

# NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

**Allied Farmers Limited (Allied Farmers) gives you notice that a special meeting of shareholders will be held at the Hawera Community Centre Memorial Theatre, Albion Street, Hawera, commencing at 11am on 8 December 2009.**

The Explanatory Notes which accompany this Notice of Meeting set out the details of the transaction which is the subject of the resolutions and the approval required for each resolution by the shareholders of Allied Farmers pursuant to the NZSX Listing Rules (**Listing Rules**), the Companies Act 1993 (the Act) and the constitution of Allied Farmers.

## BUSINESS

### ORDINARY RESOLUTIONS

To consider and, if thought fit, pass the following ordinary resolutions, requiring a simple majority of votes by those shareholders entitled to vote and voting:

#### 1. Resolution 1: Acquisition of assets

To consider and if thought fit, to pass the following resolution pursuant to Listing Rule 9.1.1:

*"That shareholders approve, for the purposes of Listing Rule 9.1, the purchase of the finance assets of Hanover Finance Limited (**Hanover Finance**) and United Finance Limited (**United Finance**) by Allied Farmers Investments Limited in accordance with the Agreement for Assignment of Finance Assets in Exchange for Debenture Obligations dated 17 November 2009 (**Exchange Agreement**) as further detailed in the attached Explanatory Notes for a consideration of \$396.2 million to be satisfied by the issue of fully paid ordinary shares in Allied Farmers (**Purchase Consideration Shares**) the issue price of which is the volume weighted average price of Allied Farmers Shares for price setting trades on NZSX over the 5 Business Days prior to the date of the meeting of Hanover Finance debenture holders to be held to approve the proposal."*

#### 2. Resolution 2: Share issue

If resolution 1 is passed, to consider and, if thought fit, to pass the following resolution in accordance with Listing Rule 7.3.1(a) and Allied Farmers' constitution:

*"That the directors of Allied Farmers be authorised to issue the Purchase Consideration Shares to the holders of Debt Securities issued by Hanover Finance Limited and United Finance Limited, such shares to rank pari passu with all existing shares of Allied Farmers Limited, and be credited as fully paid as full satisfaction of the purchase price payable under the Exchange Agreement for the acquisition of the holders' Debt Securities and the board is authorised to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to issue the Purchase Consideration Shares."*

## **Explanatory Notes**

Explanatory Notes on the resolutions are set out below.

## **Directors' recommendation**

Directors recommend that you vote in favour of the resolutions.

## **Voting Restrictions**

By virtue of Listing Rule 9.3, any Allied Farmers shareholder who is also a holder of securities issued by Hanover Finance or United Finance is prohibited from voting on Resolution 2 and any votes cast by such persons will be disregarded by Allied Farmers (unless such votes are cast by such person acting as a proxy to a person entitled to vote on the resolution and in accordance with that person's express instructions).

## **Proxies and representatives**

Shareholders may exercise their right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in their place. A proxy need not be a shareholder of Allied Farmers. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose. A body corporate shareholder may appoint a representative to attend the meeting on its behalf. A proxy form is enclosed with this notice.

If you wish to vote by proxy you must complete the form and produce it to Allied Farmers by delivering it to Allied Farmers' Share Registrar, Link Market Services Limited, PO Box 384, Ashburton 7740 or 138 Tancred Street, Ashburton 7700 so as to be received no later than 48 hours before the meeting is due to begin (i.e before 11am on 6 December 2009).

## **Note Holders and Option Holders**

Noteholders and Optionholders may attend the meeting but are not entitled to vote at the meeting in relation to their convertible notes and/or options.

## **Approval by NZX**

This notice of meeting has been approved by NZX Limited in accordance with Listing Rule 6.1.1.

By order of the Board



**John J Loughlin**  
Chairman

# EXPLANATORY NOTES

Shareholders are being asked to pass resolutions required to approve the acquisition of assets from Hanover Finance and United Finance and the exchange of Debt Securities issued by those companies for new Allied Farmers shares.

