

# Lateral Corporation Limited

## Independent Adviser's Report

### In Respect of the Proposed Allotment of Shares to Golden Tower NZ Limited

## Independent Report

### In Respect of the Proposed Backdoor Listing of the Golden Tower NZ Limited Business

*July 2017*

#### Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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## 1. Introduction

### 1.1 Background

Lateral Corporation Limited (**Lateral** or the **Company**) is a specialist developer of mobile technology, mobile communications, carrier billing and mobile web applications.

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

The Company's market capitalisation was \$3.6 million as at 12 July 2017 and its unaudited total equity was negative \$0.8 million as at 31 March 2017.

A profile of the Company is set out in section 4.

### 1.2 Proposed Transactions With Golden Tower NZ Limited

Lateral announced on 23 February 2017 that it signed a conditional agreement with Golden Tower NZ Limited (**Golden Tower**) whereby Lateral will acquire assets and cash from Golden Tower and spin-off the Company's current business to Lateral's existing shareholders (the **Golden Tower Transactions**).

The Company announced on 24 May 2017 that the Golden Tower Transactions had been modified whereby Lateral would receive just cash from Golden Tower (rather than cash and a property as previously announced).

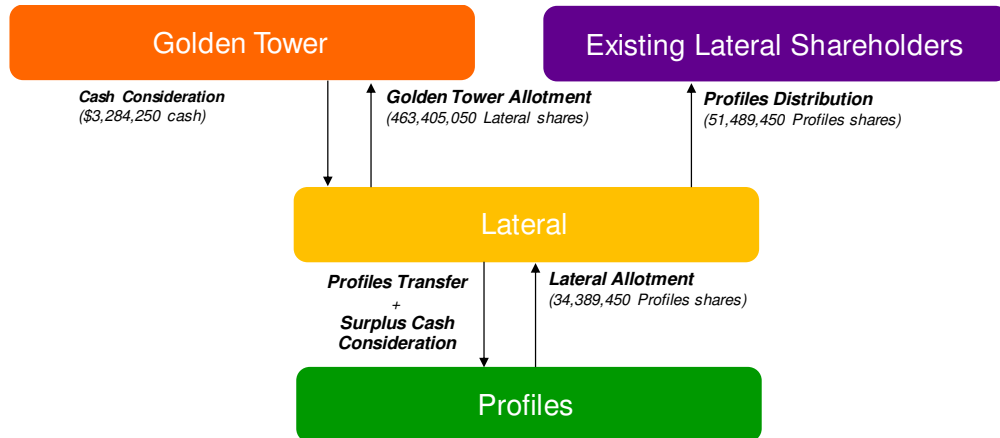
Golden Tower will use Lateral as a listed vehicle to develop a new business in the financial services sector, thereby backdoor listing Golden Tower through Lateral for the purposes of the NZAX Listing Rules.

The Golden Tower Transactions will involve:

- all of Lateral's assets, business and liabilities being transferred into Lateral's wholly owned subsidiary, Lateral Profiles Limited (**Profiles**) (the **Profiles Transfer**) and in consideration Lateral will be issued 34,389,450 new fully paid ordinary shares in Profiles (the **Lateral Allotment**)
- the 51,489,450 fully paid ordinary shares in Profiles will then be distributed pro rata to all of Lateral's existing shareholders (the **Profiles Distribution**)
- Golden Tower will be issued 463,405,050 new fully paid shares in Lateral at an issue price of \$0.0071 (rounded) (of which 20,595,780 shares will be issued to Tasman Capital Limited (**Tasman**) as a nominee of Golden Tower) for cash of \$3,284,250 (the **Cash Consideration**) (the **Golden Tower Allotment**)
- the 463,405,050 new fully paid shares issued under the Golden Tower Allotment will comprise:
  - 455,444,549 fully paid ordinary shares with voting rights (**Voting Shares**)
  - 7,960,501 fully paid ordinary shares without voting rights (**Non-voting Shares**)
- \$2.6 million of the Cash Consideration will remain in Lateral and the balance of approximately \$0.6 million (after allowing for transaction costs) (the **Surplus Cash Consideration**) will be injected into Profiles with only minimal dilution of the Company's existing shareholders' interests in Profiles.

As part of the Golden Tower Transactions, Golden Tower will nominate 2 directors to Lateral's board of directors (the **Board**) and Lateral will change its name.

The Golden Tower Transactions will result in the Company's existing shareholders retaining their current Lateral shares and (for no consideration) receiving shares in Profiles, which will be an interest in the same assets and business that Lateral presently has plus the Surplus Cash Consideration.



Completion of the Golden Tower Transactions is subject to, and conditional upon, (amongst other matters) the Company's shareholders approving all of the resolutions required to be passed to implement the Golden Tower Transactions.

### 1.3 Golden Tower

Golden Tower is a company incorporated in New Zealand on 13 May 2016. It is wholly owned by Ka Wo Chan. Hongwen Song is the sole director of the Company. Mr Song was a shareholder in Golden Tower until 22 November 2016.

We are advised that Golden Tower has interests in businesses operating in the financial services sector and the property investment sector.

### 1.4 Tasman

Tasman is a company incorporated in New Zealand on 19 March 2007. Its largest shareholder is Trinity Portfolio Limited, a company owned by Joseph van Wijk. Mr van Wijk is a director of Tasman and is also a director of Lateral.

Tasman is an investment firm that assists companies to list on the markets operated by NZX. Tasman incorporated Lateral on 10 December 2013 and facilitated the listing of the Company onto the NZAX in August 2014.

Tasman currently holds 600,000 Lateral shares (1.17%). Mr van Wijk holds 77,250 Lateral shares in his name (0.15%). Trinity Portfolio Limited (**Trinity**), a company wholly owned by Mr van Wijk, currently holds 118,800 shares (0.23%). We refer to Tasman, Mr van Wijk and Trinity collectively as the **Tasman Associates**. The Tasman Associates currently hold 796,050 Lateral shares (1.55%).

Tasman and Qumai Limited (**Qumai**) have worked with Lateral and Golden Tower to facilitate the Golden Tower Transactions.

As remuneration for its services, Tasman will receive:

- 20,595,780 fully paid shares in Lateral as part of the Golden Tower Allotment:
  - 12,635,279 Voting Shares
  - 7,960,501 Non-voting Shares
- 1,000,000 new fully paid ordinary shares in Profiles immediately after the Profiles Distribution is completed (the **Profiles Tasman Allotment**).

Qumai will be paid \$70,000 cash by Profiles.

## 1.5 Shareholding Levels Post the Golden Tower Transactions

### Lateral

If the Golden Tower Transactions are approved by the Company's shareholders, Lateral will have 514,894,500 shares on issue following the Golden Tower Allotment, of which 506,933,999 will be Voting Shares and 7,960,501 will be Non-voting Shares:

- the Company's shareholders not associated with Golden Tower or Tasman (the **Non-associated Shareholders**) will collectively hold 9.85% of the shares on issue and 10.00% of the voting rights in the Company
- Golden Tower will hold 86.00% of the shares on issue and 87.35% of the voting rights
- the Tasman Associates will hold 4.15% of the shares on issue and 2.65% of the voting rights.

