



the **Hydroponics** company

www.thcl.com.au

8 February 2018

Company Response to EGM Notice Issued by Alan Beasley

Dear Shareholder,

I am contacting you in response to the issue to all shareholders of a notice (**EGM Notice**) for the calling of an Extraordinary General Meeting of shareholders (**EGM**) that has been issued by Mr Alan Beasley, a fellow director and ex-Chairman of The Hydroponics Company Limited (**THC** or **Company**).

Background

In the EGM Notice, Mr Beasley raises a range of concerns and comments, most of which have no grounding or basis in truth. As Chairman of THC, I believe that it is important that you are aware of the reality that has driven the growth of the business, and the real motives that drive Mr Beasley's actions.

At the request of all my fellow Directors at the time other than Mr Beasley, I replaced Mr Beasley as the non-executive Chairman of THC, in October 2017. Mr Xu was not a director at that time.

The Board had all become increasingly frustrated by the lack of cohesion within the Board and the absence of a strategic direction under Mr Beasley.

As a result, THC was lacking in direction and prejudiced by inaction, which was manifested in its share price performance between IPO and my appointment as the non-executive Chairman of THC.

Calling the EGM

Whilst Mr Beasley, as a director of THC, has the right to call for the EGM, he has done so without any consultation of his fellow Board members and has, in acting in such unilateral and unexplained manner, directly caused the Board of THC to waste an enormous amount of time and incur unnecessary expense.



The Hydroponics Company Limited
(ASX:THC) ACN: 614 508 039

Suite 305, Level 3, 35 Lime Street,
Sydney, NSW, Australia. 2000.

For personal use only

The Board responded by offering to ensure that the concerns of Mr Beasley, as reflected in the EGM Notice, would all be addressed in the up-coming annual general meeting of the Company (**AGM**) that Mr Beasley knew would be held at the time of, or very shortly after his proposed EGM.

After an unnecessary and material delay in responding to the above offer, Mr Beasley rejected that offer without explanation. Mr Beasley had represented to the Board that the business of his proposed EGM and that of the AGM, could conceptually be combined and the Company had been diligently proceeding on this basis.

Board Composition and Experience

It is significant to note that Mr Beasley was Chairman of the Company (when all the current directors other than Steven Xu), were appointed and as Chairman had oversight on their appointment.

He selected persons who he felt had significant corporate governance experience, and who were (and remain) in agreement with his stated views of how the THC Board should act.

What Mr Beasley suggests in the EGM Notice is exactly how the Board has continued to operate since his replacement as Chair. Thus, the majority of incumbent directors find it – to say the least - inexplicable that within 12 months of their respective appointments as a director, Mr Beasley is now seeking to replace the same directors that he was largely responsible for being appointed.

As directors acting in the best interests of THC shareholders, the decisions taken in October, 2017 to change the Chair and Chief Executive Officer have provided a robust framework for THC's ongoing operations and corporate governance. It is crucial that this positive momentum be sustained by your current directors who have already proven themselves.

Since taking over as Chairman, and with the very able and appreciated contribution of all directors other than Mr Beasley, there have been a number of actions taken to improve the Company, as outlined below:

Internal Actions

- Appointment of David Radford, as Chief Executive Officer
- Review of all material contracts which has resulted in the termination of one material contract
- Further development of international contacts to build an internationally focused company, especially in the rapidly evolving Canadian market

- Development of full transparency and visibility to the business of the Company and a business plan that positions the Company for growth
- Planning, communication and Board awareness that is required in the rapidly changing global medicinal cannabis market

Corporate Governance

- Relocation of the management team from the offices of Hudson – and despite Mr Beasley’s strident objections – resulting in a reduction in rental costs
- Appointment of a highly qualified CFO and Company Secretary to ensure strict levels of Corporate Governance
- Commencement of regular market updates and communications to shareholders
- Appointment of a new Corporate Counsel to provide experienced and independent corporate and regulatory legal advice

