



# Notice of Annual Shareholders Meeting

SLI Systems Limited (*the Company*)

## Notice

We hereby invite you to join us for the annual shareholders meeting which will be held at the Company's premises on Level 1 of the EPIC building on the corner of Manchester and Tuam Street, (78-106 Manchester Street) Christchurch on 16 October 2014 at 4pm (NZT).

## Business of the meeting

The business of the meeting will be:

### Ordinary Business

#### Item 1 - Financial Statements

To receive and consider the financial statements of the Company for the year ended 30 June 2014, together with the auditor's report on such financial statements, both as contained in the Company's 2014 Annual Report.

#### Item 2 – Election of Directors

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions:

- (a) That Sarah Smith, who retires by rotation in accordance with clause 25 of the Company's constitution and in accordance with NZX Main Board Listing Rule 3.3.11, and, who being eligible, offers herself for re-election as a director of the Company, be re-elected a director of the Company.
- (b) That Matthew Houtman, who retires by rotation in accordance with clause 25 of the Company's constitution and in accordance with NZX Main Board Listing Rule 3.3.11, and, who being eligible, offers himself for re-election as a director of the Company, be re-elected a director of the Company.
- (c) That Andrew Lark, who retires in accordance with clause 24.2 of the Company's constitution and in accordance with NZX Main Board Listing Rule 3.3.6, and, who being eligible, offers himself for election as a director of the Company, be elected a director of the Company.

#### Item 3 – Appointment and remuneration of Auditor

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

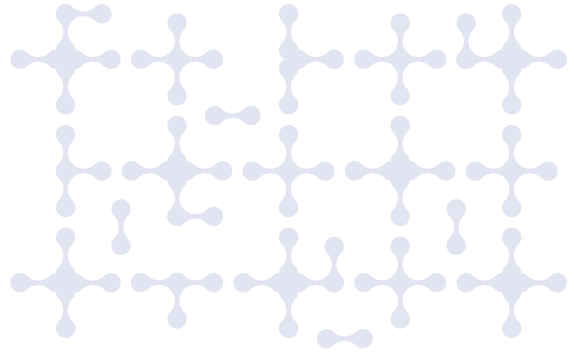
That PricewaterhouseCoopers be reappointed as the Company's auditors to hold office from the conclusion of this meeting to the conclusion of the next annual meeting and the Directors be authorised to fix the remuneration of the auditors for the ensuing year.

### Special Business

#### Item 4 – Provision of Financial Assistance to Andrew Lark

To consider and, if thought fit, to pass the following resolutions as an ordinary resolution:

Subject to the resolution set out in Item 2(c) being passed by the shareholders, that, for the purposes of NZX Main Board Listing Rule 7.6.5, the Company is authorised to provide financial assistance by way of a limited recourse loan of \$200,000 to Andrew Lark (Independent Director), to enable him to fully pay up the 107,527 unlisted redeemable shares in the Company issued in December 2013 at the issue price of \$1.86 per share, with the key terms of the financial assistance being those set out in the Explanatory Note to Item 4 below, with the 107,527 unlisted redeemable shares in the Company being reclassified as ordinary shares in the Company upon full repayment of the loan.



## Explanatory Notes

### Ordinary Business

#### Item 1 – Financial Statements

This item is intended to provide an opportunity for shareholders to raise questions on the financial statements and auditor's report.

#### Item 2 – Election of Directors

Under the NZX Main Board Listing Rules and in accordance with the Company's constitution one-third of the Company's directors ("Directors") must retire by rotation at the annual shareholders meeting. NZX Main Board Listing Rule 3.3.6 requires any director appointed by the Directors to retire from office at the next annual shareholders meeting. If the Directors are eligible they may offer themselves for re-election or election (as relevant) by shareholders at the meeting. Sarah Smith, Matthew Houtman and Andrew Lark have agreed to offer themselves for re-election/election. As at the date of this notice, both Sarah Smith and Andrew Lark are Independent Directors and Matthew Houtman is not an Independent Director for the purposes of the NZX Main Board Listing Rules.

Set out below are brief profiles of each candidate for re-election/election:

#### Sarah Smith

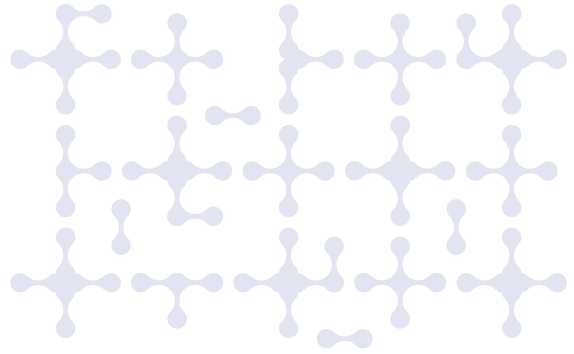
- Over 19 years of experience as an independent director
- Extensive business and governance experience in both private and public sectors
- Serves as Chairman of Meteorological Services of New Zealand Limited
- Serves as a director of Christchurch City Holdings Limited, WhereScape Software Limited and EcoCentral Limited
- Member of the Institute of Chartered Accountants
- Accredited Fellow of the Institute of Directors

