

# Cooks Global Foods Limited

## Independent Adviser's Report

### In Respect of the Proposed:

- **Allotment of Shares to Jiajiayue Holding Group Limited and YunNan Metropolitan Construction Investment Group Co. Limited**
- **Underwriting Arrangements with Cooks Investment Holdings Limited**
- **Share Buyback Program**

*June 2017*

#### 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
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this 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 Independent Adviser's Report.

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## 1. Introduction

### 1.1 Background

Cooks Global Foods Limited (**Cooks** or the **Company**) owns the intellectual property and master franchise rights for *Esquires Coffee* worldwide, excluding New Zealand and Australia. There are currently 98 Esquires Coffee stores in operation across 9 countries.

Cooks' shares are listed on the alternative market (the **NZAX**) operated by NZX Limited (**NZX**).

The Company's market capitalisation was \$28.7 million as at 12 June 2017 and its unaudited total equity was \$7.8 million as at 30 September 2016.

A profile of Cooks is set out in section 4.

### 1.2 Capital Raising

Cooks announced on 20 March 2017 that it had secured \$10 million in new capital from its 3 largest shareholders (the **Capital Raising**).

The Capital Raising consists of:

- Jiajiayue Holding Group Limited (**JJY**) (through its New Zealand wholly owned subsidiary Weihai Station Limited (**Weihai**)) subscribing for 44,873,240 new fully paid ordinary shares at an issue price of \$0.0775 per share for a total consideration of \$3,477,676 (the **JJY Allotment**)
- YunNan Metropolitan Construction Investment Group Co. Limited (**YMCI**) subscribing for 23,142,413 new fully paid ordinary shares at an issue price of \$0.0775 per share for a total consideration of \$1,793,537 (the **YMCI Allotment**)
- Cooks Investment Holdings Limited (**CIHL**) underwriting a maximum of \$4,730,000 of new capital to be issued under a share purchase plan (the **SPP**) for the Company's shareholders at an issue price of \$0.0775 per share (the **Underwriting Arrangements**). The SPP will open within one month of the JJY Allotment and the YMCI Allotment being completed.

We refer to the JJY Allotment and the YMCI Allotment collectively as the **Allotments**.

### 1.3 China Joint Venture

Cooks intends to reorganise its operations in China. The Company announced on 13 April 2017 that it was in advanced discussions with a third party in China to create a joint venture company (the **China JV**) between Cooks and a Chinese-based investment entity (**CCIF**) which will:

- own the master franchise for the *Esquires Coffee* brand in China, Hong Kong, Macau and Taiwan
- take over the assets and businesses of Cooks' wholly owned Chinese subsidiary Beijing Esquires Management Co. Limited (**Esquires China**)
- fund and drive the development of branded coffee houses across the Greater China region.

Cooks will hold a 30% shareholding in the China JV and CCIF will hold a 70% shareholding.

Cooks' contribution to the China JV will be Esquires China, the rights to operate the *Esquires Coffee* brand in Greater China and the rights to future product payments, service fees and dividends in the region.

CCIF will comprise of a number of Chinese investors who have an interest in the retail food and beverage sector in China. It will subscribe RMB46.67 million (approximately \$9.7 million) for its 70% shareholding in the China JV.

#### 1.4 Jiajiayue Holdings Limited

JJY currently holds 103,330,704 ordinary shares, representing 24.80% of Cooks' total shares on issue.

JJY is a joint venture partner with Esquires China. The joint venture was formed in 2012 to develop 50 *Esquires Coffee* stores in the Shandong province, China over a 10 year period (the **JJY JV**). Esquires China has a 10% interest in the JJY JV entity.

Under the JJY JV:

- JJY sources suitable sites for *Esquires Coffee* stores in the Shandong province
- Esquires China is responsible for establishing the stores, training staff and establishing retail systems
- the joint venture entity pays royalties and / or profit share to Esquires China
- the joint venture entity sources product from Esquires China.

JJY's main business focus is as a supermarket chain with integrated agriculture products processing, wholesaling and retailing and logistics distributing services. It owns more than 600 supermarkets in China and reaches more than 40 cities and counties in Shandong with a comprehensive structure of farmers' markets, department stores, village stores and supermarkets.

#### 1.5 YunNan Metropolitan Construction Investment Group Co Limited

YMCI currently holds 77,577,227 ordinary shares, representing 18.62% of Cooks' total shares on issue.

Beijing Yunnan Building Hotel Co Limited (**BYBH**) jointly owned the China *Esquires Coffee* master franchise holder prior to selling it to Cooks in December 2014 (which is now Esquires China).

BYBH is controlled by YMCI and is ultimately owned by the Provincial Government of Yunnan province in China.

#### 1.6 Cooks Investment Holding Limited

CIHL is an investment vehicle wholly owned by Cooks' executive chair Keith Jackson. Mr Jackson is the Company's sole director.

CIHL currently holds 53,700,683 ordinary shares, representing 12.89% of Cooks' total shares on issue.

Parties associated with CIHL (being the Nikau Trust (of which Mr Jackson is a trustee) and Tasman Capital Limited (**Tasman**) (of which Mr Jackson is a director and a beneficial shareholder)) collectively hold a further 39,536,499 ordinary shares, representing 9.49% of Cooks' total shares on issue.

We refer to CIHL and its associates collectively as the **CIHL Associates**. The CIHL Associates collectively hold 93,237,182 ordinary shares, representing 22.38% of Cooks' total shares on issue.

## 1.7 Impact of the Capital Raising on Shareholding Levels

### Allotments

The table below shows the number of shares that will be held by JJY, the CIHL Associates, YMCI and the other shareholders in the Company (the **Non-associated Shareholders**) following the Allotments.

Impact of the Allotments on Shareholding Levels						
	Current		Allotments		Post the Allotments	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
JJY	103,330,704	24.80%	44,873,240	65.97%	148,203,944	30.58%
CIHL Associates	93,237,182	22.38%	-	-	93,237,182	19.24%
YMCI	77,577,227	18.62%	23,142,413	34.03%	100,719,640	20.78%
Non-associated Shareholders	142,450,750	34.19%	-	-	142,450,750	29.39%
Total	<u>416,595,863</u>	<u>100.00%</u>	<u>68,015,653</u>	<u>100.00%</u>	<u>484,611,516</u>	<u>100.00%</u>

Following the Allotments:

- JJY will hold 30.58% of the Company's ordinary shares
- the CIHL Associates will hold 19.24% of the Company's ordinary shares
- YMCI will hold 20.78% of the Company's ordinary shares
- the Non-associated Shareholders will collectively hold 29.39% of the Company's ordinary shares.

### Underwriting Arrangements

CIHL must fulfil its underwriting commitment within 12 months of the approval of the Capital Raising.

The table below shows the number of shares that will be held by JJY, the CIHL Associates, YMCI and the Non-associated Shareholders following the Capital Raising (ie following both the Allotments and Underwriting Arrangements).

Impact of the Capital Raising on Shareholding Levels						
	Current		Capital Raising		Post the Capital Raising	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
JJY	103,330,704	24.80%	44,873,240 <sup>1</sup>	34.77%	148,203,944	27.16%
CIHL Associates	93,237,182	22.38%	61,032,258 <sup>2</sup>	47.29%	154,269,440	28.27%
YMCI	77,577,227	18.62%	23,142,413 <sup>1</sup>	17.93%	100,719,640	18.46%
Non-associated Shareholders	142,450,750	34.19%	- <sup>2</sup>	-	142,450,750	26.11%
Total	<u>416,595,863</u>	<u>100.00%</u>	<u>129,047,911</u>	<u>100.00%</u>	<u>545,643,774</u>	<u>100.00%</u>

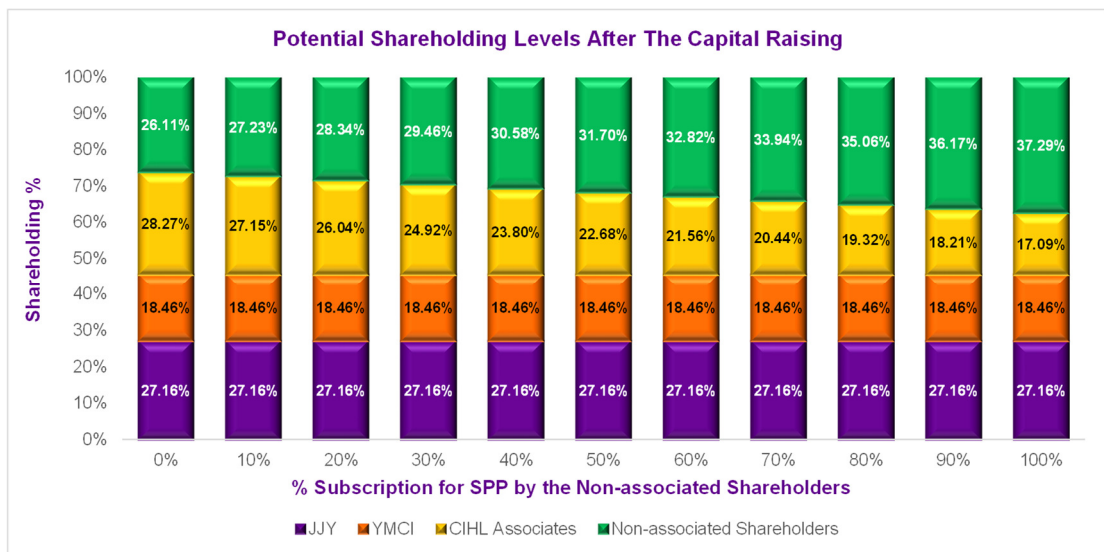
<sup>1</sup> Assumes that JJY and YMCI do not subscribe for any SPP shares  
<sup>2</sup> Assumes that the Non-associated Shareholders subscribe for no SPP shares and therefore the CIHL Associates subscribe for 100% of the SPP shares under the Underwriting Arrangements

Following the Capital Raising:

- JJY will hold 27.16% of the Company's ordinary shares
- YMCI will hold 18.46% of the Company's ordinary shares.