#### Lateral Shareholdings Post the Golden Tower Transactions

	Current		Golden Tower Allotment		Post the Golden Tower Transactions	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Non-associated Shareholders	50,693,400	98.45%	-	-	50,693,400	9.85%
Golden Tower	-	-	442,809,270	95.56%	442,809,270	86.00%
Tasman Associates	796,050	1.55%	20,595,780 <sup>1</sup>	4.44%	21,391,830 <sup>1</sup>	4.15%
	<u>51,489,450</u>	<u>100.00%</u>	<u>463,405,050</u>	<u>100.00%</u>	<u>514,894,500</u>	<u>100.00%</u>

<sup>1</sup> Includes 7,960,501 Non-voting Shares

#### Lateral Voting Rights Post the Golden Tower Transactions

	Current		Golden Tower Allotment		Post the Golden Tower Transactions	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Non-associated Shareholders	50,693,400	98.45%	-	-	50,693,400	10.00%
Golden Tower	-	-	442,809,270	97.23%	442,809,270	87.35%
Tasman Associates	796,050	1.55%	12,635,279	2.77%	13,431,329	2.65%
	<u>51,489,450</u>	<u>100.00%</u>	<u>455,444,549</u>	<u>100.00%</u>	<u>506,933,999</u>	<u>100.00%</u>

## Profiles

If the Golden Tower Transactions are approved by the Non-associated shareholders, Profiles will have 52,489,450 ordinary shares on issue following the Profiles Distribution and the Profiles Tasman Allotment:

- the Non-associated Shareholders will collectively hold 96.58% of the shares on issue
- the Tasman Associates will hold 3.42% of the shares.

Profiles Shareholdings Post the Golden Tower Transactions					
	Post the Profiles Distribution		Profiles Tasman Allotment	Post the Profiles Tasman Allotment	
	No. of Shares	%	No. of Shares	No. of Shares	%
Non-associated Shareholders	50,693,400	98.45%	-	50,693,400	96.58%
Tasman Associates	796,050	1.55%	1,000,000	1,796,050	3.42%
	<u>51,489,450</u>	<u>100.00%</u>	<u>1,000,000</u>	<u>52,489,450</u>	<u>100.00%</u>

The Profiles Tasman Allotment will dilute the Non-associated Shareholders' interest in Profiles by 1.9%.

## 1.6 Special Meeting

Lateral is holding a special meeting of shareholders where the Company will seek shareholder approval of 4 resolutions (the **Golden Tower Transactions Resolutions**) which cover:

- approval of the Golden Tower Transactions (resolution 1):
  - part (a) – the Golden Tower Allotment
  - part (b) – the Profiles Transfer
  - part (c) – the Profiles Distribution
- the appointment of Ka Wo Chan as a director (resolution 2)
- the appointment of Chong Hoi Sze as a director (resolution 3)
- the approval of the Golden Tower Transactions as a major transaction by special resolution (resolution 4).

All the resolutions are ordinary resolutions (which are passed by a simple majority of the votes cast) other than resolution 4 which is a special resolution (which is passed by a majority of not less than 75% of the votes cast).

All 4 resolutions are interdependent and require sequential approval. This means that resolution 2 can only be voted on if resolution 1 is approved, resolution 3 can only be voted on if resolution 2 is approved and so on. All 4 Golden Tower Transactions Resolutions must be approved in order for the Golden Tower Transactions to proceed. If any one of the 4 resolutions is not approved, then the Golden Tower Transactions cannot proceed.

## 1.7 Regulatory Requirements

### *Takeovers Code*

Rule 6 of the Takeovers Code (the **Code**) prohibits:

- a person and that person's associates who hold or control less than 20% of the voting rights in a code company from increasing their control of voting rights beyond 20%
- a person and that person's associates holding or controlling 20% or more of the voting rights in a code company from increasing their control of voting rights

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

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates that hold or control 20% or more of the voting rights in the code company to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The Golden Tower Allotment will result in Golden Tower holding or controlling 87.35% of the voting rights in Lateral and the Tasman Associates holding or controlling 2.65% of the voting rights.

Golden Tower and the Tasman Associates are associates for the purposes of the Code. We refer to them collectively as the **Golden Tower Associates**. The Golden Tower Allotment will result in the Golden Tower Associates holding just under 90.00% of the voting rights in Lateral (89.99999998%).

Accordingly, in accordance with the Code, the Non-associated Shareholders will vote at the Company's special meeting on an ordinary resolution in respect of Golden Tower Allotment (part (a) of resolution 1).

Golden Tower, Tasman or any of their associates (as defined in the Code) are not permitted to vote on resolution 1.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

### *NZX Guidance Note*

As the Golden Tower Allotment represents a backdoor listing of Golden Tower, an Independent Report on the Golden Tower Transactions is required under the NZX Guidance Note *Backdoor and Reverse Listing Transactions* dated August 2008 (the **NZX Guidance Note**).

The NZX Guidance Note requires that the Independent Report complies with the requirements of an Appraisal Report under NZX Main Board Listing Rule 1.7.2.

## 1.8 Purpose of the Report

The Board has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the Golden Tower Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 15 March 2017 to prepare the Independent Adviser's Report.

The Board has engaged Simmons Corporate Finance to prepare an Independent Report on the fairness of the Golden Tower Transactions in accordance with the NZX Guidance Note.

Simmons Corporate Finance issues this Independent Adviser's Report and Independent Report to the Board for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the Golden Tower Transactions Resolutions.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the Golden Tower Allotment and the fairness of the Golden Tower Transactions in relation to each shareholder. This report on the merits of the Golden Tower Allotment and the fairness of the Golden Tower Transactions is therefore necessarily general in nature.

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



## 2. Evaluation of the Merits of the Golden Tower Allotment

### 2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the Golden Tower Allotment having regard to the interests of the Non-associated Shareholders.

There is no legal definition of the term *merits* in either the Code or in any statute dealing with securities or commercial law in New Zealand.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated 20 June 2017
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

Given that the Golden Tower Allotment is an integral component of the Golden Tower Transactions, we are of the view that an assessment of the merits of the Golden Tower Allotment cannot be undertaken in isolation and needs to be considered in conjunction with the merits of the Golden Tower Transactions. Accordingly, we are of the view that an assessment of the merits of the Golden Tower Allotment should focus on:

- the rationale for the Golden Tower Transactions
- the fairness of the terms of the Golden Tower Transactions
- the likelihood of alternative transactions
- the impact of the Golden Tower Transactions on the control of Lateral
- the impact of the Golden Tower Transactions on Lateral's share price
- other benefits and disadvantages to the Non-associated Shareholders of the Golden Tower Transactions
- the benefits and disadvantages to Golden Tower of the Golden Tower Transactions
- the implications if the Golden Tower Transactions Resolutions are not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

## 2.2 Summary of the Evaluation of the Merits of the Golden Tower Transactions

The Non-associated Shareholders currently hold shares in an early stage technology company with total equity of negative \$0.8 million as at 31 March 2017 and whose shares are thinly traded on the NZAX.

The Non-associated Shareholders are being asked to vote on 4 resolutions in respect of the Golden Tower Transactions. All resolutions must be passed in order for the Golden Tower Transactions to proceed. Accordingly, the Non-associated Shareholders have 3 alternatives with regard to their voting:

- vote in favour of all 4 resolutions, in which case the Golden Tower Transactions will proceed, resulting in the Non-associated Shareholders retaining their proportionate interests in Profiles to a material degree as well as holding a much smaller shareholding in Lateral, which will have cash reserves of \$2.6 million and will focus on developing new operations in the financial services sector, or
- vote against any of the resolutions. In the event that any one of the 4 resolutions is not passed, then the Golden Tower Transactions will not proceed and the Company will remain as a listed early stage technology company which will need to raise additional capital in the near term, or
- abstain from voting, in which case the voting of the other Non-associated Shareholders will determine the outcome.

