

## Independent Adviser's Report

16 September 2013

Prepared Pursuant to Rule 22 of the New Zealand Takeovers Code in Relation a Full Takeover Over  
for Finzsoft Solutions Limited



### Prepared for

Holliday Group Holdings (ICT Investments) Limited

### Purpose of the Report

- This report is not a report on the merits of the Offer.
- This report has been obtained by the offeror.
- The purpose of this report is solely to compare the consideration and terms offered for the different classes of securities, and to certify as to the fairness and reasonableness of that consideration and terms as between the different classes.
- A separate independent adviser's report on the merits of the offer, commissioned by the directors of Finzsoft Solutions Limited, must accompany Finzsoft Solutions Limited's target company statement.
- The Offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the Offer.

### Independence

- Lonergan Edwards & Associates Limited (LEA) 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 transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.
- LEA has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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## I Executive summary

### Introduction

- 1 Holliday Group intends to issue a Takeover Notice to Finzsoft indicating its intention to make a full takeover Offer for all the equity securities on issue in Finzsoft.
- 2 Under New Zealand company law, Finzsoft has two classes of equity securities:
  - (a) 8,300,000 issued ordinary shares which are tradeable on the NZSX, being the main board equity security market operated by NZX Limited
  - (b) 291,068 Options which have been issued in three tranches under the ESOP operated by Finzsoft for the benefit of Eligible Employees.
- 3 Each Tranche of Options constitutes a separate class of non-voting securities for the purposes of the Code.
- 4 The Ordinary Shares are voting securities and the Offer for the Ordinary Shares is NZ\$0.4546 cash per share. The Options are non-voting securities and the Option Offer Price for each Option under each Tranche is detailed in the table below:

Tranche	Issue Date	Initial Exercise Date	No. Of Options	Exercise Price <sup>(1)</sup> NZ\$	Option Offer Price <sup>(1)</sup> NZ\$	Offer Value NZ\$
1	Jun-10	Nov-11	96,280	0.2000	0.2546	24,513
2	Jun-11	Nov-12	86,855	0.3300	0.1246	10,822
3	Jun-12	Nov-13	107,933	0.3800	0.0746	8,052
			291,068			43,387

- 5 We note the Option Offer Price is based directly on the underlying Share Offer Price less the Exercise price, in essence representing the intrinsic value of the Option.
- 6 Rule 8(4) of the Code requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities. In this particular case, the Code therefore requires that the consideration and terms offered for:
  - (a) the Options Offer must be fair and reasonable compared to the consideration and terms offered for the Ordinary Shares
  - (b) the offer for each Tranche of Options must be fair and reasonable as between all of the Tranches.
- 7 This report has been prepared based on information provided to us by Holliday Group, Finzsoft, Mr Andrew Holliday (a director of Finzsoft) and the information disclosed in Finzsoft's statutory accounts.

## Summary of opinion

- 8 This report is not required to consider the merits of the Offer for the Ordinary Shares or Options, and we therefore provide no opinion on whether the Share Offer Price of NZ\$0.4546 per share or the Option Offer is fair and reasonable.
- 9 Our role is limited to determining whether the Option Offer Price (offered for each Tranche of Options) is fair and reasonable in comparison to the amount offered for the Ordinary Shares and as between each Tranche.
- 10 Our assessment is therefore based on the following framework:
- (a) the total consideration of NZ\$0.4546 per share for the Ordinary Shares provides the relative benchmark for our assessment (as the value of the Options is dependent on the value of the Ordinary Shares, being the asset which is acquired from exercising each Option). That is, our assessed Option valuation assumes the Ordinary Shares are worth \$0.4546 per share
  - (b) we have used the Black-Scholes option framework as a starting point to value the Options, adjusting for specific aspects that relate to the circumstances of the ESOP
  - (c) our assessment takes into account the current rules that govern the ESOP, with particular emphasis on the rules in relation to the exercise period and the transferability of the Options:
    - (i) the Options automatically expire 15 business days from the date a full takeover becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares
    - (ii) the Options are personal to the eligible employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the employee.
- 11 Given the above the only way value can be realised for the Options (in the absence of the Offer) is by exercising them. Further, if the Offer becomes unconditional and the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares, then the Options will lapse in 15 days from that date.
- 12 Accordingly, in our view, the Options should be valued at their intrinsic value (being the value of the Ordinary Shares less the exercise price). On this basis we have assessed the relative value of the Options for each Tranche as follows:

Tranche	No. of Options	Option Value <sup>(1)</sup>	Option Offer Price <sup>(2)</sup> NZ\$	Price/Value <sup>(2)</sup> Variance
1	96,280	0.2546	0.2546	-
2	86,855	0.1246	0.1246	-
3	107,933	0.0746	0.0746	-
	291,068			

**Note:**

- 1 Being the Share Offer Price less the exercise price (per Option)
- 2 Per Option.

13 We therefore certify that in our opinion:

- (a) the consideration and terms offered for the Options is fair and reasonable in comparison with the terms offered for the Ordinary Shares
- (b) that the terms offered for each Tranche of Options is fair and reasonable as between all of the Tranches.

14 Accordingly, we certify that, in our opinion, the Offer complies with rule 8(4) of the Code.

## II Scope and basis of assessment

### Background

- 15 Holliday Group intends to issue a Takeover Notice to Finzsoft in September 2013 indicating its intention to make a full takeover offer for all of the equity securities on issue in Finzsoft.
- 16 There are 8,300,000 Ordinary Shares on issue which are tradable on the NZX, and 291,068 Options currently on issue under the ESOP.
- 17 The Ordinary Shares are considered voting securities and the Options are considered non-voting securities for the purposes of the Code.
- 18 The Options were issued to the Eligible Employees in three Tranches (June 2010, June 2011 and June 2012).
- 19 When issued, Eligible Employees had the right to convert each Option into one Ordinary Share upon payment of an Exercise Price, which was specifically set for each Tranche. The Options in each Tranche have a different Exercise Price and differing Initial Exercise Dates. As such each Tranche therefore represents a separate class of non-voting securities.
- 20 Further details of the terms and conditions of the ESOP are included in Section III.

### Requirements of Takeovers Code

- 21 Finzsoft is a publicly listed company on the NZX and is a “Code Company” as defined by the Code. The takeover process initiated by Holliday Group must therefore comply with the provisions set out in the Code relating to the offer procedure.
- 22 Pursuant to Rule 8 of the Code, a full offer must include offers in respect of all the securities in each class of equity securities of the target company (other than those that are already held by the offeror).
- 23 Rule 8(4) of the Code requires that if non-voting securities are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for voting securities and as between classes of non-voting securities.
- 24 In this particular case, the Code therefore requires:
  - (a) the consideration and terms offered for the Options must be fair and reasonable compared to the consideration and terms offered for the Ordinary Shares
  - (b) the consideration and terms offered for each Tranche of Options must be fair and reasonable as between all of the Tranches.
- 25 For the purposes of the Code, Finzsoft’s Ordinary Shares are regarded as one class of equity security and each Tranche of the Options is regarded as a separate class of equity security given the different features of each Tranche.

- 26 Holliday Group must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(4).
- 27 This report has been prepared to meet the requirements of Rule 22 of the Code. The appointment of LEA to prepare the Rule 22 report was approved by the Takeovers Panel.

## **Basis of assessment**

### **Relative Option Value**

- 28 In determining whether the Option Offer Price is fair and reasonable relative to the Share Offer Price, we have assessed the relative value of the Option.
- 29 We have initially assessed the value of Options by Tranche using the Black-Scholes option pricing methodology on the basis they are vanilla call options, assuming:
- (a) normal rights of transferability and exercise
  - (b) an estimated volatility rate for Finzsoft Shares
  - (c) the options are tradeable on a liquid market.
- 30 This determines what the maximum value of the options would have been if they had the full characteristics of tradeable options in a liquid market with a known expiry date.
- 31 We have then considered the characteristics that suppress value that are specific to the Options, including:
- (a) the Options are not listed on any stock exchange
  - (b) the Options automatically expire 15 business days from the date a full takeover becomes unconditional and holders of 90% of the Ordinary Shares have accepted the Offer, even though the Options have no set Expiry Date
  - (c) the Options cannot be transferred in any way, form or manner.
- 32 These factors have a material impact on the value of the Option. In particular, the inability to assign or transfer the Options means that a value can only be realised for the Options by exercising the Option, which thereby limits the value of the Option to their intrinsic value.