Depending on the level of subscriptions by the Non-associated Shareholders under the SPP:

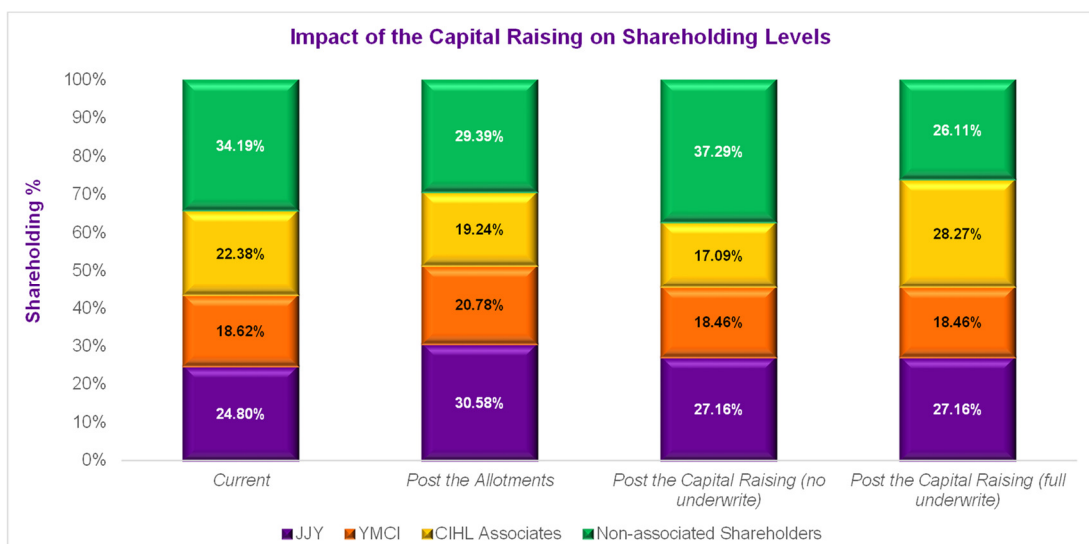
- the CIHL Associates will hold between 17.09% and 28.27% of the Company's ordinary shares
- the Non-associated Shareholders will collectively hold between 26.11% and 37.29% of the Company's ordinary shares.



### Capital Raising

The graph that follows summarises the impact of the Capital Raising on JJY, YMCI, the CIHL Associates and the Non-associated Shareholders' shareholding levels:

- the first bar shows their current levels
- the second bar shows their levels after the Allotments
- the third bar shows their levels after the Allotments and the Underwriting Arrangements, assuming the Non-associated Shareholders subscribe for 100% of the SPP shares
- the fourth bar shows their levels after the Allotments and the Underwriting Arrangements, assuming the CIHL Associates subscribe for 100% of the SPP shares under the Underwriting Arrangements.



## 1.8 Share Buyback Program

Cooks is seeking to acquire up to 20,000,000 of its ordinary shares pursuant to a buyback offer (the **Buyback**).

The Company will offer to purchase, in aggregate, up to 20,000,000 ordinary shares on-market at the prevailing market price for the shares at the time of the purchase. This will represent up to 4.13% of the Company's ordinary shares on issue immediately following the Allotments and 3.67% of the Company's ordinary shares on issue following the Capital Raising. Any shares purchased by the Company under the Buyback will be cancelled.

The objective of the Buyback is to provide a liquidity event for all Cooks shareholders.

The Buyback will be financed by funds from the Capital Raising.

## 1.9 Impact of the Buyback on Shareholding Levels

### After the Capital Raising

The table below shows the number of shares that will be held by JJY, the CIHL Associates, YMCI and the Non-associated Shareholders following the Capital Raising and the Buyback, assuming:

- the CIHL Associates subscribe for 100% of the SPP shares under the Underwriting Arrangements
- the Company buys back the maximum 20,000,000 ordinary shares from the Non-associated Shareholders under the Buyback.

Impact of the Capital Raising and the Buyback on Shareholding Levels						
	Post the Capital Raising <sup>1</sup>		Buyback		Post the Buyback	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
JJY	148,203,944	27.16%			148,203,944	28.19%
CIHL Associates	154,269,440	28.27%			154,269,440	29.35%
YMCI	100,719,640	18.46%			100,719,640	19.16%
Non-associated Shareholders	142,450,750	26.11%	(20,000,000) <sup>2</sup>	100.00%	122,450,750	23.30%
<b>Total</b>	<b>545,643,774</b>	<b>100.00%</b>	<b>(20,000,000)<sup>2</sup></b>	<b>100.00%</b>	<b>525,643,774</b>	<b>100.00%</b>

<sup>1</sup> As per section 1.7  
<sup>2</sup> Assumes the maximum 20,000,000 shares are bought back under the Buyback

Depending on the number of shares subscribed for by the CIHL Associates under the Underwriting Arrangements and the number of shares bought back under the Buyback:

- JJY will hold between 27.16% and 28.19% of the Company's ordinary shares
- the CIHL Associates will hold between 17.09% and 29.35% of the Company's ordinary shares
- YMCI will hold between 18.46% and 19.16% of the Company's ordinary shares
- the Non-associated Shareholders will collectively hold between 23.30% and 37.29% of the Company's ordinary shares.

### **After the Allotments but Before the SPP and the Underwriting Arrangements**

As stated in section 1.7, CIHL must fulfil its underwriting commitment within 12 months of the approval of the Capital Raising. Therefore it is theoretically possible (but highly unlikely in our opinion) that the Buyback will be completed after the Allotments but before any shares are issued under the SPP and the Underwriting Arrangements.

The table below shows the number of shares that will be held by JJY, the CIHL Associates, YMCI and the Non-associated Shareholders following the Allotments and the Buyback, assuming:

- no shares are issued under the SPP or the Underwriting Arrangements
- the Company buys back the maximum 20,000,000 ordinary shares from the Non-associated Shareholders under the Buyback.

<b>Impact of the Allotments and the Buyback on Shareholding Levels</b>						
	<b>Post the Allotments<sup>1</sup></b>		<b>Buyback</b>		<b>Post the Buyback</b>	
	<b>No. of Shares</b>	<b>%</b>	<b>No. of Shares</b>	<b>%</b>	<b>No. of Shares</b>	<b>%</b>
JJY	148,203,944	30.58%			148,203,944	31.90%
CIHL Associates	93,237,182	19.24%			93,237,182	20.07%
YMCI	100,719,640	20.78%			100,719,640	21.68%
Non-associated Shareholders	142,450,750	29.39%	(20,000,000) <sup>2</sup>	100.00%	122,450,750	26.36%
<b>Total</b>	<b>484,611,516</b>	<b>100.00%</b>	<b>(20,000,000)<sup>2</sup></b>	<b>100.00%</b>	<b>464,611,516</b>	<b>100.00%</b>

<sup>1</sup> As per section 1.7  
<sup>2</sup> Assumes the maximum 20,000,000 shares are bought back under the Buyback

### **Theoretical Maximum Shareholding Levels**

The theoretical maximum levels of shares that the various shareholders can hold under the Buyback are:

- JJY – 31.90% (post the Allotments and before the Underwriting Arrangements)
- the CIHL Associates – 29.35% (assuming they subscribe for 100% of the SPP shares under the Underwriting Arrangements)
- YMCI – 21.68% (post the Allotments and before the Underwriting Arrangements)
- the Non-associated Shareholders – 34.91% (assuming they subscribe for 100% of the SPP shares).



## 1.10 Special Meeting

The Company's shareholders will vote on 2 ordinary resolutions in respect of the Capital Raising and the Buyback at the Company's special meeting of shareholders on 29 June 2017:

- in respect of the JJY Allotment, the YMCI Allotment and the Underwriting Arrangements (resolution 1 - the **Capital Raising Resolution**)
- in respect of the Buyback (resolution 2 – the **Buyback Resolution**).

The Capital Raising Resolution and the Buyback Resolution are interdependent to the extent that the Capital Raising Resolution must be approved in order for the Buyback Resolution to be voted on. However, if the Capital Raising Resolution is approved but the Buyback Resolution is not approved, the Capital Raising will still proceed.

Any shareholder who is deemed to be an associate of JJY, YMCI or CIHL is not permitted to vote on the Capital Raising Resolution.

Any shareholder who is deemed to be an associate of JJY or CIHL is not permitted to vote on the Buyback Resolution.

## 1.11 Regulatory Requirements

### *Fundamental Rule*

Cooks is a code company as defined by the Takeovers Code (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 less than 20% of the voting rights in a code company from increasing their 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 control of voting rights

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

### *Allotments and Underwriting Arrangements*

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates that hold or control 20% or more of the voting rights in the code company 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.

The JJY Allotment will result in JJY increasing its control of the voting rights in Cooks from 24.80% to 30.58% (before the Underwriting Arrangements and the Buyback).

The YMCI Allotment will result in YMCI increasing its control of the voting rights in Cooks from 18.62% to 20.78% (before the Underwriting Arrangements and the Buyback).

The Underwriting Arrangements will result in the CIHL Associates potentially increasing their control of the voting rights in Cooks from 22.38% to up to 28.27% (before the Buyback).

Accordingly, the Non-associated Shareholders will vote at the Company's special meeting on the Capital Raising Resolution in respect of the Allotments and the Underwriting Arrangements in accordance with the Code.

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).

### **Buyback**

When a company buys back and cancels its shares, the percentage holding of any shareholder that does not participate in the buyback will increase. Consequently, if a company with a shareholder controlling in excess of 20% wishes to undertake a share buyback, it needs to rely upon an exemption to the Code.

The Takeovers Code (Class Exemptions) Notice (No 2) 2001, as amended by the Takeovers Code (Class Exemptions – Buybacks and Rule 16(b)) Amendment Notice 2010 (the **Buyback Exemptions**), sets out a general exemption for share buybacks.

Clause 4 of the Buyback Exemptions provides an exemption for a shareholder controlling (alone or with their associates) in excess of 20% of the voting rights in a code company to increase its voting control via a share buyback, provided the buyback has been approved by an ordinary resolution of shareholders (excluding shareholders who will rely on clause 4 of the Buyback Exemptions (and their associates)).

Clause 5 of the Buyback Exemptions provides an exemption that does not require shareholder approval, provided the shareholder reduces its percentage holding to pre-buyback levels within 6 months.

As set out in section 1.9, the Buyback may result in JJY increasing its voting rights from its current level of 24.80% to up to 31.90%, YMCI increasing its voting rights from its current level of 18.62% to up to 21.68% and the CIHL Associates increasing their voting rights in the Company from their current level of 22.38% to up to 29.35% if they do not participate in the Buyback.

We understand that JJY, YMCI and the CIHL Associates have not given any indication to Cooks at this point in time that they wish to participate in the Buyback.

Accordingly, the Non-associated Shareholders will vote on the Buyback Resolution which will permit JJY, YMCI and the CIHL Associates to retain any increase in the voting rights in the Company that they hold or control as a result of the Buyback up to a maximum of 31.90%, 21.68% and 29.35% respectively.

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires that the notice of meeting containing the resolution in respect of the Buyback must include or be accompanied by an Independent Adviser's Report that complies with Rule 18 of the Code.