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

The Golden Tower Transactions will have significant benefits for the Non-associated Shareholders:

- they will retain close to their current proportionate interests in Profiles (the Profiles Tasman Allotment will dilute each shareholder's interest in Profiles (other than Tasman's) by 1.9%)
- the Profiles cost structure will be reduced by the elimination of NZAX listing compliance costs
- Profiles will receive a cash injection of up to \$0.6 million, which the Board considers to be adequate to fund Profiles' continued growth
- in addition to materially retaining their proportionate interests in Profiles, they will collectively hold a 9.85% interest in Lateral, which will be transformed into a company with \$2.6 million of cash reserves that is focused on developing new operations in the financial services sector
- we are of the view that in the absence of the Golden Tower Transactions, Lateral's shares have negligible value at this point in time
- we consider the issue price of the shares under the Golden Tower Allotment of \$0.0071 (rounded) per share to be advantageous (and therefore fair) to the Non-associated Shareholders as it is higher than our assessment of the current value of Lateral's shares
- following the Golden Tower Transactions, the Company's shares may be re-rated by the market which may improve the liquidity of the shares.

The main negative implications for the Non-associated Shareholders of the Golden Tower Transactions are:

- their proportionate interests in the Company will be significantly diluted by 90% following Golden Tower Allotment
- the Golden Tower Associates will hold just under 90.00% of the voting rights in the Company and will be able to determine the outcome of any shareholder resolution that they are permitted to vote on
- the Golden Tower Associates will have 3 appointees to the Board, thereby controlling the Board as well as leading the management of the Company's operations
- Non-associated Shareholders will still be exposed to the risks associated with the Profiles early stage technology business as well as the risks faced by businesses in the financial services sector
- their shareholdings in Profiles will not be quoted on a securities trading platform and therefore will be less liquid than their current shareholdings in Lateral.

Non-associated Shareholders should carefully consider that in the event that the Golden Tower Transactions do not proceed, Lateral will remain as a listed company operating the Profiles business. Given its current financial position, it will need to raise additional capital in the near term to fund its operations and the costs associated with remaining listed on the NZAX. There is no certainty that sufficient funding can be raised within an appropriate timeframe, although we note that Lateral did raise \$1.5 million of equity and debt in the 2017 financial year. If the Company cannot raise sufficient capital, this may lead to the need to wind up the Company, in which case the Non-associated Shareholders will not receive any return as the Company had total equity of negative \$0.8 million as at 31 March 2017.

### **2.3 Rationale for the Golden Tower Transactions**

The Golden Tower Transactions will transform Lateral from an undercapitalised early stage technology company (ie the Profiles business) into a company focused on developing new operations in the financial services sector with \$2.6 million of cash reserves. The Non-associated Shareholders will materially retain their proportionate interests in Profiles through the Profiles Distribution (they will be diluted marginally by 1.9% following the Profiles Tasman Allotment) and collectively hold 9.85% of the shares in Lateral.

The Board is of the view that while the Profiles business has made significant progress of late through strong growth in customer acquisitions as a result of the marketing initiatives it implemented using the capital it raised last year, the business would be better served if it was not listed on the NZAX. The business lacks the scale to justify the compliance costs associated with being listed and the Board feels that the Company's NZAX listing has not materially assisted in Lateral's capital raising initiatives.

The Profiles Transfer will effectively delist the Profiles business and help to reduce its cost structure. The Profiles Distribution will ensure that the Company's current shareholders will hold close to the same proportionate interests in Profiles as they currently hold in Lateral (other than for the 1.9% dilutionary impact of the Profiles Tasman Allotment). The Surplus Cash Consideration of up to \$0.6 million that will be transferred to Profiles will not dilute the Non-associated Shareholders' shareholdings and the amount is considered by the Board to be sufficient to fund Profiles' continued growth.

On 15 May 2017, Lateral announced that it had engaged a corporate advisory firm to review potential opportunities for the Profiles business, including:

- the sale of the business
- equity investment into the business by a strategic business partner
- raising capital and quoting Profiles' shares on a securities trading platform.

Following the Golden Tower Transactions, Lateral will be a listed shell company with \$2.6 million of cash. Golden Tower's objective will be to enhance the value of Lateral through developing new operations in the financial services sector by way of acquisition and organic growth.

## 2.4 Process Undertaken by Lateral

We are advised by the Board that it initially entered into discussions with Golden Tower in December 2016 when Golden Tower proposed the Golden Tower Transactions to the Board via Mr van Wijk. The Company's chair Dene Biddlecombe led the negotiations on behalf of the Board.

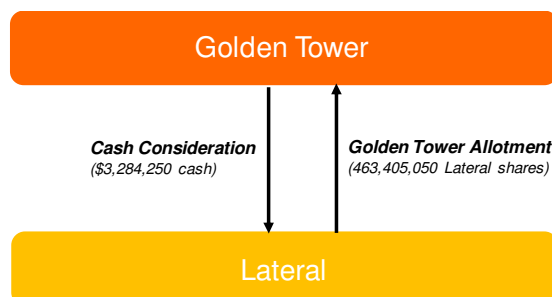
On 28 December 2016, Lateral entered into a non-binding terms sheet with Golden Tower, leading to the signing of the Share Subscription Agreement on 23 February 2017 (which was varied by the Deed of Variation of Share Subscription Agreement on 18 May 2017 and a further Deed of Variation of Share Subscription Agreement (Second Edition) dated 13 July 2017). Lateral also entered into the Share Subscription Deed with Profiles on 23 February 2017.

## 2.5 Terms of the Golden Tower Transactions

### Golden Tower Allotment

Lateral and Golden Tower have entered into a Share Subscription Agreement dated 23 February 2017 and amended by the 2 Deeds of Variation whereby Golden Tower will subscribe for 463,405,050 new fully paid shares in Lateral at an issue price of \$0.0071 (rounded) (totalling \$3,284,250) under the Golden Tower Allotment and use Lateral as a listed vehicle in New Zealand for its ongoing business.

The consideration for the shares comprises the Cash Consideration of \$3,284,250.



The Share Subscription Agreement is conditional on:

- approval by Lateral's shareholders
- approval by NZX Regulation of the Disclosure Document required under the NZAX Listing Rules.

On completion the shares will be issued to Golden Tower and Lateral will change its company name.

The 7,960,501 Non-voting Shares issued to Tasman under the Golden Tower Allotment will be ordinary shares with all of the rights and obligations attaching to the ordinary shares in Lateral, other than the voting rights attached to the shares shall be suspended. However, the Non-voting Shares will automatically become Voting Shares whenever (and to the extent of) Tasman, Golden Tower and their respective associates hold less than 90% of the voting rights in Lateral.

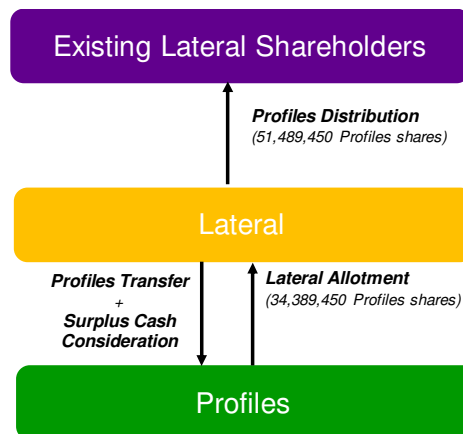
**Profiles Transfer, Lateral Allotment and Profiles Distribution**

Lateral and Profiles have entered into a Share Subscription Deed dated 23 February 2017. As part of the transactions, Lateral will undertake the Profiles Distribution whereby it will make an *in specie* distribution of the shares in Profiles that it holds to the existing shareholders of Lateral on a pro rata basis.

Before the Profiles Distribution takes place, Lateral will subscribe for 34,389,450 new fully paid ordinary shares in Profiles under the Lateral Allotment. This will result in Profiles having the same number of shares on issue as Lateral currently does (ie 51,489,450 shares).

Following the Profiles Distribution and before the Profiles Tasman Allotment, the Company’s existing shareholders will hold the same proportionate shareholding interest in Profiles that they currently hold in Lateral. The Profiles Tasman Allotment will dilute these shareholdings by 1.9%.

