financial point of view and therefore do not dilute the value of their respective shareholdings.

## **2.8 Impact on Share Price and Liquidity**

### **Share Price**

A summary of General Capital's closing share price since 3 August 2018 is set out in section 4.8.

The Borneo Allotment Price and the Borneo Acquisition Price is \$0.06 per share. This price represents:

- a 2% premium to the Company's share price on 16 July 2021 of \$0.059
- a 3% premium to the one month VWAP of \$0.058
- a 3% premium to the 3 months VWAP of \$0.058
- the same price as the 6 months VWAP of \$0.060
- a discount of 22% to the 12 months VWAP of \$0.077.

In our view, the Borneo Allotment is unlikely to have any significant impact on the Company's share price as the issue price is at, or close to, the prevailing market price.

## **Liquidity**

The analysis in section 4.8 shows that General Capital's shares are thinly traded on the NZX Main Board, with only 5.0% of the shares being traded in the past year.

The Borneo Transactions will not improve the liquidity of the Company's shares as the number of shares held by the Non-associated Shareholders will not change.

Similarly, the Wholesale Capital Raise will not improve the liquidity of the Company's shares as the number of shares held by the Non-associated Shareholders will not change. However, should any of the Wholesale Shareholders seek to dispose of some of their General Capital shares, this may result in increased trading in the Company's shares, thereby improving liquidity.

### **2.9 Main Advantage to the Non-associated Shareholders of the Share Transactions**

The Share Transactions will raise up to \$5.5 million of fresh equity for the Company, enabling the Company to continue to grow its borrowing and lending business while maintaining a prudent capital ratio.

### **2.10 Main Disadvantage to the Non-associated Shareholders of the Share Transactions**

The main disadvantage to the Non-associated Shareholders of the Share Transactions is that the issue of shares under the Borneo Allotment and the Wholesale Capital Raise may significantly dilute their interests in the Company. Their respective shareholdings may be diluted by up to 36.0%.

In our view, the positive aspects of raising additional capital to fund the Company's growth significantly outweighs the dilutionary impact of the Share Transactions.

### **2.11 Other Issues for the Non-associated Shareholders to Consider**

#### ***Benefits to General Capital of Borneo as a Cornerstone Shareholder***

The Borneo Transactions will reinforce Borneo's position as an important cornerstone strategic investor in the Company, signalling its confidence in the future prospects of General Capital.

#### ***Non-associated Shareholders Approval is Required***

Pursuant to Rules 7(d) and 7(c) of the Code, the Non-associated Shareholders must approve by ordinary resolutions the Borneo Allotment and the Borneo Acquisition respectively.

The Borneo Transactions will not proceed unless the Non-associated Shareholders approve the Borneo Allotment Resolution and the Borneo Acquisition Resolution.

#### ***Borneo Transactions Reduce the Dilutionary Impact of the Wholesale Capital Raise on Borneo***

The Borneo Transactions provide Borneo with the opportunity to increase its shareholding in General Capital to 36.77% prior to the Wholesale Capital Raise. As stated in section 2.7, the Wholesale Capital Raise may dilute each shareholder's interest in the Company (including Borneo's) by up to 33.7% (after the Borneo Allotment).

If the Borneo Transactions proceed and 86,956,522 shares are issued under the Wholesale Capital Raise, then Borneo will hold 24.39% of the Company's shares (which is slightly less than its current 25.94% shareholding).

If the Borneo Transactions do not proceed and 86,956,522 shares are issued under the Wholesale Capital Raise, then Borneo will hold 16.91% of the Company's shares.

### **No Change in Business Risk**

The Share Transactions represent capital raising transactions that will enable the Company to grow its business. They will have no impact on the key business risks faced by General Capital.

### **Likelihood of a Takeover Offer Unlikely to Change**

In our view, irrespective of whether Borneo holds 25.94% or up to 36.77% of the Company's shares, it is unlikely to change the attraction of General Capital as a takeover target to Borneo or to other parties:

- as stated in section 2.6, the Borneo Transactions will not change Borneo's level of control over the Company to any significant degree and therefore Borneo's inclination to make a takeover offer (or not) is unlikely to change
- any bidder looking to fully or partially take over the Company would need to ensure that Borneo would accept its offer, irrespective of whether Borneo held 25.94% or up to 36.77% of the Company's shares.