## Background

Global economic conditions have presented a number of unique opportunities in key sectors such as agriculture, finance and manufacturing.

In New Zealand a number of finance companies have run into difficulties in the past two years, and subsequently many have been placed into moratorium. Estimates suggest up to NZ\$4 billion of debentures are presently captured under such arrangements, with those debenture holders facing long (up to five years) unwind periods while they await repayment of their investments.

This environment has presented an opportunity for securitisation or conversion of those debentures into equity in another vehicle such as a publicly listed company. This conversion can provide liquidity and future upside for those debenture holders – enabling timely and more certain realisation of value, and a wider range of exit options.

## Proposal – in summary

Allied Farmers identified Hanover Finance and United Finance as one such opportunity and recently entered into negotiations with those companies regarding the proposed acquisition of the finance assets of Hanover Finance and United Finance.

Hanover Finance and United Finance entered into a Debt Restructuring Proposal (**DRP**) in December 2008 under which investors in Debt Securities issued by those companies agreed to be paid amounts due to them over an extended period through to December 2013. Hanover Finance and United Finance announced on 9 November 2009 that the significant deterioration in the property market sector had resulted in a larger number of borrowers being unable to repay or refinance their loans as they fall due. Given these market conditions and to comply with certain accounting standards further substantial write downs have been taken by Hanover Finance and United Finance in their audited accounts to 30 June 2009. The directors have also advised that the current forecast indicates that the companies are no longer likely to achieve full repayment to debt security holders. In effect, a reduction in the value of the assets of those companies is now expected to result in there being insufficient funds to repay all amounts due to investors under the **DRP**. In addition, the Hanover Finance and United Finance investors have no effective market to realise their investment in advance of the planned repayment dates under the **DRP**.

On 17 November 2009, Allied Farmers and a newly formed subsidiary, Allied Farmers Investments Limited (**AFIL**), entered into a conditional agreement with Hanover Finance and United Finance under which the following proposal would be put to the Hanover Finance and United Finance investors:

- Existing investors in Hanover Finance and United Finance will agree a reduction in the amount owing to them under their existing Debt Securities to recognise a reduction in the underlying value of those companies' assets and thereby their ability to repay the amounts due to such holders;
- Existing investors in Hanover Finance and United Finance will exchange their Debt Securities for new shares in Allied Farmers;
- AFIL will acquire all the finance assets of Hanover Finance and United Finance (including rights to assets made available to Hanover Finance and United Finance for the purposes of its **DRP** by the shareholders of those companies) in exchange for redemption of the Debt Securities then owned by AFIL.

The gross value agreed to be paid by AFIL is NZ\$406.2 million, comprising the issue of NZ\$396.2 million of new Allied Farmers shares to Hanover Finance and United Finance investors and the payment of NZ\$10 million for the operating assets of Hanover Finance and United Finance and the costs of those companies meeting their transaction costs and residual obligations.

The 30 June 2009 book values for the assets being acquired are set out in the table below<sup>1</sup>:

<b>Assets being acquired under the Allied Farmers' Proposal (\$000s)</b>						
	<b>Gross Value</b>	<b>Provisions</b>	<b>Net Value</b>	<b>Add-back NZ IFRS<sup>1</sup> Provisions</b>	<b>Loans since realised</b>	<b>Net value being acquired</b>
HFL Loans	434,178	(162,894)	271,284	63,116	(25,485)	308,915
United Loans	53,149	(23,378)	29,771	12,394		42,165
United Investments	36,869	(24,308)	12,561	1,893		14,454
						<b>365,534</b>
Support Package Axis Companies assets including Matarangi Mortgage						34,000
Support Package cash						10,500
<b>Net assets being acquired</b>						<b>410,034</b>

The provisions in the above table are made up of two components. The first is the reduction in the gross value of loans for specific bad debts. The second (added back in the table as NZ IFRS Provisions) is required under New Zealand International Financial Reporting Standards. This discount reverses over time as interest expense in the income statement.

