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Nick Scali Limited

Independent expert's report and Financial Services Guide

**The Proposed Rental Agreement is fair and reasonable to
the Non-Associated Shareholders of Nick Scali**

Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (DCF), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

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We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

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Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

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How are we and all employees remunerated?

We will receive a fee of approximately \$60,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed rental agreement, under which Scali Consolidated Pty Limited will renew the lease of the Auburn premises with Nick Scali Limited.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

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The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1800 367 287
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Independent Directors
Nick Scali Limited
3-29 Birnie Avenue
Lidcombe
NSW 2141

28 April 2017

Dear Independent Directors

Re: Independent expert's report dealing with the proposed agreement for the rental of the Nick Scali Auburn store from a related party

1 Introduction and background

Scali Consolidated Pty Limited (**Scali Consolidated**) is the owner of an economic interest representing more than 25% of Nick Scali Limited (**Nick Scali or the Company**). Scali Consolidated is controlled by Mr Anthony Scali, who is the Managing Director of Nick Scali. Scali Consolidated also owns the land and buildings at 222-246 Parramatta Road, Auburn NSW (**the Auburn Premises**) from which the Nick Scali Auburn store (**the Auburn Store**) operates.

In February 2014, the lease agreement for the Auburn Store between Nick Scali and Scali Consolidated (**Original Lease**) expired and has since continued as a month-to-month tenancy. In November 2016, Scali Consolidated proposed a new rental agreement for the ground floor of the Auburn Premises (**Ground Floor**) (**the Proposed Rental Agreement**), with an initial term of eight years and two option periods of five years each. Under the Proposed Rental Agreement, the commencing rental is lower than the amount which is currently being incurred under the month-to-month tenancy.

Mr Anthony Scali is considered to be a 'person of influence' for the purposes of Chapter 10.1 of the Listing Rules of the Australian Securities Exchange Limited (**ASX**) (**the Listing Rules**). ASX have indicated that Listing Rule 10.1 applies to the Proposed Rental Agreement and accordingly, shareholder approval is required.

In order to provide those shareholders of Nick Scali that are not associated with Anthony Scali or Scali Consolidated (**Non-Associated Shareholders**) with sufficient information to decide whether, or not, to vote in favour of the Proposed Rental Agreement, the independent directors of Nick Scali (**Independent Directors**) requested Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) to prepare an independent expert's report (**IER**) opining on whether the Proposed Rental Agreement is fair and reasonable to Non-Associated Shareholders.

This report is to be included in the Explanatory Memorandum to be sent to shareholders of Nick Scali (**the Shareholders**) and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Proposed Rental Agreement. Neither Deloitte Corporate Finance nor, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Nick Scali, in respect of this report, including for any errors or omissions however caused.

2 Basis of evaluation of the Proposed Rental Agreement

2.1 Purpose of the report

Chapter 10 of the Listing Rules states that when an entity enters into a transaction with certain persons such as a related party or a substantial holder, the transaction requires approval by shareholders not associated with the relevant person. The Listing Rules require the directors of the entity to commission a report by an independent expert stating whether the proposed transaction is fair and reasonable to the non-associated shareholders.

We have prepared this report having regard to Chapter 10 of the Listing Rules and Australian Securities and Investments Commission (ASIC) Regulatory Guides (RG) as noted below.

2.2 Guidance

In evaluating whether the Proposed Rental Agreement is fair and reasonable to the Non-Associated Shareholders, we have had regard to the ASX Listing Rules and the following ASIC Regulatory Guides, which provide guidance on independent expert's reports and the basis of preparation of independent expert's reports:

- ASIC RG 76: Related Party Transaction (RG 76)
- ASIC RG 111: Content of Expert Reports (RG 111)
- ASIC RG 112: Independence of Experts (RG 112).

Chapter 10 of the Listing Rules

ASX Listing Rule 10.1 provides that any transaction between a company and 'persons of influence' requires shareholder approval, even where the transaction occurs on 'arm's length terms'. Accordingly, an IER is required to be commissioned under ASX Listing Rule 10.10.2¹.

Neither the ASX Listing Rules, nor the Corporations Act 2011 (Cth) provides a definition of fair and reasonable for the purposes of ASX Listing Rule 10. However, Listing Rule 10 can encompass a wide range of transactions. Accordingly, fair and reasonable must be capable of broad interpretation to meet the particular circumstances of each transaction. This involves judgement on the part of the expert as to the appropriate basis of evaluation to adopt given the particular circumstances of the transaction.

