

Notice of Annual Meeting



Notice is hereby given that the Annual Meeting of Solution Dynamics Limited is to be held at the Company's offices, 18 Canaveral Drive, Albany, Auckland on 23 October 2019 commencing at 10.30am.

Business

The business of the meeting is:

- Chairman's address.
- To receive and consider the annual report for the year ended 30 June 2019, together with the financial statements and auditor's report.

Resolutions

Ordinary Business

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

1. That the board be authorised to fix the remuneration of Grant Thornton as the Company's auditors. See Explanatory Note 1.
2. To re-elect Mr Elmar Toime who is retiring by rotation as required by clause 17 of the Company's constitution, and being eligible, offers himself for re-election as director. Please review Elmar's biography under Explanatory Note 2.
3. Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Andrew (Andy) Preece be elected as a director. Please review Andy Preece's biography under Explanatory Note 3.
4. Having been appointed during the year by the Board and holding office only until the Annual Meeting, that Lee Eglinton be elected as a director. Please review Lee Eglinton's biography under Explanatory Note 4.
5. That the directors be authorised to fix the remuneration of the directors of the Company from the close of this meeting as per the table shown in Explanatory Note 5.

Special Business - adoption of new Constitution

6. To consider, and if thought fit, to pass the following special resolution, in accordance with section 32(2) of the Companies Act:
 - a. the Company's existing constitution is revoked; and
 - b. the proposed constitution (as presented to the Annual Meeting of Shareholders) be adopted as the constitution of the Company.

General Business

To consider such other business as may lawfully be raised at the meeting.

Procedural Notes

- **Ordinary resolutions:** Resolutions 1 to 5 must be passed by an ordinary resolution of shareholders (i.e., by a simple majority of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy).
- **Special resolution:** Resolution 6 must be passed by a special resolution of shareholders (i.e., by a majority of 75% of the votes of those shareholders entitled to vote and voting on the resolution in person or by proxy).
- **Persons entitled to vote:** The only persons entitled to exercise votes at the meeting will be those who are registered as shareholders at 10.30am on 21 October 2019, and only the shares registered in those shareholders' names at that time will carry a right to vote at the meeting. This does not limit the right of eligible shareholders to appoint a proxy (or, if they are a company, a corporate representative).
- **Proxies:**
 - » All shareholders of the Company entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and vote for them instead.
 - » A proxy need not be a shareholder of the Company.
 - » A proxy form is enclosed and to be effective must be lodged at the registered office of the Company at least 48 hours before the meeting is due to begin (i.e. by no later than 10.30am on 21 October 2019).
 - » A proxy will vote as directed in the proxy form or, if voting is left to the proxy's discretion, then the proxy will decide how to vote on the resolutions.
 - » If you wish to appoint a director, as your proxy, the Company's chairman (John McMahan) is willing to act on your behalf. If the chairman is appointed as proxy and the voting is left to his discretion, the chairman intends to vote in favour of each of the Resolutions.
- **Representatives:** A body corporate which is a shareholder may appoint a representative to attend the Annual Meeting on its behalf in the same manner as that in which it could appoint a proxy.

Explanatory Notes

Explanatory notes in respect of the resolutions are set out overleaf.

By Order of the Board of Directors
Solution Dynamics Limited
2 October 2019

Explanatory Notes

Explanatory Note 1 – Auditor’s Remuneration:

Grant Thornton is automatically reappointed as the auditor of the Company under section 207T of the Companies Act 1993. The Board proposes that, consistent with past practice, the auditor’s fees be fixed by the Directors. The Board unanimously recommends that shareholders vote in favour of Resolution 1.

Explanatory Note 2 – Re-Election of Director:

Under Listing Rule 2.7.1 of the NZX Listing Rules, a Director must not hold office (without re-election) past the third annual meeting following the Director’s appointment or 3 years, whichever is longer. If a Director is eligible, they may offer themselves for re-election by shareholders at the meeting. In this case, Elmar Toime retires by rotation and, being eligible, offers himself for re-election by shareholders at the Annual Meeting.

Having had regard to the factors described in the NZX Corporate Governance Code that may impact director independence, the Board considers that Mr Elmar Toime will be an Independent Director.

Director’s Biography

With a lifetime achievement award for leadership in the postal sector, Elmar Toime is an independent advisor to the postal sector, based in London. He is a non-executive director of Qatar Post and chair of Postea Group, a US technology company. He was on the supervisory board of Deutsche Post DHL from 2006 to 2016, Executive Deputy Chair of the Royal Mail Group from 2003 to 2004, and CEO of New Zealand Post from 1993 to 2003.