The five largest loans at fair value in both Hanover Finance and United Finance are set out in the table below:

<b>Hanover / United Five Largest Exposures</b>			
	<b>Description</b>	<b>Location</b>	<b>Gross Loan Value</b>
Five Mile	Mixed Use Property Development	Queenstown	\$88.0 m
Kawerau Falls	Hotel Development	Queenstown	\$72.5 m
Jacks Point	Residential Development	Queenstown	\$44.9 m
Kinloch Golf Course	Golf & Residential Development	Taupo	\$24.0 m
Silverdale	Industrial Land Development	Silverdale	\$23.1 m
<b>Total</b>			<b>\$252.5 m</b>

### **Approvals required**

The proposal is conditional upon the approval of the investors in Hanover Finance and United Finance (with meetings of those investors to be held on or about 15 December 2009) and on the approval of Allied Farmers shareholders in terms of the resolutions proposed at this meeting. The nature of these approvals is discussed in more detail below.<sup>2</sup>

<sup>1</sup> This table, the table following it and the related comments are taken from the Grant Samuel Report commissioned by Hanover Finance and United Finance for the benefit of Holders. A more full description of this report, its conclusions and details of its availability are set out in paragraph 1.19 below.

<sup>2</sup> Certain other usual conditions, including a requirement for the consent of third party lenders to Hanover Finance and United Finance, are also included in the Exchange Agreement but each is expected to be capable of satisfaction.

## 1. Resolution 1 – Acquisition of assets

### Structure and Terms of Exchange Agreement

- 1.1 Under the terms of the Exchange Agreement, AFIL will acquire loans and property assets with an agreed value of NZ\$396.2 million, comprising:
- |     |   |                    |
|-----|---|--------------------|
| (a) | Hanover Finance assets  | NZ\$301.8 million; |
| (b) | United Finance assets   | NZ\$49.9 million;  |
| (c) | Assets held under the Shareholder Support Package (as referred to in paragraph 1.3) | NZ\$44.5 million,  |
- collectively (the **Finance Assets**).
- 1.2 AFIL will also acquire the operating assets of Hanover Finance and United Finance (comprising software, furniture, computer equipment, office equipment etc) and take on responsibility for their business premises. Hanover Finance and United Finance are required to meet their costs of the Proposal (professional and trustees' fees, independent reports, meeting costs etc) and redundancy costs and employee entitlements of exiting Hanover Finance/United Finance employees which together are estimated to be NZ\$5 million, and this amount will be paid to them by AFIL by Hanover Finance and United Finance being permitted to retain some residual cash otherwise forming part of the Finance Assets.
- 1.3 The Finance Assets comprise loans provided by Hanover Finance and United Finance and certain property assets, securities and cash which were made available by the shareholders of those companies as additional support for the DRP (this further component being described in the DRP as the "Shareholder Support Package").
- 1.4 At the time of the DRP, Hanover Finance and United Finance projected that recoveries from the loans and securities held by them, together with the value of the assets contributed under the Shareholder Support Package would be sufficient to have those companies' secured depositors repaid 100% of the principal due to them (with HCL Bondholders and HFL Noteholders to receive 50 cents in every NZ\$1.00) over a five year period.
- 1.5 The Proposal offers the Allied Farmers group the opportunity to acquire substantial loans and securities at a price which is less than their original face value. This discount reflects the effect on the value of the underlying securities held by Hanover Finance and United Finance by the significant deterioration in the property market sector.
- 1.6 The price to be paid by AFIL reflects the reassessment of the recoveries available from the loans and securities since the DRP was approved in December 2008. The agreed value has been negotiated by Allied Farmers after considering the values attributed to the assets in the Hanover Finance and United Finance audited accounts for the period ended 30 June 2009. Recently, following the completion of those audits, Hanover Finance and United Finance announced further write-downs of NZ\$274 million and NZ\$28.8 million respectively for the financial year<sup>3</sup>.
- 1.7 These write-downs resulted in Hanover Finance and United Finance announcing to investors on 10 November 2009 that their estimates of returns to secured depositors of Hanover Finance were now approximately 70 cents and for United Finance secured depositors approximately 90 cents (per NZ\$1.00 invested), with no forecast repayment for subordinated noteholders and bondholders.

