



PieNetworks

pieNETWORKS LIMITED

ACN 078 661 444

NOTICE OF GENERAL MEETING

EXPLANATORY MEMORANDUM

PROXY FORM

Date of Meeting: **15 February 2012**
Time of Meeting: **3.00pm (EST)**
Place of Meeting: **Suite 504, Level 5,
32 York Street,
Sydney, NSW**

pieNETWORKS LIMITED

ABN 27 078 661 444

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of shareholders of pieNETWORKS Limited ABN 27 078 661 444 will be held at Suite 504, Level 5, 32 York Street, Sydney, NSW on Wednesday 15th February 2012 at 3.00pm (EDST). The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting describes the various matters to be considered at the Meeting.

AGENDA

SPECIAL BUSINESS

Resolution 1 – Approval of Retirement and Termination Benefits to Mr Campbell Smith

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That for the purposes of Listing Rules 10.11 and 10.19, section 200B and Chapter 2E of Corporations Act and for all other purposes, shareholders hereby approve the payment of the termination payment and the issue of the termination options to Mr Campbell Smith as described in the explanatory memorandum.”

Voting Exclusion

The Company will disregard any votes cast on this resolution by Mr Campbell Smith or his nominee and an associate of Mr Campbell Smith or his nominee. However, the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

BY ORDER OF THE BOARD



Mark Pitts
Company Secretary
6 January 2012

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TIME OF MEETING AND HOW TO VOTE

VENUE

The General Meeting of Shareholders of PIENETWORKS Limited will be held at the Company's Sydney office on 15th February 2012 at 3pm (EDST):

Suite 504, Level 5,
32 York Street,
Sydney, NSW

EXPLANATORY MEMORANDUM

Shareholders are referred to the explanatory memorandum (including the defined terms therein) accompanying and forming part of this notice of meeting.

ENTITLEMENT TO VOTE

1 Voting Entitlement

For the purposes of determining voting entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at close of business (5pm WST) on 13 February 2012. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

2 Proxies

Members are advised that:

- each member has a right to appoint a proxy to attend and vote for them;
- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint either 1 or 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the appointment is for 2 proxies and does not specify the proportion or number of votes each proxy may exercise, then, in accordance with section 249X(3) of the *Corporations Act*, each proxy may exercise half of the votes.

The member may specify the manner in which the proxy is to vote on each resolution or may allow the proxy to vote at his or her discretion. In accordance with section 250BA of the *Corporations Act*, the Company specifies that the proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be:

- **posted or delivered to the Company's share registry, Computershare Investor Services Pty Ltd, at GPO Box 242 Melbourne, Victoria 3001; or**
- **sent by facsimile to the Company's share registry, Computershare Investor Services Pty Ltd on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).**

Those documents must be received by the Company at least 48 hours before the time for holding the Meeting (**by no later than 3.00pm (EDST) on 13 February 2012**), or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a body corporate, in a manner permitted by the *Corporations Act*. In the case of Shares jointly held by two or more persons, at least one joint holder must sign the proxy form. A proxy form is attached to this Notice.

3 Voting Prohibition Statement

The Company will disregard any votes cast on Resolution 1 by Mr Campbell Smith or his nominee and an associate of Mr Campbell Smith or his nominee. However, the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4 Other

Words which are defined in the Explanatory Memorandum have the same meaning when used in this Notice of Meeting unless the context requires otherwise. For assistance in considering the Notice of Meeting, the following words are defined here:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

Board means the board of directors of pieNETWORKS Limited.

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Commonwealth).

Director means a director of the Company.

Explanatory Memorandum means the explanatory memorandum accompanying this Notice of Meeting.

Listing Rules means the listing rules of ASX.

Notice or **Notice of Meeting** means this notice of annual general meeting.

Retirement Option means an option to acquire a Share on the terms and conditions set out in Annexure A.

Rule means a rule of the Constitution of the Company.

Share means a fully paid ordinary voting share in the capital of the Company.

Shareholder means a shareholder of the Company.

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EXPLANATORY MEMORANDUM

This Explanatory Memorandum is intended to provide shareholders with information to assess the merits of the resolution contained in the accompanying Notice Meeting of the Company.

The Directors recommend shareholders read this Explanatory Memorandum in full before making any decision in relation to the resolution.

The following information should be noted in respect of the various matters contained in the accompanying Notice:

1. Resolution 1

“That for the purposes of Listing Rules 10.11 and 10.19, section 200B and Chapter 2E of Corporations Act and for all other purposes, shareholders hereby approve the payment of the termination payment and the issue of the termination options to Mr Campbell Smith as described in the explanatory memorandum.”