Elmar holds qualifications in science and economics from the University of Melbourne and is a Fellow of the Royal Society for the Arts, Manufactures, and Science in the UK and a Fellow of the Institute of Managers and Leaders in NZ.

Explanatory Note 3 – Re-Election of Director:

Under Listing Rule 2.7.1 of the NZX Listing Rules, a Director appointed by the Board must not hold office (without re-election) past the next annual meeting following the Director’s appointment. If a Director is eligible, they may offer themselves for re-election by shareholders at the meeting. In this case, the appointment of Andy Preece by the Board was announced on 2 May 2019 and, being eligible, offers himself for re-election by shareholders at the Annual Meeting.

Having had regard to the factors described in the NZX Corporate Governance Code that may impact director independence, the Board considers that Andy Preece will continue to be an Independent Director.

Director’s Biography

Andy’s executive roles have included Managing Director and Chief Executive Officer of ASX-Listed Spicers, a multinational merchant group offering products and services to the printing, signage, visual display, graphics and digital industries. He has multi-national experience over 25 years in manufacturing, merchandising and wholesaling, originating in the UK packaging industry.

Andy was previously a non-Executive Director of

ASX-listed Spicers and he is currently Chairman of Yellow Holdings Ltd and a partner in an equity fund that is the major shareholder in a portfolio of import and distribution businesses in New Zealand. Andy has a proven record of turning around businesses and delivering sustainable shareholder returns, along with experience managing acquisition and divestment activities globally.

Andy is the chair of the Company’s Audit & Risk Committee.

Explanatory Note 4 – Re-Election of Director:

Under Listing Rule 2.7.1 of the NZX Listing Rules, a Director appointed by the Board must not hold office (without re-election) past the next annual meeting following the Director’s appointment. If a Director is eligible, they may offer themselves for re-election by shareholders at the meeting. In this case, the appointment of Lee Eglinton by the Board was announced on 29 May 2019 and, being eligible, offers herself for re-election by shareholders at the Annual Meeting.

Having had regard to the factors described in the NZX Corporate Governance Code that may impact director independence, the Board considers that Lee Eglinton will continue to be an Independent Director.

Director’s Biography

Lee’s executive roles have included General Manager Australia/NZ and NZ Country Manager of an IT services and consulting business, where she was employed for seven years. Prior to that she spent eight years at IBM NZ in a range of roles including Consulting Services, the company’s CRM practice, and business analytics and optimisation. Lee has a broad range of experience across the technology, consumer electronics and telecommunications sectors. Lee is currently a non-Executive Director of several private companies including Homecare Medical (New Zealand) Limited Partnership and HOBANZ. Lee’s experience includes strategy and business transformation, sales performance and sales management, and applying technology to business and market challenges. She has particular focus on organisational culture and building high performing teams.

Lee is a member of the Company’s Audit & Risk Committee.

Explanatory Note 5 – Directors’ fees:

The proposed resolution is to change the structure of directors’ fees from a total Director fee pool cap (currently \$140,000 per annum – as set in 2015) to a per Director rate. This allows full transparency of fees and enables the Board to proactively advance succession planning. The Board comprises four Independent Directors, as well as the Chairman (not Independent) and the Managing Director. Given the transition of the Company to the NZX Main Board and the need to obtain an appropriate mix of skills and knowledge, two new Independent Directors were appointed by the Board during the year. In setting the proposed rates, the Board commissioned an independent benchmarking review of both the structure of payments and the current level of Directors’ fees by Ernst & Young. A summary of Ernst & Young’s advice, together with their attestation of independence, is available on the Company’s website

at solutiondynamics.com/investor-centre/ under Board Governance.

The proposed structure and rates are as follows:

Position	Current	Proposed
Chairman	\$45,000	\$60,000
Independent Director	\$25,000	\$40,000
Audit & Risk Committee Chair	\$nil	\$7,500
Hourly rates for abnormal/ particularly time intensive projects or transactions outside the scope of typical Board work	Previously \$nil	\$250/hour

(all amounts exclusive of GST – if any)

The proposed structure and rates are in line with Ernst & Young's recommendations. The changes result in total Directors' fees (not including ad hoc fees) for the current Directors of \$227,500 per annum. This represents an overall increase of \$87,500 or 62.5% as compared to the current fee pool, which was approved by shareholders in 2015.