#### Matthew Houtman

- Co-Founder and Managing Director of Pioneer Capital Management Limited which invests in New Zealand businesses that are focused on growth into large international markets
- Serves as a director of Yikebike (Project Garlic Limited), Pukeko Pictures GP Limited and WhereScape Software Limited
- Prior career in investment banking, most recently with UBS Investment Bank in both Auckland and London
- Obtained a Master of Management Studies with Distinction from the University of Waikato

#### Andrew Lark

- Internationally renowned marketer with over 25 years' experience running multi-million dollar e-commerce businesses and building highly successful online and marketing teams
- Served as Chief Marketing and Online Officer at Commonwealth Bank of Australia
- Former Vice President & General Manager at Dell, where he was head of global marketing for the computer manufacturer's Enterprise and Public Group
- Has led marketing teams at LogLogic, Sun Microsystems and Nortel Networks, and is a former Senior Vice President and Partner at Fleishman-Hillard
- Currently leads Group Lark, a consulting firm accelerating digital and marketing strategies for leading brands
- Serves as a director of Mighty River Power Limited and Fronde Systems Group Limited
- Recipient of New Zealand's prestigious World Class New Zealander Award



## Special Business

### Item 4 – Provision of Financial Assistance to Andrew Lark

Under NZX Main Board Listing Rule 7.6.3, the Company may not provide financial assistance in connection with the acquisition of securities issued by the Company unless the financial assistance falls within one of the specified categories set out in Listing Rule 7.6.4 (which do not apply in this instance) or the provision of the financial assistance has been approved by the Company's shareholders in accordance with Listing Rule 7.6.5.

To align Andrew Lark's ("Andy") remuneration and incentives with those of SLI's other independent directors the Board has resolved to provide Andy, subject to shareholder approval in accordance with Listing Rule 7.6.5, with a limited recourse loan of \$200,000 to enable him to fully pay up the 107,527 unlisted redeemable shares in the Company issued to Andy in December 2013 as unpaid shares at the issue price of \$1.86 per share. This loan will also align Andy's interests with shareholders who are not associated with Andy as Andy will be incentivised to see the Company perform well. Additionally, this loan is proposed to be granted to supplement Andy's directors' fees on the basis that the Company's current non-executive directors' fees are low by market standards.

The key terms of the loan (i.e. the financial assistance) proposed to be provided by the Company to Andy are as follows.

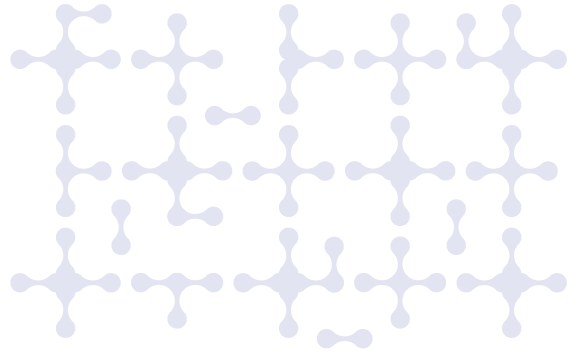
- The amount of the loan (i.e. the financial assistance) is \$200,000.
- This loan does not bear interest.
- The loan is repayable on 29 January 2017 (or a later date specified by the Board), but may be repaid by Andy in whole or in part at any earlier time provided he remains an independent director of the Company.
- On repayment of the loan (whether in full or in part) the relevant number of redeemable shares will automatically be reclassified into ordinary shares in the Company, which will rank *pari passu* with all other ordinary shares in the Company on issue (and no further shareholder approval is required in relation to the reclassification of the redeemable shares).
- If Andy does not repay the loan when due, the Company is entitled to redeem the redeemable shares at the issue price paid, and will apply the redemption proceeds in full repayment of the loan.
- The loan will be limited recourse, meaning that in seeking repayment, the Company's recourse is limited to the 107,527 redeemable shares and the Company cannot have recourse against Andy personally.

The loan to Andy has been independently appraised by Northington Partners ("Independent Appraiser") in accordance with the NZX Main Board Listing Rule 1.7. The appraisal report generated by the Independent Appraiser is for the benefit of all shareholders of the Company (other than Andy and those associated with Andy) and is intended to provide those shareholders with an independent appraisal of the fairness of the proposed financial assistance. A copy of this appraisal report is enclosed with this notice.

In summary, the Independent Appraiser concludes the following:

- the issue of the shares aligns Andy's remuneration and incentives with that of SLI's other independent directors;
- the loan (which will be used to fund the issue price of the shares) represents a fair level of additional benefit to Andy to compensate him for what the Independent Appraiser considers is a below-market level of cash compensation;
- the terms and conditions of the loan are fair; and
- there are no material negative impacts on SLI's non-associated shareholders.

If shareholders do not approve the provision of the financial assistance by the provision of the loan, the loan cannot be provided to Andy, and the Company will redeem the redeemable shares for the amount paid up (being nil).



## Procedural Notes

### Ordinary Resolution

An ordinary resolution is a resolution passed by a simple majority (i.e. over 50% of the votes of shareholders of the Company entitled to vote and voting).

### Quorum

A quorum for a meeting of shareholders is 3 or more shareholders having the right to vote being present at the meeting.

### Eligibility to vote

Any shareholder whose name was recorded in the Company's share register at 5pm on Tuesday, 14 October 2014 is entitled to attend the meeting and vote on the resolutions either in person or by proxy. Andy Lark, and any Associated Person (as defined in NZX Main Board Listing Rule 1.8) of Andy Lark, are excluded from voting on resolution 4. No other person is excluded from voting on any of the resolutions.

