



McPherson's

ACN 004 068 419

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of McPherson's Limited (the Company) will be held at Thomsons Lawyers, Level 25, 1 O'Connell Street, Sydney, on Wednesday, 20 November 2013 at 11.00 a.m. (AEDT).

Agenda Items

1. Financial Statements and Reports

To consider the Financial Statements, the Directors' Report and the Auditor's Report for the Company for the year ended 30 June 2013.

2. Remuneration Report

To adopt the Remuneration Report for the financial year ended 30 June 2013, which is set out on pages 25 to 34 of the Annual Report. The Remuneration Report contains details of the Company's policy for determining the remuneration for Directors and Senior Executives. It includes information on the methodology adopted and the elements of remuneration which are fixed and those which are related to performance.

In accordance with the Corporations Act, this resolution is advisory only and does not bind the Company or the Directors.

3. Re-election of Director – Mr. Graham Cubbin

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

"That in accordance with the Company's Constitution and the ASX Listing Rules, Mr. Cubbin retires as a Director and offers himself for re-election."

Relevant information about Mr. Cubbin is set out on page 16 of the Annual Report.

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

4. Approval of Issue of Performance Rights to Managing Director under the McPherson's Limited Performance Rights Plan

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

"That for the purposes of Part 2E.1 of the Corporations Act and ASX Listing Rule 10.14, the grant of certain performance rights to Mr. P.J. Maguire, the Managing Director of the Company, under the McPherson's Limited Performance Rights Plan be approved on the terms set out in the explanatory notes accompanying the notice convening this meeting."

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 2 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

5. General approval of issue of securities (being Performance Rights and Shares on the exercise of such Performance Rights) under the McPherson's Limited Performance Rights Plan

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

"That for the purposes of ASX Listing Rule 7.2 (Exception 9), approval be given to the issue of securities under the McPherson's Limited Performance Rights Plan on the basis set out in the explanatory notes accompanying the notice convening this meeting."

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 2 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

Voting Exclusion Statements

Agenda Items 2, 4 and 5

In accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**), the Company will disregard any votes cast in respect of Agenda Items 2 (Remuneration Report), 4 (Issue of Performance Rights to Managing Director) and 5 (General Approval of issue of securities under Performance Rights Plan) by any key management personnel of the Company and their closely related parties.

However, the Company need not disregard a vote if:

- (a) It is cast by a person (including the key management personnel or their closely related parties) as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) It is cast by a person chairing the meeting as proxy for a person who is entitled to vote, where the proxy form does not specify the way the proxy is to vote on the relevant Agenda Item but expressly authorises the person chairing the meeting to exercise the proxy even if the relevant Agenda Item is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company. The person chairing the meeting intends to vote all available proxies in favour of Agenda Items 2, 4 and 5.

For the purposes of this voting exclusion, "key management personnel" are the directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. The Company's Remuneration Report for the financial year ended 30 June 2013 identifies the Company's key management personnel for that financial year. Their "closely related parties" are defined in the *Corporations Act*, and include certain of their family members, dependants and companies they control.

Voting and Proxies

The Company has determined in accordance with the Corporations Act that for the purpose of voting at the meeting or adjourned meeting, shares will be taken to be held by those persons recorded in the Company's Register of Members as at 7.00 p.m. (AEDT) on Monday 18 November 2013.

Any member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the member. If the member is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where two proxies are appointed, each proxy may be appointed to represent a specified proportion or number of the member's voting rights. If the member does not specify the proportion or number of the member's voting rights that each proxy is to represent, each proxy will be entitled to exercise half the member's votes. A proxy need not be a member of the Company. A form of proxy is enclosed. In order to be valid the properly completed form of proxy must be lodged at the office of the Company's Share Registrar, Computershare Investor Services Pty Limited at GPO Box 242, Melbourne, Victoria 3001 (reply paid envelope enclosed), by facsimile on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia), online by visiting www.investorvote.com.au or at the Company's offices at 105 Vanessa Street, Kingsgrove, NSW, 2208, not less than 48 hours before the time appointed for holding the meeting. Intermediary Online subscribers only (custodian voting) may visit www.intermediaryonline.com to submit their voting intentions.

By Order of the Board

A handwritten signature in black ink, appearing to read 'P.R. Bennett', written in a cursive style.

