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# Notice of General Meeting

Notice is hereby given that a General Meeting of Melbourne IT Ltd will be held at King & Wood Mallesons, Level 50, Bourke Place, 600 Bourke Street, Melbourne VIC 3000 on 28 January 2014 at 10.00am (Melbourne time).

## Business

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Shareholders will be asked to consider and, if thought fit, to pass the resolutions below. Items 1, 2 and 3 will be proposed as ordinary resolutions.

### Item 1: Return of capital to shareholders

*That, for the purposes of Part 2J.1 of the Corporations Act and for all other purposes, approval is given for the share capital of the Company to be reduced by approximately \$45.2 million, as described in the Explanatory Notes accompanying the Notice of General Meeting. The reduction of capital will be effected by the Company paying to each registered holder of fully paid ordinary shares in the Company as at a date and time to be specified by the board of the Company, \$0.54 per ordinary share.*

### Item 2: Approval of amendments to the terms of the performance rights granted under the Company's Performance Rights Plan and currently on issue

*That, for the purposes of ASX Listing Rule 6.23.4 and for all other purposes, approval is given to amend the terms of all performance rights granted under the Company's Performance Rights Plan and currently on issue, as described in the Explanatory Notes accompanying the Notice of General Meeting.*

### Item 3: Approval of the provision of potential termination benefits to members of the Executive Team

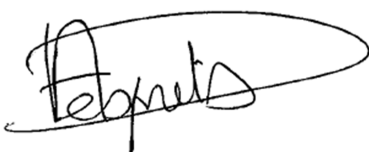
*To approve, for the purpose of Part 2D.2 Division 2 of the Corporations Act, the provision of potential termination benefits to any current members of the Executive Team, in connection with such person ceasing to hold a managerial or executive office or position of employment in the Company or a related body corporate, as described in the Explanatory Notes accompanying the Notice of General Meeting.*

The proposed items of business should be read in conjunction with the Explanatory Notes to this Notice of General Meeting.

### Other Business

A reasonable opportunity will be given to shareholders, as a whole, to ask questions or make comments at the meeting on any of the items of business.

By order of the Board



**Arnaud Desprets**  
Company Secretary  
20 December 2013

## Explanatory Notes

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The information below is an explanation of the business to be considered at the General Meeting (General Meeting).

### Item 1: Return of capital to shareholders

#### 1.1 Overview of proposed Capital Return

##### (a) Return to shareholders

The Company proposes to reduce its share capital by a total of approximately \$45.2 million by returning to shareholders \$0.54 per fully paid ordinary share (**Capital Return**).

The record date for determining entitlements to receive the Capital Return is 05 February 2014 (**Record Date**).

##### (b) Reasons for Capital Return

#### General rationale for Capital Return

In November 2012, the Board announced the commencement of a strategic review process to explore the possibilities of unlocking value for shareholders (**Strategic Review**). The Company's stated objectives for the Strategic Review were to unlock the intrinsic value of the business, deliver benefits to shareholders and create a simpler, more focused company which would be well positioned for future success. During the Strategic Review, the Company held discussions with several interested parties which resulted in the sale of the Company's Digital Brand Services (**DBS**) and ForTheRecord (**FTR**) divisions for a total of \$158.8 million.

Following the sale of the DBS division, the Company announced on 12 March 2013 that it would consider a range of capital management options as a result of the sale. On 19 April 2013, the Company released its annual report for the year ended 31 December 2012. The Board noted that in addition to retiring debt, it was considering a range of capital management options as a result of the DBS sale, including special dividends, share buy-backs, capital returns and further investment in the continuing businesses.

Shortly after, on 21 May 2013, the Company announced a 75% franked special dividend of 25 cents (being a total of \$20.7million), which was paid to shareholders on 22 August 2013.

After the payment of the special dividend, the Company announced in its 2013 half-year investor presentation that was released to the market on 27 August 2013 that it had applied to the Australian Tax Office (**ATO**) for a tax ruling on a potential capital return to shareholders.

The Directors now believe that, in addition to the special dividend paid on 22 August 2013, a further \$45.2 million can be prudently returned to shareholders by way of a return of capital (giving an aggregate return of funds to shareholders of \$65.9 million) whilst still retaining sufficient capital in the business for future expansion plans and internal growth.

The Directors have considered various methods of returning surplus cash including a share buy-back and a capital return. In assessing the benefits of each method they considered factors such as simplicity, impact on the Company and equity between shareholders.

Following this, the Board has decided that a cash distribution by way of an equal capital reduction is the most equitable and efficient way for the Company to return the surplus cash and enhance shareholder value.

#### Further information about recent transactions

##### *Sale of DBS division*

On 12 March 2013, the Company announced that it had sold its online brand protection and consultancy services division, DBS, to US-based Corporation Services Company (**CSC**). The completion of the transaction occurred simultaneously with the execution of the definitive agreements.

CSC paid a cash consideration of \$152.5 million (including \$15.2 million which is held in escrow until June 2014). Some of the proceeds from this sale were used to retire outstanding debt of \$35 million.

### **Sale of FTR division**

On 1 August 2013, the Company announced that it had sold its digital recording and content management solutions division, FTR, to Record Holdings Pty Ltd (**RHL**). The sale was completed on 30 August 2013.

RHL paid a cash consideration of \$6.3 million.

#### **(c) Calculation of Total Capital Return**

The total amount of the Capital Return payable will be calculated as follows:

$$\text{Total Capital Return} = \$0.54 \times \text{number of fully paid ordinary shares on issue on the Record Date}$$

If resolution 2 is passed by shareholders, a prorated number of the current unvested performance rights granted under the existing Plans (relative to the expired portion of the performance period) will vest on the new vesting date set out in paragraph 2.4 of this Notice of General Meeting (**Vested Performance Rights**). Therefore, it is anticipated that prior to the Record Date the number of issued shares in the Company will increase, which will result in a higher total amount of the Capital Return payable by the Company.