Shareholder approval is being sought for provision of certain benefits to Mr Campbell Smith on cessation of his employment with PIENETWORKS.

Mr Smith was a founding member of PIENETWORKS and following its listing on ASX in April 2000 acted as Managing Director for over eleven years. Mr Smith saw the Company develop its internet kiosk platform throughout Australia and more recently was instrumental in helping the Company focus on the development of the Company's second generation hotspot Webphone. The pieWebphone is a state-of-the-art multimedia customer self-service terminal and payphone combined. From its large touch screen interface customers can interact with hosted content and applications, or get full Internet access.

The Company recently announced a successful market assessment with Telstra and is currently involved in negotiations for a staged roll out of the webphone for Telstra.

On 28 September 2011 the Company announced that Mr Smith had stepped down as CEO and on 11 November 2011 Mr Smith resigned as a director of the Company.

In recognition of Mr Smith's involvement and assistance in the establishment of PIENETWORKS, the development of its business and its corporate relationships and partly to receive compensation for his early retirement the non executive Board resolved (subject to shareholder approval where required) to provide Mr Smith with the following benefits:

- a) An amount of \$86,666 (in accordance with a contract for services);
- b) An amount of \$169,334 in lieu of early termination; and
- c) The issue of 15,000,000 options to acquire ordinary shares in the Company (each with an exercise price of 1.8 cents and an expiry date of 30 November 2015) (**Retirement Options**) to Mr Smith or his nominee. The terms of the Retirement Options are set out in Annexure A to this Explanatory Memorandum.

The amount of \$86,666 has been remitted to Mr Smith's Company Gocom Pty Ltd in accordance with a contract for services.

The payment of \$169,334 and the issue of 15m options (together the **Retirement Benefits**) are the subject of this General Meeting.

Related Party Transactions Generally

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a *related party* of the public company *unless* either:

1. the giving of the financial benefits falls within one of the nominated exceptions to the provision; or
2. shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

For the purposes of Chapter 2E of the Corporations Act, Mr Smith is considered to be a related party of the Company by virtue of section 228(5) of the Corporations Act and the payment of \$169,334 in lieu of early termination and grant of the Retirement Options constitute the giving of a financial benefit. .

As none of the exceptions set out in the Corporations Act apply, the payment of \$169,334 in lieu of early termination and grant of the Retirement Options to Mr Smith requires Shareholder approval.

Information Requirements

For the purposes of Chapter 2E of the Corporations Act the following information is provided.

The related party to whom the proposed resolution would permit the financial benefit to be given:

The related party to whom a financial benefit may be given under Resolution 1 is Mr Smith.

The nature of the financial benefit

The nature of the financial benefit to be given to Mr Smith is the payment of \$169,334 in lieu of early termination and grant of the Retirement Options.

Other information that is reasonably required by members to make a decision and that is known to the Company or any of its Directors.

The proposed ordinary Resolution 1 would have the effect of giving power to the Directors to grant of 15,000,000 Retirement Options on the terms and conditions as set out in Annexure A to this Explanatory Memorandum and as otherwise mentioned above.

The Company currently has 1,113,334,510 listed Shares and the following unlisted Options on issue:

Number	Exercise Price	Expiry Date
6,000,000	\$0.01	30/11/2014
20,000,000	\$0.05	31/03/2013
17,600,000	\$0.01	30/06/2015
1,000,000	\$0.03	30/11/2014
20,000,000	\$0.03	30/11/2015
10,000,000	\$0.018	30/11/2015

If all unlisted Options granted as proposed above are exercised, and assuming all existing Options on issue have been exercised, the effect would be to dilute the share holding of existing shareholders by 8.04%. The market price of the Shares during the period of the Retirement Options will normally determine whether or not Mr Smith or his nominee exercises the Retirement Options. At the time any Retirement Options are exercised and Shares are issued pursuant to the exercise of the Retirement Options, the Shares may be trading at a price which is higher than the exercise price of the Retirement Options.

Valuation of financial benefits

The value of the financial benefit proposed to be provided to Mr Smith is \$169,334 plus the value of the Retirement Options.