Following the Borneo Transactions, Borneo will not be able to increase the level of its shareholding unless it complies with the provisions of the Code. It will generally only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding Borneo
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding Borneo
- the Company undertakes a share buyback that is approved by the Company's shareholders and Borneo does not accept the offer of the buyback.

Borneo will not be able to utilise the *creep provisions* under Rule 7(e) of the Code. The *creep provisions* enable an entity that holds more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares in any 12 month period without the need for shareholder approval.

## **2.12 Likelihood of the Borneo Allotment Resolution Being Approved**

The Borneo Allotment Resolution is an ordinary resolution, which is passed by a simple majority of votes cast.

Borneo (and its associated parties / associated persons) is not permitted to vote its 25.94% shareholding on the Borneo Allotment Resolution. Therefore shareholders holding 74.06% of the shares will determine the outcome of the Borneo Allotment Resolution (assuming they all vote).



The Company's second largest shareholder is Brent King, the Company's managing director, holding 13.48% of the Company's shares. Belian is the 4<sup>th</sup> largest shareholder, holding 7.60% of the Company's shares. Belian is owned by Graeme Brown, a non-executive director of the Company.

The Non-associated Directors have stated in the notice of annual meeting that they unanimously recommend voting in favour of the Borneo Allotment Resolution. Therefore we would expect Mr King and Belian's shareholdings to be voted in favour of the Borneo Allotment Resolution. This represents 21.08% of the total voting rights in the Company and 28.46% of the voting rights that are able to be voted on the Borneo Allotment Resolution.

### **2.13 Implications of the Borneo Allotment Resolution not Being Approved**

If the Borneo Allotment Resolution is not approved, then the Borneo Allotment will not proceed and the Company will not raise the additional capital of up to \$0.5 million from Borneo.

The Company will need to seek this capital from alternate sources. However:

- the capital may not be available at the Borneo Allotment Price, therefore increasing the relative cost to the Company, or
- the capital may not be available at all, thus restricting the Company's ability to continue to grow its business.

### **2.14 Voting For or Against the Borneo Allotment Resolution**

Voting for or against the Borneo Allotment Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### **2.15 Likelihood of the Borneo Acquisition Resolution Being Approved**

The Borneo Acquisition Resolution is an ordinary resolution.

Borneo and Belian (and their respective associated parties / associated persons) are not permitted to vote their respective 25.94% and 7.60% shareholdings on the Borneo Acquisition Resolution. Therefore shareholders holding 66.46% of the shares will determine the outcome of the Borneo Acquisition Resolution (assuming they all vote).

The Non-associated Directors have stated in the notice of annual meeting that they unanimously recommend voting in favour of the Borneo Acquisition Resolution. Mr King's 13.48% shareholding represents 20.28% of the voting rights that are able to be voted on the Borneo Acquisition Resolution.

### **2.16 Implications of the Borneo Acquisition Resolution not Being Approved**

If the Borneo Acquisition Resolution is not approved, then the Borneo Acquisition will not proceed.

Belian may seek to sell its 7.60% shareholding by other means (eg on-market), which may result in the supply of shares for sale exceeding demand, resulting in downward pressure on the Company's share price. This in turn may impact negatively on the Wholesale Issue Price that the Board may negotiate with the Wholesale Shareholders.

## **2.17 Voting For or Against the Borneo Acquisition Resolution**

Voting for or against the Borneo Acquisition Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### 3. Evaluation of the Fairness of the Borneo Allotment

#### 3.1 Basis of Evaluation

Listing Rule 7.10.2 requires an Appraisal Report to consider whether terms and conditions of the Borneo Allotment are *fair* to the Non-associated Shareholders.

There is no legal definition of the term *fair* in either the Listing Rules or in any statute dealing with securities or commercial law in New Zealand.

In our opinion, the Borneo Allotment will be fair to the Non-associated Shareholders if:

- they are likely to be at least no worse off if the Borneo Allotment proceeds than if it does not. In other words, we consider that the Borneo Allotment will be fair if there is no value transfer from the Non-associated Shareholders to Borneo and
- the other terms and conditions of the Borneo Allotment are in line with market terms and conditions.