To understand how an increase in the issued share capital of the Company will impact the total amount of the Capital Return payable, the table below sets out some hypothetical examples (\*):

<b>Scenario</b>	<b>Calculation of Total Capital Return</b>	<b>Total Capital Return</b>
Capital Return payable based on the Company's issued share capital as at the date of the Notice of General Meeting	$\$0.54 \times 83,164,371$	\$44.9 million
Resolution 2 is passed	$\$0.54 \times 83,706,138$	\$45.2 million

(\*) The hypothetical examples are for illustrative purposes only and assumes that between the date of the Notice of General Meeting and the Record Date, the Company will only issue additional shares in order to satisfy its obligations to provide shares on exercise of the Vested Performance Rights.

#### **(d) Payment details**

If the proposed Capital Return is approved by shareholders, it will be paid to shareholders using the payment method selected by shareholders for the payment of their dividends.

Shareholders who wish to receive their payment in a form that is different from their current instructions for payment of dividends must contact the Company's Share Registry prior to the Record Date. Cheques and direct credit advices will be sent by mail to shareholders to the address recorded on the Company's Register on the Record Date.

Payment is expected to be completed on or about 19 February 2014.

#### **(e) Tax treatment**

Refer to paragraph 1.4 of this Notice of General Meeting for information about the tax implications of the Capital Return to the Company's shareholders.

### **1.2 Regulatory requirements**

#### **(a) Equal reduction**

The proposed Capital Return constitutes an equal reduction of the Company's share capital for the purposes of the Corporations Act. This is because it relates only to ordinary shares, it applies to each holder of ordinary shares in proportion to the number of shares they hold, and the terms of the reduction are the same for each holder of ordinary shares.

**(b) Statutory requirements**

Under the Corporations Act, a company can reduce its share capital if the reduction satisfies three key requirements. Each requirement is set out below, together with a description of how that requirement is met in relation to the proposed Capital Return.

Requirement	How the requirement is satisfied
The reduction must be fair and reasonable to the company's shareholders as a whole	The Directors consider that the Capital Return is fair and reasonable to shareholders as a whole. All shareholders will be treated in the same manner in terms of the proportion of the share capital of the Company being returned.
The reduction must not materially prejudice the company's ability to pay its creditors	The Directors have carefully reviewed the Company's assets, liabilities and expected cash flows, and believe that the Capital Return will not materially prejudice the Company's ability to pay its creditors.
The reduction must be approved by the shareholders under section 256C of the Corporations Act	<p>This requirement is the reason shareholder approval is being sought at this General Meeting. In the context of an equal reduction of capital (as described in paragraph 1.3(a) of this Notice of General Meeting), the reduction must be approved by ordinary resolution of the Company's shareholders.</p> <p>In accordance with section 256C(5) of the Corporations Act, a copy of the Notice of Meeting has been lodged with ASIC.</p>

**1.3 Discussion and analysis of the proposed Capital Return**

**(a) Indicative timetable for the Capital Return**

Subject to shareholder approval, the Capital Return will take effect in accordance with the following timetable (\*):

Event	Date
Latest date for lodgement of proxies	26 January 2014 10.00am
General Meeting to approve Capital Return	28 January 2014 10.00am
MLB shares trade "ex" the Capital Return	30 January 2014
Record Date for determining entitlement to participate in Capital Return	05 February 2014 7.00pm
Payment date for Capital Return	19 February 2014

(\*): All dates and times are indicative only. The Board reserves the right to vary these dates and times, subject to the Corporations Act and ASX Listing Rules. The Company will make an announcement to ASX of any changes if they occur.

**(b) Impact on the Company's financial position**

The Capital Return will reduce the Company's cash balance and shareholder funds by approximately \$45.2 million.

The following table is a summary of the Company's pro-forma consolidated balance sheet as at 30 June 2013 as if the Capital Return had been effective at that date.

The pro-forma balance sheet has been prepared:

- based on significant accounting policies disclosed in the half-year financial report for the Company for the half-year ended 30 June 2013;
- by applying relevant pro-forma adjustments described in this section to the consolidated balance sheet of the Company as at 30 June 2013; and
- on the assumption that all Vested Performance Rights are exercised prior to the Record Date.

The pro-forma balance sheet is presented in abbreviated form and does not contain all the disclosures that are usually provided in a half-year report prepared in accordance with Australian Accounting Standards and the Corporations Act.

The table is not a forecast of the balance sheet as at any balance date or a forward looking statement. The balance sheet of the Company upon completion of the Capital Return or any part of it may be materially different from the pro-forma table below.

\$'000	Balance Sheet Summary	Pro Forma Adjustment		Balance Sheet Summary
	30 June 2013	Payment Special Dividend*	Capital Return	Post Capital Return
Total Assets	219,616	(20,675)	(45,200)	153,741
Total Liabilities	72,247	(20,675)	-	51,572
<b>NET ASSETS</b>	<b>147,369</b>	<b>-</b>	<b>(45,200)</b>	<b>102,169</b>
<b>EQUITY</b>				
<b>Capital and reserves</b>				
Issued Capital	69,256	-	(45,200)	24,056
Reserves	1,911	-	-	1,911
Retained Earnings	76,202	-	-	76,202
<b>TOTAL EQUITY</b>	<b>147,369</b>	<b>-</b>	<b>(45,200)</b>	<b>102,169</b>

(\*)See discussion in paragraph 1.1(b) of this Notice of General Meeting

**(c) Effect on capital structure**

The Company has the following securities on issue as at the date of this Notice of General Meeting:

Class of security	Number of shares
Shares	83,164,371
Performance rights	655,938(*)
Total shares on a fully diluted basis	83,820,309

(\*) Excludes 110,000 cash settled performance rights

After the Capital Return, the Company's issued capital will be reduced by approximately \$45.2 million.

As no shares will be cancelled as a result of the Capital Return, the Capital Return will not affect the number of shares held by each shareholder or the control of the Company.

If resolution 2 is passed by shareholders and the unvested performance rights vest on the new vesting date, which is a date prior to the Record Date, the Company will issue additional shares in the Company to satisfy its obligation to provide shares. The impact of this additional share issue on the total amount of the Capital Return is discussed above in paragraph 1.1(c) of this Notice of General Meeting.

**(d) Impact on the Company's earnings**

As a result of the Capital Return, the Company's interest income will fall due to the lower level of cash held in interest bearing deposits.

**(e) Impact on existing business and growth opportunities**

The Board considers that the Capital Return will not adversely affect the Company's capacity to fund or pursue existing business and growth opportunities.

