



SLI Systems Limited:
Response to Takeover Offer by ESW Holdings Inc

SLI's Independent Director Committee
recommends you **ACCEPT** the Offer.

This is an important document and requires your immediate attention. If you have any questions in respect of the document or the offer, you should seek advice from your financial or legal advisor.

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Chairman's Letter

Dear Shareholders and Option-holders

Background

You will have received or will shortly be receiving an offer from the Texas-based ESW Holdings Inc (*ESW*) to acquire all ordinary shares (*Shares*) and unlisted options (*Options*) in SLI Systems Limited (*SLI*).

The SLI Board and Executive Team have for some time been considering a range of strategic options for the company as it has steered its managed services business into profitability and invested in the development of new products to return SLI to growth.

SLI has made good progress on both fronts. But now, following ESW's Offer, SLI has been considering the merits for Shareholders and Option-holders of the Offer against remaining as an independent entity and continuing with its current strategy.

ESW has offered a price of \$0.65 per Share and a price of between \$0.03 and \$0.40 per Option (with the price per Option depending on the exercise price and expiry date of the relevant Option tranche) (the *Offer*).

SLI's response to the Offer has been managed on behalf of the SLI Board by the independent directors Greg Cross (Independent Chairman), Sarah Smith and Andrew Lark (together the *Independent Director Committee*). SLI directors Shaun Ryan and Steven Marder (who together with their associates each hold or control more than 5% of the Shares) and Chris Brennan, SLI's Chief Executive Officer and Managing Director did not sit on the Independent Director Committee.

Recommendation

The Independent Director Committee has considered the Offer, the independent adviser Northington Partners' valuation of SLI and its report on the merits of the Offer (attached to this Target Company Statement). After careful deliberation, the Independent Director Committee **unanimously recommends that Shareholders and Option-holders accept the Offer.**

The reasons for the Independent Director Committee's recommendation are:

1. The Offer price represents a 117% premium to the closing price on 19 October 2018 (being the last trading day before SLI received ESW's takeover notice) of \$0.30 per Share and a 132% premium to the 12 month VWAP¹ of \$0.28 per Share in the 12 months before SLI received ESW's takeover notice.
2. The Offer price per Share is above the top end of the valuation range assessed by Northington Partners in its Independent Adviser's Report, of \$0.37 to \$0.53 per Share.
3. The Offer allows Shareholders and Option-holders to receive an attractive price for their securities while eliminating the execution risks of the company's existing strategic plan.
4. SLI has negotiated with ESW to achieve the best Offer price and Offer conditions for Shareholders and Option-holders. The premium built into ESW's Offer price reflects the synergies and opportunities that ESW considers can be achieved between ESW and SLI by implementing ESW's key strategies.
5. As part of its consideration of strategic alternatives for SLI, the Board and Management Team have tested the market for roll-up opportunities and potential acquirers of SLI. The Independent Director Committee's view is that ESW's Offer is superior to any other indications of interest received in relation to SLI to date.
6. Shareholders, together holding 51% of SLI's Shares, have committed to accept the Offer when made by ESW in respect of all of their Shares. While ESW's Offer is conditional on receiving acceptances in respect of 90% of the Shares, ESW can waive this condition, in which case ESW's Offer will be conditional on receiving acceptances in excess of 50% of the Shares. As ESW already has

¹ VWAP means the cumulative volume weighted average price at which SLI shares have traded on the NZX Main board for the relevant period. VWAP is calculated by summing the value of all the trades which occurred during the relevant period and dividing that sum by the volume of shares transacted in those trades.

commitments to accept the Offer for more than 50% of the Shares, ESW can waive its 90% acceptance condition and declare the Offer unconditional (provided that the other Offer conditions have been met at that time).

Northington Partners' valuation range is based on a discounted cashflow valuation of \$50.2 million with discount factors applied for the execution risks that SLI faces in delivering its business strategies. The Independent Director Committee considers these discount factors to be at the pessimistic end of the scale regarding SLI's future business prospects. The Independent Director Committee notes that the ESW Offer price is at a significant premium to the volume weighted average Share price over the preceding 12 months. On that basis together with the other reasons the Independent Director Committee recommends the Offer.

Acceptances and timing

The Offer period runs until at least 10 December 2018 and the Offer is still subject to conditions. The Offer price cannot be reduced. If you accept the Offer, you will not be paid for any Shares or Options until and unless the Offer becomes unconditional.

ESW's Offer Document provides that ESW will declare the Offer unconditional as soon as it receives acceptances in respect of 90% of the Shares (provided that the other conditions of the Offer have been met at this time). It also notes that ESW intends to invoke the compulsory acquisition procedures of the Takeovers Code to compulsorily acquire all the outstanding Shares and Options and apply for SLI to be de-listed from the NZX Main Board. Accordingly, the Independent Director Committee recommends that Shareholders and Option-holders accept the Offer as soon as possible.

The Independent Director Committee will keep all Shareholders and Option-holders informed of the progress of satisfying the Offer conditions and the implications for Shareholders and Option-holders.

Conclusion

The Independent Director Committee believes the Offer price provides an attractive opportunity for Shareholders and Option-holders to realise the latent value of their securities while eliminating the risks SLI faces pursuing its current strategy.

The Independent Director Committee recommends you read the Target Company Statement, including the Independent Adviser's Report, carefully before making a decision.

We also encourage you to seek professional advice in relation to your particular circumstances.

Yours faithfully,



Greg Cross

Chairman of the Independent Director Committee

“After careful deliberation, the Independent Director Committee **unanimously recommends that Shareholders and Option-holders accept the Offer.**”

Takeovers Code Disclosures

1. Date

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This target company statement (the *Target Company Statement*) is dated 13 November 2018.

2. Offer

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2.1 The Offer is a full takeover offer by ESW Holdings Inc (ESW) to purchase:

- (a) **Shares:** all of the Shares in SLI for a purchase price of \$0.65 per Share.
- (b) **Options:** all of the unlisted Options to acquire Shares in SLI for a purchase price of between \$0.03 and \$0.40 (the price per Option depends on the class of Options held, see Schedule 1 for the full details of the price payable for each class of Options).

2.2 The terms of the Offer are set out in the Offer Document dated 9 November 2018.

3. Target company

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The name of the target company is SLI Systems Limited (NZX: SLI).