We have evaluated the fairness of the Borneo Allotment by reference to:

- the rationale for the Borneo Allotment
- the fairness of the terms of the Borneo Allotment
- the impact of the Borneo Allotment on the financial position of General Capital
- the impact of the Borneo Allotment on the control of General Capital
- the dilutionary impact of the Borneo Allotment
- the impact of the Borneo Allotment on General Capital's share price
- the benefits and disadvantages to the Non-associated Shareholders of the Borneo Allotment
- the benefits and disadvantages to Borneo of the Borneo Allotment
- the implications if the Borneo Allotment Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

### **3.2 Evaluation of the Fairness of the Borneo Allotment**

**In our opinion, after having regard to all relevant factors, the terms and conditions of the Borneo Allotment are fair to the Non-associated Shareholders.**

The basis for our opinion is set out in detail in sections 2.3 to 2.17. In summary, the key factors leading to our opinion are:

- the rationale for the Share Transactions is sound
- the terms of the Share Transactions are fair
- the Share Transactions will have a significant positive impact on the Company's financial position
- the Borneo Transactions will not increase Borneo's level of control over the Company to any significant degree
- the dilutionary impact of the Borneo Allotment on the Non-associated Shareholders will result in their proportionate shareholdings in the Company reducing by 4.9%
- the dilutionary impact of the Wholesale Capital Raise is more significant, resulting in dilution of up to a further 33.7% on the Non-associated Shareholders' shareholding (following the Borneo Allotment)
- the Borneo Transactions are unlikely to have any significant impact on General Capital's share price
- the Borneo Transactions will have no impact on the liquidity of General Capital's shares
- the Share Transactions will not change the risk profile of General Capital
- the attraction of General Capital as a takeover target is unlikely to change.

### **3.3 Implications of the Borneo Allotment Resolution not being Approved**

In the event that the Borneo Allotment Resolution is not approved, the Borneo Allotment will not proceed. The implications of this are set out in section 2.13.

### **3.4 Voting For or Against the Borneo Allotment Resolution**

Voting for or against the Borneo Allotment Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### **3.5 Implications of the Borneo Acquisition Resolution not being Approved**

In the event that the Borneo Acquisition Resolution is not approved, the Borneo Acquisition will not proceed. The implications of this are set out in section 2.16.

### **3.6 Voting For or Against the Borneo Acquisition Resolution**

Voting for or against the Borneo Acquisition Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

## 4. Profile of General Capital Limited

### 4.1 Background

General Capital was incorporated on 30 September 2011 as Mykris Limited.

The Company was established via an in-specie distribution of shares to the then shareholders of Investment Research Group Limited (**Old IRG**) for the purposes of acquiring 2 companies – MyKRIS Asia Sdn. Bhd (**MIB**) and MyKRIS Net (MSC) Sdn. Bhd (the **2 Mykris Companies**).

Old IRG was incorporated on 10 April 2006 as Viking Capital Limited. The company has since changed its name 6 times, most recently to AFC Group Holding Limited (**AFC**) on 26 September 2016. AFC's shares are listed on the NZAX.

General Capital listed its shares on the NZX Alternative Market (**NZAX**) operated by NZX on 10 January 2012 by way of a compliance listing.

The Company sold the 2 Mykris Companies to MIB for \$12.9 million on 3 November 2015 following shareholder approval of the sale on 29 September 2015.

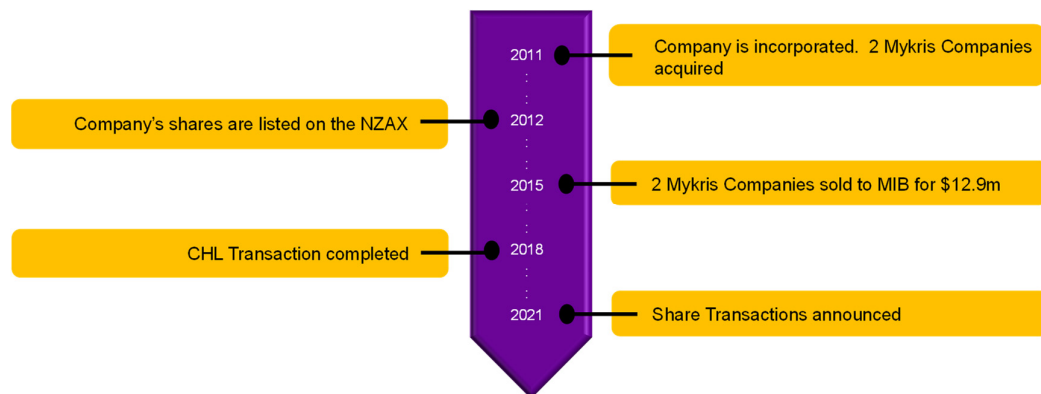
The Company changed its name to Mykco Limited on 11 November 2015.