**(f) Advantages of passing this resolution**

The Directors believe that the proposed Capital Return allows the Company to return surplus capital to shareholders in a tax efficient and equitable basis, without adversely affecting its business and growth strategies.

**(g) Disadvantages of passing this resolution**

The Capital Return will reduce the amount of cash reserves held by the Company.

**1.4 Tax implications of the Capital Return**

The following comments provide a general outline of the Australian income tax implications of the Capital Return for Shareholders who:

- are Australian tax resident for income tax purposes;
- hold their shares on capital account; and
- are not subject to the Taxation of Financial Arrangement rules as contained in Division 230 of the Income Tax Assessment Act 1997.

This guide does not constitute tax advice. It does not purport to be a complete analysis of the potential tax consequences of the return of capital and is intended as a general guide to the Australian income tax implications only. Shareholders should seek advice from an appropriate professional adviser on the tax implications of the return of capital based on their own individual circumstances.

This summary is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the tax authority at the time of issue of this Notice of General Meeting. Tax law is complex and subject to ongoing change. The tax consequences discussed in this summary do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the tax consequences should be reconsidered by shareholders in light of the changes. The precise implications will depend upon each Shareholder's specific circumstances. The comments also do not take into account tax law in countries other than Australia.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments.

**(a) Tax implications for Australian resident shareholders holding shares on capital account**

Australian resident Shareholders who hold their Shares on capital account will be subject to the Australian Capital Gains Tax ("CGT") regime where capital is returned.

Where share capital is returned, the distribution to Shareholders will reduce the cost base of each Share.

To the extent that the Capital Return exceeds a Shareholder's cost base of their Share, it should give rise to a capital gain for the Shareholder.

**(b) CGT discount**

Shareholders that are individuals, a trustee of a trust or a complying superannuation fund may be eligible for the CGT discount such that the amount of net taxable capital gains arising in respect of the Capital Return, if any, may be reduced provided that the Shareholders have held their Shares for at least 12 months before the return of capital, and certain requirements have been met.

Where the CGT discount applies, capital gains may be discounted by 50% in the case of individuals and trusts (other than a trust that is a complying superannuation fund), and by one-third in the case of complying superannuation entities.

Capital losses must be applied first to reduce a capital gain before applying the discount.

## Implications where share held at Record Date but disposed of prior to date of payment of Capital Return

If a shareholder ceases to own their Shares after the Record Date but before the date of payment for the Capital Return, the right to receive the Capital Return will be considered to be a separate CGT asset.

A Shareholder will make a capital gain if the amount of the Capital Return is greater than the cost base of the right to receive that payment. The right to receive the Capital Return should end when it is paid. The cost base or reduced cost base of the right to receive the Capital Return should not include the cost base of the Share previously owned by the Shareholder. In most instances the cost base and reduced cost base of the right to receive the Capital Return is likely to be nil.

### (c) Commissioner's ability to treat as a dividend

The Commissioner of Taxation may treat the return of capital distribution as an unfranked dividend where, in the Commissioner's opinion, the distribution was made in substitution for a dividend and the scheme that gave rise to that distribution (having regard to the relevant factors) was entered into or carried out for the purposes of enabling a taxpayer to obtain a tax benefit.

The Company has sought a Tax Ruling from the ATO to provide Shareholders with confirmation that the Commissioner will not exercise his discretion.

The Directors consider it unlikely that the Commissioner should exercise his discretion to treat the Capital Return, or any part of it, as a dividend.

## 1.5 Directors' Recommendation

The Directors unanimously recommend that shareholders vote in favour of the proposed reduction of capital. Each Director intends to vote all shares held or controlled by him or her in favour of the proposed reduction of capital.

## 1.6 Director's interests

As at the date of the Notice of General Meeting, the following Directors have an interest in the proposed reduction of capital as they are shareholders of the Company:

Director	Shares held	Performance rights	Amount likely to be received if this resolution is passed and implemented
Mr Robert James Stewart	685,784	0	\$370,323
Mr Thomas (Tom) Sie Po Kiing	5,721,488	0	\$3,089,604
Mr Simon David Jones	130,935	0	\$70,705
Ms Naseema Sparks	0	0	\$0

## 1.7 No other material information

Other than as set out in this document, and other information previously disclosed to shareholders, there is no other information that is known to the Directors which may reasonably be expected to be material to the making of a decision by the shareholders whether or not to vote in favour of the capital reduction.

## **Item 2: Approval of amendments to the terms of the performance rights granted under the Company's Performance Rights Plan and currently on issue**

### **2.1 Purpose**

The purpose of this resolution is to seek shareholder approval to amend the terms of all performance rights granted under the Company's Performance Rights Plan (**Plan**) that are currently on issue. The proposed amendments will not affect any performance rights which have otherwise vested or lapsed in accordance with the rules of the Plan.

As a result of the Strategic Review the Company's direction has changed, with an increased focus on its domestic businesses given the sale of its international operations. The Company has not granted any performance rights during 2013.

There are certain elements of the Plan, such as the performance hurdles, which were used to measure the performance of the Company as it operated before the Strategic Review. The current Plan and these performance hurdles do not take into account the result achieved by the Strategic Review or the shape of the business going forward, and accordingly do not represent a fair or equitable outcome for participants in the Plan. Following completion of the Strategic Review, it is no longer appropriate to use those measures to assess the Company's performance having regard to the Company's significantly changed structural, operational and strategic profile.

The share dividend payment made in August, 2013 and the proposed Capital Return (if approved) is likely to reduce the value of each performance right. This will limit the Company's ability to appropriately reward and deliver value to senior employees through the provision of shares following the vesting of the performance rights currently on issue.

Further details about the Strategic Review are set out in paragraph 1.1(b) of this Notice of General Meeting.

Accordingly, the Board considers it appropriate to:

- unwind the Plan and provide employees with the ability to access value to the extent the Company's EPS and TSR performance justifies this and having regard to the length of time served during the applicable performance periods; and
- establish a new performance rights plan (**New Plan**) to replace the Company's existing Plan that more closely aligns to the Company's new strategic direction, operating profile and performance expectations. The New Plan is currently being considered and details of that plan, if finalised, will be presented to shareholders for approval at the Annual General Meeting to be held in May 2014.