4. Directors and senior officers of SLI

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4.1 SLI's directors are:

- Chris Brennan (Chief Executive Officer and Managing Director);
- Greg Cross (Independent Chairman);
- Andrew Lark (Independent director);
- Steven Marder (Non-executive director);
- Shaun Ryan (Non-executive director); and
- Sarah Smith (Independent director).

4.2 The senior officers of SLI for the purposes of this Target Company Statement are:

- (a) Chris Brennan (Chief Executive Officer and Managing Director); and
- (b) Rod Garrett (Chief Financial Officer).

5. Ownership of equity securities of SLI

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5.1 SLI's classes of equity securities consist of the Shares and the Options.

5.2 Schedule 2 to this Target Company Statement sets out the number, designation and percentage of Shares and Options held or controlled by each of SLI's directors, senior officers and their associates. Except as set out in Schedule 2, no SLI director or senior officer holds or controls any Shares or Options of SLI.

5.3 The table below sets out the number, designation and percentage of any Shares held or controlled by any other person holding or controlling 5% or more of the Shares, to the knowledge of SLI. Schedule 3 sets out the number, designation and percentage of any Options held or controlled by any person holding or controlling 5% or more of the Options in any class of Options. Except as set out in the table below and in Schedule 3, no other person is known by SLI to hold or control 5% or more of the Shares or Options.

Holders or controllers of more than 5% of the Shares in SLI

Name	Number of Shares held or controlled	Designation	Percentage of total number Shares
Shaun Ryan ¹	6,744,376	Shares	10.83%
Pie Funds Management Limited ²	5,046,231	Shares	8.10%
Milford Funds Limited ³	4,882,748	Shares	7.84%
Steven Marder ⁴	4,299,322	Shares	6.91%
Grant Ryan ⁵	3,367,451	Shares	5.41%

1. Shaun Ryan holds 810,000 Shares. Shaun Ryan and Katherine Louise Ryan hold 2,430,000 Shares as trustees of the Shaun W Ryan Family Trust of which Shaun is a beneficiary. Shaun Ryan and Grant Ryan hold 2,953,116 Shares as trustees of the Grant Ryan Family Trust of which Shaun is not a beneficiary. Shaun Ryan, James Winston Ryan and Irene Margaret Ryan hold 551,260 Shares as trustees of the J&I Ryan Family Trust of which Shaun is not a beneficiary.

2. The legal holder of the shares is TEA Custodians Limited.

3. The legal holder of the shares is National Nominees Limited.

4. Steven Marder is the legal and beneficial holder of 1,268,032 Shares. Steven Marder has a deemed relevant interest in a further 3,031,290 Shares held by Marder Media Group Inc. arising from his power to control Marder Media Group Inc.

5. Grant Ryan holds 414,335 Shares. Grant Ryan and Shaun Ryan hold 2,953,116 Shares as trustees of the Grant Ryan Family Trust of which Grant is a beneficiary.

5.4 There are no Shares:

- (a) that have been issued to SLI's directors and senior officers or their associates; or
- (b) in which SLI's directors and senior officers or their associates have obtained a beneficial interest under any employee share scheme or other remuneration arrangement,

during the two year period ending on the date of this Target Company Statement. The number of Options issued to the persons described in paragraphs 5.4(a) and (b) during the previous two years are set out in the table below. This table also sets out the price at which those Options were issued or provided.

Options issued to the persons described in paragraphs 5.4(a) and (b) during the previous two years

Name	Position	Number of Options issued	Option class	Price at which Options were issued ¹
Chris Brennan	Chief Executive Officer and Managing Director	613,083	Exercise price of \$0.37 and an expiry date of 9 October 2025	Nil
Chris Brennan	Chief Executive Officer and Managing Director	613,083	Exercise price of \$0.83 and an expiry date of 9 October 2025	Nil

1. The Options are issued under the Option Plan at nil cash and are considered to be part of a participant's overall employee remuneration.

6. Trading in SLI's equity securities

6.1 No director or senior officer of SLI or their associates have acquired or disposed of Shares or Options during the six month period ending on the Reference Date.

6.2 Details of the acquisition or disposition of Shares during the six month period ending on the Reference Date by any person holding or controlling 5% or more of the Shares in SLI are set out in the table below. No Options have been acquired or disposed of during the six month period ending on the Reference Date because the Options are not transferable. Except as set out below, to the knowledge of SLI, no person holding or controlling 5% or more of Shares or Options in SLI has acquired or disposed of Shares or Options during that six month period.

Acquisitions or disposals of Shares during the previous six months by persons holding or controlling 5% or more of the Shares¹

Acquisition or disposal	Number of Shares acquired or disposed	Date	Consideration per Share ²
Milford Funds Limited			
Acquisition	38,547	29 August 2018	\$0.297
Pie Funds Management Limited			
Disposition	25,000	27 September 2018	\$0.330
Acquisition	210,000	23 October 2018	\$0.567

1. This information is based on information known to SLI on the Reference Date. This information is based on substantial security holder notices filed with NZX and responses to a questionnaire circulated by SLI after receipt of ESW's takeover notice.

2. In the case of multiple acquisitions or disposals in any given week, the total number of Shares, and the weighted average consideration per security, acquired or disposed of in that week have been provided.

7. Acceptance of Offer

The directors and senior officers listed in the table below have advised that they (or their associates) have accepted, or intend to accept the Offer in respect of the number of Shares and/or Options held or controlled by them listed in that table.

Name ¹	Description	Number of Shares	Number of Options
Chris Brennan	Director and senior officer	-	1,226,166 ²
Greg Cross	Independent director	-	120,000 (Class 21)
Steven Marder	Director	4,299,322	-
Shaun Ryan	Director	6,744,376	200,000 (Class 67)
Sarah Smith	Independent director	20,000	-
Rod Garrett	Senior officer	196,350	390,000 ³

1. Full details of the number of Shares and Options held or controlled by SLI's directors and senior officers are set out in Schedule 2 to this Target Company Statement.

2. Chris Brennan holds 613,083 Options (Class 67) and 613,083 Options (Class 72).

3. Rod Garrett holds 180,000 Options (Class 1) and 210,000 Options (Class 18).

8. Ownership of equity securities of ESW

Neither SLI nor any director or senior officer of SLI or any of their associates hold or control any equity securities of ESW.