The Company acquired the remaining 98.46% of the shares in CHL in exchange for the issue of 104,323,240 new fully paid shares in the Company issued at \$0.0588 per share on 3 August 2018, following shareholder approval on 31 July 2018.

The CHL Acquisition was a backdoor listing of CHL into the Company. CHL owned GFL and IRG.

The Company changed its name to General Capital Limited on 3 August 2018.

Key events in the Company's history are set out below.



## 4.2 Nature of Operations

### *General Finance Limited*

GFL is a finance company based in Auckland. It is a NBDT registered under the NBDT Act and a mortgage lending company. Its main activity is providing property mortgage loans to borrowers, generally enabling borrowers to complete a short term transaction, such as preparing a property for sale, bridging a property acquisition, enhancing, developing, subdividing, building, constructing on and improving a property or funding a business purchase or expansion.

Borrowers are generally higher risk borrowers who may have some credit issues and have not been able to borrow from trading bank sources.

GFL's loans are written over 3 to 36 month periods. A first or second ranking real estate mortgage security or a right to such a mortgage security is taken as security to support the lending.

The loans are funded from both GFL's equity and from deposit investors by way of term deposits.

### *Investment Research Group Limited*

IRG is a corporate advisory and financial research company that provides a range of corporate advisory services including:

- mergers and acquisitions
- listing companies on the NZX markets
- share placements.

IRG publishes the *Investment Yearbook*. The publication provides summary historical financial information for 141 New Zealand listed companies, 100 Australian listed companies and 25 global listed companies. The 2020-2021 *Investment Yearbook* was the 46th edition of the publication.

## 4.3 Directors and Senior Management

The directors of General Capital are:

- Graeme Brown, independent non-executive director (associated with Belian)
- Rewi Bugo, non-executive chair (associated with Borneo)
- Brent King, managing director
- Huei Min (Lyn) Lim, independent non-executive director
- Simon McArley, independent non-executive director.

The senior management team of General Capital consists of:

- Brent King, managing director
- Jonathan Clark, chief financial officer.

#### 4.4 Capital Structure and Shareholders

General Capital currently has 162,873,779 fully paid ordinary shares on issue held by 739 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 9 July 2021 are set out below.

General Capital's 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
Borneo	42,249,755	25.94%
Brent King	21,948,650	13.48%
CFS NBDT Interest Limited (CFS)	16,270,000	9.99%
Belian	12,377,869	7.60%
Owen Daji	7,030,463	4.32%
Grant Baker, Donna Baker and Lewis Grant	6,511,945	4.00%
Stephen Sinclair, Jacqueline Sinclair and Roger Wallis	6,290,524	3.86%
John Tomson	6,289,722	3.86%
Bruce Speers and Fiorano Trust Limited	5,386,863	3.31%
Harrigens Trustees Limited	4,663,977	2.86%
Subtotal	129,019,768	79.21%
Others (729 shareholders)	33,854,011	20.79%
Total	162,873,779	100.00%

Source: NZX Company Research

4 shareholders hold interests greater than 5%:

- Borneo is owned by Rewi Bugo, the Company's non-executive chair
- Brent King is the Company's managing director
- CFS is controlled by Marvin Yee
- Belian is owned by Graeme Brown, a non-executive director of the Company.

#### 4.5 Financial Performance

A summary of General Capital's recent financial performance is set out below.