Under ASX Listing Rule 6.23.4, the Company is prohibited from amending the terms of the performance rights currently on issue unless shareholder approval is obtained in relation to the proposed amendments. Accordingly, shareholder approval is being sought for the purposes of ASX Listing Rule 6.23.4.

### **2.2 Background**

The Plan is designed to deliver long term incentives to senior employees of the Company selected by the Board, including the Managing Director & CEO, in the form of performance rights.

Since 2010, the Company has made three offers of performance rights under the Plan – those offers were made in 2010, 2011 and 2012 respectively. The details of each offer, including the number of performance rights granted as part of each offer, have been disclosed in the Company's most recent Remuneration Report and are summarised in paragraph 2.3 of this Notice of General Meeting.

Each performance right granted to a senior employee in Australia under the Plan gives that employee a right to acquire one fully paid ordinary share in the Company if the performance right vests and is exercised. There are also a number of cash settled performance rights that the Company has granted to certain foreign employees of the Group. Those cash settled performance rights are subject to the same performance conditions as all other performance rights but the employees are eligible to receive cash rather than shares on the vesting of the performance rights.

Performance rights will become eligible to vest only if certain performance conditions are satisfied and, subject to limited exceptions, provided the employee continues to be employed with the Company on the date that the performance right is due to vest.

In broad terms, 50% of the performance rights granted under the Plan vest in accordance with a vesting schedule based on the Company's relative Total Shareholder Return (**TSR**) tested at the end of the applicable performance period. The TSR hurdle is tested by measuring the Company's TSR performance against the TSR performance of a peer group of companies from the S&P / ASX Small Ordinaries Index (selected by the Board at the time of each grant).

The remaining 50% of performance rights will vest in accordance with a vesting schedule based on the Company's Earnings per Share (**EPS**) growth. EPS is calculated based on the EPS compound average growth rate (**CAGR**) over the applicable performance period (calculated at the end of the applicable performance period after adjusting for designated capital management type initiatives).



and other distortionary factors, as determined by the Board). The base number for this calculation is the Company's EPS CAGR in the financial year immediately before the grant date of the relevant performance rights.

If the share based performance rights vest, the Company may elect whether to provide shares to participating senior employees by way of an issue of shares or by procuring the on-market purchase and transfer of shares to those employees. If shareholders approve this resolution at the General Meeting, the Company currently proposes that it will satisfy its obligations to provide shares for the purposes of the Plan by issuing new shares. The effect of this proposed issue of shares on the Capital Return contemplated by resolution 1 is set out in paragraph 1.1(c) of this Notice of General Meeting. In respect of the cash settled performance rights, the Company will provide cash on the vesting of those rights.

Further details of the key terms and conditions of the Plan are set out in the explanatory memorandum accompanying the Notice of Annual General Meeting dated 23 April 2010 and in the Company's most recent Remuneration Report.

### 2.3 Number of performance rights affected

As at the date of this Notice of General Meeting, the total number of performance rights granted under the Plan and currently on issue is 765,938 (including 110,000 cash settled performance rights) ("**Unvested Performance Rights**").

The table below sets out the details of each outstanding offer of performance rights made under the Plan.

Offer	Grant date	Number of Unvested Performance Rights	Performance period	Scheduled vesting date
Offer 2	1 July 2011	285,938	1 January 2011 – 31 December 2013	1 <sup>st</sup> July 2014
Offer 3	1 July 2012	480,000(*)	1 January 2012 – 31 December 2014	1 <sup>st</sup> July 2015

(\*) Includes 110,000 cash settled performance rights

The Company also granted performance rights to senior employees under the Plan on 1 July 2010 ("**Offer 1**"). The vesting date applicable to those performance rights was 30 June 2013 and all performance rights that vested on that date have since been exercised in accordance with their terms and the rules of the Plan. Given those performance rights have vested and are therefore not currently on issue, they will not be affected by the proposed amendments.

The total number of Unvested Performance Rights reflects the number of performance rights on issue as at the date of this Notice of General Meeting. This is the maximum number of performance rights that would be affected by the proposed amendments if shareholders approve this resolution. However, the actual number of performance rights affected may be less if any Unvested Performance Rights lapse before the vesting dates contemplated under the proposed amendments.

### 2.4 What are the proposed amendments to the performance rights?

The Board has determined that, subject to shareholder approval, the following amendments be made to the terms of the Unvested Performance Rights:

- that the vesting date applicable to the Offer 2 performance rights be changed from 1<sup>st</sup> July 2014 to 31<sup>st</sup> January 2014 ("**Offer 2 Vesting Date**"), together with any other amendments that are necessary to allow 100% of those performance rights to vest on the Offer 2 Vesting Date;
- the vesting date applicable to the Offer 3 performance rights be changed from 1<sup>st</sup> July 2015 to 31<sup>st</sup> January 2014 ("**Offer 3 Vesting Date**"), together with any other amendments that are necessary to allow 69.44% of those performance rights to vest on the Offer 3 Vesting Date; and
- participating senior employees will not be able to deal with the shares provided on vesting of the Offer 3 Performance Rights until after 30 June 2014. During that time, the shares and proceeds of the Capital Return in respect of those shares will be held in trust and subject to disposal restrictions. Accordingly, in contrast to the Offer 2 shares, these shares will not be immediately available following the Offer 3 Vesting Date and participating senior employees will not be able to access or deal in their shares until after 30 June 2014.

#### (a) Offer 2 performance rights

In determining that 100% of the Offer 2 performance rights should vest, the Board has had regard to the following factors:

- the Company's anticipated TSR and EPS performance over the performance period for the Offer 2 performance rights; and
- the fact that the performance period for the Offer 2 performance rights ends on 31 December 2013 and that, as at the date of the General Meeting, the performance period will have been met.

Having regard to the Company's strong TSR and EPS performance over the performance period for the Offer 2 performance rights and the fact that a significant portion of that performance period has elapsed, the Board proposes to vest 100% of the Offer 2 performance rights.

**(b) Offer 3 performance rights**

In determining that 69.44% of the Offer 3 performance rights should vest, the Board has had regard to the following factors:

- the Company's anticipated TSR and EPS performance over the performance period for the Offer 3 performance rights;
- the extent to which the performance period for the Offer 3 performance rights has elapsed as at the date of the General Meeting; and
- the fact that the current Plan and performance hurdles do not take into account the result achieved by the Strategic Review or the shape of the business going forward.