### Proxies

You may exercise your right to vote at the meeting either by being present in person or by appointing a proxy to attend and vote in your place. A proxy need not be a shareholder of the Company. You may appoint more than one proxy, provided more than one proxy is not appointed to exercise the rights attached to a particular share.

A proxy form is enclosed with this notice. If you wish to vote by proxy you must complete the form and produce it to the Company or appoint your proxy online no later than 4pm on Tuesday, 14 October 2014. Details of how to do this are as follows.

<b>Online:</b>	To appoint your proxy online, please go to the Link Market Services website: <a href="https://investorcentre.linkmarketservices.co.nz/voting/SLI">https://investorcentre.linkmarketservices.co.nz/voting/SLI</a>  You will be required to enter your CSN/Holder number and FIN to securely access the website, and then follow the prompts to appoint your proxy and exercise your vote.
<b>Mail:</b>	If mailing a Proxy Form please post to Link Market Services, PO Box 91976, Victoria Street West, Auckland 1142, New Zealand.
<b>Deliver:</b>	Link Market Services, Level 7, Zurich House, 21 Queen Street, Auckland, New Zealand.
<b>Fax:</b>	+64 9 375 5990
<b>Scan &amp; email:</b>	meetings@linkmarketservices.co.nz (please put the words " <b>SLI Proxy Form</b> " in the subject line for easy identification)

As an alternative to a proxy, a shareholder may appoint an authorised representative to attend the meeting.

The Chairman and directors of the Company intend to vote all discretionary proxies in favour of each resolution. However, Andy Lark is excluded from voting on resolution 4 and therefore will not vote any discretionary proxies in respect of resolution 4.

By order of the Board

**Greg Cross**

Chairman

17 September 2014

## 2014 Annual Meeting Admission Card/Proxy Form

The Annual Meeting of Shareholders of SLI Systems Limited will be held on Thursday, 16 October at 4.00pm at SLI's premises on Level 1 of the EPIC building on the corner of Manchester and Tuam Street, (78-106 Manchester Street) Christchurch.

### SAMPLE ONLY

#### SECTION 1: ADMISSION CARD – Please bring this form intact to the Meeting

If you propose to **ATTEND** the Meeting please bring this Admission Card / Proxy Form **intact as the barcode will assist in your registration.**

#### SECTION 2: PROXY FORM – For use if you are unable to attend the meeting but wish to be represented by proxy or wish to appoint an authorised representative

If you propose **NOT** to attend the Annual Meeting or wish to appoint an authorised representative please complete and sign the Proxy Form and Voting Instructions below (please keep it intact), and lodge it with Link Market Services by no later than **4.00pm on Tuesday, 14 October 2014** (being 48 hours before the commencement of the Annual Meeting). Your Proxy Form must be completed in accordance with the instructions set out on the reverse of this form. You may appoint the Chairman of the Meeting as your proxy<sup>1</sup> by entering "Chairman of the Meeting" in the box below.

I/We being a shareholder(s) **SLI Systems Limited** ('Company') and entitled to attend and vote

hereby appoint

or failing him/her

as my/our proxy to vote for me/us on my/our behalf at the Annual Meeting of Shareholders of the Company to be held at at SLI's premises on Level 1 of the EPIC building on the corner of Manchester and Tuam Street, (78-106 Manchester Street) Christchurch on Thursday, 16 October 2014, and at any adjournment of that meeting, and to vote as my/our proxy thinks fit on any resolutions to amend any of the resolutions, or any resolution so amended and on any other resolution proposed at the Annual Meeting (or any adjournment thereof) so as to give effect to my/our intention as set out below where possible. In the event I/we have not expressed any intention or the intention is unclear (in my/our proxy's sole opinion), my/our direction is to abstain.

#### SECTION 3: VOTING INSTRUCTIONS

This form is to be used to vote as follows on the resolutions below:

Tick (✓) in box to record your vote

RESOLUTIONS	Tick (✓) in box to record your vote			
	For	Against	Abstain <sup>2</sup>	Proxy Discretion <sup>3</sup>
2(a) That Sarah Smith, who retires by rotation in accordance with clause 25 of the Company's constitution and in accordance with NZX Main Board Listing Rule 3.3.11, and, who being eligible, offers herself for re-election as a director of the Company, be re-elected as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(b) That Matthew Houtman, who retires by rotation in accordance with clause 25 of the Company's constitution and in accordance with NZX Main Board Listing Rule 3.3.11, and, who being eligible, offers himself for re-election as a director of the Company, be re-elected as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(c) That Andrew Lark, who retires in accordance with clause 24.2 of the Company's Constitution and NZX Main Board Listing Rule 3.3.6, and, who being eligible, offers himself for election as a director of the Company, be elected a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 That PricewaterhouseCoopers be reappointed as the Company's auditors to hold office from the conclusion of this meeting to the conclusion of the next annual meeting and the Directors be authorised to fix the remuneration of the auditors for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Subject to resolution 2(c) being passed by the shareholders, that, for the purposes of NZX Main Board Listing Rule 7.6.5 the Company is authorised to provide financial assistance by way of a limited recourse loan of \$200,000 to Andrew Lark (Independent Director), to enable him to fully pay up the 107,527 unlisted redeemable shares in the Company issued in December 2013 at the issue price of \$1.86 per share, with the key terms of the financial assistance being those set out in the explanatory note to item 4 in the notice of meeting, with the 107,527 unlisted redeemable shares in the Company being reclassified as ordinary shares in the Company upon full repayment of the loan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<sup>1</sup> A reference to a proxy includes an authorised representative. <sup>2</sup> If you mark the 'Abstain' box for a particular resolution, you are directing your proxy NOT to vote on that resolution. If a proxy does not vote on your behalf on a resolution, your votes will not be counted when calculating the majority of that resolution. <sup>3</sup> If you tick the 'Proxy Discretion' box for a particular resolution, you are directing your proxy to decide how to vote on that resolution on your behalf.