### **Term of the Option**

- 33 One of the critical factors in determining the value of the Option is the time remaining to their Expiry Date. In general terms, the longer the term to expiry, the higher the value of the Option.
- 34 In the circumstances of Finzsoft there is no set Expiry Date and the Option is effectively open ended, with some qualifications.
- 35 A key qualification is the fact that the Option automatically lapses in the event the employment contract with the Eligible Employee is terminated. This implies that the maximum life of the Option is the term of employment. Based on research we note that on average, an employee stays with a company for no more than 10 years.

- 36 Given Eligible Employees generally have been employed by Finzsoft for five years or more, we have assumed that the maximum time remaining to the Expiry Date is 5 years.
- 37 However, the Expiry Date is reduced to 15 business days from the date a full takeover offer becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares. These maximum and minimum expiry dates have been taken into account in determining the relative value of the Option.

### **Limitations and reliance on information**

- 38 In producing this report we have relied on the following sources of information:
- (a) the Finzsoft ESOP Prospectus and Investment Statement (with accompanying notes) dated 25 June 2010
  - (b) the ESOP letter issued to Eligible Employees on issue of Options
  - (c) Finzsoft ESOP summary of current Options and lapsed Options
  - (d) a copy of the draft Takeover Notice
  - (e) the Finzsoft Constitution
  - (f) discussions with Mr Andrew Holliday, a Director of Finzsoft.
- 39 We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 40 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming our opinion. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IAR.
- 41 Our opinions are also based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 42 LEA reserves the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.



### III Key terms of the Ordinary Shares and Options

#### Ordinary securities

- 43 There are currently 8,300,000 Ordinary Shares on issue in Finzsoft. Each Ordinary Share provides the owner the right to:
- (a) vote at a meeting of shareholders to one vote on each resolution
  - (b) to an equal share in dividends
  - (c) to an equal share in the distribution of the surplus assets of the Company.
- 44 In accordance with the Takeovers Code Holliday Group has made an Offer to purchase all the Ordinary Shares at NZ\$0.4546 per Share.

#### Options

- 45 Finzsoft has issued 568,997 Options to Eligible employees over the last 3 years in three separate Tranches. 277,929 of these Options have been forfeited in accordance with the terms of their issue.
- 46 In accordance with the Takeovers Code, Holliday Group made an Offer to purchase all the Options for each Tranche at the Option Offer Price as detailed in the table below. We note the Option Offer Price is based directly on the underlying Share Offer Price less the Exercise price, in essence representing the intrinsic (face) value of the Options.
- 47 The details of the 291,068 Options that remain outstanding are as follows:

Tranche	Issue Date	Initial Exercise Date	No. of Options	Exercise Price <sup>(1)</sup> NZ\$	Intrinsic Value <sup>(1)</sup> NZ\$	Option Offer Price <sup>(1)</sup> NZ\$	Offer Value NZ\$
1	Jun-10	Nov-11	96,280	0.2000	0.2546	0.2546	24,513
2	Jun-11	Nov-12	86,855	0.3300	0.1246	0.1246	10,822
3	Jun-12	Nov-13	107,933	0.3800	0.0746	0.0746	8,052
			291,068				43,387

**Note:**

1 Per Option.

- 48 Based on the Initial Exercise date, two Tranches can be exercised at any time in the future and the third Tranche can be exercised from November 2013.
- 49 On conversion, the number of Options can be converted on a one for one basis to Ordinary Shares.

#### Option Terms

- 50 Each Eligible Employee participating in the ESOP has an individual letter setting out the relevant terms and conditions of the Options for each relevant Tranche. This includes full details of the terms and conditions of each Option.

51 With the exception of the Exercise Price, the Initial Exercise Date and the specific amount of Options issued to any specific Eligible Employee, the terms of each Tranche and each specific Option are identical.