The Company's TSR and EPS performance over the performance period for the Offer 3 performance rights has been strong, however, given there is just under 12 months remaining until the end of the performance period, the Board proposes to vest 69.44% of the Offer 3 performance rights. The remaining unvested performance rights will lapse and no shares or cash will be provided for those performance rights.

As discussed above, the shares to be provided, following the Offer 3 Vesting Date, will not be immediately accessible by participating senior employees. Instead, those shares will be held in trust and subject to disposal restrictions for a "Disposal Restriction Period". The Disposal Restriction Period will commence on the date the Offer 3 shares are first held by the trustee (being shortly after the Offer 3 Vesting Date) and will end on 30 June 2014 (the "End Date"). The cash provided following the vesting of the cash settled performance rights will be delivered on the End Date and will not be held in trust or subject to any restrictions.

During the Disposal Restriction Period, participating senior employees will receive the benefit of any dividends and other shareholder benefits (including the proceeds of the Capital Return) that accrue to the Offer 3 shares, however, they will not be able to access or deal in those shares or receive the proceeds of the Capital Return until after the End Date.

Generally speaking, if a participating senior employee ceases employment with the Group on or before the End Date, they will forfeit all of their interest in the Offer 3 shares and the proceeds of the Capital Return on the date that they cease employment with the Group.

However, subject to applicable law, the Board retains discretion to determine that a participating senior employee will not forfeit their interest in the Offer 3 shares if they cease employment with the Group on or before the End Date in certain 'good leaver' circumstances, including death, disability or redundancy. If a participating senior employee ceases employment with the Group as a 'good leaver' on or before the End Date and continues to hold Offer 3 shares due to the exercise of the Board's discretion, those shares will be provided to the participating senior employee on or around the time they cease employment and will no longer be subject to the restrictions on disposal.

**2.5 Director's recommendation**

The Board recommends that shareholders vote in favour of this resolution.

**2.6 Voting exclusion statement**

The Company will disregard any votes cast on this resolution by any person who currently holds a performance right granted under the Plan and any of their associates.

Further, a vote must not be cast on this resolution by a KMP, or a Closely Related Party of a KMP, acting as proxy if their appointment does not specify the way the proxy is to vote on this resolution.

However, the Company will not disregard a vote on this resolution if:

- (a) it is cast by a person referred to above as proxy for a person who is entitled to vote on this resolution and the vote is cast in accordance with the directions on the proxy form; or
- (b) it is cast by the Chairman of the General Meeting as proxy for a person who is entitled to vote on this resolution and the proxy appointment expressly authorises the Chairman of the General Meeting to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of the KMP.

If the Chairman of the General Meeting is your proxy or is appointed your proxy by default, and you do not direct your proxy to vote 'for', 'against' or 'abstain' on this resolution on the proxy form, please note that you will be expressly authorising the Chairman of the General Meeting to exercise your proxy by completing and returning the proxy form even if that resolution is connected directly or indirectly with the remuneration of the KMP.

The Chairperson intends to vote undirected proxies in favour of this resolution.

### **Item 3: Approval of the provision of potential termination benefits to members of the Executive Team**

#### **3.1 Background**

The purpose of this resolution is to seek shareholder approval of the potential benefits which may be payable to members of the Executive Team, upon cessation of their employment with the Group, so that the Group is able to meet its existing contractual obligations to these persons, and to ensure that the Company continues to remunerate fairly and responsibly.

The following information sets out:

- who these resolutions apply to and background as to why approval is being sought (paragraph 3.2 of this Notice of General Meeting);
- the Company's remuneration framework (paragraph 3.3 of this Notice of General Meeting);
- information on the potential termination benefits that may be given to members of the Executive Team in the event they cease employment with the Group (paragraph 3.4 of this Notice of General Meeting); and
- the matters, events and circumstances that may affect the calculation of the value of the termination benefits (paragraph 3.5 of this Notice of General Meeting).

Approval of the potential benefits which may be payable to members of the Executive Team was last sought at the Company's Annual General Meeting held on 22 May 2012. Since that date, there have been no significant changes to the remuneration of members of the Executive Team or the potential termination benefits which may be payable to them upon cessation of their employment with the Group.

However, following completion of the Strategic Review described in paragraph 1.1(b) of this Notice of General Meeting, certain components of the potential termination benefits that may be given to members of the Executive Team have been revised. Accordingly, the Company is seeking shareholder approval of the termination benefit arrangements of members of the Executive Team having regard to those revised components.

The key changes to the termination benefits that may be given to members of the Executive Team are:

- the provision of payments in lieu of notice of up to 6 months;
- the potential for certain termination benefits to be provided under a new LTIP; and
- the ability to fund outplacement services to assist employees manage career transitions.

While these are the key changes, for completeness, the potential termination benefit arrangements of the Executive Team have been set out in full in these Explanatory Notes.

#### **3.2 Who these resolutions affect**

Approval is sought for the termination benefits that may be given to persons who are currently employed as members of the Executive Team (see paragraph 3.7 of this Notice of General Meeting) in connection with any future retirement from the Group.

The "Executive Team" means current employees of the Group who have authority and responsibility for planning, directing and controlling the activities of the Company or the Group, directly or indirectly as at the date of the Notice of General Meeting.

#### **3.3 Remuneration framework**

This paragraph describes the key features of the Company's annual remuneration framework to provide background for the termination benefits which may be given to members of the Executive Team. The relevant remuneration framework consists of:

- a fixed component (base pay and benefits, including superannuation);
- a short-term incentive (STI). STI payments are based on satisfaction of key performance indicators (KPI's) based on the performance of the Company and specific operational targets; and
- a long-term incentive (LTI) by way of participation in the Company's Long Term Incentive Plan (LTIP).

Depending on the seniority of an individual Executive Team member, a combination of the above components is used to form their total annual remuneration. The current target proportion of each component (i.e. remuneration mix) is described in the Company's most recent Remuneration Report.

The Board may change the proportion of the components from time to time to ensure that the Company's remuneration framework involves an appropriate "at risk" component, is aligned with corporate objectives and reflects market standards in accordance with advice given from remuneration consultants.