9. Trading in equity securities of ESW

Neither SLI nor any director or senior officer of SLI or any of their associates has acquired or disposed of any equity securities of ESW during the six month period before the Reference Date.

10. Arrangements between SLI and ESW

- 10.1 The following arrangements have been made between SLI and ESW in connection with, in anticipation of, or in response to, the Offer.
- (a) **Confidentiality Agreement:** In July 2018 ESW indicated to SLI an interest in acquiring all of the Shares in SLI. On 15 August 2018 SLI entered into a confidentiality agreement with ESW, under which ESW agreed to keep confidential any information disclosed to ESW by SLI in connection with ESW's proposal to make a full takeover offer for SLI and to use the information solely for that purpose.
 - (b) **Letter of Intent:** On 20 August 2018 SLI entered into a letter of intent with ESW under which SLI granted ESW a 30 day exclusivity period to allow ESW to complete due diligence and prepare the required documentation to make a formal takeover offer.
 - (c) **Access to non-public information:** SLI provided ESW with access to certain non-public information relating to SLI in order for ESW to undertake due diligence investigations prior to ESW sending SLI a takeover notice under the Takeovers Code.
 - (d) **Redundancy:** ESW has informed SLI that it intends to make Chief Executive Officer and Managing Director Chris Brennan and Chief Financial Officer Rod Garrett redundant. SLI and ESW have agreed that redundancy payments payable to Chris and Rod under their respective employment agreements with SLI are to be paid from SLI's cash reserves. The redundancy payments form part of the Transaction Costs.
 - (e) **Cash Settlement of SARs:** SLI and ESW have agreed that SLI may cash settle and/or cancel SARs, upon and subject to the Offer becoming unconditional (on terms approved by ESW acting reasonably). In addition payments made pursuant to that cash settlement and/or cancellation arrangement must not exceed in aggregate \$1,263,315. These payments form part of the Transaction Costs.
 - (f) **Transaction bonuses:** SLI and ESW have agreed that the transaction bonuses payable to Chief Executive Officer and Managing Director Chris Brennan, Chief Financial Officer Rod Garrett and Chief Product Officer Blair Cassidy if the Offer is successful under employment retention agreements dated on or about 6 August 2018, form part of the Transaction Costs.
 - (g) **Offer price:** On 7 November 2018 SLI and ESW agreed that ESW would make its Offer at a purchase price of \$0.65 per Share and at the prices per Option set out in Schedule 1.
- 10.2 Except as set out above in paragraph 10.1, no agreement or arrangement (whether legally enforceable or not) has been made, or is proposed to be made, between SLI and ESW (or any associate of ESW) in connection with, in anticipation of, or in response to ESW's Offer.

11. Relationship between ESW and SLI's directors and senior officers

- 11.1 No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made between ESW (or any associates of ESW) and any director or senior officer of SLI or any related company of SLI (including any payment or other benefit proposed to be made or given to those directors and senior officers as compensation for loss of office, or for remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer.
- 11.2 None of SLI's directors or senior officers are also directors or senior officers of ESW or any related company of ESW.

12. Agreements between SLI and SLI's directors and senior officers

- 12.1 Except as set out in paragraphs 12.2 to 12.6 below, no agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between SLI (or any related company of SLI) and any directors or senior officers of SLI (or any related company of SLI) or their associates under which a payment or other benefit may be made or given to those directors and senior officers as compensation for loss of office, or for their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

Employment retention agreements

- 12.2 S.L.I. Systems, Inc. (SLI's operating subsidiary in New Zealand, Australia and the United States of America) entered into employment retention agreements with each of Chris Brennan, Rod Garrett and Blair Cassidy² on or about 6 August 2018. These agreements replaced prior retention agreements first entered into with these employees in December 2016 and provide for the following transaction bonuses to be paid if the conditions set out in paragraph 12.3 are met:
- (a) Chris Brennan will receive a transaction bonus of US\$900,000 if the Offer price is less than \$0.95 per Share or US\$1,080,000 if the Offer price is greater than \$0.95 per Share;
 - (b) Rod Garrett will receive a transaction bonus of \$555,600 if the Offer price is less than \$0.95 per Share or \$666,700 if the Offer price is greater than \$0.95 per Share; and
 - (c) Blair Cassidy will receive a transaction bonus of \$694,500 if the Offer price is less than \$0.95 per Share or \$833,400 if the Offer price is greater than \$0.95 per Share.
- 12.3 These transaction bonuses are subject to the following conditions:
- (a) a 'transaction' being successfully concluded before 31 March 2019;³ and
 - (b) Chris Brennan, Rod Garrett and Blair Cassidy (as applicable) remaining employed by SLI or its relevant subsidiary both at the date the transaction is successfully completed and for a period of two months after the transaction is successfully completed (unless terminated earlier by SLI's new owner).
- 12.4 The transaction bonuses are payable two months after completion of the transaction (or such earlier date that their employment with SLI is terminated).

Variation of conditional SARs

- 12.5 SLI entered into agreements with Chris Brennan and Rod Garrett on or about 7 August 2018 to vary the conditions for the vesting of Chris Brennan's 441,000 conditional SARs and Rod Garrett's 169,000 conditional SARs. As a result, these conditional SARs vested on 31 October 2018.

Cash settlement of SARs

- 12.6 SLI entered into conditional agreements with Chris Brennan and Rod Garrett on or about 6 November 2018 to cash settle their SARs and all rights and entitlements under the SARs document on the following terms (the *Cash Settlement*).
- (a) Chris Brennan and Rod Garrett will be paid the following amounts in full satisfaction of their SARs and all rights and entitlements under the SARs documents.

SARs holder	Number of SARs	Cash Settlement Price
Chris Brennan	1,667,166 ⁴	\$627,969.00
Rod Garrett	169,000	\$67,600.00

- (b) The Cash Settlement is conditional on ESW's Offer being declared unconditional. If ESW's Offer lapses or is terminated, the SARs are retained on their existing terms.
- (c) The Board will not exercise its discretion to grant options to Chris Brennan or Rod Garrett under their SARs while ESW's Offer remains active (to avoid breaching the Offer conditions).