As Chapter 10 of the Listing Rules provide little guidance on how related party transactions should be assessed, we have had regard to RG 76, as discussed below.

ASIC Regulatory Guidance 76

According to RG 76, a related party transaction is any transaction through which a public company provides a financial benefit to a related party. As noted in paragraph RG 76.1, related party transactions involve conflicts of interest because related parties are often in a position to influence the decision of whether the benefit is provided to them, and the terms of its provision.

RG 76 stipulates that shareholders must approve the related party transaction by resolution unless an exception applies. Member approval is generally not required to give a financial benefit on terms that would be reasonable in the circumstances if the entity and the related party were dealing at arm's length, or on terms that are less favourable to the related party than these terms (s210 of the Corporations Act 2001 (Cth) (**Corporations Act**)) (**arm's length exception**).

For a transaction to be on 'arm's length' terms within the s210(1)(a) exception, its terms must be reasonable 'in the circumstances' if the entities were 'dealing at arm's length'. The 'circumstances' could include, but are not limited to:

- a) whether there are alternative transactions open to the entity that are not with related parties
- b) prevailing economic conditions and their impact on the parties and their relevant industries

¹ In contrast to the Listing Rules, s210 of the Corporations Act 2001 (Cth) (Corporations Act) only requires shareholder approval where the transaction is not on arm's length terms.

- c) any special value to the transaction (e.g. synergies available to the related party, other than those arising because it is a related party, that may not be available to other purchasers).

ASIC Regulatory Guidance 111 and Regulatory Guidance 112

RG 111 provides guidance in relation to the content of independent expert’s reports prepared for a range of transactions. RG 111 notes that a related party transaction is:

- fair, when the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the benefit being received. In valuing the financial benefit given and the consideration received by the entity, an expert should take into account all material terms of the proposed transaction
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, shareholders should vote in favour of the transaction.

RG 112 primarily focuses on the independence of experts and provides little guidance on evaluating transactions.

2.3 Basis of evaluation

In evaluating whether or not the Proposed Rental Agreement is fair and reasonable to Non-Associated Shareholders, pursuant to Listing Rule 10.1, we have considered whether the terms of that agreement are on arm’s length terms².

We make a separate assessment of whether the Proposed Rental Agreement is ‘fair’ and ‘reasonable’ as required by RG 111.56. The transaction cannot be considered reasonable, unless it is also fair in the circumstances.

We have taken into account the following factors in determining whether, or not, the arm’s length exception applies and the Proposed Rental Agreement is fair and reasonable to the Non-Associated Shareholders:

Fairness

- how the terms of the Proposed Rental Agreement compare with those of any comparable transactions between parties dealing on an arm’s length basis in similar circumstances

Reasonableness

- the nature and content of the bargaining process, including whether the entity followed robust protocols to ensure that conflicts of interest were appropriately managed in negotiating and structuring the transaction
- the impact of the transaction on the Company
- any other options that may be available to the Company
- expert advice received by the Company on the transaction (if any)
- other advantages that may accrue to the Company as a result of the Proposed Rental Agreement.

2.4 Role of Technical Expert

CKC, an independent property advisory firm, was engaged to prepare a report providing an assessment of the market rental that would apply to the Ground Floor of the Auburn Premises (**CKC Rental Assessment Report**) given that this is not our area of expertise and requires specialised knowledge of market conditions in a particular area.

CKC prepared the CKC Rental Assessment Report having regard to the definition of market rent as detailed by the Australian Property Institute. The scope of CKC’s work was controlled by Deloitte Corporate Finance. A copy of the CKC Rental Assessment Report is provided in Annexure A and we have discussed the manner in which we engaged with CKC and their work in Section 5.2.3 below.

² RG 76.60 provides that member approval is not needed to give a financial benefit on terms that would be reasonable in the circumstances if the entity and the related party were dealing at arm’s length, or on terms that are less favourable to the related party than these terms.