Summary of General Capital Financial Performance			
	Year to 31 Mar 19 (Audited) \$000	Year to 31 Mar 20 (Audited) \$000	Year to 31 Mar 21 (Audited) \$000
Interest income	1,479	2,846	3,533
Interest expense	(640)	(1,441)	(2,246)
Net interest income	839	1,405	1,287
Other income	540	633	1,062
Net revenue	1,379	2,038	2,349
Operating expenses	(1,808)	(1,847)	(2,228)
Profit / (loss) before income tax	(429)	191	121
Income tax expense	(29)	(61)	(39)
Net profit / (loss) after income tax	(458)	130	82
EPS (\$)	(\$0.0046)	\$0.0008	\$0.0005

EPS: Earnings (loss) per share

Source: General Capital annual reports

The Company's net revenue and profitability has steadily increased over the past 3 years as GFL's finance business has grown.

The Company's main source of revenue is interest income on its loan receivables.

Its main expense is interest payable on the term deposits it sources from deposit investors.

Other income consists mainly of fee income on finance receivables and IRG advisory fee revenue.

Operating expenses consist mainly of personnel expenses and administration costs.

#### 4.6 Financial Position

A summary of General Capital's recent financial position is set out below.

Summary of General Capital Financial Position			
	As at 31 Mar 19 (Audited) \$000	As at 31 Mar 20 (Audited) \$000	As at 31 Mar 21 (Audited) \$000
Cash and cash equivalents	2,949	12,562	7,292
Loan receivables	17,277	34,856	53,711
Intangible assets	3,267	3,047	2,926
Other assets	415	699	4,235
Total assets	<u>23,908</u>	<u>51,164</u>	<u>68,164</u>
Term deposits	(14,900)	(41,450)	(57,863)
Other liabilities	(255)	(332)	(776)
Total liabilities	<u>(15,155)</u>	<u>(41,782)</u>	<u>(58,639)</u>
Net assets	<u>8,753</u>	<u>9,382</u>	<u>9,525</u>
NTA per share	\$0.0354	\$0.0389	\$0.040

*Source: General Capital annual reports*

The Company's assets as at 31 March 2021 consisted mainly of loan receivables, cash and cash equivalents and intangible assets.

Loan receivables have increased by 211% from \$17.3 million as at 31 March 2019 to \$53.7 million as at 31 March 2021.

Intangible assets consist mainly of \$2.4 million of goodwill arising from the CHL Acquisition.

Other assets as at 31 March 2021 consisted mainly of \$3 million of longer term bank term deposits.

The Company's main liabilities are term deposits received from deposit investors, which have increased by 288% from \$14.9 million as at 31 March 2019 to \$57.9 million as at 31 March 2021.

Shareholders' equity of \$9.5 million as at 31 March 2021 consisted of:

- \$10.2 million of issued share capital
- negative \$0.6 million of accumulated losses
- negative \$0.1 million of revaluation reserves.



## 4.7 Cash Flows

A summary of General Capital's recent cash flows is set out below.

Summary of General Capital Cash Flows			
	Year to 31 Mar 19 (Audited) \$000	Year to 31 Mar 20 (Audited) \$000	Year to 31 Mar 21 (Audited) \$000
Net cash (outflow) from operating activities	(9,033)	(17,372)	(18,240)
Net cash inflow / (outflow) from investing activities	50	(11)	(3,423)
Net cash inflow from financing activities	6,982	26,996	16,393
Net increase / (decrease) in cash held	(2,001)	9,613	(5,270)
Opening cash balance	4,950	2,949	12,562
Closing cash balance	<u>2,949</u>	<u>12,562</u>	<u>7,292</u>