13. Interests of SLI's directors and officers in contracts of ESW (or a related company of ESW)

- 13.1 Except as set out in paragraph 13.2 below, no director or senior officer or any of their associates has any interest in any contract to which ESW, or any related company of ESW, is a party.

² Chief Product Officer Blair Cassidy is not a senior officer of SLI but his employment retention agreement is disclosed as additional information.

³ Transaction is defined as (i) a potential disposition of 100% of the shares of S.L.I. Systems, Inc and/or SLI; (ii) a merger of the business or shares of S.L.I. Systems, Inc. and/or SLI with a third party; and (iii) some other form of corporate reorganisation or transaction whereby all or greater than 50% of the shares or business of S.L.I. Systems, Inc. and/or SLI may be exchanged for securities in, or other consideration from, an acquiring third party entity.

⁴ Chris Brennan's SARs holding consists of 441,000 conditional SARs and 1,226,166 unconditional SARs.

- 13.2 The following SLI directors and senior officers and/or their associates have entered into sale agreements with ESW on or about 22 October 2018. Under these sale agreements the relevant SLI director, senior officer and/or associate has irrevocably agreed to accept, or procure the acceptance of, the Offer (subject to the conditions set out in the Offer Document), within two business days of the Offer Document being dispatched to SLI's shareholders, in respect of the following shareholdings.

Party to the sale agreement with ESW	Number of Shares to which sale agreement applies	Payment
Rod Garrett	196,350 Shares (being all of his shares, comprising 0.32% of the Shares as at the Reference Date)	\$127,627.50
Marder Media Group Inc. ¹	3,031,290 Shares (being all of its Shares, comprising 4.87% of the Shares as at the Reference Date)	\$1,970,338.50
Shaun William Ryan and Katherine Louise Ryan as trustees of the Shaun W Ryan Family Trust ²	2,430,000 Shares (being all of the trust's Shares, comprising 3.90% of the Shares as at the Reference Date)	\$1,579,500.00
Grant James Ryan and Shaun William Ryan as trustees of the Grant Ryan Family Trust ³	2,953,116 Shares (being all of the trust's Shares, comprising 4.74% of the Shares as at the Reference Date)	\$1,919,525.40
James Winston Ryan, Irene Margaret Ryan and Shaun William Ryan as trustees of the J&I Ryan Family Trust ⁴	551,260 Shares (being all of the trust's Shares, comprising 0.89% of the Shares as at the Reference Date)	\$358,319.00
Steven Marder	1,268,032 Shares (being all of his shares, comprising 2.04% of the Shares as at the Reference Date)	\$824,220.80
Shaun Ryan	810,000 Shares (being all of his shares, comprising 1.30% of the Shares as at the Reference Date)	\$526,500.00

1. Marder Media Group Inc. is an associate of director Steven Marder who has the power to control Marder Media Group Inc.

2. Shaun Ryan is a trustee of his family trust.

3. Shaun Ryan is a trustee of his brother's family trust.

4. Shaun Ryan is a trustee of his parent's family trust.

13A. Interests of SLI's substantial security holders in material contracts of ESW (or a related company of ESW)

- 13A.1 Except as set out in paragraph 13.2 above and in paragraph 13A.2 below, no person who, to the knowledge of SLI's directors and senior officers, holds or controls 5% or more of the Shares or Options has an interest in any material contract to which ESW or any related company of ESW, is a party.
- 13A.2 The following substantial security holders have entered into sale agreements with ESW on or about 22 October 2018 under which they have each irrevocably agreed to accept, or procure the acceptance of, the Offer (subject to the conditions set out in the Offer Document), within two business days of the date the Offer Document is dispatched to SLI's Shareholders, in respect of the following shareholdings.

Party to the sale agreement with ESW	Number of Shares to which sale agreement applies	Payment
Pie Funds Management Limited ¹	5,046,231 Shares (being all of its Shares, comprising 8.10% of the Shares as at the Reference Date)	\$3,280,050.15
Milford Funds Limited ²	4,882,748 Shares (being all of its Shares, comprising 7.84% of the Shares as at the Reference Date)	\$3,173,786.20
Grant James Ryan and Shaun William Ryan as trustees of the Grant Ryan Family Trust ³	2,953,116 Shares (being all of the trust's Shares, comprising 4.74% of the Shares as at the Reference Date)	\$1,919,525.40
Grant James Ryan	414,335 Shares (being all of his Shares, comprising 0.67% of the Shares as at the Reference Date)	\$269,317.75

1. The legal holder of the shares is TEA Custodians Limited.

2. The legal holder of the shares is National Nominees Limited.

3. Grant Ryan is the substantial security holder.

14. Additional information

In the opinion of SLI's directors, no additional information within the knowledge of SLI is required to make the information in the Offer Document correct or not misleading.

15. Recommendation

- 15.1 The Board has appointed a committee of directors (the *Independent Director Committee*) to attend to all matters associated with the Offer. The Independent Director Committee consists of Greg Cross, Sarah Smith and Andrew Lark.
- 15.2 The Independent Director Committee unanimously recommends that Shareholders and Option-holders accept the Offer for the reasons set out in the Chairman's Letter on page 4. In reaching this recommendation, the Independent Director Committee has carefully considered a full range of expert advice available to it (including the Independent Adviser's Report).
- 15.3 SLI director Chris Brennan, being the Chief Executive Officer and Managing Director, has a potential conflict of interest in respect of the Offer due to his employment by S.L.I. Systems, Inc. (SLI's operating subsidiary in the United States of America). Chris is therefore not a member of the Independent Director Committee and abstains from making any recommendation as to whether to accept or reject the Offer.
- 15.4 SLI directors Shaun Ryan and Steven Marder have a potential conflict of interest in respect of the Offer because they and/or their associates have each entered into sale agreements with ESW in respect of Shares that they hold or control (see paragraphs 13.2 or 13A.2). Shaun and Steven are therefore not members of the Independent Director Committee and have abstained from making any recommendation as to whether to accept or reject the Offer.

