

Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Nick Scali Limited ("the Company") will be held at:

Date: Monday, 5 June 2017

Time: 10:00am

Venue: Nick Scali Head Office, B1-B3, 3-29 Birnie Avenue, Lidcombe NSW

The attached Explanatory Memorandum explains the item of business to be considered at the Extraordinary General Meeting (**EGM**) and forms part of, and should be read in conjunction with, this Notice of Meeting. Capitalised terms in this Notice of Meeting are defined in the Explanatory Memorandum.

For the purposes of the EGM, Mr John Ingram intend/s to vote any proxies appointing the Chairman, received from Shareholders which do not direct him how to vote, *in favour* of the Resolution.

1. **AGENDA**

Resolution – Approval of entry into New Lease

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

"That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to enter into a lease with Scali Consolidated Pty Ltd (ACN 002 410 559), on the terms and conditions summarised in the Explanatory Memorandum accompanying the Notice of Meeting."

2. **VOTING EXCLUSION STATEMENT**

The Company will disregard any votes cast on the Resolution by Scali Consolidated and any associate of Scali Consolidated.

However, the Company need 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.

3. **QUESTIONS ON VOTING RESTRICTIONS**

If Shareholders (including nominees, custodians or fiduciaries) have questions on the voting restrictions outlined above, they should contact the Company's share registrar, Link Market Services Limited.

For further information, please refer to the Explanatory Memorandum which forms part of this Notice of Meeting.

4. **ENTITLEMENT TO ATTEND AND VOTE**

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) and the ASX Settlement Operating Rules, Company shares will be taken to be held by persons who are registered as Shareholders at 7:00pm (AEST) on Saturday, 3 June 2017. Accordingly, transfers of shares in the Company registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By Order of the Board



Kevin Fine
Company Secretary
4 May 2017

Notes

1. Proxies

If you are a Shareholder entitled to attend and vote, you may appoint an individual or a body corporate to vote as a proxy. If a body corporate is appointed as a proxy, the body corporate must ensure that it appoints a corporate representative in accordance with Section 250D of the Corporations Act to exercise its powers as proxy at the Extraordinary General Meeting (**EGM**).

If you are entitled to cast two or more votes, you may nominate one or two persons to vote on your behalf at the EGM. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. Fractions of votes resulting from the appointment of proxies will be disregarded. If no such number or proportion is specified, each proxy may exercise half your votes. A proxy form and a reply paid envelope have been included for members with the Notice. Proxy voting instructions are provided on the back of the proxy form.

A proxy need not be a holder of shares in the Company. If you wish to direct a proxy on how to vote on the Resolution, place a mark (e.g. a cross) in the appropriate box on the proxy form and your votes may only be exercised in that manner. You may split your voting direction by inserting the number of shares or percentage of shares that you wish to vote in the appropriate box.

2. Proxy Delivery

Proxies given by post, fax, delivery or online must be received by the Company's share registrar, Link Market Services Limited, by no later than 10:00am (Sydney time) on Saturday, 3 June 2017, being 48 hours before the EGM:

By post: Nick Scali Limited
 C/- Link Market Services Limited
 Locked Bag A14
 Sydney South NSW 1235

By facsimile: In Australia 02 9287 0309
 From outside Australia 61 2 9287 0309

By delivery: Link Market Services Limited
 1A Homebush Bay Drive
 Rhodes NSW 2138

or

Level 12, 680 George Street
Sydney South NSW 2000

Online www.linkmarketservices.com.au

Any revocations of proxies must be received at one of these places before the commencement of the EGM, or at the registration desk on the day of the EGM until the commencement of the EGM.

3. Voting at the meeting

An ordinary resolution will be passed where more than 50% of the eligible votes cast are in favour of it.

Extraordinary General Meeting – Explanatory Memorandum

1. Background to the Resolution

The Company opened its store at 222-246 Parramatta Road, Auburn NSW (the **Auburn Store**) in December 1989.

In early 2004, prior to being admitted to the official list of the Australian Securities Exchange (**ASX**), the Company entered into a lease in respect of the Auburn Store (the **Existing Lease**) with Scali Consolidated Pty Ltd (**Scali Consolidated**), a substantial holder in the Company and an entity controlled by Mr Anthony Scali, the Managing Director of the Company.

The Existing Lease expired on 28 February 2014 and the Company is currently holding over on a month to month tenancy.