A significant portion of the increase is the result of aligning chairman's remuneration to the median for the comparator group (by revenue) of \$60,000 to reflect the additional responsibilities and workload of the chair and increasing the remuneration of non-executive directors to \$40,000. In the latter case, this increase was based on both relativity to the median for comparable companies and maintaining a typical market ratio between the remuneration of the chairman and that of other non-executive directors of 1.5 to 1.6 times. In addition, it was recommended that the Chair of the Audit and Risk Committee be paid an additional fee of \$7,500, which equates to 75% of the median of the market data sample (in this case of 3 companies – rather than the 11 used for the comparators of the chair and non-executive director remuneration).

If Resolution 5 is approved by shareholders then this will replace the current total Directors' fee pool cap and the set rates above will apply from the close of this meeting. Going forward the rates would be reviewed every second year by the Board in advance of the Annual Meeting with any adjustment put to shareholders for approval.

Voting Restrictions:

In accordance with NZX Listing Rule 2.11.1, the fees payable to Directors must be approved by an ordinary resolution of the shareholders. In accordance with NZX Listing Rule 6.3.1, no Director who is intended to receive payment of these fees or their Associated Persons (as defined under the NZX Listing Rules) can vote on any such resolution, unless casting votes under an expressly directed proxy of a person who is not disqualified from voting.

Explanatory Note 6 – Adoption of a new Constitution:

Introduction

The Board has previously advised shareholders of the Company's migration from the NZX Limited's NZAX Board to the NZX Main Board equity security market. The Company completed the migration to the Main Board on 28 May 2019.

One of impacts of migration to the Main Board is that,

from the date of migration, the Company is required to comply with the new Main Board Listing Rules, which came into effect on 1 January 2019. Whilst that has meant there is a need to update some governance policies and procedures, NZX Regulation has granted a series of class waivers that assist the process of migration by NZAX Issuers to the Main Board and which include allowing migrating NZAX issuers to postpone the process of updating the constitution until the next annual meeting (or a special meeting – if held earlier).

Constitution

The Company's existing constitution does not meet all the requirements of the NZX Listing Rules. As a result, the Company is required to adopt a constitution that complies with the NZX Listing Rules. To adopt a new constitution, a special resolution of shareholders is required under section 32 of the Companies Act. The special resolution required is a resolution approved by 75% or more of the eligible votes cast on the resolution.

Instead of proposing a long list of amendments to the existing constitution, the Board has chosen to present to shareholders for adoption a new constitution incorporating the proposed amendments (the proposed constitution).

To assist shareholders, the key changes to the existing constitution are highlighted below and a clean copy of the proposed constitution for adoption at the meeting is available on the Company's website: <http://www.solutiondynamics.com>. In addition, copies of the clean proposed constitution are available from the Company (telephone (09) 970 7700, email info@solutiondynamics.com, and postal address of PO Box 301-248, Albany, Auckland 0752 (attention Chris Veale, Chief Financial Officer)).

The Board is also taking the opportunity to improve and modernise aspects of the existing constitution (for example, by putting the meeting procedures in schedules) which do not relate directly to the proposed NZX migration to the Main Board.

Listing Rules

The proposed constitution incorporates by reference (instead of in full) a number of provisions from the Listing Rules.

A copy of the Main Board Listing Rules (1 January 2019) is on NZX's website (www.nzx.com).

Scope of Explanatory Note

This Explanatory Note describes some of the provisions of the proposed constitution which are not in the existing constitution. It does so at a high level only, and the Board recommends to shareholders that they review the proposed constitution and the NZX Listing Rules to understand fully the effect of the proposed constitution. In particular, this Explanatory Note is not intended to be a substitute for a review of the proposed constitution and NZX Listing Rules.

Key Changes

- **Clause 1.1: Definitions:** The definitions section has been updated to include additional definitions to assist in the interpretation of the constitution and existing definitions have been revised to align with the Listing Rules.