16. Actions of SLI

- 16.1 Except for the arrangements summarised in paragraphs 10 and 12, there are no material agreements or arrangements (whether legally enforceable or not) of SLI or any of its related companies entered into as a consequence of, in response to, or in connection with, the Offer.
- 16.2 There are no negotiations underway as a consequence of, in response to, or in connection with, the Offer that relate to, or could result in:
- an extraordinary transaction, such as a merger, amalgamation, or reorganisation, involving SLI or any of its related companies; or
 - the acquisition or disposition of material assets by SLI or any of its related companies; or
 - an acquisition of equity securities by, or of, SLI or any related company of SLI; or
 - any material change in the equity securities on issue, or policy relating to distributions, of SLI.

17. Equity securities of SLI

SLI Shares

- 17.1 SLI has 62,260,816 fully paid Shares on issue as at the date of this Target Company Statement. Subject to the NZX Main Board Listing Rules and SLI's constitution, each Share confers on the holder the right to:
- an equal share in dividends authorised by the Board;
 - an equal share in the distribution of surplus assets on liquidation of SLI;
 - participate in certain further issues of equity securities by SLI; and
 - cast one vote on a show of hands or the right to cast one vote per Share on a poll, at a meeting of Shareholders on any resolution (subject to the restrictions in the NZX Main Board Listing Rules (e.g. the prohibition on related parties voting in certain material related party transactions)), including a resolution to:
 - appoint or remove a director or auditor;
 - alter SLI's constitution;
 - approve a major transaction by SLI;
 - approve an amalgamation involving SLI; and
 - put SLI into liquidation.

SLI Options

- 17.2 SLI currently has 5,643,183 Options on issue as at the date of this Target Company Statement. The Options constitute 74 different classes of equity securities under the Takeovers Code. Each Option with a different exercise price and/or expiry date is treated as a different class of equity securities under the Takeovers Code.
- 17.3 All Options are subject to the terms and conditions of the Option Plan.
- 17.4 The material terms of the Options are as follows.
- (a) Each Option gives the participant a right to acquire one Share in SLI after the Option has vested. Option-holders must pay the Option exercise price to acquire a Share unless the Board permits a cashless net settlement.
 - (b) The exercise price of an Option is the amount determined by SLI's Board from time to time and notified to the relevant employee. From 8 October 2015 the exercise price has been determined by SLI's Board in accordance with the binding protocol for the Option Plan. The binding protocol requires that the exercise price for any options granted under the Option Plan be the closing price of SLI's shares on the NZX Main Board on the day of grant (or if that day is not a day on which the NZX is open for trading, the next such trading day).
 - (c) Unless the Board has determined otherwise in respect of a particular Option grant, Options vest as follows:
 - (i) $\frac{1}{4}$ of the Options granted become exercisable on the one year anniversary of the grant date; and
 - (ii) then an additional $\frac{1}{36}$ th of the remaining Options granted become exercisable on each subsequent month, meaning that all Options are fully exercisable on the fourth anniversary of the grant date.
 - (d) The final exercise date (i.e. the expiry date) for Options is the first to occur of:
 - (i) the 10th anniversary of the grant date;
 - (ii) the last prescribed date for exercising the Options following termination of the Option-holder's employment; or
 - (iii) a date determined by the Board.
 - (e) Options are not transferrable to any other person (other than to an offeror under a full takeover offer under the Takeovers Code);
 - (f) Options do not entitle a participant to receive distributions or dividends; and
 - (g) Options have no voting rights.

18. Financial information

- 18.1 Every person to whom the Offer is made is entitled to obtain from SLI a copy of SLI's most recent annual report (being the annual report for the period ended 30 June 2018) from <https://www.sli-systems.com/wp-content/uploads/2018/09/SLI-Annual-Report-2018.pdf> or by making a written request to SLI at investor.relations@sli-systems.com.
- 18.2 No half-yearly report or interim report has been issued since the issue of SLI's most recent annual report.
- 18.3 Other than as set out elsewhere in this Target Company Statement, or as contained in the Independent Adviser's Report:
- (a) there have been no known material changes in the financial or trading position, or prospects of SLI since the 30 June 2018 annual report; and
 - (b) there is no other information about the assets, liabilities, profitability, and financial affairs of SLI that could reasonably be expected to be material to the making of a decision by Shareholders or Option-holders to accept or reject the Offer.

19. Independent advice on merits of Offer

Northington Partners is the independent adviser who has provided a report on the merits of the Offer required by Rule 21 of the Takeovers Code (the *Independent Adviser's Report*). A copy of the Independent Adviser's Report is attached to this Target Company Statement at Appendix 1.

19A. Different classes of securities

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Enclosed with this Target Company Statement is a copy of the independent adviser's report prepared by Simmons Corporate Finance Limited which was obtained by ESW pursuant to Rule 22 of the Takeovers Code.

20. Asset valuation

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None of the information provided in this Target Company Statement refers to a valuation on any asset of SLI.

21. Prospective financial information

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21.1 None of the information contained in this Target Company Statement refers to prospective financial information.

21.2 The Independent Adviser's Report contains prospective financial information in relation to SLI. The principal assumptions on which that prospective financial information is based are set out in the Independent Adviser's Report.

22. Sales of unquoted equity securities under Offer

–

The Options are not quoted on a stock exchange. The Options are not transferrable meaning no Options have been disposed of in the 12 month period ending on the Reference Date.

23. Market prices of quoted equity securities under Offer

–

23.1 The Shares are quoted on the NZX Main Board.

23.2 The closing price on the NZX Main Board of the Shares on:

(a) 9 November 2018, being the Reference Date, was \$0.62; and

(b) 19 October 2018, being the last day on which the NZX was open for business before the date on which SLI received ESW's takeover notice, was \$0.30.

23.3 The highest and lowest closing market price of the Shares on the NZX Main Board during the six months before SLI received ESW's takeover notice (being 22 October 2018) were as follows:

(a) the highest closing market price was \$0.34 on 27 September 2018; and

(b) the lowest closing market price was \$0.27 on 23 August 2018 and 24 August 2018.

23.4 During the six month period before SLI received ESW's takeover notice, SLI did not issue any equity securities, make any changes in the equity securities on issue or make any distribution which could have affected the market price of the Shares, except as set out below:

(a) on 13 April 2018 SLI issued 460,000 Options under the Option Plan at an exercise price of \$0.31 and with an expiry date of 13 April 2028; and

(b) on 21 May 2018 SLI issued 200,000 Options under the Option Plan at an exercise price of \$0.31 and with an expiry date of 21 May 2028.