Source: General Capital annual reports

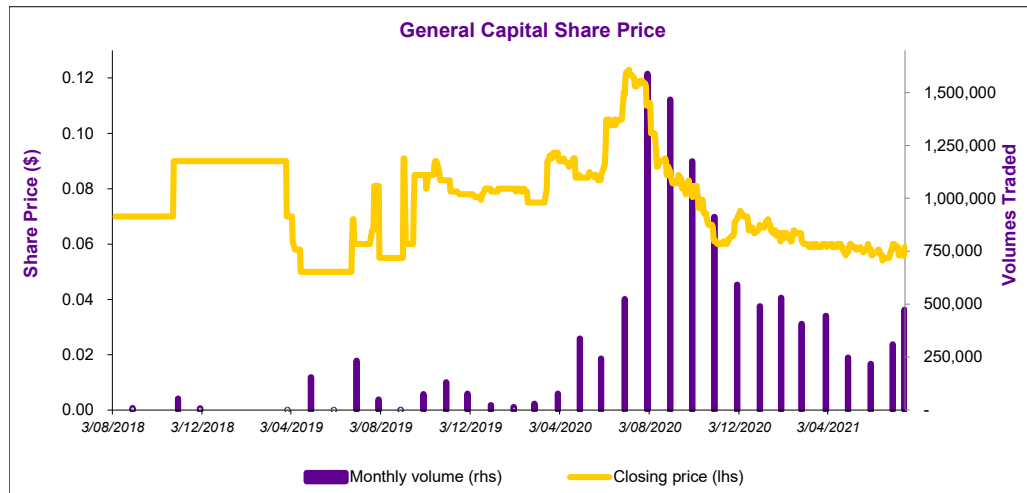
Operating cash flows include net advances on finance receivables.

Investing cash flows in the 2021 financial year mainly represented investments in bank deposits and bonds.

Financing cash flows represent capital raised from the issue of shares and term deposits received from the public.

## 4.8 Share Price History

Set out below is a summary of General Capital's daily closing share price and monthly volumes of shares traded from 3 August 2018 (the completion of the CHL Acquisition) to 16 July 2021.



Source: NZX Company Research

During the period, General Capital's shares have traded between \$0.050 and \$0.123 at a VWAP of \$0.081.

An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 16 July 2021 is set out below.

General Capital Share Trading up to 16 July 2021					
Period	Low <sup>1</sup> \$	High <sup>1</sup> \$	VWAP <sup>1</sup> \$	Volume Traded <sup>1</sup> (000)	Liquidity
1 month	\$0.055	\$0.060	\$0.058	569	0.3%
3 months	\$0.054	\$0.060	\$0.058	1,104	0.7%
6 months	\$0.054	\$0.065	\$0.060	2,296	1.4%
12 months	\$0.054	\$0.119	\$0.077	8,175	5.0%

*Source: NZX Company Research*

Trading in the Company's shares is very thin, with only 5.0% of the shares trading in the past year.

## 5. Reasonableness of the Borneo Allotment Price and the Borneo Acquisition Price

### 5.1 Introduction

The Borneo Allotment Price and the Borneo Acquisition Price is \$0.06 per share.

### 5.2 Reasonableness Assessment

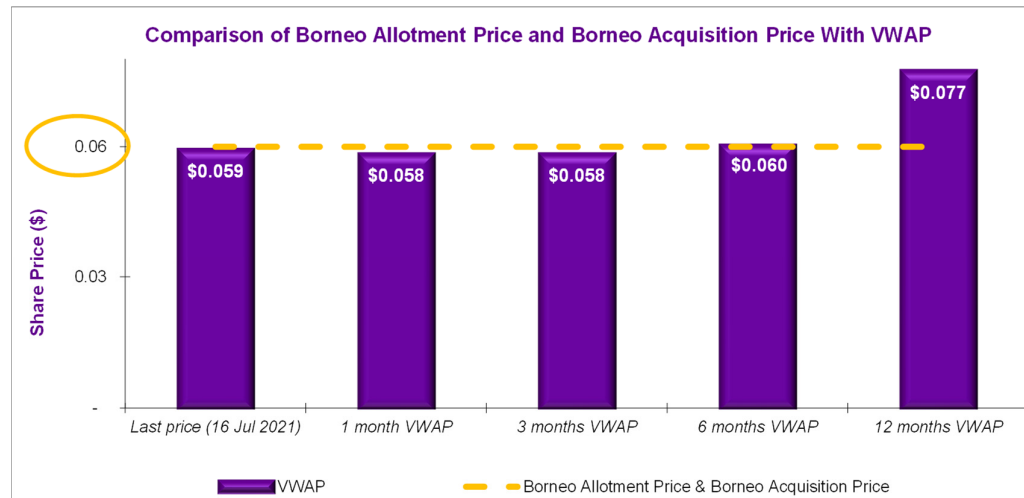
We have assessed the reasonableness of the Borneo Allotment Price and the Borneo Acquisition Price by reference to:

- the prices at which the Company's shares have recently traded on the NZX Main Board
- the prices at which the Company has recently issued shares
- the asset backing of the shares.