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<sup>3</sup> A portion of these write downs were already recognised by Hanover Finance and United Finance at the time they entered the DRP.

- 1.8 Allied Farmers has considered the expected recoveries under the loans and securities. There is a degree of uncertainty as to the actual recoveries that will be achieved from the loans and securities, and the associated timing of those recoveries, however Allied Farmers believes that its ability to manage the recoveries within a well capitalised group (which is not driven to realise the assets within the timeframes that exist under the DRP that requires significant payments to be made in 2012 and 2013) should result in additional value being derived from the assets.
- 1.9 As a consequence, in negotiations with Hanover Finance and United Finance, Allied Farmers has agreed that the proposal will result in the consideration offered to each group of investors being as follows:

<b>Holder</b>	<b>Amount to be received per \$ in new Allied Farmers shares</b>	<b>Amount already received under DRP</b>	<b>Total value received</b>
<b>HFL Secured Depositors</b>	72 cents	6 cents	78 cents
<b>UFL Secured Stockholders</b>	84 cents	6 cents	90 cents
<b>HFL Noteholders</b>	30 cents	Nil	30 cents
<b>HCL Bondholders</b>	30 cents	Nil	30 cents

- 1.10 Allied Farmers believes there are significant benefits to both its existing shareholders and the Hanover Finance and United Finance investors who will receive new Allied Farmers shares as consideration under the Proposal which justify the value attributed to the assets.
- 1.11 However, given the potential effect of further unexpected or worsened economic conditions on the recoveries achieved from the loan assets and securities, the Proposal includes an adjustment mechanism which will reset the relative number of Allied Farmers shares held by existing shareholders and Hanover Finance/United Finance investors should the recoveries from, or the value of, the acquired loans and securities be materially lower than the values ascribed in paragraph 1.9 above. This adjustment mechanism is explained more fully in Section 3 below.
- 1.12 Hanover Finance and United Finance will be left with certain residual obligations in respect of winding down the business and dealing with any outstanding litigation and AFIL has agreed to make a payment of NZ\$5 million in respect of these. This payment will, as with the payment referred to in paragraph 1.2, be made from residual cash flow forming part of the Finance Assets. Any residual amount will be paid off by 30 June 2010.
- 1.13 The gross value of the assets that AFIL will acquire under the Exchange Agreement is in excess of 50% of the Average Market Capitalisation (as that term is defined in the Listing Rules) of Allied Farmers and therefore the acquisition requires the approval of shareholders as provided by Listing Rule 9.1.

#### **What is the attraction of the Proposal for Hanover Finance and United Finance investors?**

- 1.14 The DRP which Hanover Finance and United Finance effected in December 2008 provided for Holders to receive payments over time in satisfaction of their rights under those securities. These are detailed in the following table:

**(cents repaid for every dollar of principal invested)**

Period ending	Hanover Finance Ltd secured deposits		United Finance Ltd secured stock		Hanover Finance Ltd subordinated notes		Hanover Capital Ltd bonds	
	Annual	Quarterly	Annual	Quarterly	Annual	Quarterly	Annual	Quarterly
31 Dec 2009	8c	2c	8c	2c				
31 Dec 2010	10c	2.5c	10c	2.5c				
31 Dec 2011	12c	3c	12c	3c				
31 Dec 2012	35c	8.75c	35c	8.75c				
31 Dec 2013	35c	8.75c	35c	8.75c	50c		50c	
Total	100c		100c		50c		50c	