23.5 There is no other information about the market price of the Shares that would reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer.

24. Other information

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The Independent Director Committee considers that there is no other information that could reasonably be expected to be material to the making of a decision by Shareholders and Option-holders as to whether to accept or reject the Offer.

25. Approval of this Target Company Statement

The contents of this Target Company Statement have been approved by the Independent Director Committee. As noted in paragraphs 15.3 and 15.4 above the other directors of SLI (Shaun Ryan, Steven Marder and Chris Brennan) are not members of the Independent Director Committee because each of them has a potential conflict of interest in respect of the Offer. As a result they have abstained from approving or rejecting this Target Company Statement.⁵

26. Interpretation

In this Target Company Statement:

Board means the board of directors of SLI.

ESW means ESW Holdings Inc.

Independent Adviser's Report means the independent adviser's report provided by Northington Partners under Rule 21 of the Takeovers Code and enclosed with this Target Company Statement.

Independent Director Committee has the meaning given to it in paragraph 15 of this Target Company Statement.

NZ\$ or \$ means New Zealand dollars.

NZX Main Board means the main board equity securities exchange operated by NZX.

NZX means NZX Limited.

Offer has the meaning given to it in paragraph 2 of this Target Company Statement.

Offer Document means the offer document dated 9 November 2018.

Options means the 74 classes of unlisted options set out in Schedule 1 which are subject to SLI's Option Plan (or the 2002 predecessor plan).

Option-holders means the holders of the Options which are the subject of the Offer.

Option Plan means the SLI Systems Share Option Plan and its 2002 predecessor plan.

Reference Date means 9 November 2018 (being the latest practicable working day before the date on which this Target Company Statement is sent to Shareholders).

Shares means the fully paid ordinary shares in SLI.

Shareholders means the holders of the Shares which are the subject of the Offer.

SARs means the share appreciation rights granted to SLI's senior employees under SLI's share appreciation rights scheme.

SLI means SLI Systems Limited (NZX: SLI).

Takeovers Act means the Takeovers Act 1993.

Takeovers Code means the Takeovers Code approved by the Takeovers Code Approval Order 2000 (as amended).

Transaction Costs means the following costs which SLI will be required to pay if the Offer becomes unconditional:

- (a) transaction bonuses to SLI's senior managers in accordance with the employee retention agreements dated on or about 6 August 2018;
- (b) redundancy entitlements to SLI's Chief Executive Officer and Managing Director, Chris Brennan and Chief Financial Officer, Rod Garrett in accordance with their employment agreements with SLI;
- (c) amounts to SARs holders to cash settle their entitlements under SLI's share appreciation rights scheme including any costs incurred by SLI in having the SARs independently valued; and
- (d) amounts paid or incurred by SLI in relation to legal fees, tax fees or adviser fees which are paid or incurred in connection with the Offer.

⁵ Chris Brennan has signed this Target Company Statement in his capacity as Chief Executive Officer and Managing Director of SLI, as required by the Takeovers Code.

27. Certificate

To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by SLI under the Takeovers Code.



Greg Cross
Chairman of the Independent Director Committee



Sarah Smith
Independent Director



Chris Brennan
Chief Executive Officer and Managing Director



Rod Garrett
Chief Financial Officer

Schedule 1: Offer Price for Options

Class	Grant Date	Expiry Date	Number of Options In Class	Exercise Price	Option Offer Price (NZ\$)
1.	13 Nov 06	13 Nov 19	180,000	US\$0.29	0.22
2.	7 Jan 08	7 Jan 21	60,000	US\$0.29	0.22
3.	25 Mar 08	25 Mar 21	210,000	US\$0.33	0.18
4.	5 May 08	5 May 21	60,000	US\$0.33	0.19
5.	12 May 08	12 May 21	60,000	US\$0.29	0.22
6.	9 Mar 09	9 Mar 19	49,500	US\$0.33	0.16
7.	14 Apr 09	14 Apr 19	49,500	US\$0.33	0.16
8.	10 May 09	10 May 19	49,500	US\$0.33	0.16
9.	30 Jun 09	30 Jun 19	49,440	US\$0.33	0.16
10.	15 Mar 10	15 Mar 20	49,500	US\$0.33	0.16
11.	23 Mar 10	23 Mar 20	210,000	US\$0.33	0.16
12.	6 Apr 10	6 Apr 20	49,500	US\$0.33	0.16
13.	31 May 10	31 May 20	29,500	US\$0.33	0.16
14.	8 Jun 10	8 Jun 20	49,500	US\$0.33	0.17
15.	21 Jun 10	21 Jun 20	49,500	US\$0.33	0.17
16.	30 Jun 10	30 Jun 20	64,118	US\$0.33	0.17
17.	4 Oct 10	4 Oct 20	49,500	US\$0.33	0.17
18.	15 Jan 11	15 Jan 21	210,000	US\$0.33	0.18
19.	16 May 11	16 May 21	22,500	US\$0.33	0.19
20.	30 Jun 11	30 Jun 21	165,272	US\$0.33	0.19
21.	12 Jul 11	12 Jul 21	120,000	US\$0.33	0.19
22.	17 Oct 11	17 Oct 21	49,500	US\$0.33	0.20
23.	5 Dec 11	5 Dec 21	49,500	US\$0.33	0.20
24.	28 May 12	28 May 22	49,500	US\$0.68	0.09
25.	5 Jun 12	5 Jun 22	28,875	US\$0.68	0.09
26.	18 Jun 12	18 Jun 22	43,500	US\$0.68	0.09
27.	25 Jun 12	25 Jun 22	49,500	US\$0.68	0.09
28.	1 Jul 12	1 Jul 22	51,000	US\$0.75	0.08
29.	16 Jul 12	16 Jul 22	49,500	US\$0.75	0.08
30.	20 Aug 12	20 Aug 22	63,338	US\$0.75	0.08
31.	12 Sep 12	12 Sep 22	32,400	US\$0.75	0.08
32.	8 Oct 12	8 Oct 22	32,400	US\$0.75	0.08
33.	19 Nov 12	19 Nov 22	24,300	US\$0.75	0.08
34.	3 Dec 12	3 Dec 22	32,400	US\$0.75	0.09
35.	14 Jan 13	14 Jan 23	32,400	US\$0.78	0.08
36.	15 Feb 13	15 Feb 23	32,400	US\$0.78	0.08
37.	4 Mar 13	4 Mar 23	32,400	US\$0.78	0.08