Shareholders are not being asked to approve any increase in the remuneration or benefits for the Executive Team, nor any variations to the existing discretions of the Board. The approval being sought is in relation to the Group's existing obligations to Executive Team members, to enable the Company to operate its remuneration programs and to support the Company's strategy, as described in the Company's most recent Remuneration Report.

### **3.4 Termination benefit approval – Part 2D.2 Division 2 of the Corporations Act**

Under Part 2D.2 Division 2 of the Corporations Act, the Company, its associates and any prescribed superannuation fund in connection with the Company are prohibited from giving a person who holds a "managerial or executive office" a benefit in connection with their ceasing to hold an office or position of employment with the Group unless shareholders approve the giving of the benefit or an exemption applies.

### **3.5 Benefits that require shareholder approval and benefits that are exempt**

"Benefit" is defined broadly in the Corporations Act to include most forms of valuable consideration. Termination benefits under the Corporations Act include a range of payments or benefits given in connection with a person ceasing to hold an office or position of employment including termination payments or other benefits such as an accelerated or automatic vesting of share-based payments due to a person ceasing to hold an office or position of employment.

There is an exception to the prohibition on the provision of benefits where the value of the benefits does not exceed the statutory cap of one year's average base salary (as calculated in accordance with the Corporations Act).

### **3.6 Reasons why shareholder approval is being sought**

Shareholder approval is sought for the following benefits which an individual Executive Team member may potentially receive under their contracts of employment with the Group and the policies and incentive plans of the Company:

- payments under the relevant individual executive's contractual agreement;
- payments or benefits in connection with the STI; and
- payments or benefits in connection with the LTIP, including the automatic or accelerated vesting of performance rights issued under the LTIP,

in addition to any payments or amounts that may be provided to that person which are excluded from the operation of the statutory cap (such as statutory entitlements to accrued annual and long service leave, amounts required to be paid by law and genuine redundancy payments). Further information on potential termination benefits is set out in paragraph 3.7 of this Notice of General Meeting.

Payments in lieu of notice made to Executive Team members under their executive contractual agreements and benefits in respect of STI payments are not expected to exceed the statutory cap. However, when aggregated with other benefits which an individual Executive Team member may receive under or in connection with the LTIP, their total termination benefits may then exceed the statutory cap.

### **3.7 Details of termination benefits**

The table below describes the potential termination benefits that may be given to Executive Team members in addition to those excluded from the statutory cap outlined above, the manner in which the amount or value of the potential termination benefits to Executive Team members are to be calculated and any matter, event or circumstance that will, or is likely to, affect the calculation of that benefit, as detailed for each benefit below.

**Summary of potential termination benefits for the Executive Team**

Source of benefit	Description	Potential benefit / treatment on cessation	What will affect value / amount of benefits
<p><b>Termination payments under individual executive contractual agreements (payments in lieu of notice)</b></p>	<p>Executive Team members are entitled to notice of termination under their executive contractual agreements.</p> <p>In all cases, the Group has the ability to terminate the employment of an individual Executive Team member without cause with immediate effect and, where acceptable by local law, by making a contractual termination payment.</p>	<p>The following termination payments are the maximum that may be payable under an individual Executive Team member's executive contractual agreement depending on the circumstances of the termination and their specific contractual agreement:</p> <ul style="list-style-type: none"> <li>• where an individual Executive Team member provides notice of termination, the Group may make a payment in lieu of all or part of this notice period (calculated based on the individual Executive Team member's total fixed remuneration); and</li> <li>• where the Group terminates the employment of an individual Executive Team member (other than for cause), the Group will be required to provide the individual Executive Team member with a period of notice before the termination takes effect. The Group may make a payment in lieu of all or part of the notice period (calculated based on the individual Executive Team member's total fixed remuneration).</li> </ul> <p>An individual Executive Team member's total fixed remuneration consists of the following components:</p> <ul style="list-style-type: none"> <li>• cash salary;</li> <li>• superannuation contributions; and</li> <li>• other non-cash benefits agreed between the individual Executive Team member and the Group from time to time.</li> </ul> <p>Notice of termination is a contractual entitlement provided for in the employment contracts of each Executive Team member. The contractual notice periods for Executive Team members vary and may be up to six months. During any period of notice, whether the notice of termination has been given by either the Group or the</p>	<p>The amount of any payment can only be determined once notice of termination is given.</p> <p>Accordingly, the amount of any termination payment cannot be ascertained as at the date of the Notice of General Meeting as neither the period of notice nor the particular Executive Team member's fixed pay at the termination date are currently known. However, in all cases the termination payments will not exceed the payments described in this table.</p> <p>Key matters, events or circumstances which will, or are likely to affect the calculation of the termination payment include:</p> <ul style="list-style-type: none"> <li>• the individual Executive Team member's total fixed annual remuneration at the time of their termination which will be set on an annual basis following their remuneration review;</li> <li>• the length of the notice period for which the payment in lieu of termination is being paid; and</li> <li>• whether the Group's operational requirements at the time notice of termination is given require the Executive Team member to work through part or all of their notice period and the length of any period they are required to work.</li> </ul>