The Board of the Company established an Independent Board Committee (the **IBC**) to consider the Company's options in relation to the Auburn Store. The IBC comprises the Independent Chairman, Mr John Ingram and Independent Non-Executive Directors, Mr Greg Laurie and Ms Carole Molyneux-Richards. After considering a range of proposals and having taken independent advice, the IBC has determined it to be in the interests of the Company to enter into a new lease with respect to the Auburn Store (the **New Lease**). Amongst other things, the New Lease secures the Company's tenure over an important store within the Company's network.

The IBC has led negotiations on behalf of the Company with Scali Consolidated in relation to the New Lease and considers the material terms of the New Lease to be on arm's length terms and in the best interests of the Company.

A summary of the material terms of the New Lease is set out in Section 2 below.

2. Material terms of the New Lease

Lessor	Scali Consolidated
Rent	Approximately \$704,268 (excluding GST and outgoings) per annum* * Based on a rental of \$275 per square meter across the 2,561 square meter premises Under incentive arrangements entered into by the Company and Scali Consolidated, the Company has not or will not pay rent for the months of February, March and April 2017. The Rent will increase by 3% annually during the Term.
Term	Eight (8) years commencing on 1 November 2016. In addition, the Company has two (2) options to renew for a period of five (5) years each.

Please refer to the Independent Expert's Report for further information on the New Lease.

3. Reason why shareholder approval is required

3.1 Listing Rule 10.1

Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, the following persons, without obtaining approval from the holders of the entity's ordinary securities:

- a) a related party;
- b) a child entity;
- c) a substantial holder;
- d) an associate of a person referred to in (a) to (c); or
- e) a person whose relationship to the entity or a person referred to in (a) to (d) is such that, in ASX's opinion, the transaction should be approved by securityholders.

An asset is deemed to be substantial if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules.

3.2 Application of Listing Rule 10.1

As set out in Section 1 above, the Lessor, Scali Consolidated is a substantial holder in the Company.

The total equity interests of the Company as at 31 December 2016 (as contained in the Appendix 4D lodged with ASX on 14 February 2017, being the latest accounts given to ASX under the Listing Rules), is \$66,335,000. 5% of the equity interests of the Company as at 31 December 2016 is \$3,316,750.

As the aggregate rental payments over the term of the New Lease (as set out in Section 2 above) exceeds this amount, ASX has indicated that it considers Listing Rule 10.1 to apply to the New Lease. The Company therefore is seeking Shareholder approval for the New Lease for the purposes of Listing Rule 10.1.

3.3 Independent Expert's Report

Listing Rule 10.10 provides that the notice of meeting to obtain shareholder approval sought for the purpose of Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert.

The Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited sets out a detailed examination of the New Lease to enable Shareholders to assess its merits. **The Independent Expert has concluded that the New Lease is fair and reasonable to the non-associated Shareholders of the Company.**

Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

4. Board recommendation

The Board (other than Mr Anthony Scali) recommends that Shareholders vote in **FAVOUR** of the Resolution.

Mr Anthony Scali declines to give a recommendation in relation to the Resolution.

5. Glossary

ASX means the Australian Securities Exchange.

Auburn Store means the Company's store at 222-246 Parramatta Road, Auburn NSW.

Company means Nick Scali Limited (ABN 82 000 403 896).

Board means the Board of Directors of the Company.

Explanatory Memorandum means the explanatory memorandum which forms part of this Memorandum.

Existing Lease means the lease dated early 2004 between the Company and Scali Consolidated in respect of the Auburn Store.

Extraordinary General Meeting or **EGM** means this meeting convened for the purpose of seeking Shareholder approval for the New Lease.

IBC means the Independent Board Committee established by the Board to consider the Company's options in relation to the Auburn Store.

Independent Expert's Report means the independent expert's report prepared by Deloitte Corporate Finance Pty Ltd dated 27 April 2017 in relation to the New Lease, attached as Attachment A.

Listing Rules means the listing rules of the ASX.

Memorandum means all of the documents accompanying the Notice of Meeting and referred to in the contents section.

New Lease means the proposed new lease between the Company and Scali Consolidated in respect of the Auburn Store.

Proxy Form means the proxy form for the EGM, attached as Attachment B.

Resolution means the resolution in the Notice of Meeting.

Scali Consolidated means Scali Consolidated Pty Ltd (ACN 002 410 559).

Notice of Meeting means the notice of meeting which forms part of this Memorandum.

Shareholders means a person who holds shares in the Company.

Attachment A – Independent Expert's Report

Attachment B – Proxy Form