P.R. Bennett
Secretary

Dated: 18 October 2013

Annual General Meeting - Explanatory Notes for Shareholders

Background to the McPherson's Performance Rights Plan

The issuing of performance rights is a recognised practice in Australia as part of the remuneration of senior executives. A summary of the McPherson's Limited Performance Rights Plan (**PR Plan**) is set out below:

- The PR Plan is open to certain senior management and executive Directors of the Company or of any subsidiary of the Company or of an associated company, as determined by the Board.
- The Board may invite eligible persons to participate in the PR Plan. Participation is voluntary. The Board may determine the number of performance rights to be issued under the PR Plan (**Rights**) and other terms of issue of the PR Plan.
- All Rights are granted at a nil issue price and nil exercise price unless otherwise determined by the Board and each Right enables the holder to be issued one Share upon exercise, subject to the rules governing the PR Plan (**Plan Rules**).
- The Company will not make any loans in relation to the acquisition of Rights.
- Rights holders are not permitted to participate in new issues of securities by the Company but adjustments may be made to the number of shares over which the Rights are granted or the exercise price to take into account changes in the capital structure of the Company that occur by way of pro rata and bonus issues in accordance with the Plan Rules and the ASX Listing Rules.
- The PR Plan limits the number of Rights that the Company may issue, such that the sum of all Rights and options on issue and offered under all employee incentive schemes of the Company does not, if they are all exercised, equate to more than 5% of the ordinary shares on issue by the Company.

The PR Plan was approved by the Board on 20 September 2013.

In relation to employee incentive schemes such as the PR Plan, ASX Listing Rule 7.2 (Exception 9) provides an exception to the requirement to obtain shareholder approval each time securities are issued under the PR Plan. For this exception to apply however, the ASX Listing Rules require shareholder approval in respect of any issues under the PR Plan to be "refreshed" every 3 years, which is the reason for the inclusion of the proposed resolution in Agenda Item 5 (in addition to the resolution in Agenda Item 4).

Agenda Item 4: Approval of Issue of Performance Rights to Managing Director

In accordance with the ASX Listing Rules and the *Corporations Act*, shareholders of the Company are asked to approve the granting of performance rights (**Rights**) to Mr. Paul J. Maguire, the Managing Director of the Company, under the PR Plan. On 2 October 2013, the Company made the offer of Rights to Mr. Maguire, subject to shareholder approval in accordance with the ASX Listing Rules and the *Corporations Act*, and Mr. Maguire accepted the offer on 3 October 2013.

The Directors consider that the grant of the Rights under the PR Plan constitutes the giving of a financial benefit to a related party of the Company under Part 2E.1 of the *Corporations Act*, which requires the approval of the shareholders in general meeting.

The ASX Listing Rules also require the Company to obtain the approval of shareholders to the issue of Rights to a Director under the PR Plan.

The following information is provided to shareholders to enable shareholders to consider the proposed allocation of Rights to the Managing Director.

As stated above, the issuing of performance rights is a recognised practice in Australia as part of the remuneration of senior executives. If no performance rights were issued, the cash remuneration of the Managing Director may have to be increased. Issuing performance rights is accordingly considered a preferable alternative as the recipient benefits if the Company's earnings per share increase – in which case all shareholders benefit. If however the Company's earnings per share do not exceed predetermined growth targets during the assessment period, the performance rights are of no benefit and will lapse. This part of the Managing Director's remuneration is therefore directly related to the longer-term improved performance of the Company.

Mr. Maguire's current remuneration comprises a base remuneration package of \$550,000 per annum, plus variable performance incentives as follows:

- (a) maximum cash bonus of 50% of his base remuneration package providing the Company achieves or exceeds pre-determined financial targets; and
- (b) participation in current McPherson's Limited employee incentive plans.

If this resolution is passed the Company will grant Mr. Maguire on an annual basis in accordance with the PR Plan, such number of Rights (rounded to the nearest thousand) as is equivalent to 50% of Mr. Maguire's annual base remuneration package, as follows:

- (a) The number of Rights to be granted in 2013 has been calculated to be 192,000. This number has been determined by dividing 50% of Mr. Maguire's annual base remuneration package as at the date of the offer (i.e. \$550,000, 50% of which is \$275,000) by the volume weighted average price (**VWAP**) of the Company's shares over the 20 trading days ending at close of trade on 18 September 2013 (i.e. \$1.4292 per share);
- (b) The number of Rights to be granted in each year following 2013 will be calculated by applying the following formula on the date of issue:

$$\text{Number of Rights} = \frac{50\% \times \text{Mr. Maguire's annual base remuneration package as at the date of issue}}{\text{VWAP of the Company's shares over 20 trading days ending at close of trade on the day which is 2 days before the date of issue}}$$