**Figure 1 – Repayment Schedule Under Debt Restructuring Proposal**

- 1.15 The further write-downs recently announced by Hanover Finance and United Finance place in serious doubt the ability of those companies to meet all of these payments. While a recovery in asset values may occur, the uncertainty reinforces the illiquidity of the securities held by Holders.
- 1.16 The Proposal was created with the intention of providing the Allied Farmers group with a significant capital injection coupled with the acquisition of significant assets, while for Holders the benefit is the effective exchange of their Debt Securities (after adjustment for the reduction in value) for a marketable equity security in a listed entity (with the potential for Holders to derive income or realise all or part of their remaining investment as the circumstances permit).
- 1.17 Holders also have the option of retaining the Allied Farmers shares they receive over the longer term and gaining exposure to the group's potential growth.
- 1.18 The significant benefit of the Proposal to Holders is that if the value achieved from realisation of the Finance Assets is greater than the value assessed for the purposes of the Proposal, those Holders who retain their shares in Allied Farmers will enjoy the benefit of any increased value of Allied Farmers which results. As the number of shares issued to Holders is expected to result in them holding over 95% of the shares on issue post completion, they will receive the substantial portion of that benefit<sup>4</sup>. Conversely, the adjustment mechanism described below ensures a fair result for existing Allied Farmers shareholders.
- 1.19 Hanover Finance and United Finance have commissioned a report from Grant Samuel for the benefit of Holders which concludes that:
- (a) the Proposal is fair to Holders and superior to the status quo and receivership and that an alternative superior offer is unlikely; and
  - (b) the consideration being offered by Allied Farmers is considered fair.

A copy of that report is available at [www.hanover.co.nz](http://www.hanover.co.nz). However, Allied Farmers shareholders must recognise that the Grant Samuel report has not been prepared for them and does not consider the appropriateness of the Proposal from the perspective of an Allied Farmers shareholder.

**Intended allocation of acquired assets**

- 1.20 The Finance Assets are to be acquired by AFIL, a newly formed subsidiary. This is intended to simplify the process by which those assets are administered and also to allow for the selection of certain assets/loans which will be transferred to Allied Nationwide as part of an increase in the capital of that company. The full details of any such transaction are matters to be determined between the boards of Allied Farmers and Allied Nationwide but it is currently anticipated that at least \$50m of new equity will be contributed to Allied Nationwide.

<sup>4</sup> See Table 2 below which sets out a range of outcomes for the respective shareholdings depending on the issue price for the new shares.

- 1.21 Some of the assets which are to be acquired comprise direct property holdings, or shares in companies whose assets comprise properties. Requirements under its trust deed mean that such assets will not be included in the assets transferred to Allied Nationwide.
- 1.22 The transfer of assets to Allied Nationwide represents a significant opportunity to ensure that its capital structure places it in the forefront of non-bank deposit taking entities in New Zealand at a time when impending legislative requirements for that sector might otherwise impose significant costs on, or otherwise restrict, the business.

## 2. Resolution 2: Approval under Listing Rule 7.3.1 to the issue of new Allied Farmers Shares

- 2.1 As part of the Proposal, shareholders are required to approve the issue by Allied Farmers of the new Allied Farmers shares, having a total value of NZ\$396.2 million and the issue price which is the volume weighted average price of Allied Farmers shares for price setting trades on NZSX over the 5 Business Days prior to the date of the meeting of Hanover Finance debentureholders to be held to approve the proposal (to be held on or about 15 December 2009).
- 2.2 The following table sets out a range of outcomes where the issue price of the new Allied Farmers shares is set within that range<sup>5</sup>. Allied Farmers will publish an updated estimate of the issue price periodically in the period from the date of this Notice of Meeting until the date the meeting is held.