The consideration for the Profiles shares issued under the Lateral Allotment comprises the Profiles Transfer (being the assets, business, employees and assumed liabilities held in Lateral prior to the Golden Tower Transactions) and the Surplus Cash Consideration.



The Share Subscription Deed is conditional upon the Share Subscription Agreement becoming unconditional (the conditions are stated above).

**2.6 Issue Price of Shares Under Golden Tower Allotment**

The Golden Tower Allotment shares will be issued at \$0.0071 (rounded) per share under the Golden Tower Transactions.

Lateral's total equity was negative \$0.8 million as at 31 March 2017. This equates to negative \$0.016 per share.

Our analysis of the fairness of the issue price of \$0.0071 (rounded) per share is set out in section 5. We consider the issue price to be advantageous (and therefore fair) to the Non-associated Shareholders as:

- it significantly exceeds the asset backing of the shares after the transfer of Profiles. As set out in section 5.4, the adjusted asset backing of the Company as at 31 March 2017 after the transfer of Profiles would be negative \$0.014 per share
- even allowing for the value of the Company's NZAX listing, we consider the value of Lateral's shares to be considerably below \$0.0071 (rounded) per share.

## 2.7 Limited Likelihood of Alternative Transactions

We are advised by the Board that it is not evaluating any other transactions at this point in time.

## 2.8 Impact on Control

### Share Capital and Shareholders

Lateral currently has 51,489,450 fully paid ordinary shares on issue held by 500 Non-associated Shareholders. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 30 June 2017 are set out in section 4.4.

### Shareholding Levels Post the Golden Tower Transactions

If the Golden Tower Transactions are approved, Lateral will have 514,894,500 ordinary shares on issue, of which 506,933,999 will be Voting Shares and 7,960,501 will be Non-voting Shares.

Lateral Shareholding Post the Golden Tower Transactions						
	Current		Golden Tower Allotment		Post the Golden Tower Transactions	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Non-associated Shareholders	50,693,400	98.45%	-	-	50,693,400	9.85%
Golden Tower	-	-	442,809,270	95.56%	442,809,270	86.00%
Tasman Associates	796,050	1.32%	20,595,780 <sup>1</sup>	4.44%	21,391,830 <sup>1</sup>	4.15%
	<u>51,489,450</u>	<u>100.00%</u>	<u>463,405,050</u>	<u>100.00%</u>	<u>514,894,500</u>	<u>100.00%</u>

<sup>1</sup> Includes 7,960,501 Non-voting Shares

Lateral Voting Rights Post the Golden Tower Transactions						
	Current		Golden Tower Allotment		Post the Golden Tower Transactions	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Non-associated Shareholders	50,693,400	98.45%	-	-	50,693,400	10.00%
Golden Tower	-	-	442,809,270	97.23%	442,809,270	87.35%
Tasman Associates	796,050	1.32%	12,635,279	2.77%	13,431,329	2.65%
	<u>51,489,450</u>	<u>100.00%</u>	<u>455,444,549</u>	<u>100.00%</u>	<u>506,933,999</u>	<u>100.00%</u>

## Shareholding Voting

The Golden Tower Allotment will result in Golden Tower holding 87.35% of the voting rights in the Company, thereby gaining significant control over shareholder voting. Tasman will hold 2.65% of the Company's voting rights. Collectively, the Golden Tower Associates will hold just under 90.00% of the voting rights in the Company.

Golden Tower will be able to singlehandedly determine the outcome of any special resolutions (which require the approval of 75% of the votes cast by shareholders) and the outcome of any ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders), subject always to applicable voting restrictions under the NZAX Listing Rules and the Companies Act 1993 (the **Act**).

Following the Golden Tower Allotment, neither Golden Tower nor Tasman will be able to further increase their respective shareholdings in Lateral unless they comply with the provisions of the Code. The Golden Tower Associates will only be able to acquire more shares in Lateral if:

- they make a full or partial takeover offer or
- a share acquisition is approved by way of an ordinary resolution of shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of shareholders
- the Company undertakes a share buyback that is approved by the Company's shareholders and Golden Tower or Tasman does not accept the offer of the buyback.

Golden Tower will not be able to utilise the *creep provisions* under Rule 7(e) of the Code. The *creep provisions* enable entities that hold more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares in any 12 month period without the need for shareholder approval. The Golden Tower Associates collectively hold just under 90% of the voting rights in Lateral, thereby precluding Golden Tower from utilising the *creep provisions* as any acquisition of shares will increase the Golden Tower Associates' collective holding to at least 90%.

We note that under Rule 50 of the Code, if the Golden Tower Associates hold or control 90% or more of the voting rights in the Company, they will be classed as a dominant owner of Lateral. Accordingly, they would have the right under Rule 52 to acquire all outstanding shares in the Company and the Non-associated Shareholders would have the right under Rule 53 to sell their shares to Golden Tower.

The number of Non-voting Shares issued to Tasman under the Golden Tower Allotment has been set so as to ensure that the Golden Tower Associates do not meet the dominant owner threshold.

## Board of Directors

If the Golden Tower Transactions are approved, current Lateral directors Dene Biddlecombe and Robert McAuley will retire from the Board. Joseph van Wijk will remain on the Board and 2 new directors will be elected:

- Ka Wo (Karl) Chan – as non-executive chair
- Chong Hoi (Andy) Sze – as an executive director.



Profiles of the 2 new directors are set out in the section of the Disclosure Document entitled *Listed Company And What It Does*.

Golden Tower will effectively control the Board through having 2 representatives out of the 3 Board members, with the other appointee being associated with Tasman.

NZAX listed companies must have a minimum of 3 directors, but there is no requirement for independent directors.

The board of Profiles will remain the same as the current Board.

### ***Operations***

Following the Golden Tower Transactions, Mr van Wijk will be engaged by the Company as a consultant during the initial stages of the Company's business operations to assist with the acquisitions. Mr van Wijk's remuneration will be \$60,000 per annum (in addition to directors' fees). John Gilliers will continue in his current role as contracted part-time chief financial officer.

Once acquisitions are made, it is intended that the employees of the acquired businesses will be integrated into assisting with the operational and compliance requirements of Lateral in addition to performing their roles within the acquired businesses.

The current Lateral senior management team set out in section 4.3 will continue to manage Profiles.

### ***Protection for Minority Shareholders***

While Golden Tower will have significant control over Lateral, it cannot act in an oppressive manner against minority shareholders. The Act provides a level of protection to minority shareholders. Furthermore, any transactions between Lateral and any shareholder holding 10% or more of the Company's shares will need to satisfy the requirements of the NZAX Listing Rules with respect to transactions with related parties.

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

### ***Trading Since Listing***

A summary of Lateral's daily closing share price and daily volume of shares traded from 18 August 2014 (when its shares were listed on the NZAX) is set out in section 4.8.

Only 0.5% of the Company's shares traded over the past year, at a volume weighted average share price (**VWAP**) of \$0.045.

In our view, given Lateral's levels of earnings and asset backing, the prices at which the Company's shares have traded in recent times most likely reflect a speculative element.

### ***Re-rating of Lateral Shares***

The completion of the Golden Tower Transactions may lead to a re-rating of the Company's shares. Lateral will be a better funded company focused on developing new operations in the financial services sector. It could potentially generate profits which in turn may lead to the Company paying dividends.



These factors may lead to greater demand for the Company's shares which in turn may lead to higher prices for the shares. However, the Non-associated Shareholders should also bear in mind that any re-rating of the Company's shares may increase the variability in the share price and this may result in the Company's share price either increasing or decreasing.

### ***Liquidity of Lateral Shares Unlikely to Change***

Trading in the Company's shares is extremely thin, reflecting that the top 10 shareholders collectively hold 76.45% of the shares.