A summary of the principal terms of the issue of the Rights to Mr. Maguire is as follows:

- (a) The Company's agreed arrangement with Mr. Maguire to issue Rights to him in 2013 is subject to approval by the Company's shareholders (i.e. the passing of the resolutions set out in Agenda Items 4 and 5);
- (b) The Company's agreed arrangement with Mr. Maguire to issue Rights to him in each year following 2013 is subject to the following conditions being satisfied:
 - i. approval by the Board to the number of Rights and the issue of Rights to Mr. Maguire in each year after 2013;
 - ii. Mr. Maguire continuing to be the Managing Director of the Company;
 - iii. the passing of the resolutions set out in Agenda Items 4 and 5; and
 - iv. approval by the Company's shareholders of the grant of Rights to Mr. Maguire for the purposes of the ASX Listing Rules being "refreshed" every 3 years.
- (c) Each Right will entitle Mr. Maguire to subscribe for one ordinary share subject to the rules governing the PR Plan (**Plan Rules**).
- (d) The Rights will be granted at nil issue price. Vested Rights may be exercised at nil exercise price. No funds are expected to be raised by the issue or exercise of Rights.
- (e) Whether or not all of the Rights will vest (and, therefore, become exercisable) and the proportion of Rights that become vested will depend on the Company achieving an increase in earnings per Share compound annual growth rate (**EPS CAGR**) to a specified value.
- (f) The number of Rights that will vest will be determined proportionately on a straight line basis from zero Rights vesting at +3.0% EPS CAGR, to 100% of Rights vesting at +8.0% (or higher) EPS CAGR. So, providing the EPS CAGR achieved over the relevant 2 or 3 year performance period is greater than 3.0%, the number of Rights vesting will be determined proportionately, on a straight line basis, between 3.0% and 8.0%.

- (g) In respect of the Rights proposed to be granted in 2013:
- i. **In respect of the first 50% of the Rights granted:** Achievement of the EPS CAGR criteria will be assessed on 14 September 2015 in respect of the period between 1 July 2014 and 30 June 2015. The relevant proportion of 50% of the Rights granted will vest on 16 September 2015, and will be exercisable between 16 September 2015 and 31 December 2015. Any Rights not vested or which have vested but not been exercised by 5.00pm (Sydney time) on 31 December 2015 will lapse. (For the avoidance of doubt the remaining 50% of Rights issued will not lapse then.)
 - ii. **In respect of the remaining 50% of the Rights granted:** Achievement of the EPS CAGR criteria will be assessed on 14 September 2016 in respect of the period between 1 July 2015 and 30 June 2016. The relevant proportion of 50% of the Rights granted will vest on 16 September 2016, and will be exercisable between 16 September 2016 and 31 December 2016. Any Rights not vested or which have vested but not exercised by 5.00pm (Sydney time) on 31 December 2016 will lapse.
- (h) In respect of the Rights proposed to be granted in each year following 2013 (**Relevant Year**): Achievement of the EPS CAGR criteria will be assessed on 14 September of the third year after the Relevant Year (**Third Year**). The relevant proportion of the Rights granted will vest on 16 September of the Third Year, and will be exercisable between 16 September of the Third Year and 31 December of the Third Year. Any Rights not vested or which have vested but not exercised by 5.00pm (Sydney time) on 31 December of the Third Year will lapse.
- (i) The Rights to be granted in 2013, 2014 and 2015 will be issued not more than 3 years after the date of the Company's 2013 AGM.

The trading history of the Company's shares on the ASX in the 12 months to 2 October 2013 is as follows:

	Price	Date
Highest closing price	\$2.55	6 March 2013
Lowest closing price	\$1.19	25 June 2013
Last closing price	\$1.40	2 October 2013

The value of the Rights to be issued to Mr. Maguire at the date the offer of the Rights was made has been determined to be \$224,541 adopting a discounted cash flow methodology. In calculating the value of these Rights, the following inputs were used:

• Valuation date	2 October 2013
• Volume weighted average share price over the 20 trading days ending on the valuation date	\$1.440
• Vesting date – first 50%	16 September 2015
• Vesting date – remaining 50%	16 September 2016
• Dividend yield per annum	9.0%
• Indicative value per Right – first 50%	\$1.222
• Indicative value per Right – remaining 50%	\$1.117
• Total value of Rights to be issued	\$224,541

Mr. Maguire holds an interest in:

- 1,250,143 fully paid ordinary shares in the capital of the Company (**Shares**); and
- 750,000 options over the Company's ordinary shares issued pursuant to the Company's Employee Share/Option Purchase Plan (**ESOPP Options**),

which (together) represent 2.22% of the total shares in the Company on issue (on a fully diluted basis).