3 Profile of Nick Scali

3.1 Overview of Nick Scali

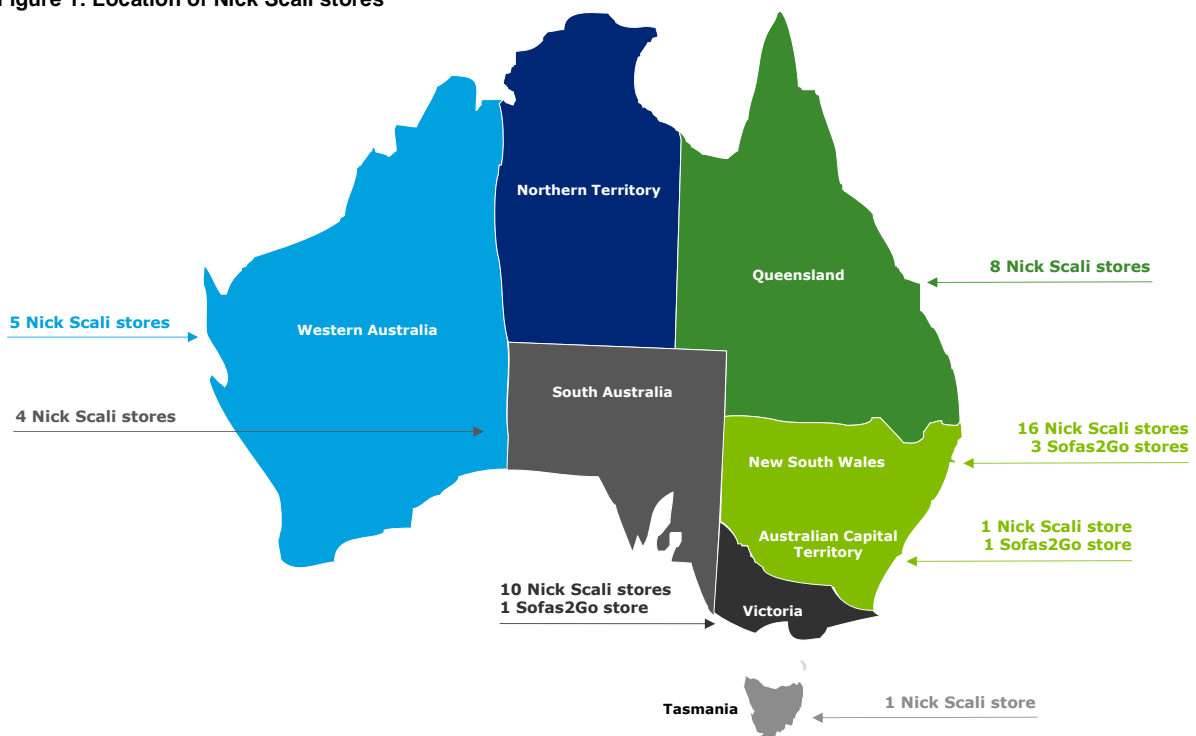
Nick Scali was founded by Mr Nick Scali in 1965 and is a listed Australian retailer of household furniture and related accessories. Scali Consolidated is the largest shareholder of Nick Scali, holding approximately 27.3% of its shares.

The Company operates under two brands:

- the Nick Scali brand, which has 45 stores, and
- Sofas2Go, which has five stores.

A summary of the locations of the Nick Scali stores is presented in the diagram below.

Figure 1: Location of Nick Scali stores



Source: annual report for the financial year ended 30 June 2016

The Company currently leases the premises at Auburn from Scali Consolidated. In addition, it leases a variety of other stores from unrelated third parties and owns six stores in its own right.

3.2 Overview of the Auburn Premises

The Auburn Premises was the location of one of Nick Scali’s first stores and is located within the western suburbs of Sydney, approximately 17 kilometres from Sydney’s central business district. The property is in relatively close proximity to transport and retail amenities, with the Auburn Railway Station and Auburn Town Centre located approximately 1.3 kilometres away.

The Auburn Premises has street frontage to both Parramatta and Kihilla Roads, which provide significant exposure to passing traffic. Certain of the properties in the area also house large format retail stores.

The site comprises a two storey showroom and warehouse building with 97 basement parking spaces, loading dock and basic landscaping. It has a land area of 4,761 square metres, and a Gross Lettable Area Retail (GLAR) of 4,971 square metres.

Nick Scali currently occupies the Ground Floor and has a licence to occupy or sublet the first floor of the Auburn Premises (First Floor). The First Floor was partially sublet to a third party until February 2017.