Non-associated Shareholders currently have limited opportunity to sell their shares on the NZAX with only 0.5% of the Company's shares traded in the preceding year.

The number of shares held by the Non-associated Shareholders will not change under the Golden Tower Transactions. Therefore the liquidity of the Lateral shares may not change to any significant degree. However, the change in the Company's operations may potentially attract new investors which in turn may increase the level of demand for the Company's shares, thereby enhancing the ability for Non-associated Shareholders to sell their shares.

### ***Profiles' Shares are Likely to be Less Liquid than Lateral's Shares***

Following the Profiles Distribution, the Profiles shares held by the Non-associated Shareholders will not be quoted on a securities trading platform and therefore will be less liquid than the Lateral shares listed on the NZAX. However, the Board has stated that it intends to ultimately provide a trading platform to allow Profiles' shareholders to access a trading mechanism for their Profiles shares. In any event, Profiles will still be subject to the provisions of the Code.

As stated above, trading in the Lateral shares is extremely thin at present and therefore the downside from the potential lack of liquidity of the Profiles shares should not be overstated.

## **2.10 Main Advantage to the Non-associated Shareholders of the Golden Tower Transactions**

Following the Golden Tower Transactions, the Non-associated Shareholders will collectively hold 9.85% of the shares and 10.00% of the voting rights in a company focused on developing new operations in the financial services sector with \$2.6 million of cash as well as close to their current proportionate shareholdings in Lateral. Currently they hold 100% of the shares in an early stage technology company with negative equity of \$0.8 million as at 31 March 2017 and whose shares are thinly traded on the NZAX.

## **2.11 Main Disadvantage to the Non-associated Shareholders of the Golden Tower Transactions**

The main disadvantage to the Non-associated Shareholders of the Golden Tower Transactions is that the issue of new ordinary shares under Golden Tower Allotment will significantly dilute their interests in the Company. Their collective shareholding will be diluted by 90% under Golden Tower Allotment. This will reduce their collective shareholding from 100% at present to 9.85%. However, the Profiles Distribution will mean that they will still materially hold their proportionate interests in Profiles.

In our view, the positive aspects of the transformation of the Company outweighs the dilutionary impact of the Golden Tower Transactions.

## 2.12 Other Issues for the Non-associated Shareholders to Consider

### ***Change in Business Risk***

As an early stage technology company, the business risks associated with the current Profiles business are significant. In addition, the Non-associated Shareholders face considerable investment risk as the Company has total equity of negative \$0.8 million as at 31 March 2017. If the Company was liquidated, the Non-associated Shareholders would not receive any return.

Following the completion of the Golden Tower Transactions, the Non-associated Shareholders will face a change in business risk. They will still be exposed to all of the risks associated with Profiles and they will also face additional risks associated with the financial services sector if Lateral executes its strategy of acquiring businesses in this sector.

Such risks include:

- operational risks, such as:
  - obtaining statutory approvals and licences
  - developing adequate systems and operations
  - complying with New Zealand legislation in respect of the financial markets sector (such as anti-money laundering and counter-terrorist financing laws and regulations)
  - recruiting effective and skilled employees
  - depending on the nature of financial services provided by Lateral, potential losses such as those arising from unhedged positions in particular currencies, commodities and other financial investments (if it undertakes derivatives trading activities)
- the financial markets sector is competitive, which could result in the Company not being able to execute its business strategies effectively within the timeframes anticipated
- the ability to adequately finance the business, which may lead to an inability to meet the Company's lending and repayment commitments.

A more detailed analysis of the risks associated with an investment in Lateral post the Golden Tower Transactions is set out in the section of the Disclosure Document entitled *Risk Factors*. The analysis highlights the significant level of risk associated with an investment in Lateral post the Golden Tower Transactions and the Non-associated Shareholders need to be cognisant of the change in the risk profile of their investment in the Company.

### ***Future Requirements for Capital***

Lateral will raise approximately \$3.3 million of fresh equity through the Golden Tower Allotment:

- \$2.6 million will be retained in Lateral
- up to \$0.6 million (being the Surplus Cash Consideration) will be injected into Profiles.

### *Lateral*

While no capital is being raised from the Non-associated Shareholders as part of the Golden Tower Transactions, given the objective of Golden Tower to use Lateral as a vehicle to develop new business interests in the financial services sector, it is highly probable that the Company will need to raise capital in the near term to fund its growth.

The section of the Disclosure Document entitled *Listed Company And What It Does* states:

*“To achieve this objective the Company seeks to establish and grow business interests in the New Zealand financial services sector by acquisition and organic growth. To fund this business plan the Company will look to use the cash resources available to it from the Transactions and, as necessary, supplement this resource with debt facilities with a view to minimising dilution to shareholders.”*

The Disclosure Document further states:

*“GTNZ intends, subject to any required approvals and the prevailing capital requirements of the Company, to make a debt facility of up to a further \$5 million available, in order to further resource the Company’s investment in growth.”*

Based on this, Golden Tower’s intent appears to be to source Lateral’s near term capital requirements from debt rather than equity.

### *Profiles*

As discussed in section 2.3, the Board is of the view that the Surplus Cash Consideration of up to \$0.6 million that will be injected into Profiles will be sufficient to fund Profiles’ continued growth.

### *Conclusion*

Based on the above, it would appear that there is limited expectation that either Lateral or Profiles will seek to raise additional equity in the near term.

However, Non-associated Shareholders should be cognisant that any equity raisings in the future by either Lateral or Profiles in which they do not participate will lead to further dilution of their proportionate interests in the respective companies.

### *Funding of Transaction Costs*

The costs associated with the Golden Tower Transactions are estimated to be in the vicinity of \$170,000. The costs include legal fees, Takeovers Panel fees, NZX fees and the cost of this report.

Under the terms of the Share Subscription Agreement, Golden Tower will fund these costs.

In the event that the Golden Tower Transactions Resolutions are not approved by the Non-associated Shareholders, the Company must fully reimburse Golden Tower the amounts it has paid.

### **2.13 Advantages to Golden Tower of the Golden Tower Transactions**

Lateral offers Golden Tower an effective and efficient means to achieve a listing of its proposed New Zealand financial services sector operations on a recognised stock exchange.

The Golden Tower Transactions will provide a number of benefits to Golden Tower:

- an enhancement of the Golden Tower profile in the market place
- the ability to raise equity capital more easily
- the ability to use scrip for acquisitions
- liquidity for Golden Tower.

### **2.14 Likelihood of the Resolutions Being Approved**

The 4 resolutions are ordinary resolutions, other than resolution 4 which is a special resolution.

The 10 largest Non-associated Shareholders collectively hold 76.45% of the Company's shares. Accordingly, their votes will determine the outcome of whether the resolutions will be approved. A number of the top 10 shareholders are associated with either the Company's directors or senior management. We would expect these shareholdings to be voted in favour of the resolutions.

### **2.15 Implications if the Golden Tower Transactions Resolutions are not Approved**

As the Golden Tower Transactions Resolutions are interdependent and require sequential approval, if any one of the 4 resolutions is not approved, then the Golden Tower Transactions will not proceed.

If the Golden Tower Transactions Resolutions are not approved, the Company will need to fully reimburse Golden Tower for the amounts it has paid in respect of the Golden Tower Transactions costs. These are estimated to be in the vicinity of \$170,000.

The Board will continue to operate Lateral as a listed company operating the Profiles business and it will continue to incur operating costs associated with remaining listed on the NZAX (including directors' fees, listing fees, registry fees and audit fees). Given Lateral's current financial position, it would most likely need to raise additional capital from its existing shareholders and / or new shareholders in the near term.

There is no certainty that the Company will be able to raise sufficient funding within an appropriate timeframe. However, the Company was able to raise \$1.5 million of cash in the 2017 financial year through the issue of \$1.0 million of shares and \$0.5 million of debt.