## 1.12 Purpose of the Report

The Company's director not associated with JJY, YMCI or CIHL, being Andrew Kerslake (the **Non-associated Director**) has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Allotments, the Underwriting Arrangements and the Buyback in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 30 March 2017 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Non-associated Director for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Capital Raising Resolution and the Buyback Resolution.

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

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

## 1.13 Currency References

References to currencies in this report are:

- **\$** : New Zealand dollars
- **RMB** : China renminbi.

## 2. Evaluation of the Merits of the Capital Raising

### 2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the JJY Allotment, the YMCI Allotment and the Underwriting Arrangements 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 and the Takeovers Code* dated 11 October 2016
- 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 JJY Allotment, the YMCI Allotment and the Underwriting Arrangements are integral components of the Capital Raising, we are of the view that an assessment of the merits of the JJY Allotment, the YMCI Allotment or the Underwriting Arrangements cannot be undertaken in isolation and need to be considered in conjunction with the merits of the Capital Raising overall. Accordingly, we are of the view that an assessment of the merits of the JJY Allotment, the YMCI Allotment and the Underwriting Arrangements should focus on:

- the rationale for the Capital Raising
- the terms of the Allotments
- the terms of the Underwriting Arrangements
- the prospects for Cooks without the Capital Raising
- the impact of the Capital Raising on Cooks' financial position
- the impact of the Capital Raising on the control of the Company
- the impact of the Capital Raising on Cooks' share price
- the benefits and disadvantages for JJY and YMCI of the Allotments
- the benefits and disadvantages for CIHL of the Underwriting Arrangements
- the benefits and disadvantages for the Non-associated Shareholders of the Capital Raising
- the implications if the Capital Raising 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.

## 2.2 Summary of the Evaluation of the Merits of the Capital Raising

Our evaluation of the merits of the Capital Raising is set out in detail in sections 2.3 to 2.18.

The Capital Raising will raise \$10 million of equity for the Company (before costs of approximately \$0.2 million):

- the Allotments will result in JJY and YMCI providing \$5.3 million of capital to the Company, of which approximately \$3.5 million will be converted from debt to equity
- the fully underwritten SPP will raise a further \$4.7 million of capital (before costs).

Following the Capital Raising, JJY will hold between 27.16% and 30.58% of the Company's shares, YMCI will hold between 18.46% and 20.78% and the CIHL Associates will hold between 17.09% and 28.27% (depending on the extent to which CIHL is required to underwrite the SPP).

In summary, the key positive aspects of the Capital Raising are:

- the Capital Raising will result in Cooks raising \$10 million of equity (before approximately \$0.2 million of costs), enabling the Company to convert approximately \$3.5 million of debt into equity and raising approximately \$6.3 million of cash (after costs) to fund its growth initiatives
- the terms of the Allotments are reasonable:
  - the shares will be issued to JJY and YMCI at \$0.0775 per share. This represents a premium of 12.3% over the most recent price of \$0.069 that the Company's shares have traded at
  - the issue price under the Allotments is the same price as under the SPP
- the Non-associated Shareholders will have the opportunity to subscribe for new shares in the Company under the SPP at the same price as the Allotments issue price
- the terms of the Underwriting Arrangements are reasonable. The underwriting fee of 1.5% is at the lower end of the range of fees generally paid for underwriting arrangements in New Zealand
- the Capital Raising will have a significant positive impact on the Company's financial position, increasing Cooks' total equity by \$10 million and reducing its borrowings by approximately \$3.5 million.

In summary, the key negative aspects of the Capital Raising are:

- the Capital Raising will increase JJY, YMCI and the CIHL Associates' control of voting rights in the Company. However, they already have the ability to significantly influence the outcome of shareholding voting and exert influence over the Company's board of directors (the **Board**) and the Company's operations. The increase in JJY, YMCI and the CIHL Associates' respective shareholding levels arising from the Capital Raising will not increase their control over the Company to any significant degree

- the dilutionary impact of the Capital Raising on the Non-associated Shareholders will result in their shareholdings in the Company reducing by up to 24% following the Capital Raising if they do not subscribe for any shares under the SPP. However, each Non-associated Shareholder will be able to reduce this level of dilution by subscribing for up to \$15,000 of shares (up to 193,548 shares) under the SPP (and potentially more shares under the SPP oversubscription facility).

In summary, the neutral aspects of the Capital Raising are:

- the attraction of Cooks as a takeover target is unlikely to change
- the Capital Raising is unlikely to have any direct impact on the liquidity of the Company's shares. However, if the Capital Raising is not approved, then the Buyback will not proceed. The Buyback is likely to have a positive impact on the liquidity of the Company's shares.

The implications of the Capital Raising Resolution not being approved by the Non-associated Shareholders are significant in that Cooks will not receive \$10 million of capital from the Capital Raising. The Company will need to seek alternative sources of capital to repay some of its debts and fund its growth strategy. If Cooks cannot raise sufficient capital in the required timeframe to meet its financial obligations, then, in a worst case scenario, it may need to cease operating. Furthermore, if the Capital Raising Resolution is not approved, the Buyback Resolution will not be voted on and therefore the Buyback will not proceed.

There are a number of positive and negative features associated with the Capital Raising. In our view, when the Non-associated Shareholders are evaluating the merits of the Capital Raising, they need to carefully consider whether the negative aspects of the Capital Raising, including the level of control that JJY, YMCI and the CIHL Associates will hold over the Company and the dilutionary impact of the Capital Raising could justify voting against the Capital Raising Resolution with the outcome that the Company will be undercapitalised and will need to seek alternative sources of capital in order to retire debt and execute its growth strategies.

**In our opinion, after having regard to all relevant factors, the positive aspects of the Capital Raising significantly outweigh the negative aspects from the perspective of the Non-associated Shareholders.**

## 2.3 Rationale for the Capital Raising

### *Requirement for the Capital Raising*

We are advised that as at 31 May 2017, Cooks had approximately \$5.6 million of borrowings:

- approximately \$2.4 million from JJY (which included approximately \$1.4 million advanced by JJY on an interest free basis as a partial prepayment of the consideration payable for the JJY Allotment (the **JJY Prepayment**))
- approximately \$1.1 million from YMCI
- \$0.8 million from the Nikau Trust
- approximately \$1.3 million from other parties.

Cooks requires significant additional capital in order to fund the execution of its growth strategy and to retire debt.

## Use of Funds

The \$10 million of capital raised from the Capital Raising will be prioritised towards:

- converting approximately \$3.5 million of debt from JJY and YMCI into equity
- accelerating the growth in store numbers and revenue growth in existing stores through joint ventures, store rebranding and franchisee support (especially in the UK and Ireland) – approximately \$1.5 million
- establishing stores and support operations in the US and Canadian markets – approximately \$1.5 million
- supporting key operational initiatives to assist with the acceleration of store and revenue growth – approximately \$1.7 million
- general working capital requirements – approximately \$1.6 million
- paying the Capital Raising costs – approximately \$0.2 million.

Following the Capital Raising and the establishment of the China JV, the Company also intends to review its current NZAX market listing with a view to migrating to the NZX Main Board.

## 2.4 The Prospects for Cooks Without the Capital Raising

Cooks' financial position as at 30 September 2016 was not strong:

- while total equity amounted to \$7.8 million, its net tangible assets (**NTA**) amounted to negative \$1.7 million
- the Company's loss for the 2016 financial year was \$7.9 million. It recorded a loss of \$3.8 million for the 6 months to 30 September 2016
- its cash outflows from operations and investing activities totalled \$6.7 million in the 2016 financial year and \$2.7 million in the 6 months ended 30 September 2018.

The Company has been reliant to a large degree on short term funding provided by JJY, YMCI and the CIHL Associates.

The Allotments will raise \$5.3 million and the SPP and the Underwriting Arrangements will raise additional capital of \$4.7 million (before costs of approximately \$0.2 million). However, if the Capital Raising is not approved, then the Company will need to seek capital from alternative sources in a relatively short timeframe. As discussed in section 2.7, this may prove to be difficult for the Company.

If alternative sources of capital are not readily accessible, Cooks may need to look to sell non-core businesses and implement cost saving measures.

In the event that sufficient capital cannot be raised in the required timeframe to meet the Company's financial obligations, then, in a worst case scenario, it may need to cease operating.



## 2.5 Terms of the Allotments

### Subscription Agreements

Cooks entered into a subscription agreement with JJY dated 2 February 2017 (the **JJY Subscription Agreement**) and a subscription agreement with YMCI dated 13 April 2017 (the **YMCI Subscription Agreement**). The terms of the 2 subscription agreements are identical other than in respect of the number of shares issued and the form of subscription for the shares.

We are advised by the Board that the terms of the Subscription Agreements were largely negotiated in late November 2016, approved by the Board in December 2016 and approved by each of JJY and YMCI in the first quarter of 2017.

### Issue Price

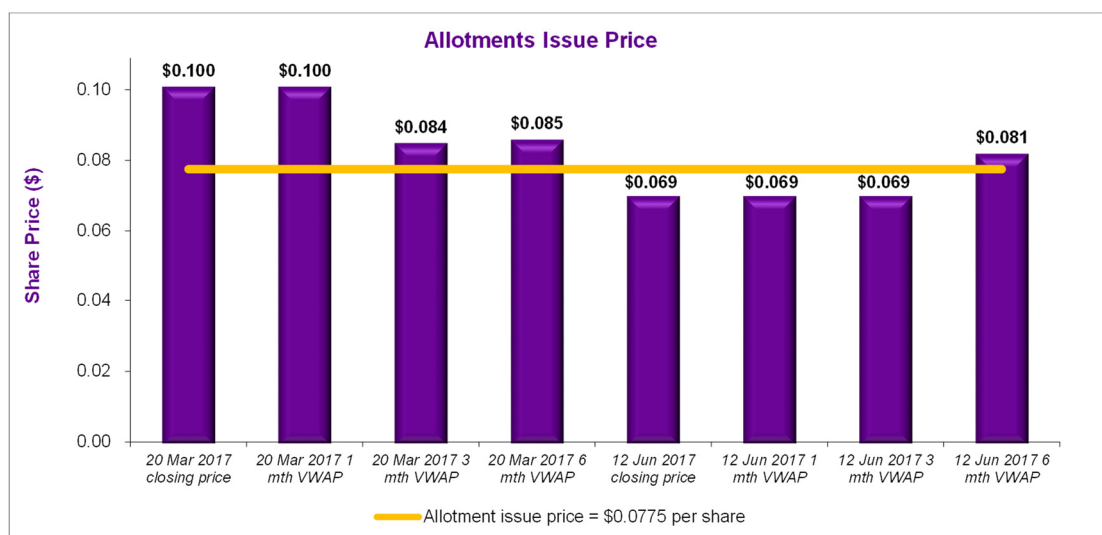
The shares will be issued to JJY and YMCI at \$0.0775 per share. This is the same price that the Company will issue shares to the Non-associated Shareholders under the SPP (or to CIHL under the Underwriting Arrangements).