Signature(s) \_\_\_\_\_ Date \_\_\_\_\_ 2014

Name(s): \_\_\_\_\_ Contact phone number: \_\_\_\_\_

## NOTES

1. A shareholder of the Company who is entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
2. Any corporation that is a shareholder of the Company may appoint a person as its representative to attend the meeting and vote on its behalf, in the same manner as that in which it could appoint a proxy.
3. If you appoint a proxy you must either direct the proxy how to vote by ticking the "For", "Against" or "Abstain" box in respect of each resolution OR by ticking the "Proxy Discretion" box in respect of each resolution. A shareholder can direct the proxy holder in respect of one or more resolutions and give the proxy holder discretion in respect of other resolutions. If a shareholder does not tick any boxes in respect of a resolution then the vote will be invalid.
4. The Chairman of the Meeting or any Director is willing to act as proxy for any shareholder who appoints him/her for that purpose. If you tick the "Proxy Discretion" box for a particular resolution, your proxy will decide how to vote that resolution. However, if your proxy is precluded from voting (for example, because he or she has an interest in the outcome of the resolution), then they will not be able to vote on that resolution on your behalf. The Chairman and Directors intend to vote all discretionary proxies in favour of each resolution. However, Andy Lark is excluded from voting on resolution 4 and therefore will not vote any discretionary proxies in respect of resolution 4.
5. If you are joint holders of shares, each of you must sign this proxy form. If the shareholder is a company, this proxy form must be signed on behalf of the company by a person acting under the company's express or implied authority.
6. A proxy will not be entitled to vote at the meeting unless a properly completed proxy has been lodged at the office of the share registrar, Link Market Services Limited, not less than 48 hours before the commencement of the meeting, that is **not later than 4.00pm Tuesday, 14 October 2014**. This proxy form may be mailed, delivered, faxed, scanned or completed online in accordance with the instructions below.
7. Voting entitlements will be determined based on registered shareholdings at **5:00pm on 14 October 2014**. Andy Lark, and any Associated Person (as defined in the NZX Main Board Listing Rule 1.8) of Andy Lark, are excluded from voting on resolution 4. No other person is excluded from voting on any of the resolutions.
8. If this proxy form has been signed under a power of attorney ("POA"), a copy of the POA (unless already noted by the company or its registry) and a signed certificate of non-revocation of the POA must be produced to the company with this form.
9. If you intend to attend the meeting and vote please bring this form intact to the meeting as your admission card. The barcode is required for registration purposes. Your voting card will be handed to you when registering at the meeting.
10. If you have any questions about how to complete this proxy form or vote, please call the Link Market Services Limited Investor Helpline between 8.30am and 5.00pm on +64 9 375 5998 or email [meetings@linkmarketservices.co.nz](mailto:meetings@linkmarketservices.co.nz)

**PLEASE COMPLETE YOUR PROXY FORM ONLINE, OR LODGE IT WITH LINK MARKET SERVICES LIMITED IN ONE OF THE FOLLOWING WAYS:**

<b>Online:</b>	To appoint your proxy online, please go to the Link Market Services website: <a href="https://investorcentre.linkmarketservices.co.nz/voting/SLI">https://investorcentre.linkmarketservices.co.nz/voting/SLI</a> You will be required to enter your CSN/Holder number and FIN to securely access the website, and then follow the prompts to appoint your proxy and exercise your vote.
<b>Mail:</b>	If mailing a Proxy Form please post to Link Market Services, PO Box 91976, Victoria Street West, Auckland 1142, New Zealand.
<b>Deliver:</b>	Link Market Services, Level 7, Zurich House, 21 Queen Street, Auckland, New Zealand.
<b>Fax:</b>	+ 64 9 375 5990
<b>Scan &amp; email:</b>	<a href="mailto:meetings@linkmarketservices.co.nz">meetings@linkmarketservices.co.nz</a> (please put the words "SLI Proxy Form" in the subject line for easy identification)

# Appraisal Report



SLI Systems Limited

Prepared Pursuant to Rule 6.2.2 of the NZX Main Board Listing  
Rules in Relation to a Proposal to Provide Financial Assistance

September 2014

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## Abbreviations and Definitions