Class	Grant Date	Expiry Date	Number of Options In Class	Exercise Price	Option Offer Price (NZ\$)
38.	8 Apr 13	8 Apr 23	32,400	US\$0.78	0.09
39.	17 Jun 13	17 Jun 23	13,800	NZ\$1.94	0.04
40.	1 Jul 13	1 Jul 23	6,900	NZ\$1.94	0.04
41.	8 Jul 13	8 Jul 23	13,800	NZ\$1.94	0.04
42.	22 Jul 13	22 Jul 23	13,800	NZ\$1.94	0.04
43.	5 Aug 13	5 Aug 23	13,800	NZ\$1.94	0.04
44.	16 Sep 13	16 Sep 23	13,800	NZ\$1.94	0.04
45.	25 Sep 13	25 Sep 23	13,800	NZ\$2.06	0.04
46.	14 Oct 13	14 Oct 23	13,800	NZ\$1.93	0.05
47.	25 Nov 13	25 Nov 23	13,800	NZ\$1.94	0.05
48.	27 Jan 14	27 Jan 24	13,800	NZ\$2.17	0.04
49.	24 Feb 14	24 Feb 24	27,600	NZ\$2.55	0.03
50.	31 Mar 14	31 Mar 24	13,800	NZ\$2.46	0.04
51.	14 Apr 14	14 Apr 24	13,800	NZ\$2.26	0.04
52.	2 Jul 14	2 Jul 24	100,000	NZ\$1.61	0.07
53.	14 Jul 14	14 Jul 24	13,800	NZ\$1.53	0.08
54.	28 Jul 14	28 Jul 24	13,800	NZ\$1.42	0.09
55.	4 Aug 14	4 Aug 24	13,800	NZ\$1.40	0.09
56.	11 Aug 14	11 Aug 24	26,500	NZ\$1.37	0.09
57.	19 Sep 14	19 Sep 24	13,800	NZ\$1.36	0.10
58.	29 Sep 14	29 Sep 24	13,800	NZ\$1.31	0.10
59.	25 Nov 14	25 Nov 24	27,600	NZ\$1.15	0.12
60.	22 Dec 14	22 Dec 24	13,800	NZ\$1.12	0.12
61.	29 Jan 15	29 Jan 25	13,800	NZ\$1.14	0.12
62.	24 Aug 15	24 Aug 25	77,000	NZ\$0.76	0.19
63.	24 Aug 15	11 Jun 25	200,000	NZ\$0.94	0.16
64.	16 Oct 15	16 Oct 25	2,000	NZ\$0.79	0.19
65.	25 Nov 15	25 Nov 25	2,000	NZ\$0.77	0.19
66.	2 Sep 16	2 Sep 26	35,000	NZ\$0.72	0.21
67.	28 Nov 16	9 Oct 25	613,083	NZ\$0.83	0.18
68.	22 Feb 17	22 Feb 27	16,875	NZ\$0.43	0.29
69.	2 Mar 17	2 Mar 27	315,000	NZ\$0.37	0.31
70.	28 Jul 17	28 Jul 27	75,000	NZ\$0.33	0.33
71.	2 Oct 17	2 Oct 27	75,000	NZ\$0.25	0.40
72.	28 Nov 17	9 Oct 25	613,083	NZ\$0.37	0.30
73.	13 Apr 18	13 Apr 28	460,000	NZ\$0.31	0.34
74.	21 May 18	21 May 28	200,000	NZ\$0.31	0.34

Schedule 2: Ownership of SLI Shares and Options by directors and senior officers and their associates (Paragraph 5.2)

Shares¹

Name	Number of Shares held or controlled	Designation	Percentage of total number Shares
Directors of SLI			
Sarah Smith ²	20,000	Shares	0.03%
Steven Marder ³	4,299,322	Shares	6.91%
Shaun Ryan ⁴	6,744,376	Shares	10.83%
Senior officers			
Rod Garrett	196,350	Shares	0.32%

1. This information has been prepared as at the Reference Date based on relevant interest disclosure notices filed on the NZX and based on responses to questionnaires circulated to all directors after receipt of the takeover notice.

2. The Shares are held jointly by Sarah Smith and Craig Smith.

3. Steven Marder is the legal and beneficial holder of 1,268,032 Shares. Steven Marder has a deemed relevant interest in a further 3,031,290 Shares held by Marder Media Group Inc. arising from his power to control Marder Media Group Inc.

4. Shaun Ryan holds 810,000 Shares. Shaun Ryan and Katherine Louise Ryan hold 2,430,000 Shares as trustees of the Shaun W Ryan Family Trust of which Shaun is a beneficiary. Shaun Ryan and Grant Ryan hold 2,953,116 Shares as trustees of the Grant Ryan Family Trust of which Shaun is not a beneficiary. Shaun Ryan, James Winston Ryan and Irene Margaret Ryan hold 551,260 Shares as trustees of the J&I Ryan Family Trust of which Shaun is not a beneficiary.

Options¹

Name	Number of Options held or controlled	Designation	Percentage of total Options in relevant Option class
Directors of SLI			
Greg Cross	120,000	Options (Class 21)	100%
Shaun Ryan	200,000	Options (Class 63)	100%
Chris Brennan	613,083	Options (Class 67)	100%
Chris Brennan	613,083	Options (Class 72)	100%
Senior officers			
Rod Garrett	180,000	Options (Class 1)	100%
Rod Garrett	210,000	Options (Class 18)	100%

1. This information has been prepared based on SLI's options register as at the Reference Date and based on responses to questionnaires circulated to all directors and senior officers after receipt of the takeover notice.