An analysis of the Company's share price is set out in section 4.10. On the day that the Capital Raising was announced (20 March 2017), the issue price of \$0.0775 per share represented:

- a 22.5% discount to the closing share price of \$0.10
- a 22.5% discount to the one month volume weighted average share price (**VWAP**) of \$0.10
- a 7.7% discount to the 3 months VWAP of \$0.084 and
- a 8.8% discount to the 6 months VWAP of \$0.085.

Based on Cooks' share price as at 12 June 2017, the issue price of \$0.0775 per share represented:

- a 12.3% premium to the closing share price of \$0.069
- a 12.3% premium to the one month VWAP of \$0.069
- a 12.3% premium to the 3 months VWAP of \$0.069 and
- a 4.3% discount to the 6 months VWAP of \$0.081.





## **Subscription**

### **JJY Allotment**

The amount of \$3,477,676 payable by JJY under the JJY Allotment will be paid as follows:

- \$1,000,000 plus accrued and unpaid interest of \$77,619 will be deemed to be set-off against the amount that Cooks owes JJY under the convertible loan agreement
- cash of \$1,326,500 will be paid to Esquires China. This has already been paid by way of the JJY Prepayment
- the balance of \$1,073,557 in cash to Cooks.

The 44,873,240 new ordinary shares will be issued to JJY's wholly owned New Zealand subsidiary Weihai.

### **YMCI Allotment**

The \$1,793,537 payable by YMCI under the YMCI Allotment will be paid as follows:

- \$1,061,224 will be deemed to be set-off against the amount that Cooks owes YMCI (approximately RMB5.2 million) in accordance with the debt capitalisation letter between Cooks and YMCI dated 13 April 2017 (the **YMCI Debt Capitalisation Letter**)
- the balance of \$732,313 in cash to Cooks.

## **Conditions**

The Allotments are conditional on shareholder approval.

Both the JJY Subscription Agreement and the YMCI Subscription Agreement are cross-conditional and must complete together, along with the Underwriting Arrangements.

## **2.6 Terms of the SPP and the Underwriting Arrangements**

### **SPP**

We have been provided with a draft of the SPP Offer Document. The Company advises that because the SPP Offer Document is not due to be released until after the special meeting, it will finalise the SPP Offer Document after this report is sent to shareholders. Accordingly, our comments in respect of the terms and conditions of the SPP are on the assumption that the key terms and conditions of the issue will not change.

The SPP represents an issue of up to 61,032,258 new ordinary shares in total to the Company's shareholders, fully underwritten by CIHL.

Each shareholder will be permitted to subscribe for up to \$15,000 of new ordinary shares. The new shares will be issued at \$0.0775 per share, meaning that each shareholder may subscribe for up to 193,548 new ordinary shares.

Applications will be subject to scaling so that no more than 61,032,258 new ordinary shares will be issued in aggregate.

Shares not taken up by shareholders will form an oversubscription facility. Shareholders wishing to take up more than \$15,000 of shares will be able to apply for additional shares from the oversubscription facility but their application will be subject to the availability of shares in the oversubscription facility.

The SPP issue price of \$0.0775 per share is the same as the issue price under the JJY Allotment and the YMCI Allotment and hence there will be no transfer of value from the Non-associated Shareholders to JJY and YMCI by way of differential pricing under the Capital Raising.

### **Underwriting Arrangements**

Cooks entered into an underwriting agreement with CIHL dated 28 March 2017 (the **CIHL Underwriting Agreement**) where CIHL has agreed to underwrite the SPP on the following terms:

- CIHL will underwrite an amount up to \$4.73 million under the SPP. This equates to 61,032,258 new ordinary shares
- CIHL will be paid an underwriting fee of 1.5% totalling \$70,950
- CIHL may appoint sub-underwriters
- CIHL and Keith Jackson may capitalise amounts owing to them by Cooks and set such amounts off against amounts owing by CIHL to Cooks under the Underwriting Arrangements
- the Underwriting Arrangements are conditional on shareholder approval, as well as shareholder approval of the JJY Allotment and the YMCI Allotment
- CIHL must (subject to the SPP having occurred) fulfil its underwriting commitment within 12 months of the date of the special meeting.

We are advised by the Board that the terms of the Underwriting Arrangements were negotiated and finalised in November 2016.

The payment of underwriting fees to an underwriter is a normal part of a rights issue and, to a lesser degree, a SPP. The actual fee percentage varies and generally is a function of the discount of the rights price, the size of the issue and the assessment of the risk that the underwriter is assuming (ie the probability that the underwriter will be called upon to purchase any shortfall in subscriptions). Underwriting fees in New Zealand tend to be in the range of 1.5% to 5.0%.

We consider the Underwriting Arrangements to be reasonable. The underwriting fee of 1.5% is at the lower end of the range of fees generally charged.

## **2.7 Alternatives to the Capital Raising**

As an alternative to the Capital Raising, Cooks could have considered alternative forms of raising capital including:

- making a series of share placements to other investors
- the sale of assets
- seeking additional debt funding.

We are advised by the Board that it had recently engaged advisers to assist raising equity, but the process was not successful. Prior to this, Cooks had approached institutional investors without success. Furthermore, the Company's offer of redeemable convertible notes in November 2016 to raise \$6 million (the **RCN Offer**) only raised \$0.25 million.

We are of the view that the alternative funding sources are not realistic alternatives at this point in time. The Company has negligible uncharged assets available for sale and given the Company's current financial leverage levels, we do not consider that Cooks could access sufficient additional debt funding on commercially viable terms.

## **2.8 Alternatives to the Underwriting Arrangements**

As an alternative to the Underwriting Arrangements, Cooks could have considered the following options regarding the underwriting of the SPP:

- it could seek an alternative underwriter
- it could undertake a non-underwritten SPP.

### ***Alternative Underwriter***

We are advised by the Board that it did not hold discussions with potential underwriters other than CIHL.

Given the relatively small size of the Company, the limited number of institutional investors on its shareholder register and the limited liquidity of the Company's shares, we consider it unlikely that the underwriting opportunity would hold appeal to potential underwriters other than a party who was prepared to possibly hold a significant shareholding in Cooks.

### ***No Underwriter***

An alternative option to seeking a different underwriter would be for Cooks to have undertaken the SPP without it being underwritten. In general terms, the greater the discount of the subscription price for the new shares under a rights issue or SPP to the current share price, the lower the risk of the rights issue or SPP being under subscribed.

A discounted subscription price does not necessarily guarantee the full take-up of a rights issue or SPP. Other factors that impact on the likely level of subscription under a rights issue or SPP include the demand for the shares (i.e. liquidity and spread of shareholders), the quantum of the required investment and the general state of the equity markets.

Given that the demand for Cooks shares is extremely low (based on volumes traded) and the SPP issue price of \$0.0775 is higher than Cooks' current share price, we are of the view that Cooks would bear considerable risk of not raising the \$4.73 million of capital if it did not arrange for the SPP to be fully underwritten.

## **2.9 Impact on Financial Position**

A summary of Cooks' recent financial position is set out in section 4.8.

Cooks' total equity as at 30 September 2016 was \$7.8 million (\$0.019 per share).

The Capital Raising will raise \$10.0 million of equity, less costs of approximately \$0.2 million.

For illustrative purposes, if the proceeds from the Capital Raising were to have been received at 30 September 2016, Cooks' total equity would increase by 126% to \$17.6 million and equity per share would increase by 73% to \$0.032 per share.

<b>Illustrative Effect of the Capital Raising on Cooks' Financial Position</b>			
	<b>Equity (\$000)</b>	<b>No. of Shares (m)</b>	<b>Equity / Share (\$)</b>
Total equity as at 30 September 2016	7,776	416.6	0.019
Capital Raising (net of costs)	9,801	129.0	0.076
Post the Capital Raising	<u>17,577</u>	<u>545.6</u>	<u>0.032</u>

NTA would increase from negative \$1.7 million to positive \$8.1 million and NTA per share would increase from negative \$0.004 per share to positive \$0.015 per share.

## 2.10 Impact on Control

### *Share Capital and Shareholders*

Cooks currently has 416,595,863 fully paid ordinary shares on issue held by 583 shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders are set out in section 4.4.

Cooks has 5 shareholders holding more than 5% of the Company ordinary shares:

- JJY – 24.80%
- YMCI – 18.62%
- CIHL – 12.89%
- ADG Investments Limited (**ADG**) – 10.13%
- Keith Jackson, Patricia Jackson and Phillip Picot (as trustees of the Nikau Trust) – 8.92%.

Andrew Kerslake, the Non-associated Director, owns 33.33% of ADG.

The 5 shareholders collectively hold 75.37% of the Company's ordinary shares and the 10 largest shareholders collectively hold 84.35% of the Company's ordinary shares.

### *JJY, YMCI and the CIHL Associates' Shareholding Levels*

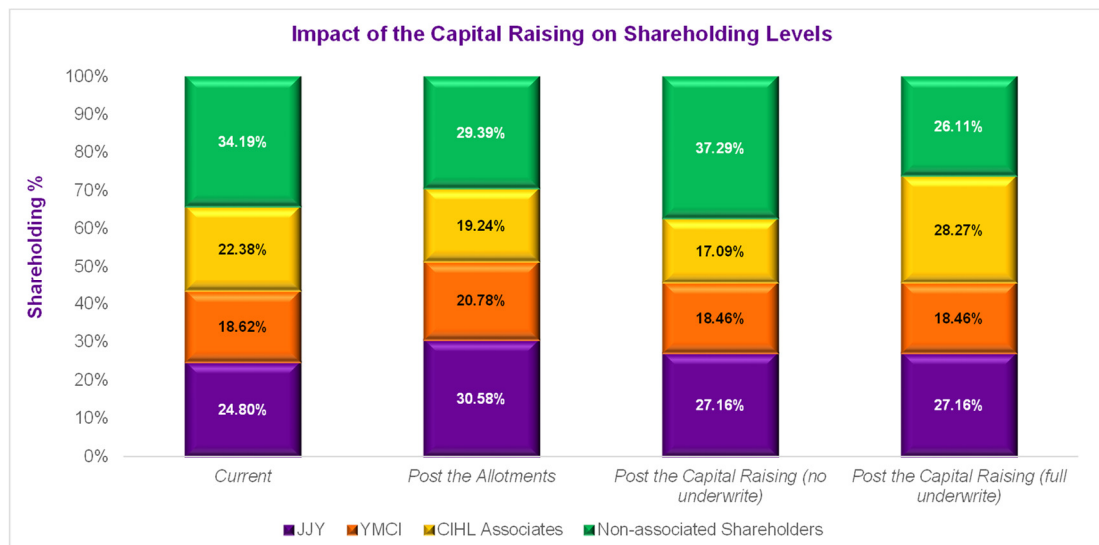
JJY's shareholding following the Capital Raising will be between 27.16% and 30.58%, YMCI's shareholding will be between 18.46% and 20.78% and the CIHL Associates' shareholding will be between 17.09% and 28.27% (depending on the level of subscriptions by the Non-associated Shareholders under the SPP).