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<b>Board</b>	The Board of Directors of SLI
<b>Listing Rules</b>	The NZX Main Board Listing Rules
<b>Non-associated Shareholders</b>	Shareholders of SLI who are not associated (as defined by the Listing Rules) with Andy Lark
<b>Northington Partners</b>	Northington Partners Limited
<b>NZ\$</b>	New Zealand dollars
<b>NZX</b>	NZX Limited
<b>Proposed Loan</b>	A \$200,000 interest free, limited recourse loan proposed to be provided to Andy Lark to enable him to fully pay up the Redeemable Shares
<b>Redeemable Shares</b>	107,527 unpaid redeemable shares issued to Andy Lark in December 2013
<b>SLI or Company</b>	SLI Systems Limited

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## 1.0 Background and Summary of Our Opinion

### 1.1 Introduction

SLI Systems Limited (“**SLI**” or “**Company**”) is a public company listed on the NZX Main Board, being the main board equity securities market operated by NZX Limited (“**NZX**”). SLI provides its customers with software solutions to improve their website sales platforms, through better site search, navigation and by improving site visibility in web search engines.

The Board of Directors (“**Board**”) of SLI currently comprises seven directors, including Andy Lark who was appointed as a non-executive independent director on 20 December 2013.

Prior to Mr Lark’s appointment as a director, the Board issued (pursuant to a Board resolution dated 19 December 2013) 107,527 unpaid redeemable shares to Mr Lark at \$1.86 per share (“**Redeemable Shares**”). The Board intends to provide an interest free, limited recourse loan (“**Proposed Loan**”) to Mr Lark to enable him to fully pay up the Redeemable Shares.

Further details of the Redeemable Shares and the Proposed Loan are set out in Section 2.0.

### 1.2 Regulatory Requirements

The provision of the Proposed Loan to Mr Lark would constitute financial assistance to purchase shares in SLI. Consequently:

- Pursuant to Rule 7.6.3(b) of the NZX Main Board Listing Rules (“**Listing Rules**”), the Proposed Loan cannot be granted until it is first approved by SLI’s shareholders by ordinary resolution; and
- Rule 6.2.2(c) of the Listing Rules requires an Appraisal Report to be produced where:
  - A meeting of shareholders will consider a resolution for the provision of financial assistance; and
  - It is intended or likely that more than 50% of the financial assistance will be provided to a director (or a person associated with a director) of the issuer.

### 1.3 Annual Meeting of Shareholders

The next annual meeting of SLI shareholders will be held on 16 October 2014. In addition to other resolutions, shareholders will be asked at the meeting to vote on a resolution approving the granting of the Proposed Loan. All shareholders are entitled to vote on the resolution except Mr Lark and any associated person of Mr Lark (“**Non-associated Shareholders**”).

This Appraisal Report must be provided to SLI’s shareholders with the notice of meeting sent to shareholders.

### 1.4 Purpose of the Report

SLI’s independent directors not associated with Mr Lark requested Northington Partners Limited (“**Northington Partners**”) to prepare the Appraisal Report required by the Listing Rules. Our appointment was subsequently approved by the NZX on 12 August 2014.

This report sets out our opinion on the fairness of the Proposed Loan. This report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 2.



This report represents one source of information that SLI's Non-associated Shareholders may wish to consider when forming their own view on whether to vote on the resolution to approve the granting of the Proposed Loan. It is not possible to contemplate all shareholders' personal circumstances or investment objectives and our assessment is therefore general in nature. The appropriate course of action for each shareholder is dependent on their own unique situation. If appropriate, shareholders should consult their own professional adviser(s).

### 1.5 Summary of our Opinion on the Fairness of the Proposed Loan

For the reasons more fully set out in Section 2.0, in our opinion the terms and conditions of the Proposed Loan are fair to SLI's Non-associated Shareholders. The key factors leading to our opinion are:

- The issue of the Redeemable Shares aligns Mr Lark's remuneration and incentives with that of SLI's other independent directors;
- The Proposed Loan (which will be used to fund the issue price of the Redeemable Shares) represents a fair level of additional benefit to Mr Lark to compensate him for what we consider is a below-market level of cash compensation;
- The terms and conditions of the Proposed Loan are fair; and
- There are no material negative impacts on SLI's Non-associated Shareholders.



## 2.0 Assessment of the Fairness of the Proposed Loan

### 2.1 Basis of Evaluation

Listing Rule 1.7.2 requires the Appraisal Report to consider whether the terms and conditions of the Proposed Loan are fair to SLI's Non-associated Shareholders.

The exact meaning of the word "*fair*" is not prescribed in the Listing Rules and there is no well accepted, authoritative New Zealand reference that clearly establishes what should be considered for an assessment of this nature. In our view, the appropriate matters to take into account when evaluating the fairness of the Proposed Loan are:

- The SLI Board's rationale for issuing the Redeemable Shares and for recommending the Proposed Loan;
- The terms and conditions of the Redeemable Shares and the Proposed Loan;
- The value of the Proposed Loan to Mr Lark;
- The potential impact of the Proposed Loan and associated Redeemable Shares on shareholding levels; and
- The potential impact of the Proposed Loan and associated Redeemable Shares on SLI's share price.

### 2.2 SLI Board's Rationale for the Redeemable Shares and Proposed Loan

Based on a conversation with Shaun Ryan (SLI Director and Chief Executive Officer), we understand that the Board's rationale for issuing the Redeemable Shares and for recommending the Proposed Loan is threefold:

- To align Mr Lark's remuneration and incentives with those of SLI's other independent directors;
- To provide Mr Lark a benefit which supplements his director's fees on the basis that SLI's current non-executive director fees are low by market standards; and
- To further enhance Mr Lark's alignment of interests with those of Non-associated Shareholders.