If Lateral is not able to raise sufficient capital, then it would need to be wound up and liquidated, in which case the Non-associated Shareholders would not receive any return as the Company had total equity of negative \$0.8 million as at 31 March 2017. The cash and cash equivalents of \$119,000 as at 31 March 2017 will be used to pay the costs associated with winding up the Company and there is unlikely to be any residual cash to be distributed to shareholders.

## **2.16 Options for Non-associated Shareholders who do not Wish to Retain Their Investment in Lateral**

### ***Sell On-market***

Those Non-associated Shareholders who do not wish to remain shareholders in the Company after the Golden Tower Transactions is completed could possibly sell their shares on-market. However, given that the Company's shares are infrequently traded on the NZAX, that option may not be readily available.

### ***Minority Buy-out Rights Under the Act***

If the special resolution approving the Golden Tower Transactions (resolution 4) is passed (and the 3 ordinary resolutions are also approved), those Non-associated Shareholders who voted all of their shares against the special resolution will be entitled to require the Company to buy their shares in accordance with the provisions of the Act.

A shareholder entitled to require the Company to purchase its shares by virtue of section 110 of the Act may, within 10 working days of the passing of the special resolution, give written notice to the Company requiring it to purchase the shares.

The Board is then required to give notice to the shareholder of a fair and reasonable price for the shares. Shareholders who do not agree with the nominated price can object to the price, in which case the price will be determined by arbitration.

A detailed explanation of the minority buy-out rights is set out in the Appendix of the notice of special meeting.

## **2.17 Voting For or Against the Golden Tower Transactions Resolutions**

Voting for or against the 4 Golden Tower Transactions Resolutions is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### **3. Evaluation of the Fairness of the Golden Tower Transactions**

#### **3.1 Basis of Evaluation**

The NZX Guidance Note requires the Independent Report to comply with the requirements for an Appraisal Report.

The NZX Guidance Note also requires the Independent Report to include:

- a statement of whether there are any possible alternative courses for Lateral other than the proposed transaction
- a statement whether or not, in our opinion, the terms of the transaction are fair and reasonable to shareholders and in the best interests of Lateral.

NZX Main Board Listing Rule 1.7.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Golden Tower Transactions are fair to the Non-associated Shareholders. In our opinion, the Golden Tower Transactions will be fair to the Non-associated Shareholders if:

- the terms and conditions of the Golden Tower Transactions are fair to the Non-associated Shareholders
- the value of the Golden Tower Transactions is equal to or greater than the value of the consideration paid for the Golden Tower Transactions
- the Golden Tower Allotment shares are issued at or above a fair value
- the other terms and conditions of the Golden Tower Transactions are fair.

We have evaluated the fairness of the Golden Tower Transactions by reference to:

- the rationale for the Golden Tower Transactions
- the fairness of the terms of the Golden Tower Transactions
- the likelihood of alternative transactions
- the impact of the Golden Tower Transactions on the control of Lateral
- the impact of the Golden Tower Transactions on Lateral's share price
- other benefits and disadvantages to the Non-associated Shareholders of the Golden Tower Transactions
- the benefits and disadvantages to Golden Tower of the Golden Tower Transactions
- the implications if the Golden Tower Transactions Resolutions are not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

### **3.2 Evaluation of the Fairness of the Golden Tower Transactions**

In our opinion, after having regard to all relevant factors, the terms of the Golden Tower Transactions are fair and reasonable to the Non-associated Shareholders and are in the best interests of Lateral given the options reasonably available to the Company at the current time.

The basis for our opinion is set out in detail in sections 2.3 to 2.15. In summary, the key factors leading to our opinion are:

- Non-associated Shareholders will retain close to their current proportionate interests in Profiles
- the Profiles cost structure will be reduced by the elimination of NZAX listing compliance costs
- Profiles will receive a cash injection of up to \$0.6 million, which the Board considers to be adequate to fund Profiles' continued growth
- in addition to materially retaining their proportionate interests in Profiles, they will collectively hold a 9.85% interest in Lateral, which will be transformed into a company with \$2.6 million of cash reserves that is focused on developing new operations in the financial services sector
- we are of the view that in the absence of the Golden Tower Transactions, Lateral's shares have negligible value at this point in time
- we consider the issue price of the shares under the Golden Tower Allotment of \$0.0071 (rounded) per share to be advantageous (and therefore fair) to the Non-associated Shareholders as it is higher than our assessment of the current value of Lateral's shares
- following the Golden Tower Transactions, the Company's shares may be re-rated by the market which may improve the liquidity of the shares
- offsetting these positive aspects, the Non-associated Shareholders' proportionate interests in the Company will be significantly diluted by 90%, the Golden Tower Associates will hold just under 90.00% of the voting rights in the Company and will be able to determine the outcome of any shareholder resolution that they are permitted to vote on, they will have 3 appointees to the Board, thereby controlling the Board as well as leading the management of the Company's operations, the risk profile of Lateral will change significantly and the Profiles shares will not be quoted on a securities trading platform.

### **3.3 Implications of the Golden Tower Transactions Resolutions not being Approved**

In the event that any one of the 4 Golden Tower Transactions Resolutions is not approved, the Golden Tower Transactions will not proceed. The implications of this are set out in section 2.15.

### **3.4 Voting For or Against the Golden Tower Transactions Resolutions**

Voting for or against the 4 Golden Tower Transactions Resolutions is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Non-associated Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.



## 4. Profile of Lateral

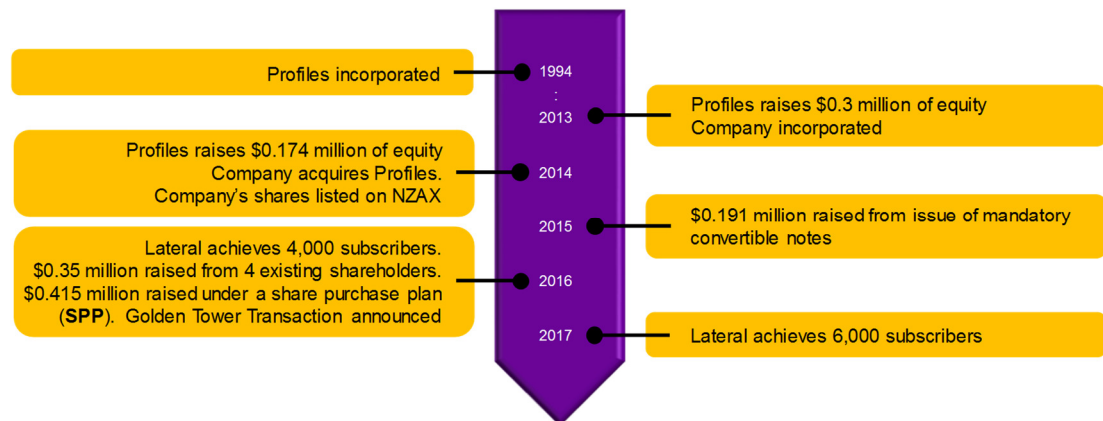
### 4.1 Background

The Company was incorporated by Tasman on 10 December 2013 as Elizabeth Listco Limited. It changed its name to Lateral Corporation Limited on 27 March 2014.

On 31 March 2014, Lateral acquired all of the shares in Profiles from Robert McAuley and Roger Grice for \$4.275 million. Consideration was in the form of the issue of 17,100,000 fully paid ordinary shares at an issue price of \$0.25 per share.

Lateral undertook a compliance listing and quotation of its shares on the NZAX on 18 August 2014.

The Company's key events are summarised below.



### 4.2 Nature of Operations

Lateral has built an e-commerce business based on the sale of digital products and services charged directly to the customer's mobile phone account – a process known as direct carrier billing (**DCB**).