### *Shareholding Voting*

JJY, YMCI and the CIHL Associates each currently have significant influence over the outcome of shareholding voting through their 24.80%, 18.62% and 22.38% respective shareholdings.

In particular, at present JJY and the CIHL Associates are each likely to be able to singlehandedly block special resolutions (which require the approval of 75% of the votes cast by shareholders). While technically their respective shareholdings cannot block special resolutions, in practical terms they probably can because some shareholders in listed companies tend not to vote on resolutions and hence the relative weight of their shareholding increase.

None of JJY, YMCI or the CIHL Associates currently have the ability to singlehandedly pass special resolutions or pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders). However, if any 2 of JJY, YMCI or the CIHL Associates were to vote in the same manner, then together they could most likely currently control the outcome of ordinary resolutions and are sure to do so if all 3 voted in the same manner.



Following the Capital Raising:

- JJY will control between 27.16% and 30.58% of the Company’s voting rights, representing a maximum increase of 5.78% over its current level of 24.80%
- YMCI will control between 18.46% and 20.78% of the Company’s voting rights, representing a maximum increase of 2.16% over its current level of 18.62%
- the CIHL Associates will control between 17.09% and 28.27% of the Company’s voting rights (depending on how many shares are subscribed for by the Non-associated Shareholders under the SPP), representing a maximum potential increase of 5.89% over their current level of 22.38%.

Their ability to influence the outcome of shareholder voting will increase under the Capital Raising, but not to any significant degree. Accordingly, we are of the view that the Capital Raising will not significantly increase JJY, YMCI and the CIHL Associates’ ability to exert shareholder control over Cooks.

In this vein, we do not view the Capital Raising as a means by which JJY, YMCI and the CIHL Associates can obtain an increased control percentage without having to pay a premium for the level of control to be achieved.

We also note that 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 NZAX Listing Rules and the Companies Act 1993.

### ***Board Control***

As set out in section 4.3, the Company currently has 5 directors. Mr Jackson and Mr Hutcheson are deemed to be associates of CIHL, Mr Wang is associated with JJY and Mr Zhe is associated with YMCI.

We are advised by the Board that the Capital Raising will have no impact on the composition of the Board and will not change the level of influence that JJY, YMCI or the CIHL Associates have over the Board.

### ***Operations***

We are advised by the Board that the Capital Raising will not change the level of influence that JJY, YMCI or the CIHL Associates have over the operations of the Company.

## **2.11 Dilutionary Impact**

The Capital Raising will result in the Non-associated Shareholders' shareholdings in the Company being diluted by 23.7% if they do not subscribe for any shares under the SPP.

While the 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 shareholding rather than on their level of voting rights. In our view, the Capital Raising is unlikely to dilute the value of their shareholding as the shares are being issued at a premium to the current trading price of the shares (\$0.0775 compared with \$0.069).

Furthermore, Non-associated Shareholders will be able to reduce the dilutionary impact of the Capital Raising on their proportionate shareholding in the Company by subscribing for shares under the SPP.

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

### ***Share Price***

The Capital Raising will be undertaken at \$0.0775 per share. This price represents a premium of 12.3% over the most recent share price of \$0.069 as at 12 June 2017 and is at a premium to Cooks' one month and 3 months VWAP.

In our view, the Capital Raising is unlikely to have any significant impact on the Company's share price.

### ***Liquidity***

The Company's shares are listed on the NZAX. The analysis in section 4.10 shows that Cooks' shares are very thinly traded, with only 0.1% of the shares being traded in the past year on 16 days.

The Allotments 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, the SPP will result in up to 61,032,258 new shares being issued to existing shareholders and this may result in increased trading in the Company's shares, thereby improving liquidity.

### 2.13 Key Benefits to JJY and YMCI

The Allotments provide JJY and YMCI with the opportunity to increase the size of their respective shareholdings in Cooks from 24.80% to up to 30.58% and from 18.62% to up to 20.78% without having to make a partial or a full takeover offer.

### 2.14 Disadvantages to JJY and YMCI

#### ***Significant Financial Commitment***

The Allotments represent significant financial commitments on the part of JJY and YMCI as they will need to subscribe for \$3.5 million and \$1.8 million of equity in the Company respectively. Approximately \$2.4 million of JJY's subscription will be through the conversion of debt to equity (including the JJY Prepayment) and approximately \$1.1 million of YMCI's subscription will be through the conversion of debt to equity.

#### ***Significant Exposure to the Risks of Cooks***

The key risks faced by the Company are set out in section 4.6. As JJY and YMCI's ownership in Cooks increases to up to 30.58% and 20.78% respectively, so does their exposure to these risks.

### 2.15 Key Benefits to the CIHL Associates

The Underwriting Arrangements provide the CIHL Associates with the opportunity to increase the size of their shareholding in Cooks from 22.38% to up to 28.27% without having to make a partial or a full takeover offer.

### 2.16 Disadvantages to the CIHL Associates

#### ***Significant Financial Commitment***

The Underwriting Arrangements represent a significant financial commitment on the part of CIHL as it may need to subscribe for up to \$4.73 million of equity under the SPP.

#### ***Significant Exposure to the Risks of Cooks***

The key risks faced by the Company are set out in section 4.6. As the CIHL Associates' ownership in Cooks increases to up to 28.27%, so does their exposure to these risks.

### 2.17 Other Issues

#### ***Benefits to Cooks of JJY, YMCI and CIHL as Cornerstone Shareholders***

The major benefits to Cooks of the Capital Raising are:

- the Company will obtain \$10 million of equity (before costs). This will enable the Company to reduce debt and fund its growth initiatives
- the Capital Raising will position JJY, YMCI and CIHL as important cornerstone strategic investors in the Company, further signalling their confidence in the future prospects of Cooks.



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

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Allotments and the Underwriting Arrangements.

The Capital Raising will not proceed unless the Non-associated Shareholders approve the Capital Raising Resolution.

### ***Unlikely to Reduce the Likelihood of a Takeover Offer from JJY, YMCI or the CIHL Associates***

Following the Capital Raising, JJY, YMCI and the CIHL Associates will not be able to increase their respective shareholding levels in Cooks unless they comply with the provisions of the Code. JJY, YMCI and the CIHL Associates will only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding JJY, YMCI or the CIHL Associates respectively
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding JJY, YMCI or the CIHL Associates respectively
- the Company undertakes a share buyback that is approved by the Company's shareholders and JJY, YMCI or the CIHL Associates do not accept the offer of the buyback (as contemplated under the Buyback).

JJY, YMCI or CIHL will not be able to utilise the *creep* provisions of Rule 7(e) of the Code. The *creep* provisions enable entities that hold 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 per annum without the need for shareholder approval.

We are not aware of any intention on JJY, YMCI or the CIHL Associates' part to make a takeover offer. However, if they did have such intent, an increase in JJY's control of voting rights from 24.80% to up to 30.58%, YMCI's control of voting rights from 18.62% to up to 20.78% or the CIHL Associates' control of voting rights from 22.38% to up to 28.27% is unlikely to change the likelihood of a takeover offer from either of them as the increase in their respective levels of voting rights is not significant.

### ***Likelihood of Other Takeover Offers Does not Change***

Any bidder looking to fully take over the Company would need to ensure that JJY, YMCI and the CIHL Associates would accept its offer. In addition, any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would want JJY, YMCI and the CIHL Associates to accept its offer to enhance the chances of success of the offer. We are of the view that the increase in JJY, YMCI and the CIHL Associates' voting rights under the Capital Raising is unlikely to reduce the attraction of Cooks as a takeover target to other parties.



## **2.18 Implications of the Capital Raising Resolution not Being Approved**

If the Capital Raising Resolution is not approved, then the Capital Raising cannot proceed and the Buyback Resolution will not be voted on.

Without the \$10 million of equity (before costs) from the Capital Raising, Cooks will not be able to repay its debts or fund its growth initiatives in the short to medium term. The Company is currently generating negative cash flows from its operations and had negative NTA of \$1.7 million as at 30 September 2016. It currently owes a total of \$3.5 million to JJY and YMCI, which it will be liable to repay immediately or have to renegotiate new repayment terms.

As stated in section 2.4, the prospects of the Company continuing as a going concern without the proceeds from the Capital Raising will be limited unless alternative sources of capital can be accessed within a very short timeframe. However, the Company has limited realistic alternative sources of funding at this point in time.

## **2.19 Voting For or Against the Capital Raising Resolution**

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

### 3. Evaluation of the Merits of the Buyback

#### 3.1 Basis of Evaluation

Clause 3(g) of Schedule 1 of the Buyback Exemptions requires an evaluation of the merits of the Buyback and of JJY, YMCI and the CIHL Associates retaining any increase in their respective voting rights in the Company, having regard to the interests of the Non-associated Shareholders.