- **Clause 1.4:** Incorporation by reference. In keeping with current constitutions, an element of future proofing has been added to deal with changes to the Listing Rules. As a result, for so long as the Company is listed on the NZX, the constitution is deemed to incorporate all provisions of the NZX Listing Rules required under the NZX Listing Rules to be contained or incorporated by reference as those provisions apply from time to time and as if those provisions were set out in full in the constitution itself.
- **Clause 1.7:** Impact of changes to the Listing Rules. For clarity, if the NZX Listing Rules are changed so that anything done by the Company which was formerly prohibited by the NZX Listing Rules, is subsequently allowed or required, it is deemed to be authorised with effect from the date of the change.
- **Clause 1.13:** Ceasing to be listed. For clarity, clauses 1.2j and 1.4 to 1.10 apply only for so long as the Company is listed on the NZX.
- **Clause 3.6:** Financial assistance. For clarity, the provision by the Company of financial assistance for the purpose of, or in connection with, the acquisition of any its Shares is prohibited - unless it is in accordance with the provisions of the Companies Act and the NZX Listing Rules.
- **Clause 3.7:** Bonus issues. For clarity, the Board is granted a specific power to issue new Shares (or pay up amounts unpaid on existing Shares) by means of a bonus issue.
- **Clause 6:** Distributions: This clause has been updated and clarified, including by clarifying the issue of dividends payable in respect of Shares which are not fully paid up.
- **Clause 8.2c and d:** Electronic transfers. As another example of future-proofing, scope is provided for share transfers by any approved system of transfer by electronic means which operates in relation to trading in securities on any other stock exchange on which the Company's Shares are traded and in accordance with any other system of transfer approved by legislation.
- **Clause 8.7 to 8.12:** Sale of less than a Minimum Holding: The notice of refusal to register in respect of sales that would result in the transferee having less than a Minimum Holding shall advise of the Board's intention to sell those Shares unless the Shareholder acquires further Shares (so as to ensure that they have at least a Minimum Holding).
- **Clause 8.14:** Transfer of Securities other than Shares. For clarity, clause 8 also applies to transfers of Securities of the Company other than Shares.
- **Clause 10:** Proceedings at meetings of Shareholders and Interest Groups. As noted above, the procedural requirements for meetings have been shifted into Schedules (for ease of reference). Schedule 1 governs meetings of Shareholders. In addition, Schedule 1 shall also govern meetings of any Interest Group (where required to be held by the Companies Act, the NZX Listing Rules, or the constitution). Note that a quorum for an Interest Group meeting shall be the members of the Interest Group holding 5% or more of the voting rights entitled to be exercised on any of the questions to be considered at a meeting of the Interest Group in question.
- **Clause 12:** Appointment, rotation and removal of Directors: The NZX Listing Rules set out requirements in relation to the composition of the Board, which have been incorporated into the proposed constitution. For example, the NZX Listing Rules require a minimum of two independent Directors if there are up to 8 Directors, or if there are 8 Directors (the maximum currently provided for in this constitution), three independent Directors (or one-third rounded up to the nearest whole number). In accordance with the NZX Listing Rules:
 - » each director's appointment must be voted on individually; and
 - » no director shall hold office longer than 3 years without retiring and offering himself or herself for re-election.

Additionally, to avoid any uncertainty, clause 12.12 clarifies the timing of retirement and appointment of a director.

Note also that the new NZX Listing Rules require that the Company establish an Audit Committee (and provide for the composition and responsibilities of the Audit Committee). This change is addressed in clause 12.13.
- **Clause 13:** Executive Director: In a significant change, the new NZX Listing Rules do not allow an Executive Director (such as Managing Director) to be exempted from rotation – by being subject to a 5-year term. As a result, clause 13.2 provides that an Executive Director is subject to the same provisions as to resignation and removal as the other Directors of the Company.
- **Clause 14:** Alternate Directors: This clause has been updated and a handful of points of clarification added (including by addressing such administrative matters as notices of Board meetings, remuneration and expenses, cessation of appointment and rights and powers).
- **Clause 15:** Directors' remuneration: This clause has been updated and simplified to incorporate by reference the relevant NZX Listing Rules and provisions of the Companies Act in respect of directors' remuneration. The provisions around "special" remuneration have been brought in line with the NZX Listing Rules.
- **Clause 16:** Proceedings of the Board. As noted above, the procedural requirements for meetings have been shifted into Schedules (for ease of reference). The Schedule 2 governs proceedings of the Board.
- **Clause 18:** Notices: Clause 18 has been simplified, and updated to include communication by electronic mail message. Clause 18.2 has been inserted to clarify how notice is provided to a security holder who does not have a known address within New Zealand.

- **Schedule 1 - Proceedings at Meetings of Shareholders:** As noted above, the procedural requirements for meetings have been shifted into Schedules (for ease of reference). Schedule 1 largely consolidates, with some updating, the procedural requirements for meetings of Shareholders that are contained in the existing constitution.

Those provisions to which particular attention is drawn are:

Clause 4.2 - Numbers for quorum	The amended quorum requirement (three shareholders) for meetings of shareholders is designed to reflect current practice by NZX Main Board listed companies. This is not a material change to the threshold required by the existing constitution.
Clause 5.3 - Evidence that resolution carried	For clarity, a declaration by the chairperson that a resolution is carried – is conclusive evidence of that fact unless a poll is demanded.
Clauses 5.4 - 5.13 - Polls	Again, for clarity, much more detail has been added in relation to the conduct of polls, specifically providing for: <ul style="list-style-type: none"> • who may demand and poll (and when); • more detail around voting and counting of votes; • scrutineers; and • declaration of the result.
Clause 6 - Proxies	Again, for clarity, additional detail has been added in relation to handling or proxies – including a specific requirement to include the proxy form with the notice of meeting.
Clause 9 - Shareholder proposals	A specific provision has been added to recognise the scope for Shareholder proposals – in accordance with the Companies Act.