52 The material terms and conditions are summarised as follows:

<b>Material Term</b>	<b>Detail</b>
Exercise Price	Tranche 1 NZ\$0.2000 Tranche 2 NZ\$0.3300 Tranche 3 NZ\$0.3800
Payment Terms	No consideration has been paid for the Options. Following exercise, the applicable Exercise Price must be paid in full on the settlement date
Exercise Date	The Options can be exercised at any time on or after the Exercise Date
Trading	The Options are personal to the Eligible Employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the Eligible Employee
Dividend	The Options attract no dividend rights
Voting	The Options carry no voting rights
Takeover	In the event a full takeover offer is made under the Takeovers Code, all the Options will lapse if they are not exercised within fifteen business days of confirmation that the offer is unconditional in circumstances where the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares.
Forfeiture and Expiry	<ul style="list-style-type: none"> <li>(a) Options do not have an expiry date but lapse immediately or are forfeited or will be cancelled when the Eligible Employee either: <ul style="list-style-type: none"> <li>(i) exercises the Option, or</li> <li>(ii) ceases to be employed by (other than as a result of by death, retirement, redundancy or incapacitation whilst still employed), or</li> <li>(iii) disposes or grants a security interest over the Option, or</li> <li>(iv) advises that it would like the Option to lapse.</li> </ul> </li> <li>(b) The Board may at its sole discretion, may resolve not to allow the Options to lapse as a result of any of the above events on such terms and conditions it thinks fit.</li> <li>(c) In the event of death, illness, or redundancy the Board of Finzsoft has the discretion to declare the Exercise Date to coincide with the event in question so as to allow the Eligible Employee or their estate to benefit from the ESOP.</li> </ul>
Ranking	Any Ordinary Shares allotted on the exercise of an Option rank equally in all respects with other Ordinary Shares on issue.

## IV Assessment

### Option valuation

- 53 As noted in Section I, our role is limited to determining whether the Option Offer Price (offered for each Tranche of Options) is fair and reasonable in comparison to the amount offered for the Ordinary Shares and as between each Tranche.
- 54 Our assessment is therefore based on the following framework:
- (a) the total consideration of NZ\$0.4546 per share for the Ordinary Shares provides the relative benchmark for our assessment (as the value of the Options is dependent on the value of the Ordinary Shares, being the asset which is acquired from exercising each Option). That is, our assessed Option valuation assumes the Ordinary Shares are worth \$0.4546 per share
  - (b) we have used the Black-Scholes option framework as a starting point to value the Options, adjusting for specific aspects that relate to the circumstances of the ESOP
  - (c) our assessment takes into account the current rules that govern the ESOP, with particular emphasis on the rules in relation to the exercise period and the transferability of the Options:
    - (i) the Options automatically expire 15 business days from the date a full takeover becomes unconditional if the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares
    - (ii) the Options are personal to the eligible employee and may not be assigned, transferred, disposed, encumbered or otherwise dealt with by the employee.
- 55 Given the above the only way value can be realised for the Options (in the absence of the Offer) is by exercising them. Further, if the Offer becomes unconditional and the bidder acquires sufficient acceptances to enable it to compulsorily acquire the remaining shares, then the Options will lapse in 15 days from that date.
- 56 Accordingly, in our view, the Options should be valued at their intrinsic value (being the value of the Ordinary Shares less the exercise price). On this basis we have assessed the relative value of the Options for each Tranche as follows:

Tranche	No. of Options	Option Value <sup>(1)</sup>	Option Offer Price <sup>(2)</sup> NZ\$	Price/Value <sup>(2)</sup> Variance
1	96,280	0.2546	0.2546	-
2	86,855	0.1246	0.1246	-
3	107,933	0.0746	0.0746	-
	<u>291,068</u>			

**Note:**

- 1 Being the Offer price less the exercise price (per Option)
- 2 Per Option.

## Conclusion

- 57 The Option Offer Price is based off the Offer Price for the Ordinary Shares. As such we have determined that the Offer is fair and reasonable between the classes of equity securities.
- 58 We have also assessed the difference between the value of the Options and the Option Offer Price for each of Tranches at nil. As such we have determined that the Option Offer Price is fair and reasonable between the Tranches.
- 59 Accordingly, we certify that, in our opinion, the Offer complies with rule 8(4) of the Code.