The Company considers its DCB based e-commerce platform (*Viaduct*) to be world leading. Lateral expects the *Viaduct* platform to become an enabler for third party marketing, distribution and payment of digital content, services and applications, using DCB as the payment method.

Lateral provides the following solutions:

- HTML5 mobile and web development
- carrier billing
- mobile application development
- marketing and distribution of digital products
- performance based advertising
- mobile social networks
- mobile marketing campaigns, development and execution
- large scale, high volume interactive campaigns
- custom solutions.



### 4.3 Directors and Senior Management

The directors of Lateral are:

- Dene Biddlecombe, independent chair and non-executive director
- Robert McAuley, non-executive director
- Joseph van Wijk, independent non-executive director.

Lateral's senior management team consists of:

- Roger Grice, chief executive officer
- John Cilliers, chief financial officer
- Peter Binny, development and technology manager
- Scott Butcher, company accountant.

### 4.4 Capital Structure and Shareholders

Lateral currently has 51,489,450 fully paid ordinary shares on issue held by 500 Non-associated Shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 30 June 2017 are set out below.

10 Largest Shareholders		
Lateral Shareholder	No. of Shares	%
Robert McAuley	7,464,312	14.50%
Roger Grice	7,459,505	14.49%
John Philpot and Joanne Philpot	5,438,425	10.56%
Dene Biddlecombe and Peter Hine	5,273,406	10.24%
Russell Maloney	5,015,092	9.74%
Global Paradigm	2,785,714	5.41%
Murray Blackwell	2,574,400	5.00%
Richard Black	1,540,754	2.99%
Michael McKenna	1,200,000	2.33%
John Green and Patricia Green	626,200	1.22%
Subtotal	39,377,808	76.48%
Others (490 shareholders)	12,111,642	23.52%
Total	51,489,450	100.00%

*Source: NZX Company Research*

Robert McAuley is a director of Lateral and co-founder of Profiles.

Roger Grice is the Company's chief executive officer and co-founder of Profiles.

John Philpot is a consultant to the Company and a guarantor of the Company's loan from finance company FE Investments Limited (**FEI**).

Dene Biddlecombe is the chair of Lateral.

Russell Maloney is a guarantor of the FEI loan.

## 4.5 Financial Performance

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

Summary of Lateral Financial Performance				
	Year to 31 Mar 14 <sup>1</sup> (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Unaudited) \$000
Operating revenue	746	434	409	501
Cost of sales	(103)	(286)	(226)	(849)
Gross profit	643	148	183	(348)
Other income	-	1	1	1
Administrative expenses	(653)	(1,350)	(926)	(941)
EBITDA	(10)	(1,201)	(742)	(1,288)
Depreciation	(3)	(3)	(115)	(2)
EBIT	(13)	(1,204)	(857)	(1,290)
Finance costs	-	(28)	(42)	(99)
(Loss) / gain from loan write off	(440)	-	-	451
Loss before income tax	(453)	(1,232)	(899)	(938)
Income tax expense	-	-	-	-
Net loss for the year	(453)	(1,232)	(899)	(938)

EBITDA: Earnings before interest, tax, depreciation and amortisation  
EBIT: Earnings before interest and tax

<sup>1</sup> Financial results of Profiles

Source: Profiles and Lateral audited financial statements and preliminary full year announcement for the year ended 31 March 2017

Lateral commenced operations on 31 March 2014 when it acquired 100% of the shares in Profiles. The financial results for the 2014 financial year represent the financial performance of Profiles.

A loan of \$440,366 owing by Profiles' related party TribalGlu Limited was written off in December 2013.

Lateral recorded a \$451,000 gain from the write off on loans from Mr Biddlecombe and Mr Grice in the 2017 financial year.

## 4.6 Financial Position

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

Summary of Lateral Financial Position				
	As at 31 Mar 14 (Audited) \$000	As at 31 Mar 15 (Audited) \$000	As at 31 Mar 16 (Audited) \$000	As at 31 Mar 17 (Unaudited) \$000
Current assets	178	298	65	271
Non current assets	6	118	8	7
Total assets	184	416	73	278
Current liabilities	(281)	(780)	(1,140)	(936)
Non current liabilities	-	-	-	(190)
Total liabilities	(281)	(780)	(1,140)	(1,126)
Total equity	(97)	(364)	(1,067)	(848)

Source: Lateral audited financial statements and preliminary full year announcement for the year ended 31 March 2017

Lateral's current assets comprise cash and cash equivalents, trade and other receivables and prepayments. The Company had \$119,000 of cash and cash equivalents as at 31 March 2017.

Non current assets consist of property, plant and equipment and intangible assets.

Current liabilities as at 31 March 2017 consisted of \$468,000 trade and other payables, a \$400,000 loan from FEI and \$69,000 of loans from Profiles co-founders Mr McAuley and Mr Grice.

Non current liabilities as at 31 March 2017 consisted of \$190,000 of loans from Mr McAuley and Mr Grice.

Lateral has reported negative total equity each reporting date since it listed on the NZAX.

#### 4.7 Cash Flows

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

Summary of Lateral Cash Flows				
	Year to 31 Mar 14 (Audited) \$000	Year to 31 Mar 15 (Audited) \$000	Year to 31 Mar 16 (Audited) \$000	Year to 31 Mar 17 (Unaudited) \$000
Net cash outflow from operating activities	-	(1,024)	(434)	(1,381)
Net cash from / (used in) investing activities	138	(2)	(5)	-
Net cash from financing activities	-	1,085	227	1,515
Net increase / (decrease) in cash held	138	59	(212)	134
Opening cash balance	-	138	197	(15)
Closing cash balance	138	197	(15)	119

*Source: Lateral audited financial statements and preliminary full year announcement for the year ended 31 March 2017*

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

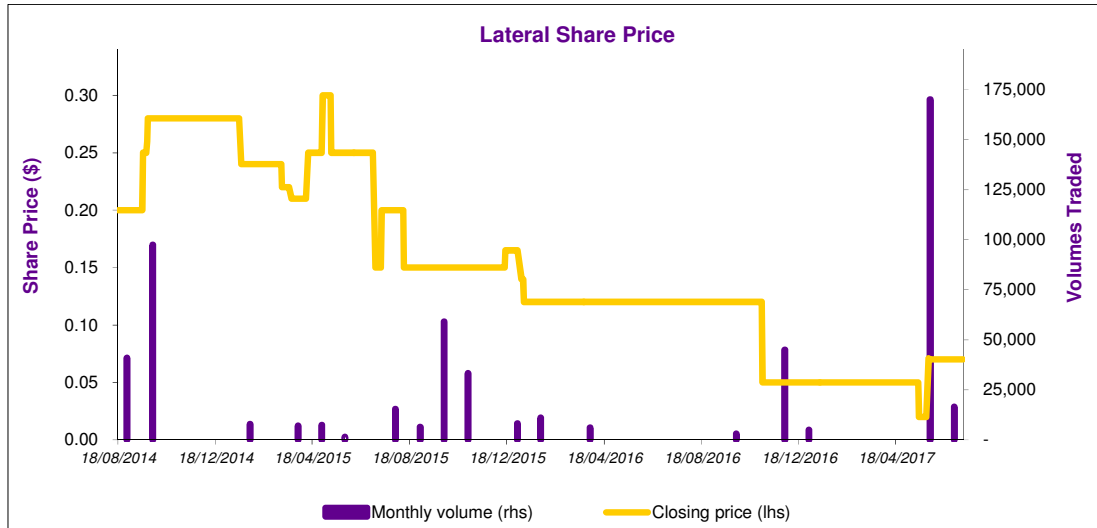
Financing activities cash flows in the 2015 financial year consisted mainly of \$0.9 million from the issue of shares and \$0.2 million of debt raised from Mr McAuley and Mr Grice.