#### Recent Share Trading Prices

A summary of General Capital's daily closing share price and monthly volumes of shares traded since 3 August 2018 is set out in section 4.8.

The Borneo Allotment Price and the Borneo Acquisition Price of \$0.06 per share is broadly in line with the recent trading prices for General Capital's shares over the past 6 months.



Source: NZX Company Research

The issue price of \$0.06 per share represents:

- a 2% premium to the Company's share price on 16 July 2021 of \$0.059
- a 3% premium to the one month VWAP of \$0.058
- a 3% premium to the 3 months VWAP of \$0.058
- the same price as the 6 months VWAP of \$0.060
- a discount of 22% to the 12 months VWAP of \$0.077.

### Recent Share Issues

An analysis of General Capital's recent equity raisings is set out below.

General Capital Recent Share Issues				
Financial Year	Type of Issue	No. of Shares	Issue Price (\$)	Equity Raised (\$000)
2019	Private placements	27,502,221	\$0.0675	1,856
2019	Share placement plan	2,402,978	\$0.0675	162
2021	Private placement	1,216,136	\$0.0625	76

The larger share issues were well over 2 years ago and were at slightly higher issue prices than the Borneo Allotment Price and the Borneo Acquisition Price of \$0.06 per share. The issue prices were in line with the prevailing share trading prices at the respective dates of the share issues.

### Net Assets per Share

General Capital's total equity amounted to approximately \$9.5 million as at 31 March 2021, equating to net assets of \$0.0585 per share. NTA amounted to \$0.0405 per share as at 31 March 2021.

The nature of the Company's assets (mainly cash, deposits and loan receivables) is such that their carrying values represent reasonable proxies of their market values.

The Borneo Allotment Price and the Borneo Acquisition Price of \$0.06 is marginally higher than the Company's net assets per share as at 31 March 2021.

### Conclusion

We consider the recent market prices to be the best basis for assessing the reasonableness of the Borneo Allotment Price and the Borneo Acquisition Price.

We are of the view that the Borneo Allotment Price and the Borneo Acquisition Price of \$0.06 per share is fair to the Non-associated Shareholders as it is broadly in line with General Capital's VWAP measured between one month and 6 months.

As the Borneo Allotment will be undertaken at a price in line with the market value of the Company's shares, it will not be value-dilutionary to the Non-associated Shareholders.

## **6. Sources of Information, Reliance on Information, Disclaimer and Indemnity**

### **6.1 Sources of Information**

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual meeting
- the draft Subscription Agreement
- the General Capital annual reports for the years ended 31 March, 2019 to 2021
- General Capital share price data and shareholder data from NZX Company Research.

During the course of preparing this report, we have had discussions with and / or received information from the Non-associated Directors.

The Non-associated Directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report and Appraisal Report with all information relevant to the Share Transactions that is known to them and that all the factual information provided by Company contained in this report is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Independent Adviser's Report and Appraisal Report.

In our opinion, the information set out in this Independent Adviser's Report and Appraisal Report is sufficient to enable the Non-associated Directors and the Company's shareholders to understand all the relevant factors and to make an informed decision in respect of the Borneo Transactions.

### **6.2 Reliance on Information**

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by General Capital and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of General Capital. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

### **6.3 Disclaimer**

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of General Capital will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of General Capital and its directors and management team. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of annual meeting issued by General Capital and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

### **6.4 Indemnity**

General Capital has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. General Capital has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law, Simmons Corporate Finance shall reimburse such costs.

## **7. Qualifications and Expertise, Independence, Declarations and Consents**

### **7.1 Qualifications and Expertise**

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFENZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

### **7.2 Independence**

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with General Capital, Borneo or Belian or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Borneo Transactions.

Simmons Corporate Finance has not had any part in the formulation of the Borneo Transactions or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting on the Borneo Allotment Resolution or the Borneo Acquisition Resolution. We will receive no other benefit from the preparation of this report.

### **7.3 Declarations**

An advance draft of this report was provided to the Non-associated Directors for their comments as to factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

### **7.4 Consents**

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual meeting to be sent to General Capital's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons  
Director

**Simmons Corporate Finance Limited**  
19 July 2021