Yours faithfully



Craig Edwards  
Director



Wayne Lonergan  
Director

## Appendix A

### Qualifications, Declarations and Consents

#### Declarations

- 1 This report has been prepared by LEA at the request of Holliday Group to meet the requirements pursuant to Rule 22 of the Code. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable between the classes of equity securities.

#### Qualifications

- 2 LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared over 100 independent expert's reports on public company takeovers and other proposals.
- 3 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan, who are each authorised representatives of LEA.
- 4 Mr Lonergan's qualifications include a Bachelor of Economics, and Doctor of Science in Economics. In addition, Mr Lonergan is a Senior Fellow of FINSIA, Life Member of the Securities Institute of Australia, Fellow of the Australian Institute of Company Directors, Fellow of the Australian Property Institute and Associate Member of the Institute of Arbitrators and Mediators. Mr Lonergan has over 35 years experience in the provision of valuation advice.
- 5 Mr Edward's qualifications include a Bachelor of Commerce and Certificate of Public Practice, issued by the Institute of Chartered Accountants in Australia. In addition, Mr Edwards is a Member of the Institute of Chartered Accountants in Australia, and a Senior Fellow of the Financial Services Institute of Australasia. Mr Edwards has over 17 years experience in the provision of valuation advice.

#### Independence

- 6 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in the outcome of the Offer. In addition LEA confirms that it:
  - (a) has no conflict of interest that could affect its ability to provide an unbiased report
  - (b) has no direct or indirect pecuniary or other interest in the proposed transaction considered in the report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report
  - (c) has not had, and will not have, any involvement in the formulation or structuring of the Offer.

#### Indemnity

- 7 Holliday Group has agreed to indemnify LEA (to the maximum extent permitted by law) for all claims, proceedings, losses, fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by LEA in relation to the preparation of this

report; except to the extent resulting from negligence, misconduct, or breach of law on the part of LEA or its officers or employees.

- 8 Holliday Group has also agreed to promptly fund LEA for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by LEA of the relevant invoices except where VCCL or its employees or officers are guilty of negligence, misconduct or breach of law.

## Glossary

Abbreviation	Definition
<b>Code</b>	The Takeovers Code
<b>Company</b>	Finzsoft Solutions Limited
<b>Eligible Employee</b>	Any person selected by the board at its discretion who is a director, officer, manager or employee of, or a person (including a body corporate) who provides services (other than as an employee) to Finzsoft
<b>ESOP</b>	The Employee Share Option Plan operated by the Company
<b>Exercise Price</b>	The exercise price for a particular Tranche of Options
<b>Expiry Date</b>	The date at which the Options expire or lapse in accordance with the terms of the ESOP Prospectus and Investment Statement
<b>Initial Exercise Date</b>	The date from which Eligible Employees may exercise the Option in respect of the relevant Tranche
<b>Exercise Price</b>	Being the Exercise Price as advised at the issue date of each Tranche of Options in accordance with the terms of the ESOP Prospectus and Investment Statement
<b>Finzsoft</b>	Finzsoft Solutions Limited
<b>Holliday Group</b>	Holliday Group Holdings (ICT Investments) Limited
<b>LEA</b>	LonerGAN Edwards and Associates Limited
<b>NZX</b>	NZX Limited
<b>Offer</b>	The full takeover offer that Holliday Group intends to make for all of the voting and non-voting securities on issue in Finzsoft
<b>Option Offer Price</b>	The cash payment offered by Finzsoft for each Option
<b>Options</b>	The 291,068 options issued and currently outstanding to the Eligible Employees under the ESOP
<b>Ordinary Shares</b>	The 8,300,000 ordinary shares of Finzsoft on issue and which are tradeable on the NZSX
<b>Share Offer Price</b>	A cash payment of NZ\$0.4546 per Ordinary Share offered by Finzsoft
<b>Tranche</b>	Each, or any of, the three tranches of Options issued by Finzsoft, as the context requires