We provide a summary of the lettable areas within the table below:

Table 1: Lettable areas

Level	GLAR (square metre)
Basement Level	Car parking level (97 spaces)
Ground Level – Showroom 1	2,561
Ground Level – Showroom 2 Loading Dock	55
Level 1 – Showroom 1	1,334
Level 1 – Showroom 2	919
Level 1 – Showroom 2 Amenities	102
Total	4,971

Source: CKC Advisory Report

Further detail on the property is provided in the CKC Rental Assessment Report at Annexure 1.

3.3 Financial performance

3.3.1 Nick Scali

A high level summary of the financial performance of Nick Scali for the financial years (FY) ending 30 June 2014, 30 June 2015 and 30 June 2016 and the six months ended 31 December 2016 is presented in the table below.

Table 2: Financial performance

\$'000s (unless otherwise stated)	Audited 30 June 2014 12 months	Audited 30 June 2015 12 months	Audited 30 June 2016 12 months	Reviewed 31 Dec 2016 6 months
Revenue	141,442	155,743	203,045	118,369
Cost of goods sold	(56,019)	(61,280)	(79,676)	(45,033)
Gross profit	85,423	94,463	123,369	73,336
EBIT	19,535	23,787	37,076	29,027
Profit before tax	20,358	24,422	37,452	29,205
Tax expense	(6,122)	(7,345)	(11,302)	(8,754)
Profit after tax	14,236	17,077	26,150	20,451
Other comprehensive income	(723)	331	(908)	1,818
Total comprehensive income for the year	13,513	17,408	25,242	22,269
Key metrics:				
Growth in revenue %	n/a	10.1%	30.4%	15.5% ¹
Growth in revenue from existing stores % ²	n/a	3.4%	11.1%	10.1%
Gross profit margin %	60.4%	60.7%	60.8%	62.0%
EBIT margin %	13.8%	15.3%	18.3%	24.5%
Basic earnings per share (cents)	17.6	21.1	32.3	25.2
Dividends declared (cents)	13.0	15.0	23.0	14.0

Source: audited financial statements for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016 and reviewed financial statements for the six months ended 31 December 2016, ASX announcements, Deloitte Corporate Finance analysis

Notes:

1. represents the growth in revenue from the six months to 31 December 2015 to the six months to 31 December 2016
2. represents the growth in revenue from the same stores that were in operation for the full current period and prior period

Revenue has grown period on period, which has resulted from a combination of new store openings (seven new stores opened during FY2015, two new stores opened during FY2016 and three new stores opened during HY2017) and organic growth in existing stores.

EBIT margins have continued to improve from FY2014 to HY2017 as a result of:

- a continuing focus on cost efficiencies, especially in relation to property expenses with many leases being renewed on favourable terms
- ongoing improvements in sourcing and supply chain strategies
- a reduction in the rental expense following a number of property acquisitions
- economies of scale.

As at 31 December 2016, Nick Scali had net assets of \$66.3 million and cash of \$37.1 million.

3.3.2 The Auburn Store and comparable Nick Scali stores

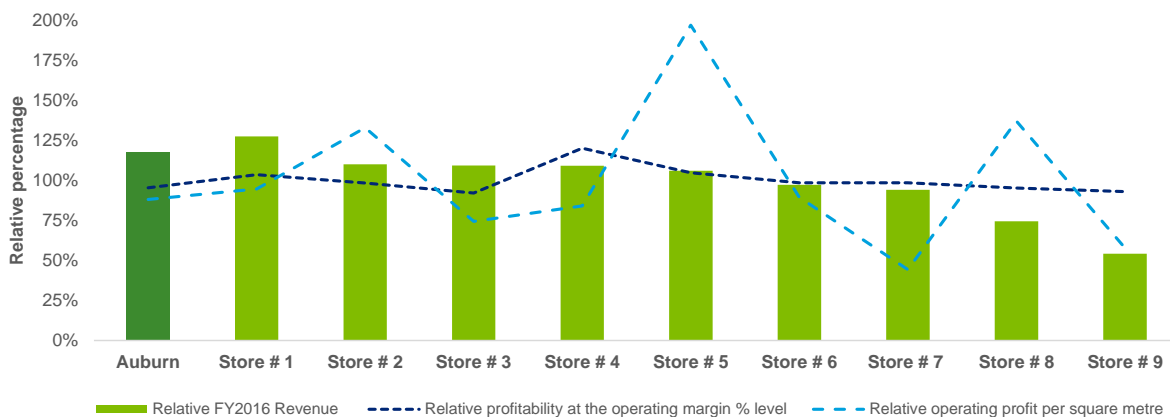
We have considered the performance of the Auburn Store and comparable Nick Scali stores to enable us to benchmark whether the rental under the Proposed Rental Agreement is reasonable having regard to the performance of the Auburn Store. The terms of the Proposed Rental Agreement are discussed further in Section 5.2 below. Under these terms, the commencing rental is lower than the amount that is currently being incurred under the month-to-month tenancy.