We are of the view that an assessment of the merits of the Buyback and of JJY, YMCI and the CIHL Associates retaining any increase in their respective voting rights in the Company should focus on:

- the rationale for the Buyback
- the terms and conditions of the Buyback
- the financial impact of the Buyback
- the impact of the Buyback on the control of the Company
- the impact of the Buyback on Cooks' share price
- the benefits and disadvantages to the Non-associated Shareholders of the Buyback
- the implications if the Buyback 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 Summary of the Evaluation of the Merits of the Buyback

**In our opinion, after having regard to all relevant factors, the positive aspects of the Buyback outweigh the negative aspects of JJY, YMCI and the CIHL Associates retaining any increase in their voting rights as a result of the Buyback from the perspective of the Non-associated Shareholders.**

Our evaluation of the merits is set out in detail in sections 3.3 to 3.9. In summary, the key factors leading to our opinion are:

- the rationale for the Buyback is sound. It is being undertaken to improve shareholder value for the Company's shareholders
- the terms of the Buyback are reasonable. The Buyback will be undertaken on-market and shares will be purchased at the prevailing market price at the date of purchase
- the financial impact of the Buyback is relatively minor. Based on the current share price of \$0.069 (as at 12 June 2017):
  - total equity will reduce by \$1.38 million if the maximum 20,000,000 shares are bought back, with a corresponding decrease in cash and cash equivalents
  - the change in earnings per share (**EPS**) will be negligible

- the Buyback will not increase JJY, YMCI or the CIHL Associates' ability to influence the outcome of shareholder voting to any significant degree. Their maximum voting rights levels following the Capital Raising will increase by approximately 1% under the Buyback:
  - JJY's voting rights will potentially increase from 30.58% to 31.90%
  - YMCI's voting rights will potentially increase from 20.78% to 21.68%
  - CIHL's voting rights will potentially increase from 28.27% to 29.35%
- the Buyback should provide support for Cooks' share price
- the Buyback may improve the liquidity of the shares held by Non-associated Shareholders
- the Buyback is unlikely to reduce the attraction of Cooks as a takeover target
- if the Buyback Resolution is not approved, the Buyback will not proceed. The Board could subsequently decide to implement the Buyback without seeking shareholder approval but JJY, YMCI and the CIHL Associates would be required to sell down their shareholdings to their pre-Buyback levels within 6 months of the increase. This may place downward pressure on the Company's share price and / or may reduce the Company's inclination to undertake buybacks.

### 3.3 Rationale for the Buyback

#### *Board's Rationale*

The Board's key reasons for continuing the Buyback are:

- the Board considers the Buyback to be a positive way of improving shareholder value for remaining shareholders in circumstances where the Company's shares can be purchased at levels substantially below their assessed long term value
- the Company's willingness to buy back shares when it considers that they are undervalued by the market would be viewed positively by shareholders and share market analysts.

#### *Finance Theory*

The benefits of share buybacks have long been the focus of academic research and practitioners' debate. It is generally accepted that share buybacks can affect value as follows:

- by supporting the share price
- by being an efficient use of capital
- by creating a more efficient capital structure.

In reality however the impacts can be difficult to quantify.

### *Supporting the Share Price*

There is some evidence to suggest that a share buyback has a signalling effect to the market. A share buyback could indicate to the market that a company's management is so confident of the company's prospects that it believes the best investment the company can make is in its own shares. On the other hand, the announcement of a share buyback has in instances been deemed an admission that the company cannot identify any other value creating opportunities in which to invest its capital.

A share buyback can also act to support a company's share price by creating buy-side demand.

### *Efficient use of Capital*

Companies often undertake share buybacks when they are of the view that the market is undervaluing their shares, therefore buying back those shares at the market price is an efficient use of the companies' capital.

### *Capital Structure*

The share buyback is effectively an exchange of equity for debt, thereby increasing a company's leverage. In finance theory, increasing leverage can provide several benefits, such as:

- interest payments on debt are tax deductible, which means that the after-tax cost of debt is generally below shareholders' expected return on equity, hence reducing the company's average cost of capital
- debt supposedly serves as a discipline for a company's managers. Unlike equity, the need to pay cash to bondholders and banks prevents managers from investing in projects that earn returns below the company's cost of capital.

### *Conclusion*

Having considered all of the above, we are of the view that the rationale for the Buyback is sound. It is being undertaken primarily for shareholder value improvement purposes on the basis that the Board considers Cooks' shares to be undervalued from time to time.

## **3.4 Terms of the Buyback**

The key terms of the Buyback are:

- the Company proposes to acquire up to 20,000,000 ordinary shares through on-market trades
- the Company will pay the prevailing market price for the shares at the time of the purchase
- the shares acquired under the Buyback will be cancelled
- the Company is not obliged to make offers and reserves the right to cease making offers at any time.

The Company is not committing to buy back any shares. The Buyback simply provides the Board with the ability to buy back shares should the price drop to levels below which the Board believes a buyback would add value to all shareholders and is in the interests of the Company.

The Company will be required to disclose daily the number of shares purchased and the price paid.

### 3.5 Financial Impact of the Buyback

The illustrative financial impact of the Buyback on the Company's financial results is set out below, based on the following assumptions:

- Cooks repurchases the maximum 20,000,000 ordinary shares at a price of \$0.069 per share, being the one month VWAP to 12 June 2017, at a total cost of approximately \$1.4 million
- the Buyback is funded from the Company's cash reserves
- an interest rate of 1.0% on the cash used, resulting in a decrease in annual interest received of approximately \$10,000 (post-tax).

The Buyback will have a relatively minor positive financial impact on Cooks:

- the change in EPS would be negligible
- NTA per share would decrease marginally from \$0.015 per share (as per section 2.9) to \$0.013 per share.

### 3.6 Impact on Control

#### *Shareholder Voting*

Any shareholder that does not participate in the Buyback will see an increase in their respective percentage of votes held or controlled, even though they will not increase the actual number of shares they hold.

Depending on whether the Buyback is undertaken before or after any shares are issued under the SPP and the Underwriting Arrangements, the number of shares subscribed for by the CIHL Associates under the Underwriting Arrangements and the number of shares bought back under the Buyback:

- JJY will hold between 27.16% and 31.90% of the Company's ordinary shares
- YMCI will hold between 18.46% and 21.68% of the Company's ordinary shares
- the CIHL Associates will hold between 17.09% and 29.35% of the Company's ordinary shares
- the Non-associated Shareholders will collectively hold between 23.30% and 37.29% of the Company's ordinary shares.

As discussed in section 2.10, JJY, YMCI and the CIHL Associates currently have significant influence over the outcome of shareholder voting. At present, JJY and the CIHL Associates can each most likely singlehandedly block special resolutions and together they can most likely determine the outcome of ordinary resolutions.

This will be strengthened under the Capital Raising, but not to a significant degree.

The Buyback will result in JJY increasing its control of the Company's voting rights by 1.32% above its maximum level under the Capital Raising, YMCI by 0.89% and the CIHL Associates by 1.08%. Therefore the Buyback will increase JJY, YMCI and the CIHL Associates' ability to influence the outcome of shareholder voting, but not by a significant level.

Given the above, we are of the view that the Buyback will not significantly increase JJY, YMCI and the CIHL Associates' ability to exert shareholder control over Cooks.

In this vein, we do not view the Buyback as a means by which JJY, YMCI and the CIHL Associates can obtain an increased control percentage without having to pay a premium for the level of control to be achieved.

### ***Board Control***

We are advised by the Board that the Buyback will not have any impact on the composition of the Board and will not change the level of influence that JJY, YMCI or the CIHL Associates have over the Board.

### ***Operations***

We are advised by the Board that the Buyback will not change the level of influence that JJY, YMCI or the CIHL Associates have over the operations of the Company.

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

### ***Share Price***

On the basis that the Board will undertake purchases when it considers the Company's shares to be undervalued, we are of the view that the Buyback should provide support for the Company's share price.

### ***Liquidity***

Trading in the Company's shares is relatively thin, reflecting that 65.81% of the shares are held by the CIHL Associates, JJY and YMCI and the top 10 shareholders collectively hold 84.35% of the shares. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of total shares outstanding) is set out in section 4.10.

To the extent that the Company buys shares on-market, the Buyback will have a positive impact on the liquidity of the shares held by the Non-associated Shareholders.

However, the Buyback will reduce the free float (ie those shares that are available to be freely traded) by up to 20,000,000 shares and therefore, in the longer term, the liquidity of Cooks' shares may reduce to a degree.

## **3.8 Benefits and Disadvantages to Non-associated Shareholders**

### ***Key Benefits***

The key benefits of the Buyback to the Non-associated Shareholders are:

- the Board considers it is a positive way of improving shareholder value
- it will provide buy-side demand for the Company's shares, thereby improving liquidity.

### ***Main Disadvantage***

The main disadvantage is that the Buyback may marginally increase JJY, YMCI and the CIHL Associates' respective ability to control the outcome of shareholder voting. However, we do not consider the increased levels of control to be of any significance.

### ***Unlikely to Change the Likelihood of a Takeover Offer from JJY, YMCI and the CIHL Associates***

We are not aware of any intention on JJY, YMCI or the CIHL Associates' part to make a takeover offer. However, if they did have such intent, an increase in JJY, YMCI and the CIHL Associates' voting rights by approximately 1% is unlikely to change the likelihood of a takeover offer from any of them as the increase in their respective levels of voting rights is not significant.

### ***Likelihood of Other Takeover Offers Does not Change***

Any bidder looking to fully take over the Company would need to ensure that JJY, YMCI and the CIHL Associates would accept its offer. In addition, any bidder looking to make a partial takeover offer for (say) 50.1% of the Company would want JJY, YMCI and the CIHL Associates to accept its offer to enhance the chances of success of the offer. We are of the view that the increase in JJY, YMCI and the CIHL Associates' voting rights by approximately 1% is unlikely to reduce the attraction of Cooks as a takeover target to other parties.

## **3.9 Implications of the Buyback Resolution not Being Approved**

If the Buyback Resolution is not approved, then the Buyback will not proceed.

The Board could decide at a later date to implement the Buyback without seeking shareholder approval, in which case JJY, YMCI and the CIHL Associates would be required to sell down their shareholdings to their pre-Buyback levels within 6 months in accordance with clause 5 of the Buyback Exemptions. This would potentially be disadvantageous to the Non-associated Shareholders as the forced sale of shares by JJY, YMCI and the CIHL Associates may place downward pressure on the Company's share price.

## **3.10 Voting For or Against the Buyback Resolution**

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



## 4. Profile of Cooks

### 4.1 Background

The Company was incorporated on 4 February 2008 as Tasman Food Corporation Limited and was wholly owned by Tasman. It changed its name to Tasman Food Group Limited on 26 May 2008, to Tasman Food Corporation Limited on 27 May 2008, to Cooks Food Group Limited on 18 August 2008 and to Cooks Global Foods Limited on 9 October 2013.

The Company was formed after a memorandum of understanding was signed in January 2008 between Tasman, Murdoch Foods, Sahara Foods and Cotterill & Rouse, with the aim of consolidating the Murdoch Foods, Sahara Foods and Cotterill & Rouse businesses into a single food manufacturing company.

The Company listed its 22,000,000 shares on the NZAX on 20 October 2008.

The Company sold its Olive Grove and Sahara brands to LHF Limited on 30 April 2009. It sold its ambient brands (Cotterill & Rouse, Murdoch and Sungold) along with a novation agreement relating to the Diamond Pasta and Meal Solutions business and DYC Vinegar to Wilson Consumer Foods Limited on 22 May 2009.