External Focus

- Development of a strategic plan that identifies growth opportunities in Canada and Australia as key to driving shareholder value
- Since the change in Chairman in October, 2017, there has been an increase in the number of published updates as compared to those disclosed under the previous Chairmanship of Mr Beasley
- Three Roadshows conducted in Sydney and Melbourne, to build shareholder and broker awareness and understanding of the Company’s business and goals
- Significant and real steps forward in developing the importation of medicinal cannabis that address the associated regulatory and commercial hurdles
- Entry into a licence agreement with National Access Cannabis Inc. (NAC) a company listed in the Toronto Stock Exchange and one of Canada’s leading clinic service providers. NAC’s model in Canada has been responsible for driving the growth and uptake of medicinal cannabis, and it is believed, will provide the support and education in Australia that will be necessary to build the Company’s business
- Re-prioritisation and near completion of the Queensland growing project at Bundaberg to ensure that THC has access to high quality raw materials
- Commencement of due diligence of a material acquisition in Canada that is expected to drive growth in the product supply side of the business

For personal use only

- These outcomes have been achieved through the support of the existing Board members

Comments on Board Positions and Nominees

In responding to some of Mr Beasley's further comments and recommendations on Board composition, as stated in the EGM Notice, I make the following observations.

1. The current Board is entirely focused upon commercialisation of product and driving growth. Each of Messrs Wallace and Mutton and Ms Verschuer have very successful track records of growing businesses in international regulated markets and deep corporate governance experience.
It is unclear from Mr Beasley's recommendation whether this is also true of Messrs Cattelan and Radcliff, being his nominees as a director of the Company.
To assist in this regard, copies of short professional biographies of all directors other than of Mr Beasley, **accompany** this Rebuttal.
2. Mr Beasley submitted Mr Cattelan's resume in July 2017 for review by the prior management team. No further engagement was forthcoming at the time.
3. The current Board has delivered shareholders an almost 300% growth in share price from **A\$0.25** per share on 19 October 2017.
4. Mr Beasley makes comment around his corporate governance credentials.
I have had significant experience in governance and contract related matters having previously worked with the Commonwealth Crown Solicitor, Trade Practices Commission, and in recent years have participated and Chaired a number of ASX listed Boards.

In closing, I am deeply disappointed to have to write such a letter to you at this exciting time in our Company's development. I apologise for the confusion and distraction of focus that is being unnecessarily caused by the unilateral and self-serving conduct of one of your current Directors.

Although we have achieved much since the Company's listing on the ASX, we nevertheless have much yet to achieve.

I am confident that with the current team of Board members and executive management working together as it does, we will achieve our goals.

The Board has instructed Mr Radford to continue to execute upon his business plan to drive growth in Canada and to continue to build out of the Pharma capabilities in Australia. I

remain very excited by the opportunities that he is actively pursuing and expect to have further positive announcements in the near term.

I will be contacting you in due course to request your continued support in the building and execution of a great company, and encourage you to support the incumbent team that have a proven track record of delivery to you, the shareholders

Voting Recommendations

Following the above, all directors of the Company (other than Mr Beasley and Mr Xu who was recently appointed to the Board) **STRONGLY RECOMMEND** that you exercise **ALL** your voting rights:

- **AGAINST ALL** resolutions as set out in the EGM Notice; and
- **IN FAVOUR** of **ALL** resolutions as will be contained in the Company's notice of Annual general meeting, that will be distributed in due course.

Mr Xu declines to make any recommendation given the brief time since his appointment to the Board.

Please feel free to ring myself on 0416 270 022, David Radford (CEO) on 0407 218 922, or the Company Secretary if you would like to discuss any issue raised above.

With kind regards,



Ian Mutton
Chairman

For personal use only

PROFESSIONAL BIOGRAPHIES OF INCUMBENT DIRECTORS (OTHER THAN ALAN BEASLEY) and DAVID RADFORD

Ian Mutton (Chair)

As a senior legal practitioner Mr Mutton brings his significant experience in contract related matters and competition and product liability laws. He has previously worked with the Commonwealth Crown Solicitor, Trade Practices Commission, and in recent year has participated and Chaired a number of ASX listed Boards.