- **Schedule 2 - Proceedings of the Board:** As noted above, the procedural requirements for meetings have been shifted into Schedules (for ease of reference). Schedule 2 consolidates, and modernises, the procedural requirements for Board meetings that are contained in the existing constitution.

Those provisions to which particular attention is drawn are:

Clause 1 - Chairperson	<ul style="list-style-type: none"> • A Director may not simultaneously hold the positions of Chief Executive and chairperson of the Board. This has been inserted to ensure that a non-executive director is the chairperson of the Board. • The chairperson holds that office until he or she dies or resigns or the Directors elect a chairperson in his or her place.
Clause 2 - Notice of Meeting	<ul style="list-style-type: none"> • A number of (mostly) minor clarifications have been added – along with the scope to give notice of a Board meeting by telephone (as well as electronically). • If a Director is resident outside New Zealand (or is temporarily absent from New Zealand) and has appointed an Alternate Director – then notice must be given to the Alternate Director.
Clause 4 - Quorum	An Alternate Director present at a meeting may be included for the purpose of establishing a quorum.
Clause 5 - Voting	<p>For clarity:</p> <ul style="list-style-type: none"> • In the case of an equality of votes the chairperson will not have a casting vote except where only two Directors form a quorum and are present at the meeting. • In accordance with the NZX Listing Rules an “interested” Director shall not: <ul style="list-style-type: none"> » vote on a Board resolution in respect of that matter; nor » be included among the quorum in considering that matter, » except that a Director may vote in respect of and be counted in the quorum - for a matter in which that Director is interested if the matter is one in respect of which, pursuant to an express provision of the Companies Act, Directors are required to sign a certificate or one which relates to the grant of an indemnity under the Companies Act. • An Alternate Director may attend and Vote at meetings of the Board in accordance with and subject to clause 14 of the constitution if the Director that has appointed the Alternate Director is absent from the meeting.
Clause 6 - Written resolution	This has been updated to enable a majority of directors to vote on a resolution in writing, which has the practical benefit of not requiring every director to sign each written resolution. For example, should a director be travelling or otherwise unavailable, the resolution may still be passed should a majority agree.

NZX Approval

The proposed new constitution has been the subject of a solicitor's opinion in accordance with the Listing Rules.

Important Information: General note applicable to all resolutions requiring votes at the Annual Meeting.

Pursuant to section 125 of the Companies Act 1993, the Board has determined that, for the purposes of voting at the Annual Meeting, only those registered shareholders of the Company as at 10.30am on Monday, 21 October 2019, being a day not more than 20 working days before the meeting, shall be entitled to exercise the right to vote at the meeting either in person or by appointing a proxy to attend and vote instead of that shareholder.

Voting will be 1 share: 1 vote and shall be conducted by way of a poll.

You may vote:

- 1. By Attending:** You should bring the Voting/Proxy Form (included with this Notice) with you since voting shall be by way of a poll.
- 2. By Proxy.** If you do not plan to attend, you can appoint a proxy to vote for you. A Voting/Proxy Form is included with this Notice of Annual Meeting

which allows you to vote either for, against, or abstain from, the resolutions notified in this Notice of Meeting. Any shareholder of the Company who is entitled to attend and vote at the Annual Meeting, is entitled to appoint a proxy to attend the meeting and vote on his or her behalf. A proxy need not be a shareholder of the Company. If you appoint a proxy, you may either direct your proxy how to vote for you, or you may give the proxy discretion to vote as he or she sees fit. If you wish to give your proxy discretion then you should make the appropriate election on the Proxy Form, to grant your proxy that discretion.

Except as discussed below, you will be deemed to have given your proxy discretion if you do not make an election in relation to any of the resolutions. The Chairman of the meeting is willing to act as proxy for any shareholder who appoints him or her for that purpose. The Chairman and any Directors appointed as proxy will vote any discretionary proxies in favour of the resolutions.

A proxy form is enclosed with this Notice of Meeting. If you wish to vote by proxy you must complete the form and return it to the registered office of the Company, so as to ensure that it is received by 10.30am on Monday, 21 October 2019. Details of where to return the completed proxy form are set out on the Proxy Form.