In October 2013, the Company acquired FDL, Esquires Coffee (UK) Limited (**Esquires UK**), Esquires Coffee Ireland Limited (**Esquires Ireland**) and the business and assets of Progressive Processors Limited (**Progressive**) (collectively the **Esquires Transactions**). The Esquires Transactions represented a backdoor listing of FDL, Esquires UK, Esquires Ireland and Progressive into the Company. Consideration for the acquisitions was in the form of cash and shares and at the same time all term debt within the Company was converted to equity.

Following the Esquires Transactions, Cooks:

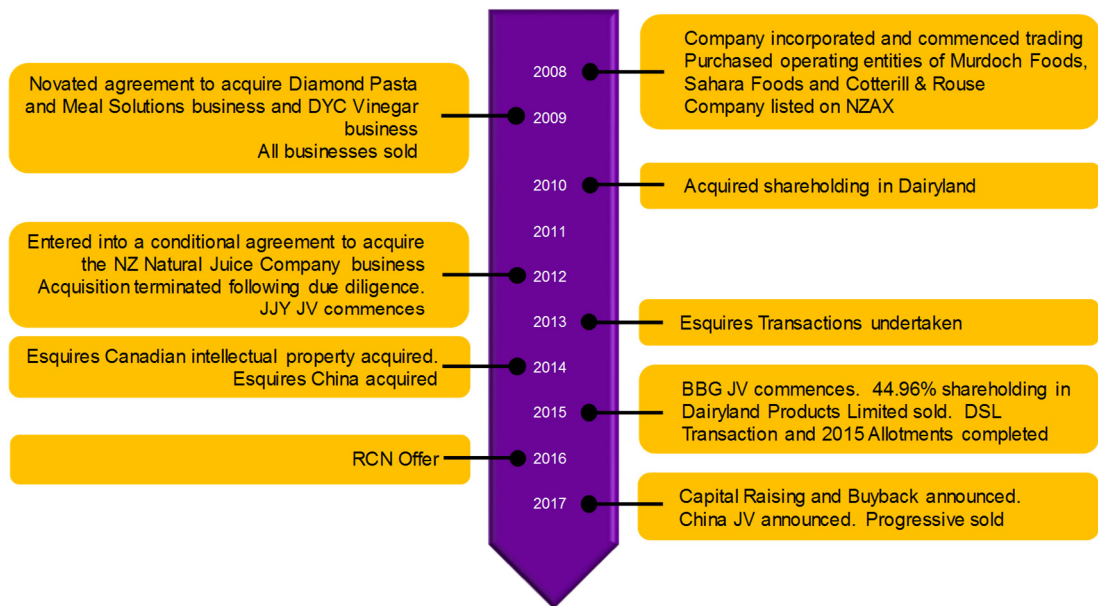
- acquired the Esquires Canadian intellectual property
- acquired Esquires China, the owner of the Esquires China master franchise
- formed the JJY JV
- formed a 51:49 joint venture with BuBuGao (Better Life) Group (**BBG**) to develop 30 *Esquires Coffee* stores by 2020 in the Hunan province, China (the **BBG JV**).

In November 2015, the Company's shareholders approved JJY and CIHL acquiring 136,348,909 ordinary shares from DSL Management Limited (**DSL**) (the **DSL Transaction**) and the allotment of 70,312,500 ordinary shares to JJY and CIHL to raise \$9.0 million (the **2015 Allotments**).

Cooks announced on 13 April 2017 details regarding the China JV and that it had sold Progressive to the company's management.



The Company's key events are set out below.



## 4.2 Nature of Operations

### *Esquires Coffee*

Cooks owns the intellectual property and master franchising rights to *Esquires Coffee* worldwide excluding New Zealand and Australia.

*Esquires* was founded in 1993 in Canada and has expanded steadily around the world since that time. From Vancouver to the UK and Ireland, throughout the Middle East and China, the *Esquires Coffee* brand offers customers a unique Fairtrade and organic beverage range in comfortable and modern surroundings.

The Company acquired the intellectual property and master franchising rights in 2013. Cooks has subsequently acquired the master franchise rights for China, the UK and Ireland and as well as franchises in Egypt, United Arab Emirates, Bahrain, Kuwait, Saudi Arabia, Northern Cyprus and Jordan in the Middle East, Indonesia and the rights to many other countries.

There are currently 98 *Esquires Coffee* stores located in the following countries:

- UK – 28
- Ireland – 11
- China – 28
- Canada – 4
- United Arab Emirates – 4
- Saudi Arabia – 7
- Bahrain – 6
- Kuwait – 7
- Indonesia – 3.

The Company’s goal is to operate at least 800 stores globally by the end of 2021. The brand is expanding rapidly with a recent master franchise signed in Pakistan for 40 stores over 10 years and a number of discussions are underway for the establishment of *Esquires Coffee* in new markets.

### Supply Companies

Cooks acquired Progressive in 2013 and sold it in 2017. Progressive is based near Whakatane and grows, supplies, processes and adds value to a number of fresh fruits and vegetables including asparagus and kiwifruit. It supplies product domestically and also to export markets, particularly Japan.

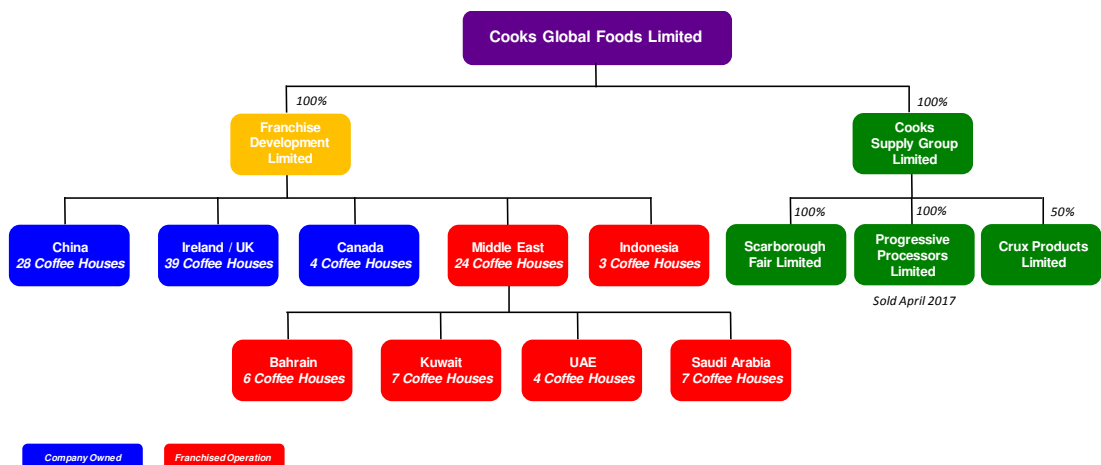
Scarborough was acquired in 2013. It is a wholesaler of organic and Fairtrade teas, coffees and chocolates. The aim is to sell these products through the *Esquires Coffee* stores internationally. Scarborough currently sells its products in New Zealand and Australian supermarkets and office supply networks.

Progressive (until its sale) and Scarborough are 100% owned by Cooks Supply Group Limited, which is a wholly owned subsidiary of the Company.

Cooks holds a 50% shareholding in Crux Products Limited (**Crux**). Crux is a New Zealand based trading entity which specialises in building strategic relationships between New Zealand suppliers and Chinese retail networks as well as bringing Chinese products to New Zealand retail partners.

### Group Structure

Cooks’ group structure is set out below. This excludes companies set up for name protection purposes or to hold intellectual property.



### 4.3 Directors and Senior Management

The directors of Cooks are:

- Keith Jackson, executive chair, associated with CIHL
- Andrew Kerslake, associated with ADG
- Hui Zhe, associated with YMCI
- Mike Hutcheson, associated with CIHL
- Peihuan Wang, associated with JJY.

Cooks' senior management team consists of:

- Doug Williamson – managing director, Great Britain
- Tony McVerry – managing director, Ireland
- Ellen Zhang – managing director, China
- Michelle Brick – managing director, Canada
- Craig Brown – chief financial officer
- John MacDonald – design and brand manager
- Chris Joseph – international franchise support
- Shane Moates – general manager markets and channels
- Ali Shackell – human resources manager
- Nic McClean – supply and logistics manager
- Haiping Niu – communications and digital manager
- Tony Wang – business development manager (Crux).

#### 4.4 Capital Structure and Shareholders

Cooks currently has 416,595,863 fully paid ordinary shares on issue held by 583 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 2 June 2017 are set out below.

Cooks' 10 Largest Shareholders		
Shareholder	No. of Shares Held	%
JJY	103,330,704	24.80%
YMCI	77,577,227	18.62%
CIHL	53,700,683	12.89%
ADG	42,199,758	10.13%
Keith Jackson, Patricia Jackson and Phillip Picot	37,173,719	8.92%
Yu Lei	13,915,182	3.34%
Shu Zhang and Jian Zhou	7,027,100	1.69%
Graham Drury, Gloria Drury and SRHB 2006 Trustee Co Limited	6,451,135	1.55%
Peter Kirton	5,005,723	1.20%
DSL	5,000,000	1.20%
Subtotal	351,381,231	84.35%
Others (573 shareholders)	65,214,632	15.65%
Total	416,595,863	100.00%

*Source: NZX Company Research*

DSL is controlled by former Cooks' executive directors Stuart Deeks and Lewis Deeks.

## 4.5 Strategic Plan

The Company's vision is "to be the world's leading organic and Fairtrade coffee retailer".

Cooks has 3 elements to its core growth strategy:

- growing the *Esquires Coffee* brand in its existing markets
- growing the *Esquires Coffee* brand in strategically important new markets
- growing its supply chain business (Scarborough).

## 4.6 Key Issues Affecting the Company

The main industry and specific business factors and risks that the Company faces include:

- the retail food and beverage industry is highly competitive. The actions of new and existing competitors may adversely affect the Company's financial performance
- adverse food and beverage health and safety issues may impact on the Company's financial performance and / or give rise to product liability concerns
- the Company may not be able to enforce trade mark protection to protect its rights to the *Esquires Coffee* brand
- the Company may not be able to retain its key personnel
- the Company's operating systems, personnel or distribution networks may not be able to keep pace with the Company's growth initiatives
- the Company may not be able to identify, attract and retain suitably qualified and motivated franchisees and master franchisees
- the Company may not be able to identify suitable sites or negotiate suitable lease terms for new stores or renegotiate acceptable lease terms for existing stores when leases are due to expire
- any deterioration in the relationship or terms of trade with key suppliers may have an adverse material impact on the Company's operations and its financial performance
- the inability to adequately finance the Company's operations may stall the development and growth of its business
- foreign currency fluctuations may adversely affect earnings
- country risks arising from possible changes in the political, regulatory and economic environments in the various countries that the Company operates in
- supply chain risks arising from reliance on third party suppliers
- customer concentration risks given that over half of the *Esquires Coffee* stores are currently located in China, the UK and Ireland.