Financing activities cash flows in the 2016 financial year consisted mainly of the issue of \$0.2 million of mandatory convertible notes.

Financing activities cash flows in the 2017 financial year consisted mainly of \$0.4 million raised from the issue of shares to 4 major shareholders in September 2017, \$0.4 million raised from the issue of shares under a SPP in November 2016 and \$0.4 million from the FEI loan.

## 4.8 Share Price History

Set out below is a summary of Lateral’s daily closing share price and monthly volumes traded from 18 August 2014 (when the Company’s shares were listed on the NZAX) to 12 July 2017.



Source: NZX Company Research

During the period, Lateral’s shares traded between \$0.02 (on 17 May 2017) and \$0.30 (on 1 May 2015) at a VWAP of \$0.124.

Trading in the Company’s shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) up to 12 July 2017 is set out below.

Share Trading up to 12 July 2017					
Period	Low (\$)	High (\$)	VWAP (\$)	Volume Traded (000)	Liquidity
1 month	0.07	0.070	0.070	16	0.0%
3 months	0.02	0.071	0.043	187	0.4%
6 months	0.02	0.071	0.043	187	0.4%
12 months	0.02	0.120	0.045	240	0.5%

Source: NZX Company Research

The shares traded on only 8 days in the year to 12 July 2017.

## **5. Fairness of the Issue Price of the Shares Under the Golden Tower Allotment**

### **5.1 Introduction**

Lateral will issue 463,405,050 new fully paid shares to Golden Tower under the Golden Tower Allotment at \$0.0071 (rounded) per share (of which 20,595,780 shares will be nominated to Tasman).

The reasonableness of the issue price can be assessed by reference to:

- the prices at which the shares have recently traded on the NZAX prior to the announcement of the Golden Tower Transactions
- the prices at which the Company has recently issued shares
- the asset backing of the shares.

### **5.2 Observed Share Prices**

A summary of Lateral's daily closing share price and daily volume of shares traded from 18 August 2014 (when its shares were listed on the NZAX) to 12 July 2017 is set out in section 4.8.

Only 0.5% of the Company's shares traded over the past year, at a VWAP of \$0.045.

In our view, given Lateral's levels of earnings and asset backing, the prices at which the Company's shares have traded in recent times most likely reflected a speculative element.

### **5.3 Share Issues**

The most recent share issue was the SPP in November 2016 where 8,292,673 ordinary shares were issued on 11 November 2016 at an issue price of \$0.05 per share, raising \$415,000 of cash for the Company.

The issue price under Golden Tower Allotment is significantly lower than under the SPP but is based on the Company's financial position after the Profiles Transfer, the Lateral Allotment and the Profiles Distribution.

### **5.4 Net Assets per Share**

Lateral's total equity amounted to negative \$848,000 as at 31 March 2017, equating to net assets of negative \$0.016 per share.

We are advised by the Company that the approximate split of the Company's net assets between Profiles and the residual listed entity as at 31 March 2017 was:

- Profiles – negative \$139,000 (negative \$0.002 per share)
- residual listed entity - negative \$709,000 (negative \$0.014 per share).

The nature of the Company's assets (mainly cash and cash equivalents and trade and other receivables) is such that their carrying values represent reasonable proxies of their market values.

Lateral's most significant intangible asset is likely to be its NZAX listing. In general terms, the value ascribed to a listing on the NZX Main Board or the NZAX is a function of the costs saved by a company undertaking a backdoor listing or reverse listing rather than undergoing an initial public offering (IPO) or compliance listing.

The costs of an IPO (when a company seeks to raise capital at the time of its listing) can be significant due to brokerage fees as well as other expenses such as share registry expenses, legal fees, accounting fees, advertising costs, printing costs and postage costs associated with preparing a product disclosure statement. However, the costs associated with a compliance listing, where a company's shares are listed but no new capital is raised, are considerably lower.

Various backdoor listings and reverse listings on the NZX Main Board and the NZAX prior to the introduction of the NZX Guidance Note ascribed values in the range of \$0.25 million to \$1.2 million to the NZX Main Board / NZAX listings. However, the relatively low costs incurred to set up specific reverse listing vehicles on the NZAX or for compliance listings on the NZX Main Board / NZAX, combined with the higher compliance costs that are now associated with backdoor listings and reverse listings due to the requirements of the NZX Guidance Note, suggest that the value ascribed to a NZX Main Board / NZAX listing will now be lower than that observed in the past.

We consider a reasonable value for Lateral's NZX Main Board listing to be in the range of \$200,000 to \$250,000.

Based on the above, we are of view that the value of Lateral's shares following the Profiles Transfer, the Lateral Allotment and the Profiles Distribution and prior to the Golden Tower Allotment, and in the absence of any alternative transaction, is significantly less than the issue price of \$0.0071 (rounded) per share for the shares to be issued under the Golden Tower Allotment.

Value of Lateral's Shares Prior to the Golden Tower Transactions				
	Total		Per Share	
	Low \$000	High \$000	Low \$	High \$
Net assets as at 31 March 2017	(848)	(848)	(0.016)	(0.016)
Profiles Transfer and Profiles Distribution	(139)	(139)	(0.002)	(0.002)
Adjusted net assets attributable to the listed shell	(709)	(709)	(0.014)	(0.014)
Value of NZAX listing	200	250	0.004	0.005
Value of Lateral's shares	(509)	(459)	(0.010)	(0.009)

Based on the issue price of \$0.0071 (rounded) per share and there being 51,489,450 shares on issue, the implied value of Lateral following the Profiles Transfer, the Lateral Allotment and the Profiles Distribution and prior to the Golden Tower Allotment is \$0.4 million and implies a value of approximately \$1.1 million for Lateral's NZAX listing based on the adjusted net assets calculated above.

## 5.5 Conclusion

We consider the \$0.0071 (rounded) issue price of the shares under Golden Tower Allotment to be advantageous (and therefore fair) from the perspective of the Non-associated Shareholders as it significantly exceeds the asset backing of the shares, even allowing for the value of the Company's NZAX listing.

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

### **6.1 Sources of Information**

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

- the draft notice of special meeting
- the draft Disclosure Document
- the Share Subscription Agreement dated 23 February 2017
- the Deed of Variation of Share Subscription Agreement dated 18 May 2017
- the Deed of Variation of Share Subscription Agreement (Second Edition) dated 13 July 2017
- the Share Subscription Deed dated 23 February 2017
- the Lateral Disclosure Document dated 18 August 2014
- the Lateral annual reports for the years ended 31 March, 2014 to 2016
- the Lateral preliminary full year announcement for the year ended 31 March 2017
- the Profiles annual report for the year ended 31 March 2014
- data in respect of Lateral from NZX Company Research and S&P Capital IQ.

During the course of preparing this report, we have had discussions with and / or received information from the Board.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report and Independent Report with all information relevant to the Golden Tower Transactions that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report and Independent Report.

In our opinion, the information to be provided by Lateral to the Non-associated Shareholders is sufficient to enable the Board and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Golden Tower Transactions.

## 6.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Lateral and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Lateral. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

## 6.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Lateral will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Lateral and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

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

## 6.4 Indemnity

Lateral has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Lateral has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.



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

### **7.1 Qualifications and Expertise**

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFENZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

### **7.2 Independence**

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Lateral or Golden Tower or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to the Golden Tower Transactions.

Simmons Corporate Finance has not had any part in the formulation of the Golden Tower Transactions or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Golden Tower Transactions. We will receive no other benefit from the preparation of this report.

### **7.3 Declarations**

An advance draft of this report was provided to the Board for its comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

### **7.4 Consents**

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to the Non-associated Shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.



Peter Simmons  
Director

**Simmons Corporate Finance Limited**

*13 July 2017*