Source of benefit	Description	Potential benefit / treatment on cessation	What will affect value / amount of benefits
		<p>Executive Team member, the Group has discretion to make a payment in lieu of all or part of the notice period.</p> <p>Payment will only be made in lieu of notice in appropriate circumstances. Where an executive ceases employment with the Group as a consequence of their misconduct or serious or persistent breach of contract (termination for cause), the Group may terminate their employment immediately without notice or any payment in lieu of notice.</p> <p>In certain circumstances, the Company may provide members of the Executive Team who have ceased employment with Group with outplacement services to assist those employees with the search for and/or transition into a new career.</p>	
<p><b>Short-term incentive</b></p>	<p>Individual Executive Team members are eligible to be considered for an annual STI payment.</p> <p>The STI payment is currently conditional on the satisfaction of two performance hurdles being met, being the Earnings before Interest and Tax (“EBIT”) target set by the Company and secondly (where the first target is achieved), the extent to which specific operational targets are achieved. Alternatively, other targets may be adopted from time to time.</p> <p>Based upon an annual performance review and success in meeting or exceeding targets, the cash component of the STI is payable on or before April 30 each year in respect of the prior financial year.</p> <p>The MD/CEO is responsible for assessing the performance of the Executive Team members (with approval by the Human Resources, Remuneration and Nomination Committee).</p> <p>Each individual Executive Team member has a target STI opportunity. For individual Executive Team members, currently the maximum</p>	<p>STI payments are normally only payable where an individual Executive Team member remains employed for the full financial year.</p> <p>However, in the event that:</p> <ul style="list-style-type: none"> <li>• the employment of an individual Executive Team member is terminated by the Group (other than where summarily terminated for cause); or</li> <li>• an individual Executive Team member retires or resigns in certain good leaver circumstances,</li> </ul> <p>the individual Executive Team member will be entitled to receive a pro rata payment prior to the end of a full financial year based on:</p> <ul style="list-style-type: none"> <li>• the proportion of the year served by the member of the Executive Team during the financial year; and</li> <li>• the Human Resources, Remuneration and Nomination Committee’s assessment of their performance against the KPIs as at the date of termination.</li> </ul> <p>However, while assessment of performance against KPIs is assessed as at the date of</p>	<p>The amount of any STI payment which may be made to an individual Executive Team member in these circumstances cannot be ascertained as at the date of the Notice of General Meeting.</p> <p>Key matters, events or circumstances which will, or are likely to affect the calculation of the STI payment include:</p> <ul style="list-style-type: none"> <li>• the Company’s performance;</li> <li>• the seniority level, role, responsibilities and performance of the individual Executive Team member;</li> <li>• the circumstances in which the individual Executive Team member ceases employment;</li> <li>• the achievement by the individual Executive Team member of their KPIs (as assessed by the Human Resources, Remuneration and Nomination Committee);</li> <li>• the target STI opportunity and total fixed remuneration for</li> </ul>

Source of benefit	Description	Potential benefit / treatment on cessation	What will affect value / amount of benefits
	<p>entitlement varies between AU \$20,000 – \$130,000. The maximum STI target of an individual Executive Team member may be amended from time to time by the Board in order to ensure that the Company’s remuneration framework involves an appropriate “at risk” component, is aligned with corporate objectives and reflects market standards.</p> <p>The short term performance incentives may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the Board, through the Human Resources, Remuneration and Nomination Committee. The STI target annual amount is reviewed annually. STI payments are currently capped at 150% of the individual Executive Team member’s target STI opportunity.</p>	<p>termination, payment of the STI typically will not be accelerated and will be made at the usual time although the Board may decide otherwise on a case by case basis.</p> <p>The early assessment of hurdles or the payment of pro rata STI in these circumstances may constitute a termination benefit for the purposes of the Corporations Act.</p>	<p>the relevant year of the member of the Executive Team; and</p> <ul style="list-style-type: none"> <li>the proportion of the year served by the member of the Executive Team.</li> </ul>
<p><b>Long-term incentive plan – LTIP</b></p>	<p>The LTIP forms part of the Company’s remuneration strategy. The objective of the LTIP is to reward certain Executive Team members and the Managing Director &amp; CEO in a manner that aligns a key component of remuneration with the creation of shareholder wealth.</p> <p>The key terms of the current LTIP were disclosed in the Notice of General Meeting dated 23 April 2010 and in the Company’s most recent Remuneration Report.</p> <p>Under the LTIP, individual Executive Team members have been granted performance rights to date.</p> <p>The performance rights are a contractual right to future grant of ordinary shares in the Company (or in the case of international Executive Team members cash equivalent to the shares) which only vest if certain performance hurdles are met and the relevant Executive Team members are still employed by the Group at the time their performance rights vest.</p>	<p>Under the LTIP, the Board may, in its absolute discretion and subject to applicable law, decide to accelerate the vesting of all or part of the performance rights held by an individual Executive Team member if the member ceases employment because of:</p> <ul style="list-style-type: none"> <li>death; or</li> <li>total and permanent disablement; or</li> <li>redundancy in some circumstances; or</li> <li>other limited exceptional circumstances.</li> </ul> <p>The accelerated vesting of some or all of the performance rights under the LTIP in connection with the cessation of employment of an individual Executive Team member and/or the ability of the individual Executive Team member to retain some or all of the performance rights on cessation of employment may constitute a termination benefit under the Corporations Act.</p> <p>Any shares provided on exercise of a performance right that are subject to restrictions on dealing may also have</p>	<p>The value of any such benefit cannot be ascertained as at the date of the Notice of General Meeting. The value of the benefit will depend on:</p> <ul style="list-style-type: none"> <li>the number of performance rights granted and held by an individual Executive Team member in accordance with the LTIP;</li> <li>the number of performance rights (if any) held by an individual Executive Team member which the Board determines should vest; and</li> <li>the market price of shares at the time such performance rights are exercised and converted into shares.</li> </ul> <p>Key matters, events or circumstances which will, or are likely to affect the calculation of the value of any accelerated or automatic vesting of performance rights include:</p> <ul style="list-style-type: none"> <li>the financial performance of the</li> </ul>

Source of benefit	Description	Potential benefit / treatment on cessation	What will affect value / amount of benefits
	<p>The number of performance rights granted to Executive Team members is set out in the Company's most recent Remuneration Report.</p> <p>As explained in paragraph 2.1 of this Notice of General Meeting, the Board is currently considering the establishment of a new LTIP which is expected to involve the issue of performance rights or equivalent instruments. Details of the new LTIP will be set out in the Company's upcoming Remuneration Report.</p>	<p>those restrictions relaxed on cessation of employment – see, for example, the discussion in paragraph 2.4 of this Notice of General Meeting.</p>	<p>Company and the business or support area in which the individual Executive Team member works;</p> <ul style="list-style-type: none"> <li>• the personal performance of the individual Executive Team member each year;</li> <li>• the seniority level of the individual Executive Team member;</li> <li>• the number of years that the individual Executive Team member has been employed with the Group;</li> <li>• the circumstances in which the individual Executive Team member ceases their employment with the Group;</li> <li>• the proportion of the performance period served by the individual Executive Team member as at the date their employment ceases; and</li> <li>• performance against the performance conditions as at the date on which the individual Executive Team member ceases their employment.</li> </ul>

### 3.8 Director's recommendation

The Board recommends that shareholders vote in favour of this resolution.