The comparable Nick Scali stores have been selected by Management based on location, foot traffic and turnover, and in totality, account for approximately 34% of Nick Scali’s total revenue. We consider the basis for the selection of the stores appropriate.

The Auburn Store is one of Nick Scali’s top five stores in terms of revenue. From FY2014 to FY2016, the Auburn Store experienced a compounded annual revenue growth rate (CAGR) of 1.5%.

In the diagram below, we have presented the FY2016 revenue, operating profit margin and operating profit per square metre for stores which are comparable to the Auburn Store in relative terms. The data has been rebased and anonymised at a store level in order to protect the commercially sensitive nature of the information.

Figure 2: Comparison of the Auburn Store to comparable Nick Scali stores (revenue, operating profit margin and operating profit per square metre)



Source: unaudited statement of profit and loss (broken down by each Nick Scali store) for the year ended 30 June 2016, Deloitte Corporate Finance analysis

The Auburn Store’s operating profit margin (measured in relative terms) is broadly in line with other comparable Nick Scali stores. However, its operating profit per square metre (measured in relative terms) is slightly below the average and is likely to reflect the competitive dynamics of the area, given the significant choice available to consumers.

We have also analysed the FY2016 revenue and operating profit on a per dollar of gross rent incurred basis. For reasons to those noted above, this data has also been rebased.

Figure 3: Comparison of the Auburn Store to comparable Nick Scali stores (revenue and operating profit per dollar of rent)



Source: unaudited statement of profit and loss (broken down by each Nick Scali store) for the year ended 30 June 2016, Deloitte Corporate Finance analysis

The Auburn Store generates higher revenue and operating profit per dollar of gross rent incurred in comparison to the average of other Nick Scali stores used for benchmarking purposes, which reflects the fact that the rent per square metre at the Auburn Store is generally lower than the comparable stores. However, the comparison is not always a direct one as certain of the stores are located in large format retail shopping centres and therefore attract higher foot traffic and rental charges. Nonetheless, the comparable Nick Scali stores provide some basis for comparison.

On balance, the performance of the Auburn Store is broadly consistent with the performance of comparable Nick Scali stores in terms of the metrics noted above.

4 Market analysis

In assessing the reasonableness of the terms under the Proposed Rental Agreement, we have had regard to the current leasing conditions for large format retail properties in Sydney and demand for Nick Scali’s products in the geographical market the Auburn Store targets.

We note the following from the CKC Rental Assessment Report:

The leasing conditions for large format retail properties in Sydney are considered to be strong, against a backdrop of strong housing growth, improving household goods retail trade and low vacancies. These conditions have led to a rise in rents and a tightening of incentives. We are advised by local leasing agents that incentives are generally around 2.5% - 10.0% for medium to high quality properties and annual reviews are typically negotiated to circa 3.0% - 3.5% increases.

In relation to Auburn specifically, the rental market for larger format retail properties is currently considered strong. There is a limited supply of quality tenancies with Parramatta Road frontage or within the broader Parramatta Road corridor which has created a relatively tight leasing market. A large portion of new lease transactions relate to retention of existing tenants which provides a guide to the strength of the market within the Auburn Parramatta Road Corridor. Further, we note that the ongoing renewal and redevelopment of large land holdings (e.g. Wentworth Point and Sydney Olympic Park) is continuing to add significantly to the residential population in the greater area which is subsequently increasing the retail demand for products offered by large format retailers.

As noted above, the current commercial rental market is buoyant and it is difficult to locate large format retail premises along Parramatta Road with high exposure. In addition, with significant growth in the geographic area fuelled by housing development and the area becoming increasingly a destination trade for bulky goods retail (due to road and rail infrastructure development), demand for Nick Scali’s products in the area serviced by the Auburn Store is strong and consequently the store is viewed as important to Nick Scali.

5 Factors considered

In determining whether, or not, the Proposed Rental Agreement is fair and reasonable to the Non-Associated Shareholders, we have considered the matters set out below.