### **Number of new Allied Farmers shares issued and resulting capital structure**

<b>Issue Price per Share (cents)</b>	0.40	0.38	0.36	0.34	0.32	0.30
Existing Market Capital of Allied Farmers	15,078,682	14,324,748	13,570,814	12,816,880	12,062,946	11,309,012
Value of assets acquired	396,177,220	396,177,220	396,177,220	396,177,220	396,177,220	396,177,220
Total Combined Market Capital	411,255,902	410,501,967	409,748,033	408,994,099	408,240,165	407,486,231
<b>Number of Shares</b>						
Existing Allied Farmers shareholders	37,696,705	37,696,705	37,696,705	37,696,705	37,696,705	37,696,705
Number of Shares issued to Holders	990,443,049	1,042,571,630	1,100,492,276	1,116,227,116	1,238,053,811	1,320,590,732
Total of shares on issue after Completion	1,028,139,754	1,080,268,335	1,138,188,981	1,202,923,821	1,275,750,516	1,358,287,437
<b>% Ownership</b>						
Existing Allied Farmers Shareholders	3.7%	3.5%	3.3%	3.1%	3.0%	2.8%
New shareholders	96.3%	96.5%	96.7%	96.9%	97%	97.2%
Total	100%	100%	100%	100%	100%	100%

**Figure 2 – New Shares and Resulting Capital Structure**

- 2.3 To implement the issue of the new Allied Farmers shares, Allied Farmers will prepare a simplified disclosure prospectus in accordance with the Securities (Disclosure) Amendment Act 2009.
- 2.4 The effect of the Exchange Agreement will be to very significantly increase the number of shares Allied Farmers has on issue. For example if the issue price is 34 cents approximately 1.1 billion new Allied Farmers shares will be issued, which would represent an increase of approximately 2,900%.

<sup>5</sup> The Exchange Agreement provides in calculating the number of Allied Farmers shares to be issued to each Holder any fractional entitlement which is in excess of 0.25 Allied Farmers shares will be rounded up to the next whole number (with any fractional entitlement of 0.25 Allied Farmers shares or less being ignored). As a consequence, up to an additional 17,000 shares could be issued.



- 2.5 The Board considers that the terms of issue of the new Allied Farmers shares as full consideration for the purchase by AFIL of the Finance Assets is fair and reasonable to Allied Farmers and to all existing shareholders and that the amount to be credited as paid in respect of the new shares is not less than the value of the assets to be acquired by AFIL.
- 2.6 Allied Farmers understands that the largest holder of Hanover Finance/United Finance securities holds approximately NZ\$2.0 million of securities and therefore (taking into account the debt remission noted in paragraph 1.9) would receive approximately 4.2 million new Allied Farmers shares (if the issue price was 34 cents), which will comprise less than 0.35% of the shares on issue post completion.

### **3. Issue of Bonus Securities**

- 3.1 To give effect to the adjustment referred to at 1.11 above, if the Proposal is approved by Allied Farmers shareholders and the Holders and the other conditions in the Exchange Agreement are satisfied, then prior to completion and the issue of new Allied Farmers shares to Holders as consideration for the acquisition of their Debt Securities, Allied Farmers will issue existing Allied Farmers shareholders with Bonus Securities in a ratio of 1:10 (i.e. one Bonus Security for every 10 existing Allied Farmers shares). This issue will occur automatically. No consideration is payable. The record date for determining entitlements to receive the Bonus Securities will be 5pm on the date of the meeting of the HFL Secured Depositors (to be held on or about 15 December 2009). Formal notice of this date will be separately announced to NZX.
- 3.2 The terms of the Bonus Securities provide that each such share has the following rights:
- (a) no voting rights (subject to section 117 of the Companies Act);
  - (b) no rights to distributions;
  - (c) no rights to surplus assets on liquidation;
  - (d) if there is a "Shortfall", each Bonus Security will be restructured in the manner described in paragraph 3.4; and
  - (e) if there is no "Shortfall", each Bonus Security may be redeemed by notice from Allied Farmers to each holder for nil consideration.
- 3.3 The Exchange Agreement provides that a "Shortfall" will exist if in respect of the period up to 30 June 2011 the total amount achieved from the realisation of any Finance Assets and the total value of any such assets still held by AFIL or any on-transferee of such assets (in each case, determined on a consistent basis to the price allocated under the Exchange Agreement) is less than the NZ\$396.2 million price attributed to those assets under the Exchange Agreement. This calculation will be made as part of the audit of Allied Farmers' financial results for the period ended 30 June 2011 and is expected to be announced at the time the audited financial statements are released.
- 3.4 The calculation under the Exchange Agreement is as follows:
- (a) A calculation will be made to determine the number of additional Allied Farmers Voting Rights that are to be created as a result of the restructure of the Bonus Securities in accordance with the following formula:

*A = percentage of Allied Farmers Voting Rights that should be represented by the Allied Farmers Ordinary Shares existing on the day prior to the Completion Date being calculated as follows:*

$$(B * \text{Allied Farmers Issue Price}) \div (\text{Assessed Value} - \text{Shortfall} + (B * \text{Allied Farmers Issue Price}))$$

*where*

*B = number of Allied Farmers Ordinary Shares existing on the day prior to the Completion Date*

*"Allied Farmers Issue Price" is the price determined as described in paragraph 2.1 above.*

*"Assessed Value" means \$396 million*

*"Shortfall" means the amount determined as described in paragraph 3.3 above.*

$$C = A \times (\text{Assessed Value} \div \text{Allied Farmers Issue Price}) \div (1 - A)$$

*D = number of additional Allied Farmers Voting Rights that will result from the amendment of the rights attached to the Bonus Securities calculated as follows:*

$$C - B$$

- (b) Following the calculation, the rights attached to the Bonus Securities will be amended as follows:
- (i) The Bonus Securities will be subdivided or consolidated in the following ratio  
 $E = (C/B - 1) \div \text{Bonus Ratio}$  and each Bonus Security will be consolidated or subdivided in the ratio (existing: resulting) of 1:E; and
  - (ii) The rights attached to the Bonus Securities will be amended so that they are identical to the rights attached to fully paid ordinary shares issued by Allied Farmers.

3.5 In simple terms, the result of the calculation is to achieve the allocation of shares between existing Allied Farmers shareholders and the holders of Debt Securities that would have occurred if the Shortfall had been known at the Completion Date.

3.6 An example of the calculation that would occur if the Shortfall was NZ\$20 million is as follows:

**Assumptions for this worked example are as follows:**

- 35 cents per share Allied Farmers Issue Price
- 37,696,705 existing Allied Farmers shares
- \$396 million Assessed Value
- \$20 million Shortfall
- Bonus Ratio 1:10 expressed as 0.1

*A = percentage of Allied Farmers Voting Rights that should be represented by the Allied Farmers Ordinary Shares existing on the day prior to the Completion Date being calculated as follows:*

$$(B * \text{Allied Farmers Valuation}) \div (\text{Assessed Value} - \text{Shortfall} + (B * \text{Allied Farmers Valuation})) = 0.033900451$$

Where

$B =$  number of Allied Farmers Ordinary Shares existing on the day prior to the Completion Date  
37,696,705

Allied Farmers Valuation is as defined (being the price per share set by the agreed valuation process)  
\$0.35

$C = A \times (\text{Assessed Value} \div \text{Allied Farmers Valuation}) \div (1 - A)$

$C = 0.033900451 \times (396,000,000/0.35) \div (1 - 0.033900451) = 39,701,849$

$D =$  number of additional Allied Farmers Voting Rights that will result from the amendment of the rights attached to the Bonus Securities calculated as follows:

$$C - B [39,701,849 - 37,696,705 = 2,005,144]$$

The Bonus Securities will be subdivided or consolidated in the following ratio:

$E = (C/B - 1) \div \text{Bonus Ratio}$  and each Bonus Security will be consolidated or subdivided in the ratio (existing: resulting) of 1:E; and