### 3.9 Voting exclusion statement

A vote must not be cast on this resolution by a KMP, or a Closely Related Party of a KMP, acting as proxy, if their appointment does not specify the way the proxy is to vote on this resolution.

However, this voting exclusion does not apply if a person referred to above:

- the Chairman of the General Meeting; and
- their proxy appointment expressly authorises the Chairman of the General Meeting to exercise the proxy even if that resolution is connected directly or indirectly with the remuneration of a member of the KMP of the Group.

If the Chairman of the General Meeting is your proxy or is appointed your proxy by default, and you do not direct your proxy to vote 'for', 'against' or 'abstain' on this resolution on the proxy form, please note that you will be expressly authorising the Chairman of the General Meeting to exercise your proxy by completing and returning the proxy form even if that resolution is connected directly or indirectly with the remuneration of the KMP.

The Chairman of the General Meeting intends to vote undirected proxies in favour of this resolution.



## **General Information**

### **Definitions**

“Closely Related Party”, in relation to a member of the KMP means the member’s spouse, child or dependant (or a child or dependant of the member’s spouse), anyone else in the member’s family who may be expected to influence or be influenced by the member in the member’s dealings with the Company or the Group, and any company the member controls.

“Company” means Melbourne IT Ltd ABN 21 073 716 793.

“Group” means the Company and its related bodies corporate from time to time (as that term is defined in the Corporations Act).

“Corporations Act” means the Corporations Act 2001 (Cwlth).

“Executive Team” means current employees who have authority and responsibility for planning, directing and controlling the activities of the Company or the Group as at the date of this Notice of General Meeting.

“KMP” or “Key Management Personnel” means those persons having authority and responsibility for planning, directing and controlling the activities of the Company or the Group, whether directly or indirectly, including any director (whether executive or otherwise) of the Group. Members of the KMP include directors (both executive and non-executive) and certain senior executives.

### **How to vote**

As a shareholder, you can vote on the items of business by:

- attending the General Meeting; or
- appointing a proxy, representative or attorney to attend the General Meeting and vote on your behalf.

### **Proxies**

A member entitled to attend and vote at the General Meeting may appoint a person to attend and vote at the meeting as the member’s proxy. If a member is entitled to cast two or more votes at the General Meeting, they may appoint two proxies. If you wish to appoint a second proxy you will need to complete a second form. Please contact Link Market Service Limited (“Link”) on 1300 55 44 74 or +61 (0)2 8280 7761 to obtain an additional Proxy Form.

A proxy need not be a member and can be an individual or a body corporate. If two proxies are appointed, each proxy must be appointed to represent a specified proportion of the member’s voting rights. If the vote split is not specified, it is deemed to be equally divided between the two proxies.

Proxies may only be appointed by returning the enclosed Proxy Form to Link no later than 10am (Melbourne time) Sunday, 26 January 2014. The Proxy Form can be sent by facsimile to Link on +61 (0)2 9287 0309, sent by post to Link at Locked Bag A14, Sydney, NSW 1235 or lodged online in accordance with the instructions below. If returning the Proxy Form by post, you may need to allow extra time for delivery to ensure it is received no later than 10am (Melbourne time) Sunday, 26 January 2014.

The Proxy Form must be signed by the member or an attorney duly authorised in writing. If the member is a company, the form must be executed under the seal of the company or by its duly authorised officer or attorney. Where two or more persons are registered as members each person must sign the Proxy Form. If the proxy form is signed under a power of attorney on behalf of a shareholder, the attorney must ensure that either the original power of attorney or a certified copy is sent with the proxy form (unless it has already been provided to Link). A proxy cannot be appointed under a power or attorney (or similar authority) online.

The Company offers shareholders the ability to lodge proxy forms online. To lodge your proxy from online, please go to <http://melbourneit.info/investor-centre/shareholder-services>. Click on the link that states “Login to the secure shareholder services console”. You will then need to enter your Security Reference Number (SRN) or Holder Identification Number (HIN), your surname or company name, and your postcode. Then choose “Proxy Voting” from the “Actions” drop down box and follow the online prompts. Note: If you lodge your proxy form online, you do not need to return a hard copy proxy form. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website.

### **Voting by proxies**

Shareholders should consider directing their proxy how to vote on each resolution by crossing a “For” or “Against” box when completing their proxy form to ensure that their proxy is permitted to vote on their behalf in accordance with their instructions.

Pursuant to the Corporations Act, if the appointment of a proxy specifies the way the proxy is to vote on a particular resolution:

- (c) the proxy is not required to vote on a show of hands, but if the proxy does so, the proxy must vote as directed (subject to any applicable voting exclusions);
- (d) if the proxy has two or more appointments that specify different ways to vote on the resolutions, the proxy must not vote on a show of hands;
- (e) if the proxy is not the Chairman of the General Meeting, the proxy need not vote on a poll but if the proxy does so, the proxy must vote as directed (subject to any applicable voting restrictions); and
- (f) if the proxy is the Chairman of the General Meeting, the proxy must vote on a poll and must vote as directed.

**Default to Chairman**

If:

- (g) a poll has been called on a resolution; and
- (h) a shareholder has appointed a proxy other than the Chairman of the General Meeting and the appointment of the proxy specifies the way the proxy is vote on the resolution; and
- (i) the shareholder's proxy is either:
  - (j) not recorded as attending the General Meeting; or
  - (k) attends the General Meeting but does not vote on the resolution,

then the Chairman of the General Meeting, will before voting on the resolution closes, be taken to have been appointed as the proxy for that shareholder for the purposes of voting on that resolution. In these circumstances, the Chairman of the General Meeting must vote in accordance with the written direction of that shareholder.

**Corporate Representatives**

For a Corporate Representative to vote, they will require a Certificate of Appointment of Corporate Representative executed in accordance with the Corporations Act.

**Voting Entitlements**

On a show of hands, every member present in person or by proxy or by attorney or, in the case of a corporation, by duly appointed representative, shall have one vote and on a poll one vote for every share held. However if a member appoints two proxies or two attorneys, neither proxy nor attorney shall be entitled to vote on a show of hands.

In accordance with the Corporations Act, shares will be taken to be held by those persons recorded on the Company's register as at 10.00 am (Melbourne time) on Sunday 26 January 2014.



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