#### 2.2.1 Alignment with Other Independent Directors

On 31 May 2013, the Company issued 133,333 unlisted redeemable shares at an issue price of \$1.50 to each of its then three independent directors. In satisfaction of the issue price of these redeemable shares, SLI provided an interest free, limited recourse loan of \$200,000 to each director. The issue of the redeemable shares and loans were contemplated in SLI's Prospectus dated 6 May 2013 (delivered ahead of the Company's listing on the NZX Main Board), and were designed to align the independent directors' interests with the Company's.

As set out in Table 1 below, a total of 507,526 redeemable shares have been issued by the Company following the issue of the Redeemable Shares to Mr Lark upon his appointment as SLI's fourth independent director.



**Table 1: Unlisted Redeemable Shares on Issue (as at 19 August 2014)**

Independent Director	Unlisted Redeemable Shares Issued	Redeemable Shares Issue Price <sup>(2)</sup>	Interest free, limited recourse Loan Amount
Greg Cross (Chairman)	133,333	\$1.50	\$200,000
Sarah Smith	133,333	\$1.50	\$200,000
Sam Knowles	133,333	\$1.50	\$200,000
Andy Lark <sup>(1)</sup>	107,527	\$1.86	\$200,000
<b>Total</b>	<b>507,526</b>		<b>\$800,000</b>

Source: SLI

(1) Redeemable Shares issued pursuant to a resolution of the Board. The \$200,000 loan amount, being the Proposed Loan, cannot be granted unless approved by SLI's shareholders.

(2) The \$1.50 issue price for the redeemable shares issued to the Company's initial three independent directors was set equal to the offer price when SLI first listed on the NZX Main Board. The \$1.86 issue price set for Mr Lark reflected an increase in the market price of the Company's shares at the time the Redeemable Shares were issued to him.

We note that the loans to SLI's initial three independent directors have been drawn and used to satisfy the \$1.50 issue price of the redeemable shares.

In our view, it is fair and reasonable to expect Mr Lark's remuneration and incentives as an independent director to align with those of the Company's other independent directors. Given the Company's initial three independent directors have been issued redeemable shares and interest-free, limited recourse loans to the value of \$200,000, in our opinion it is appropriate that Mr Lark be offered the Redeemable Shares and the Proposed Loan on the same terms (with the exception of the issue price for the Redeemable Shares being slightly higher).

### 2.2.2 Additional Benefit to Supplement Below-Market Directors Fees

Along with SLI's other independent directors (except for the independent Chairman), Mr Lark currently receives director's fees of \$40,000 per annum. As set out in Table 2 below, this is below the average remuneration paid to non-executive directors of a selected group of comparable New Zealand listed companies.

**Table 2: Non-Executive Director's Fees Comparison**

Listed Entity	Average Annual Non-Executive Director Fees
Wynyard Group Limited	\$60,000
Xero Limited	\$42,500
Diligent Board Member Services Inc <sup>(1)</sup>	n/a
Geo-Op Limited	\$45,000
Serko Limited	\$55,000
Gentrack Group Limited	\$60,000
<b>Average</b>	<b>\$52,500</b>

Source: Most Recent Company Annual Reports

(1) Listed with a "Non-Standard" designation because of its incorporation in the US and the fact that U.S. and Delaware corporate law has primary application. Director fees are high compared to most NZ companies because of this fact.

SLI is a company that exports its software solutions to customers around the world, and Mr Lark has high-profile and internationally renowned credentials. Having a director on the Board with Mr Lark's



experience (helping global brands develop technology, go-to-market, partnering and marketing strategies) should benefit the Company and the Non-associated Shareholders.

Given the Board was keen to avail itself of Mr Lark's expertise and experience, in our view the Board's rationale for issuing the Redeemable Shares and recommending the Proposed Loan to Mr Lark is sound. Without providing an additional benefit to Mr Lark to compensate him for the below-market level of director's fees, Mr Lark may not have been sufficiently motivated to accept a directorship. This is particularly the case given SLI's other independent directors have already received this additional benefit (as noted in Section 2.2.1 above).

### 2.2.3 Alignment of Interests with Non-associated Shareholders

We also concur with the Board's rationale that enabling Mr Lark to fund the issue price of the Redeemable Shares will align his interests with those of the Non-associated Shareholders. Although the Proposed Loan does not provide SLI with recourse against Mr Lark personally (see Section 2.3 below), Mr Lark is nonetheless strongly incentivised to see the Company perform well, which should be reflected in share price appreciation. This is particularly the case given the \$1.86 issue price per Redeemable Share is significantly above the \$1.38 market price of SLI's shares as at the date of this report.

## 2.3 Terms and Conditions of the Redeemable Shares and the Proposed Loan

### 2.3.1 Redeemable Shares

The key terms of the Redeemable Shares are set out in Table 3 below.