The Company has valued the Retirement Options to be granted to Mr Smith using the Black & Scholes Model. The value of an option calculated by the Black & Scholes Model is a function of a number of variables. The valuation of the Retirement Options has been prepared using the following assumptions:

Item			
Underlying Share price		\$0.016	
Exercise price		\$0.018	
Dividend rate		Nil	
Risk free rate		3.45%	
Issue date		4/01/12	
Expiration date		30/11/15	
Expiration period (years)		3.90	
Valuation per Retirement Option		\$0.008	
Valuation for 15,000,000 Options		\$123,610	

The Company has calculated the value of each Retirement Option based on the following assumptions:

1. The Retirement Options were valued as of 4 January 2012, assuming an issue date of 4 January 2012.
2. They have based the underlying value of each Share on the ASX closing price of 1.6 cents on 4 January 2012;
3. The risk free rate of return used was 3.45% (the Australian Government 5-year bond rate as at 4 January 2012);
4. They used a volatility of the Share price of 70%.

Based on the assumptions, it is considered that the estimated average value of the Retirement Options to be granted to Directors is \$0.008 per option.

Any change in the variables applied in the calculations between the date of the valuation and the date the Retirement Options are granted would have an impact on their value.

The following table gives details of the highest, lowest and latest closing price of the Shares trading on ASX over the past 12 months up to the date of this notice:

Highest Price (cents) / Date	Lowest Price (cents) / Date	Latest Price (cents) / Date
2.8 cents on 15/06/2011	1.4 cents on 29/12/2011.	1.6 cents on 4/01/2012

Other Information

Under the Australian Equivalent of IFRS, the Company is required to expense the value of the Retirement Options in its statement of financial performance for the current financial year. Other than as disclosed in this Explanatory Memorandum, the Directors do not consider that from an economic and commercial point of view, there are any costs or detriments including opportunity costs or taxation consequences for the Company or benefits foregone by the Company in granting the Retirement Options pursuant to Resolution 1.

Neither the Directors nor the Company are aware of other information that would be reasonably required by shareholders to make a decision in relation to the financial benefits contemplated by the proposed resolutions.

Mr Smith's existing interests

Set out below are details of Mr Smith's relevant interest in the securities of the Company as at the date of this Notice:

	Number of Shares	Number of Options
Campbell Smith	16,654,131	-

Set out below are details regarding the securities in the Company in which Mr Smith will hold an interest, if 15,000,000 Retirement Options are granted to Mr Smith pursuant to Resolution 1.

	Number of Shares	Number of Options
Campbell Smith	16,654,131	15,000,000

Listing Rule 10.11

Listing Rule 10.11 requires shareholder approval by ordinary resolution to any issue by a listed company of equity securities to a related party unless an exception in Listing Rule 10.12 applies. The Company proposes to grant the Retirement Options to Mr Smith which are equity securities. For the purposes of Listing Rule 10.11, Mr Smith is considered to be a related party of the Company.

The exceptions in Listing Rule 10.12 do not apply to the grant of the Retirement Options to Mr Smith. Accordingly, Shareholder approval is being sought.

Information provided for the purposes of Listing Rule 10.13

The following information in relation to the Retirement Options to be granted pursuant to Resolution 1 is provided to shareholders for the purposes of Listing Rule 10.13:

- (a) the Retirement Options will be granted to Campbell Smith, or his nominee, as noted above;
- (b) the maximum number of Retirement Options to be granted is 15,000,000;
- (c) the Retirement Options will be allotted and granted on a date which will be no later than 1 month after the date of this Meeting, unless otherwise extended by way of ASX granting a waiver to the Listing Rules;
- (d) the Retirement Options will be granted for no consideration;
- (e) no funds will be raised by the grant of the Retirement Options; and
- (f) the terms and conditions of the Retirement Options are set out in Annexure A to this Explanatory Memorandum.

If approval is given for the grant of the Retirement Options under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Listing Rule 10.19

Listing Rule 10.19 provides that without the approval of shareholders, an entity must ensure that no officer of the entity or any of its child entities will be, or may be, entitled to termination benefits if the value of those benefits and the termination benefits that may become payable to all officers together exceed 5% of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules.

The value of the Retirement Benefits to be given to Mr Smith, together with the termination benefits that may become payable to all officers of the Company, would exceed 5% of the Company's equity interests as set out in the latest accounts given to ASX. Accordingly, Shareholder approval of the Retirement Benefits to be given to Mr Smith is also being sought for the purposes of Listing Rule 10.19.

Section 200B of the Corporations Act

Shareholder approval is also being sought for the Retirement Benefits under section 200B(1) of the Corporations Act.

Section 200B(1) of the Corporations Act requires a company to obtain shareholder approval before giving a financial benefit to a director in connection with the director's retirement from office unless the benefit falls within certain exceptions set out in the Corporations Act.

The Retirement Benefits do not fall within any of the categories of exceptions set out in the Corporations Act.