Ian is the practice director of a Sydney based law firm specialising in contract related matters and competition and product liability laws. He assists with the development and implementation of programs aimed at ensuring compliance with the competition and product liability laws.

Separate to his role at the above law firm, Ian assists companies to list and implement systems that are intended to ensure ongoing compliance with the ASX listing rules and various other regulatory requirements.

Ian has significant global experience in New Zealand, USA and Europe.

Hamish MacDonald (Non-Executive)

Hamish was the Chief Executive Officer of a company in the commercialisation of a biotechnology start-up company that has successfully negotiated contracts with Clenergen Ltd to supply biomass genetics for a 500MWH off-take agreement in India. He also formed a joint venture with Linc Energy Ltd for the development of a bioreactor to remove CO₂ emissions from coal and gas fired power stations and a R&D phytoremediation contract with Queensland Gas Group Ltd for the alleviation of contaminants within coal seam process water within the Surat Basin.

Hamish has practical experience in business development, feasibility studies and planning, building and leading teams in technology based entities.

Mary Verschuer (Non-Executive)

Mary Verschuer is an experienced non-executive director with more than 20 years in Chief Executive Officer roles, mostly with a global remit. Mary is currently Chair of The Infants Home and was previously a non-executive director on the board of NZX/ASX listed Nuplex Ltd prior to its sale to Allnex Ltd in 2016.

An industrial chemist, Mary has senior executive experience in the chemical, packaging and mining equipment and services sectors. With over 30 years industrial experience she brings a history in organisations where R&D and innovation are central to the business and provides a significant strategic advantage.

Overseeing operations in all developed continents, she has experience in initiating, executing and integrating acquisitions, managing global supply chains, maintaining consistent top and bottom line growth and implementing operational and technical risk management.

Mary completed a Bachelor of Applied Science at the University of Technology and Masters of Business Administration, and is a Fellow of the Australian Institute of Company Directors

Peter Wallace (Non-Executive)

Peter Wallace is the founder and Managing Director of Endeavour Capital, an independent corporate advisory firm. Endeavour Capital's operations include business sales/acquisitions, directorships and business valuations. Peter has over 25 years' experience in advising smaller and mid-sized businesses and has been a non-executive director of over 20 company groups in a wide range of industries including in biotechnology, distribution, financial services, healthcare, information technology, manufacturing and retail.

Peter is non-executive chairman of ASX listed Ambertech Limited. He is also non-executive director of The Executive Connection Pty Limited and Carte Blanche Australia Pty Limited. Until May 2012 Peter was non-executive chairman of ASX listed Ideas International Limited.

Peter has a Bachelor of Commerce and Masters of Business Administration, is a member of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors.

Steven Xu (Non-Executive)

Steven Xu is a director of Une-Innovation Consulting Australia Pty Ltd and a director of MY INP Venture Capital Fund. Together Une-Innovation and MY INP hold in excess of 6% of the shares in the Company.

Steven is a chartered accountant (CA ANZ) and has 15 years' experience working at Price Waterhouse Coopers and various listed companies in Australia and China. Steven specialises in financing IPO and M&A activities across a broad range of sectors.

As head of MY INP Venture Capital, Steven has experience with global investments in medicinal cannabis and related industry companies. He also has strong international connections especially in North America, Israel and China.

David Radford, Chief Executive Officer

Mr Radford is an internationally experienced senior executive with a track record of driving profitable growth across multiple geographies and business segments. David's international experience was with COBE Laboratories, Recall Limited (a division of Brambles Australia), GE Healthcare and Nanosonics Limited (ASX:NAN). David also has ASX company Chief Executive Officer experience with Nanosonics Limited and Bioxyne Limited (ASX:BXN) as well as experience in deal origination for private equity funds.

He brings to the Company, Chief Executive Officer experience in the healthcare industries and in high growth ASX listed companies. The medicinal cannabis industry is in its early stage of development around the world and changing rapidly. The Company needs people with skills in high growth companies and developing profitable and defensible strategies. David also brings strong corporate governance and listed company experience to the Company.