Schedule 3: Holders or controllers of more than 5% of any class of Options (Paragraph 5.3)

Name	Number of Options held or controlled	Class of Options	Percentage of total number of Options in class of Options
Adam Freeman	12,360	Options (Class 9)	25%
Adam Freeman	12,360	Options (Class 16)	19%
Adam Freeman	14,607	Options (Class 20)	9%
Alasdair Ross	13,800	Options (Class 61)	100%
Ashley Taylor	49,500	Options (Class 7)	100%
Ashley Taylor	8,427	Options (Class 20)	5%
Ashley Taylor	10,000	Options (Class 62)	13%
Bianca Manea	2,000	Options (Class 65)	100%
Blair Cassidy	210,000	Options (Class 3)	100%
Blair Cassidy	210,000	Options (Class 11)	100%
Bradley Dilley	49,500	Options (Class 12)	100%
Brendon Kelly	12,360	Options (Class 16)	19%
Callum Reid	32,400	Options (Class 38)	100%
Carol Mitchell	32,400	Options (Class 37)	100%
Carrie Fisher	200,000	Options (Class 74)	100%
Carter Perez	315,000	Options (Class 69)	100%
Cheri Winterberg	460,000	Options (Class 73)	100%
Chris Brennan	613,083	Options (Class 67)	100%
Chris Brennan	613,083	Options (Class 72)	100%
Chris Edge	49,500	Options (Class 10)	100%
Chris Edge	5,000	Options (Class 62)	6%
Christina Stubler	13,800	Options (Class 59)	50%
Christopher Harding	13,800	Options (Class 45)	100%
Christy McCambridge	32,400	Options (Class 36)	100%
Daryn Hanright	60,000	Options (Class 5)	100%
Daryn Hanright	10,394	Options (Class 20)	6%
Doug McLean	75,000	Options (Class 71)	100%
Fiona Forsythe	49,500	Options (Class 6)	100%
Florian Scharinger	13,800	Options (Class 50)	100%
Greg Cross	120,000	Options (Class 21)	100%
Greg Scott	32,400	Options (Class 31)	100%
Greg Scott	5,000	Options (Class 62)	6%
Hamish Medlin	49,500	Options (Class 27)	100%
Hannah Ashworth	12,360	Options (Class 9)	25%
Hannah Ashworth	12,360	Options (Class 16)	19%
Hayden Bakkum	13,800	Options (Class 59)	50%
Heather Kinghorn	49,500	Options (Class 14)	100%

Name	Number of Options held or controlled	Class of Options	Percentage of total number of Options in class of Options
Helmut Berie	43,500	Options (Class 26)	100%
Helmut Berie	10,000	Options (Class 62)	13%
Hui Dai	13,800	Options (Class 44)	100%
Jacinta Le Lievre	6,900	Options (Class 40)	100%
Jeff Holt	13,800	Options (Class 39)	100%
Jeremy Bertenshaw	60,000	Options (Class 2)	100%
Joe Riney	49,500	Options (Class 17)	100%
John Knight	49,500	Options (Class 15)	100%
Johnathan Seal	49,500	Options (Class 8)	100%
Johnathan Seal	8,427	Options (Class 20)	5%
Joshua Rule	49,500	Options (Class 24)	100%
Julian Cone	13,800	Options (Class 55)	100%
Justin Matsui	49,500	Options (Class 22)	100%
Karl Donaldson	32,400	Options (Class 35)	100%
Kevin Dodge	13,800	Options (Class 60)	100%
KJ Hwang	13,800	Options (Class 49)	50%
Lae Chen	13,800	Options (Class 43)	100%
Lamiaie Sadki	13,800	Options (Class 58)	100%
Lee Barker	32,400	Options (Class 34)	100%
Lee Barker	10,000	Options (Class 62)	13%
Lofan Chin	13,800	Options (Class 47)	100%
Martin Rademacher	29,500	Options (Class 13)	100%
Matt Sparrow	13,800	Options (Class 48)	100%
Matthew Brovelli	60,000	Options (Class 4)	100%
Matthew Brovelli	14,607	Options (Class 20)	9%
Matthew Brovelli	26,500	Options (Class 56)	100%
Matthew Brovelli	15,000	Options (Class 62)	19%
Matthew Brovelli	75,000	Options (Class 70)	100%
Michael A Grantham	12,360	Options (Class 9)	25%
Michael A Grantham	12,360	Options (Class 16)	19%
Michael A Grantham	27,360	Options (Class 20)	17%
Mira Karp	16,875	Options (Class 68)	100%
Odele O'Connor	28,875	Options (Class 25)	100%
Paul Findlay	13,800	Options (Class 51)	100%
Paul Findlay	10,000	Options (Class 62)	13%
Paul Kibblewhite	30,938	Options (Class 30)	49%
Pollyane Carvalho	13,800	Options (Class 46)	100%

Name	Number of Options held or controlled	Class of Options	Percentage of total number of Options in class of Options
Rachel Doe	32,400	Options (Class 32)	100%
Rachel Upson	4,000	Options (Class 62)	5%
Ralph Tyson	49,500	Options (Class 23)	100%
Roberto Roca	51,000	Options (Class 28)	100%
Rod Garrett	180,000	Options (Class 1)	100%
Rod Garrett	210,000	Options (Class 18)	100%
Sam Botting	49,500	Options (Class 29)	100%
Shaun Phillips	13,800	Options (Class 49)	50%
Shaun W Ryan	200,000	Options (Class 63)	100%
Sheila Bradley	35,000	Options (Class 66)	100%
Shigeru Ohira	13,800	Options (Class 54)	100%
Sree Sripathy	13,800	Options (Class 41)	100%
Stephanie Olson	2,000	Options (Class 64)	100%
Steven Rutherford	24,300	Options (Class 33)	100%
Taryn Tait	32,400	Options (Class 30)	51%
Tery Lim	13,800	Options (Class 57)	100%
The Estate of Ed Hoffman	17,963	Options (Class 20)	11%
The Estate of Ed Hoffman	100,000	Options (Class 52)	100%
Tom Varley	13,800	Options (Class 53)	100%
Wayne A Munro	12,360	Options (Class 9)	25%
Wayne A Munro	12,360	Options (Class 16)	19%
Wayne A Munro	27,360	Options (Class 20)	17%
Wouter Verwoerd	22,500	Options (Class 19)	100%
Yuki Fujii	13,800	Options (Class 42)	100%

Appendix 1: Independent Adviser's Report Prepared under Rule 21 of the Takeovers Code

(Under separate cover).