**Table 3: Key Terms of Redeemable Shares**

Item	Description
Grant Value	NZ\$200,000
Issue Price	NZ\$1.86
Shares Issued	107,527
Funding	No initial cash funding required. Issue price funded by the Proposed Loan.
Rights	Once fully paid, have the same voting and distribution rights as the Company's ordinary shares (no voting or distribution rights while unpaid). Rank uniformly in all respects with ordinary shares, except that they cannot be transferred (other than in limited circumstances) and can be redeemed by the Company (see below).
Reclassification into Ordinary Shares	On repayment or part repayment of the Proposed Loan, the relevant number of shares will automatically reclassify into ordinary shares in the Company.
Redemption by the Company	If the Proposed Loan is not approved by the Company's shareholders and advanced by 31 December 2014 or once advanced is not repaid when due, the Company is entitled to redeem the shares at the Issue Price paid (if any, and if none is paid for nil consideration) and apply the redemption proceeds in full repayment of any loan.

Source: SLI

As previously noted, the terms and conditions of the Redeemable Shares are the same as those applying to the redeemable shares issued to the Company's three independent directors at the time of the Company's listing on the NZX Main Board (with the exception of a \$1.86 issue price compared to a \$1.50 issue price). The terms and conditions also appear broadly consistent with the terms and conditions of other share incentive arrangements we are aware of in respect of independent directors of other New Zealand listed companies.



On this basis, we conclude that the terms and conditions of the Redeemable Shares are fair to SLI's Non-associated Shareholders.

### 2.3.2 Proposed Loan

The key terms of the Proposed Loan are set out in Table 4 below.

**Table 4: Key Terms of Proposed Loan**

Item	Description
Loan Amount	NZ\$200,000
Interest	Nil (i.e. interest free)
Term	Repayable by 29 January 2017 or such later date specified by the Board (excluding Mr Lark and any director advanced a similar loan). Can be repaid in whole or in part at any time, so long as at the time of repayment Mr Lark remains an independent director of the Company.
Limited Recourse	Recourse by the Company in seeking repayment of the loan is limited to the Redeemable Shares (i.e. no recourse against Mr Lark personally).

Source: SLI

As with the Redeemable Shares, the terms and conditions of the Proposed Loan are the same as those that apply to the loans granted to the Company's initial independent directors. The interest free, limited recourse nature of the loans is also consistent with other financial assistance schemes we are aware of that have been implemented by other New Zealand listed companies. We also believe that the quantum of the benefit provided to Mr Lark through the Proposed Loan (see Section 2.4 below) is not particularly significant or disproportionate to the benefit that Mr Lark's presence as a director should bring to the Company and the Non-associated Shareholders.

On this basis, we conclude that the terms and conditions of the Proposed Loan are fair to SLI's Non-associated Shareholders.

### 2.3.3 Practical Effect of the Redeemable Shares and Proposed Loan

The practical effect of the combined operation of the Redeemable Shares and Proposed Loan is analogous to conferring on Mr Lark an option to buy shares in SLI. It is expected that Mr Lark will draw down on the Proposed Loan (if it is approved by shareholders) even if at the time of doing so the market price of SLI's ordinary shares is lower than the \$1.86 issue price for the Redeemable Shares (i.e. there is not intended to be any optionality on the loan draw-down).

Given the interest-free, limited recourse nature of the Proposed Loan, there is no down-side (or optionality) to Mr Lark fully paying up the Redeemable Shares in the hope that the share price of SLI's ordinary shares will eventually appreciate above the \$1.86 issue price. If this situation did not occur (and the share price remained below the \$1.86 issue price at the time the Proposed Loan was due to be repaid), Mr Lark would be unlikely to repay the Proposed Loan. In this circumstance, SLI would only have recourse against the Redeemable Shares (which they would redeem and apply the redemption proceeds in full repayment of the loan) and not against Mr Lark personally.

## 2.4 Value of the Proposed Loan to Mr Lark

In considering the "value" of the Proposed Loan to Mr Lark, we have taken into account the following elements:



- The Proposed Loan is interest free. If approved by SLI's shareholders, Mr Lark will benefit from not having to pay interest on the \$200,000 amount from the date of monies being advanced to the date the loan is repaid. Although Mr Lark can elect to make early repayment (in whole or in part), the full amount of the loan could remain outstanding until 29 January 2017 (or such later date approved by the Board). If the Proposed Loan was advanced shortly after the 16 October 2014 meeting of shareholders and repaid in full on 29 January 2017, the interest free period of the loan would be around 2 years and 3 months.
- Assuming Mr Lark would pay interest of 6-7% if he was to arrange funding for the Redeemable Shares from alternative commercial sources, the maximum value of the Proposed Loan to Mr Lark (assuming the entire \$200,000 amount remained outstanding until it was repaid in full) would be \$12,000 - \$14,000 per annum. We do not believe this level of benefit to Mr Lark is unreasonable, taking into account the below-market level of SLI's director's fees and the fact that the other independent directors are already deriving the same benefit.
- The Proposed Loan is limited recourse, meaning there is no personal risk to Mr Lark. If the Proposed Loan is not fully repaid when required, Mr Lark's only risk is that the Redeemable Shares which were granted to him may be redeemed by the Company, with the proceeds applied to repay the amount advanced. We note that this is a reasonably standard arrangement for incentive schemes of this sort.

For the reasons outlined above, we believe the value of the Proposed Loan to Mr Lark is fair to SLI's Non-associated Shareholders.