$E = (39,701,849/37,696,705 - 1) \div \text{Bonus Ratio} = (1.0531915 - 1) \div 0.1 = 0.531915$  and subdivision/consolidation ratio is (assuming Bonus Ratio is 1:10 is 1:0.531915 which results in a consolidation ratio of 1.88 to 1 (i.e. the 3,769,670 Bonus Securities would be consolidated into 2,005,144 shares

The result is that an additional 2,005,144 new voting rights would be created which is 5.31915% of the 37,696,705 shares now on issue

#### **Figure3 – Example calculation of effect of a Shortfall**

- 3.7 It is not Allied Farmers' current intention to list the Bonus Securities. However, there will be no transfer restrictions in relation to the Bonus Securities and shareholders can sell their shares without having to trade their Bonus Securities.
- 3.8 Any change to the terms of the Bonus Securities will be deemed to be an action affecting the holders of the ordinary shares and will require the approval of a special resolution of the holders of the Bonus Securities and a special resolution of the holders of the ordinary shares.

## **4. Interdependence of the Resolutions**

- 4.1 For the Proposal to proceed, Resolutions 1 and 2 must each be approved by shareholders. If either resolution is not passed by the requisite majority, the condition in the Exchange Agreement requiring Allied Farmers shareholder approval will not be satisfied and the Proposal will lapse.
- 4.2 In addition, the Exchange Agreement requires the Proposal to be agreed by the Holders by the requisite majority under each applicable trust deed. However, if the HFL Noteholders and/or HCL Bondholders do not approve the Proposal, and (a) Allied Farmers waives the condition for such approval to be obtained and (b) Allied Farmers is satisfied that the Proposal can be effected without that approval<sup>6</sup>, then the Proposal will still be undertaken with the Allied Farmers shares that would have been issued to such persons being issued instead to Hanover Finance or its nominee to be held for the benefit of Holders. Meetings of Holders are to be held on or about 15 December 2009.

<sup>6</sup> This is a matter determined under the terms of the relevant trust deeds for HFL Noteholders and HCL Bondholders.

## Glossary

**AFIL** means Allied Farmers Investments Limited.

**Allied Farmers** means Allied Farmers Limited

**Allied Nationwide** means Allied Nationwide Limited

**Allied Farmers Voting Rights** means the right to exercise one vote at any meeting of ordinary shareholders of Allied Farmers.

**Board** means the Board of Allied Farmers.

**Completion Date** means the date on which the Finance Assets are acquired by AFIL in accordance with the Exchange Agreement.

**Debt Securities** means, as the case requires:

- (a) the Secured Deposits issued by Hanover Finance (**HFL Secured Deposits**);
- (b) the Secured Stock issued by United Finance (**UFL Secured Stock**);
- (c) the Subordinated Notes issued by Hanover Finance (**HFL Subordinated Notes**); and
- (d) the Secured Bonds issued by Hanover Finance Capital (**HCL Bonds**), having the rights set out under the applicable DRP.

**DRP** means the Debt Restructuring Proposal approved by Holders in December 2008.

**Exchange Agreement** means the Agreement for Assignment of Finance Assets in Exchange for Debenture Obligations, dated 17 November 2009 and executed between Allied Farmers, AFIL, Hanover Finance and United Finance.

**Hanover Finance** means Hanover Finance Limited

**Hanover Capital** means Hanover Capital Limited

**HCL Bondholders** means the holders of secured bonds issued by Hanover Capital.

**HFL Noteholders** means the holders of subordinated notes issued by Hanover Finance.

**HFL Secured Depositors** means the holders of secured deposits issued by Hanover Finance.

**Holders** means, as the case requires, the HCL Bondholders, the HFL Noteholders, the HFL Secured Depositors and/or the UFL Secured Stockholders.

**Proposal** means the proposal for the acquisition of Finance Assets set out in the Exchange Agreement.

**Shortfall** has the meaning ascribed to that term in the Exchange Agreement.

**UFL Secured Stockholders** means the holders of secured stock issued by United Finance.

**United Finance** means United Finance Limited.