If Mr. Maguire's Rights are exercised, it is expected that such exercise will have a small dilutionary effect on existing shareholders' interests, as follows:

- (a) If all of the Rights granted to Mr. Maguire in 2013 and all of Mr. Maguire's ESOPP Options are exercised, based on the current number of issued shares in the Company, he would hold an interest in approximately 2.43% of the issued shares in the Company on a fully diluted basis, as illustrated in the following table:

MCP ordinary shareholder	After exercise of ESOPP Options held by Mr. Maguire, but before conversion of 2013 Rights held by Mr. Maguire ²		After conversion of 2013 Rights and ESOPP Options held by Mr. Maguire ^{2,3}	
	Number of MCP ordinary shares	Percentage of total MCP ordinary shares ¹	Number of MCP ordinary shares	Percentage of total MCP ordinary shares ¹
Paul Maguire and his associates	2,000,143	2.22%	2,192,143	2.43%
All MCP ordinary shareholders other than Paul Maguire and his associates	88,044,055	97.78%	88,044,055	97.57%
TOTAL	90,044,198	100.0%	90,236,198	100.0%

Notes:

1. Approximate figures.
2. Assuming the Company does not issue any other equity securities, and assuming neither Mr. Maguire nor his associates acquire any other equity securities in the Company.
3. Assuming the 2013 Rights referred to in this resolution are issued to Mr. Maguire, fully vested and exercised on a one-for-one basis.

- (b) Given that the number of Rights that may be issued to Mr. Maguire in each year following 2013 is subject to certain conditions and is calculated based on the Company's VWAP and his annual base salary at that time, it is not possible to determine the exact percentage interest that Mr. Maguire would have (on a fully diluted basis) if those Rights are exercised. This may be determined by applying the following formula, assuming that Rights and ESOPP Options are exercisable on a one-for-one basis, and with all elements of the formula as at the same relevant date:

$$\text{Percentage shareholding} = \frac{\text{Number of Shares held by Mr. Maguire} + \text{Number of ESOPP Options held by Mr. Maguire} + \text{Number of Rights held by Mr. Maguire}}{\text{Total number of Shares on issue} + \text{Number of ESOPP Options held by Mr. Maguire} + \text{Number of Rights held by Mr. Maguire}}$$

Details of any securities issued under the PR Plan will be published in each annual report of the Company relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14.

As at the date of this Notice of Meeting, none of the Directors other than Mr. Maguire is entitled to participate in the PR Plan.

If any Director other than Mr. Maguire (or an associate of such Director) becomes entitled to participate in the PR Plan after this resolution 4 is approved and that person is not named in this Notice of Meeting, then that person will not participate in the PR Plan until the Company's shareholders approve such participation for the purposes of ASX Listing Rule 10.14.

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 2 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

Agenda Item 5: General approval of the issue of securities (being Rights and Shares on exercise of such Rights) under the McPherson's Limited Performance Rights Plan

ASX Listing Rule 7.1 provides that a listed entity must not issue equity securities that total more than 15% of its fully paid ordinary shares in a 12-month period without the approval of shareholders (**15% Rule**). The ASX Listing Rules require that the approval of shareholders be sought where an issue of securities exceeds the 15% Rule.

As stated above, for employee incentive schemes, such as the PR Plan, ASX Listing Rule 7.2 (Exception 9) provides an exception to the requirement to obtain shareholder approval each time securities are issued under the PR Plan. For this exception to apply, the ASX Listing Rules require shareholder approval in respect of any issues under the PR Plan to be “refreshed” every 3 years.

There have been no securities issued under the PR Plan in the past 3 years in accordance with ASX Listing Rule 7.2 Exception 9. The proposed issue of Rights to Mr. Maguire as contemplated in Agenda Item 4 would not exceed the threshold set out in ASX Listing Rule 7.1. However, approval is sought under Exception 9 to ASX Listing Rule 7.2 so that any issue under the PR Plan in the next 3 years (including the Rights, and Shares on exercise of such Rights, proposed to be issued to Mr. Maguire and generally to other non director executives as contemplated in Agenda Item 5) is disregarded in determining in the future whether the Company has reached that threshold in accordance with the ASX Listing Rules.

Accordingly, shareholders of the Company are asked at this meeting to approve the issue of securities under the Company's PR Plan in accordance with Exception 9 of ASX Listing Rule 7.2.

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 2 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.