Section 200E of the Corporations Act requires that where shareholders are asked to approve a payment or other benefit to a director that would otherwise be prohibited by section 200B, shareholders must be given details of the amount of the payment, or, if the amount cannot be ascertained at the time of the disclosure, the manner in which the amount is to be calculated and any matter, event or circumstance that will, or is likely to affect the calculation of the amount.

The value of the financial benefit proposed to be provided to Mr Smith is \$169,334 plus the value of the Retirement Options. Please refer to the section entitled "Valuation of financial benefits" above for information on the value of the Retirement Options.

Other than the information set out in this Explanatory Memorandum, there is no other information known to the Company or any of its Directors that is reasonably required by Shareholders in order to decide whether or not it is in the interests of the Company to pass Resolution 1.

Directors' recommendation

All the Directors believe that the payment of \$169,334 and the grant of the Retirement Options to Mr Smith is reasonable and appropriate in the circumstances and recommend that the shareholders vote in favour of Resolution 1.

The Chairman of the meeting intends to vote all valid undirected proxies in favour of Resolution 1. The Directors have no interest in the outcome of Resolution 1 other than as shareholders.

ANNEXURE A

TERMS AND CONDITIONS OF RETIREMENT OPTIONS

- 1.1 No monies will be payable for the issue of the Options.
- 1.2 No certificate will be issued for the Options.
- 1.3 The Options shall expire on the 30th of November 2015.
- 1.4 The Options will vest on grant.
- 1.5 Each Option shall carry the right to subscribe for one Share.
- 1.6 Options may be exercised in whole or in part. As exercise of only some Options shall not affect the rights of the Option Holder to the balance of the Options held by him.
- 1.7 The issue price of Shares the subject of the Options of \$0.018 per Share shall be payable in full on exercise of the Options.
- 1.8 Options shall be exercisable by the delivery to the registered office of the Company of a notice in writing stating the intention of the Option Holder to exercise all or a specified number of Options held by him and a cheque payable to the Company for the subscription monies for the Shares.
- 1.9 The Company shall allot the resultant Shares and deliver the share certificates within five (5) business days of the exercise of the Option.
- 1.10 Options shall not be listed for Official Quotation on ASX.
- 1.11 An Option Holder may not, except with the approval of the Board of Directors (in its sole and absolute discretion), sell, transfer, assign, give or otherwise dispose of, in equity or in law, the benefit of the Options. The approval of the Board of Directors may be given subject to satisfaction of certain conditions in which event such approval will be deemed not to occur until any such conditions have been satisfied. Nothing in this clause enables the Board of Directors to refuse to register a proper transfer of Options.
- 1.12 Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- 1.13 The Company shall, in accordance with Listing Rule 2.8, make application to have Shares allotted pursuant to an exercise of Options listed for Official Quotation.
- 1.14 If the Options are exercised before the record date of an entitlement, the Option Holder can participate in a pro rata issue to the holders of the underlying securities in the Company. The Company must notify the Option Holder of the proposed issue at least nine (9) business days before the record date. Option Holders do not have a right to participate in new issues without exercising their options in accordance with Listing Rule 6.19.
- 1.15 In the event of any reorganisation of capital of the Company, all rights of the Option Holder will be changed to the extent necessary to comply with the Listing Rules applying to a re-organisation of capital at the time of the re-organisation in accordance with the Listing Rules.
- 1.16 The Options will not give any right to participate in dividends until Shares are allotted pursuant to the exercise of the relevant Options.
- 1.17 In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Options may be reduced according to the following formula:
$$O' = \frac{O - E[P - (S+D)]}{N+1}$$

O' = the new exercise price of the Option.
O = the old exercise price of the Option.
E = the number of underlying securities in the Company into which one Option is exercisable.
P = the average market price per security (weighted by reference to volume) of the underlying securities in the Company during the five (5) trading days ending on the day before the ex rights date or ex entitlement date.
S = the subscription price for a security under the pro rata issue.
D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue).
N = the number of securities with rights or entitlements that must be held to receive a right to one new security in the Company.
- 1.18 The number of Shares to be issued pursuant to the exercise of Options will be adjusted for bonus issues made prior to exercise of Options. The effect will be that upon exercise of the Options the number of Shares received by the Option Holder will include the number of bonus Shares that would have been issued if the Option had been exercised prior to the record date for bonus issues. The exercise price of the Options shall not change as result of any such bonus issue.
- 1.19 The Company shall notify each Option Holder and ASX within one (1) month after the record date for a pro-rata bonus or cash issue of the adjustment to the number of Shares over which the Option exists and/or the adjustment to the exercise price.