## 2.5 Impact on Shareholding Levels

As set out in Table 3 above, upon repayment or part repayment of the Proposed Loan, the relevant number of Redeemable Shares will automatically reclassify into ordinary shares in the Company. Thus, the Redeemable Shares would reclassify into a maximum of 107,527 ordinary shares in the Company if the Proposed Loan was granted and ultimately repaid by Mr Lark in full.

As at 19 August 2014, SLI had 60,618,018 ordinary shares on issue. Assuming full repayment of the Proposed Loan, Mr Lark's 107,527 ordinary shares would represent approximately 0.18% of the Company's current issued ordinary share capital.

In our view, Mr Lark's maximum ordinary shareholding of 0.18% of the total shares on issue will have no material impact on his ability to exercise shareholder voting control. Although Non-associated Shareholders will be diluted by 0.18% at this maximum shareholding level, we do not consider this level of dilution to be of any significance.

## 2.6 Impact on Share Price and Liquidity

We believe that the existence of the Redeemable Shares will not have a material effect on SLI's share price given the maximum dilutionary impact is minimal (see Section 2.5 above).

In terms of SLI's share liquidity, the Redeemable Shares will have no impact if they are not reclassified into ordinary shares. If they are reclassified upon repayment of the Proposed Loan, we do not believe there will be a positive or negative effect on the liquidity of SLI's shares given the maximum 0.18% shareholding level that will result.





## 2.7 Tax Issues

The provision of the Proposed Loan will give rise to a deemed dividend liability for income tax purposes. This deemed dividend liability will be based on the full value of the Proposed Loan (i.e. \$200,000) notwithstanding that the value of the Redeemable Shares may be less than that amount when the loan is actually provided to Mr Lark.

SLI will be liable to pay resident withholding tax (“RWT”) on the deemed dividend. The dividend will be calculated on the daily balance of the Proposed Loan for each quarter that the interest free loan is provided to Mr Lark. The amount of the dividend for each quarter is calculated as the difference between the actual interest charged on the loan (in this case, nil) and the fringe benefit tax (“FBT”) prescribed rate of interest applying to employment related loans. The FBT prescribed rate of interest that currently applies from 1 July 2014 is 6.13%.

At a FBT prescribed rate of interest of 6.13%, the quarterly deemed dividend amount would be approximately \$3,000 if the Proposed Loan was drawn and outstanding for a full quarter. RWT will be deducted at 33% on the gross deemed dividend.

SLI’s liability to pay RWT on the deemed dividend to Mr Lark is the same as its obligation in relation to the interest-free loans that have been made available to the other three independent directors. The RWT liability is also reasonably small in comparison to the value that Mr Lark with his experience and expertise should be able to provide the Company. For these reasons, we conclude that the tax issues associated with the Proposed Loan do not present any material negative impacts for SLI’s Non-associated Shareholders.

## 2.8 Implications of the Resolution not being Approved

If the Proposed Loan is not approved by SLI’s shareholders, the effective option scheme intended for the benefit of Mr Lark (see Section 2.3.3 above) could not be implemented.

If this situation were to arise, it is uncertain how Mr Lark would react. Given one of the key reasons for the Redeemable Shares and the Proposed Loan is to align Mr Lark’s remuneration and incentives with the other independent directors on the Board, it would be reasonable to expect Mr Lark to feel somewhat aggrieved. Mr Lark could seek to renegotiate the level of the director’s fees he receives in cash to compensate him for the lost benefit of not having the Proposed Loan approved. Alternatively, he could resign from the Board, which would deprive the Company and the Non-associated Shareholders with the expertise and experience he is able to provide.

## 2.9 Required Certifications

For the purpose of the Listing Rules we certify that:

- We believe that SLI’s Non-associated Shareholders entitled to vote on the resolution in relation to the Proposed Loan will be provided with sufficient information on which to make an informed decision. The main sources of information are this report and the Notice of Meeting;
- We have been provided with all of the information that we believe is required for the purposes of preparing this report; and
- The material assumptions (if any) on which our opinion has been based are clearly set out in the body of this report.



## Appendix 1: Sources of Information Used in This Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Annual reports for various New Zealand listed companies
- A letter signed by SLI and Andy Lark setting out the terms of the Proposed Loan and the Redeemable Shares
- Discussions with Shaun Ryan, director and Chief Executive Officer of SLI
- The SLI website
- Various other documents that we considered necessary for the purposes of our analysis



## Appendix 2: Declarations, Qualifications and Consents

### Declarations

This report is dated 9 September 2014 and has been prepared by Northington Partners at the request of the independent directors of SLI not associated with Mr Lark to fulfil the reporting requirements pursuant to the Listing Rules. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to SLI for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

This report is provided for the benefit of all of the shareholders of SLI not associated with Mr Lark, and Northington Partners consents to the distribution of this report to those people. The engagement terms did not contain any term which materially restricted the scope of our work.

### Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Steven Grant B.Com, LLB (Hons). Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Northington Partners has been responsible for the preparation of numerous Independent Reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and the Listing Rules.

### Independence

Northington Partners has not been previously engaged on any other matter by SLI or Mr Lark or (to the best of our knowledge) by any other party to the Proposed Loan. None of the directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the Proposed Loan.

The preparation of this report will be Northington Partners' only involvement in relation to the Proposed Loan. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

### Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by SLI. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any



opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

### Indemnity

SLI has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

SLI has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.



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