## 4.7 Financial Performance

A summary of Cooks' recent financial performance is set out below.

Summary of Cooks Financial Performance				
	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	6 Mths to 30 Sep 16 (Unaudited) \$000
Revenue	4,439	8,931	12,436	5,255
Gross profit	2,660	6,075	7,993	3,419
Loss before interest and taxation	(4,999)	(4,202)	(7,403)	(3,601)
Loss for the year	(5,085)	(4,419)	(7,942)	(3,805)

*Source: Cooks audited financial statements and interim report for the 6 months ended 30 September 2016*

Cooks' main sources of revenue are:

- retail sales for owned stores
- franchise fees
- royalty payments
- beverage supply sales
- design and technical services fees.

Cooks' main operating expenses are:

- cost of inventories sold
- employee costs
- administration costs.

The Company's financial performance in the 2014 financial year reflected the operations of the *Esquires Coffee* business for 6 months. The Company had 62 stores as at 31 March 2014. 57% of the Company's revenue was earned in the UK, with 19% earned in Ireland. Expenses included a charge of \$1.1 million in respect of the impairment of Esquires UK's intangible assets and \$1.0 million of capital raising and acquisition costs in connection with the Esquires Transactions.

Revenue increased by 101% in the 2015 financial year, reflecting a full year's results from the *Esquires Coffee* business and a 15% increase in store numbers. The Company had 71 stores as at 31 March 2015. 48% of the Company's revenue was earned in the UK, with 19% earned in the Middle East and 18% in Ireland. Expenses included a charge of \$0.4 million in respect of the impairment of Scarborough's intangible assets.

Revenue increased by 39% in the 2016 financial year, driven mainly by a 22% increase in store numbers. The Company had 87 stores as at 31 March 2016. 39% of the Company's revenue was earned in the UK, with 22% earned in Ireland, 21% in the Middle East and 16% in China. Expenses included restructuring costs of \$1.1 million associated with the DSL Transaction and a further \$0.5 million impairment charge in respect of Scarborough's intangible assets.

Revenue for the first half of the 2017 financial year increased by 16%, largely as a result of a 15% increase in store numbers. The Company had 90 stores as at 30 September 2016. 36% of the Company's revenue was earned in the UK, with 27% earned in Ireland, 20% in the Middle East and 15% in China.

Cooks announced on 13 April 2017 that it expected to record a one off non-cash net write off of \$3.5 million in respect of the proposed Esquires China sell down and a \$0.5 million write down of the carrying value of Progressive in the second half of the 2017 financial year.

#### 4.8 Financial Position

A summary of Cooks' recent financial position is set out below.

Summary of Cooks Financial Position				
	As at 31 Mar 14 (Audited) \$000	As at 31 Mar 15 (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 30 Sep 16 (Unaudited) \$000
Current assets	3,655	9,174	9,801	11,512
Non current assets	5,256	11,399	11,151	10,787
Total assets	<u>8,911</u>	<u>20,573</u>	<u>20,952</u>	<u>22,299</u>
Current liabilities	(6,515)	(11,368)	(10,043)	(9,335)
Non current liabilities	(1,420)	(810)	(1,262)	(5,188)
Total liabilities	<u>(7,935)</u>	<u>(12,178)</u>	<u>(11,305)</u>	<u>(14,523)</u>
Total equity	<u>976</u>	<u>8,395</u>	<u>9,647</u>	<u>7,776</u>

*Source: Cooks audited financial statements and interim report for the 6 months ended 30 September 2016*

Cooks' main current assets are trade receivables, prepayments, cash and cash equivalents (predominantly held in China) and inventories.

Cooks' main non current assets are intangible assets, mainly in the form of goodwill arising from the acquisition of Esquires China, trademarks and re-acquired rights.

Current liabilities consist mainly of trade and other payables and borrowings and non current liabilities consist of borrowings.

Cooks had cash on hand of \$1.0 million as at 30 September 2016 and \$9.1 million of borrowings at that date. Borrowings consisted mainly of:

- bank overdraft - \$1.6 million
- an advance from JJY - \$1.0 million
- an advance from the Nikau Trust - \$0.8 million
- advances from YMCI - \$1.2 million
- third party loans - \$1.6 million.

As discussed in section 4.7, Cooks expects to write off \$3.5 million in respect of Esquires China and \$0.5 million in respect of Progressive as at 31 March 2017.

## 4.9 Cash Flows

A summary of Cooks' recent cash flows is set out below.

Summary of Cooks Cash Flows				
	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	6 Mths to 30 Sep 16 (Unaudited) \$000
Net cash outflow from operating activities	(920)	(1,999)	(6,131)	(2,614)
Net cash used in investing activities	(2,574)	(2,470)	(591)	(80)
Net cash from financing activities	<u>3,528</u>	<u>7,677</u>	<u>2,435</u>	<u>2,855</u>
Net increase / (decrease) in cash held	34	3,208	(4,287)	161
Opening cash balance	259	293	3,512	(775)
Effect of exchange rate movements	-	11	-	-
Closing cash balance	<u>293</u>	<u>3,512</u>	<u>(775)</u>	<u>(614)</u>

*Source: Cooks audited financial statements and interim report for the 6 months ended 30 September 2016*

Cash outflows from operating activities reflect the losses made by the Company each year.

Cash outflows from investing activities mainly reflect:

- the Esquires Transactions in the 2014 financial year
- the acquisition of Esquires China in the 2015 financial year
- advances to Esquires China in the 2016 financial year.

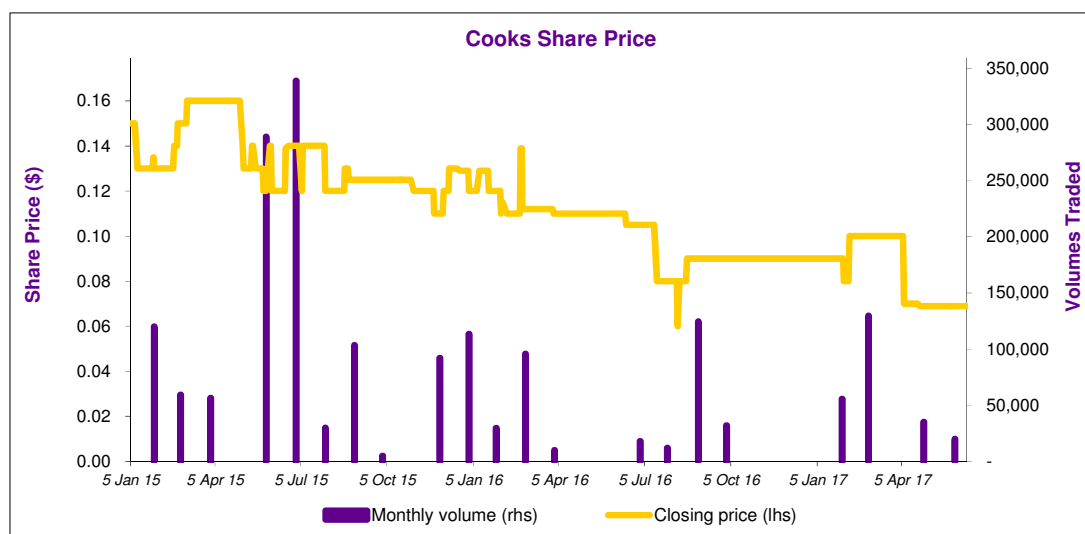
Cash inflows from financing activities mainly reflect:

- \$2.3 million from the issue of new shares and \$1.3 million of additional borrowings in the 2014 financial year
- \$8.0 million from the issue of new shares in the 2015 financial year
- \$3.4 million from the issue of new shares in the 2016 financial year less \$1.0 million in net debt repayments
- \$2.9 million raised from borrowings in the first half of the 2017 financial year.



## 4.10 Share Price History

Set out below is a summary of Cooks' daily closing share price and daily volumes of shares traded from 5 January 2015 to 12 June 2017.



Source: NZX Company Research

During the period, Cooks' shares have traded between \$0.06 and \$0.16 at a VWAP of \$0.116.

Trading in the Company's shares is extremely thin, reflecting that 65.81% of the shares are currently held by JJY, the CIHL Associates and YMCI and the top 10 shareholders collectively hold 84.35% of the shares. Only 0.1% of the Company's shares have traded in the past year on 16 days.

An analysis of recent VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) is up to 12 June 2017 set out below.

Share Trading up to 12 June 2017					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	n/a	n/a	n/a	n/a	n/a
3 months	0.069	0.070	0.069	55	0.0%
6 months	0.069	0.100	0.081	240	0.1%
12 months	0.060	0.105	0.078	427	0.1%

*n/a: Not applicable as the shares did not trade*

Source: NZX Company Research

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

### **5.1 Sources of Information**

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

- the draft notice of special meeting
- the JJY Subscription Agreement
- the YMCI Subscription Agreement
- the YMCI Debt Capitalisation Letter
- the CIHL Underwriting Agreement
- the draft SPP Offer Document
- the Cooks annual reports for the years ended 31 March, 2013 to 2016
- the Cooks interim report for the 6 months ended 30 September 2016
- data in respect of Cooks from NZX Company Research, S&P Capital IQ and publicly available sources
- data in respect of JJY and YMCI from S&P Capital IQ and publicly available sources.

During the course of preparing this report, we have had discussions with and / or received information from the Board and executive management of Cooks and Cooks' legal advisers.

The Non-associated Director has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the Capital Raising and the Buyback that is known to him and that all the information 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 desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Cooks to the Non-associated Shareholders is sufficient to enable the Non-associated Director and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Capital Raising and the Buyback.

### **5.2 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 Cooks 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 Cooks. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

### **5.3 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 Cooks 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 Cooks and its directors and management. 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, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

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 our report.

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

### **5.4 Indemnity**

Cooks 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 the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Cooks 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 or term of reference, Simmons Corporate Finance shall reimburse such costs.

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

### **6.1 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), INFINZ (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.

### **6.2 Independence**

Simmons Corporate Finance has previously prepared Independent Adviser's Reports for Cooks in September 2013 and November 2015.

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Cooks, JJY, YMCI or the CIHL Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Capital Raising and the Buyback.

Simmons Corporate Finance has not had any part in the formulation of the Capital Raising or the Buyback 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 in respect of the Capital Raising Resolution or the Buyback Resolution. We will receive no other benefit from the preparation of this report.

### **6.3 Declarations**

An advance draft of this report was provided to the Non-associated Director for his comments as to the 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.

### **6.4 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 special meeting to be sent to the Non-associated 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**  
12 June 2017