5.1 Nature and content of the bargaining process

The independent Directors of Nick Scali consider the Auburn Store to be a significant contributor to the Company's success, for the following reasons:

- there is significant goodwill associated with the site as it was the location of one of Nick Scali's first stores
- the Auburn store is suitable for Nick Scali's purposes with internal refurbishment work having been undertaken recently by Nick Scali at a cost of approximately \$250,000
- the site is located within the bulky goods and large format retail precinct of Auburn and is situated alongside Harvey Norman. The Auburn Store is currently one of the largest (in terms of revenue) and one of the most profitable (in terms of EBITDA) stores
- the site has a large frontage on Parramatta Road, which provides high visibility for market purposes and has sufficient undercover off street parking
- there are limited alternatives available for Nick Scali to secure another lease or purchase a property with the required GLAR in the vicinity
- any relocation may involve substantial costs such as refurbishment and fit-out costs. There would also be the risk of the Auburn Store being unable to trade for a period of time during the relocation process.

Subsequent to the expiry of the Original Lease, the independent Directors began exploring the available options, which included the purchase of the Auburn Premises, a new lease for part of the Auburn Premises and buying or leasing alternative premises.

In April 2016, Scali Consolidated proposed the sale of the Auburn Premises to Nick Scali. As a consequence of the proposal, Nick Scali formed an Independent Board Committee (**IBC**) comprising Mr John Ingram (Chairman), Mr Greg Laurie (Non-Executive Director) and Ms Carole Molyneux-Richards (Non-Executive Director) to consider the proposed transaction, with Ashurst Australia (**Ashurst**) appointed to act as legal adviser.

The IBC engaged Charter Keck Cramer (**CKC**) to advise them on the options available to the Company. CKC prepared a draft report for the IBC in September 2016 (the **CKC Advisory Report**). CKC provided advice in relation to the following:

- the value of the Auburn Premises, which considered the highest and best use of the property. CKC concluded that the best use of the Auburn Premises was its existing use
- the availability of properties for Nick Scali to lease, purchase or redevelop. CKC concluded that there were no suitable properties in the vicinity of the current Auburn Store with high exposure on Parramatta Road, offering a floor space greater than 2,000 square metres and having sufficient parking for that scale of building
- a market rent for the Ground Floor of the Auburn Premises (for purposes of a new lease) having regard to the rentals being paid for comparable properties (large retail format).

The IBC was unable to agree with Scali Consolidated on a price for the purchase of the Auburn Premises and Nick Scali (as represented by the IBC) and Scali Consolidated commenced discussions regarding a new lease. Nick Scali continued to be advised by Ashurst and Scali Consolidated was separately advised by its legal adviser.

In negotiating the terms of the Proposed Rental Agreement, the IBC had regard to the following information:

- the terms of the Original Lease
- the CKC Advisory Report
- information in relation to comparable Nick Scali stores, including the sales generated from and rent relating to those stores. We note the following:
 - the current average and median gross rent per square metre at comparable Nick Scali stores is \$372 and \$310 respectively
 - the current average and median gross rental per square metre for Nick Scali stores across New South Wales is \$297 and \$237 respectively, noting that the location of the Auburn Store is considered to be superior
- legal advice received from Ashurst in relation to the terms under the Proposed Rental Agreement.

5.2 Terms of the Proposed Rental Agreement

Set out in the table below are the key terms of the Proposed Rental Agreement and the Original Lease. In assessing the terms, we have considered how the terms of the Proposed Rental Agreement compare with those of comparable leases.

Table 3: Key terms of the Proposed Rental Agreement and the Original Lease

Key term	Proposed Rental Agreement	Original Lease ¹
Location	Ground Floor	Ground Floor
Lettable area	2,561 square metres	2,561 square metres
Car parking	97 spaces as shared with the First Floor	97 spaces as shared with the First Floor
Commencing date	1 November 2016	1 March 2004
Terminating date	31 October 2024 (8 year term)	28 February 2014 (10 year term)
Option to renew	Option 1: further period of five years from 1 November 2024 Option 2: further period of five years from 1 November 2029	N/A – no option to renew periods
Lease term	8 years (up to a maximum of 18 years including option periods)	10 years
Rent for the first lease period	Rent commences at approximately \$704,000 per annum (based on a rental of \$275 per square metre across the 2,561 square metre premises) and will increase by 3% annually during the Term	Rent commences at \$620,000 per annum. On the first, second, fourth, fifth, seventh and eighth anniversaries of the commencement date, the rent will be increased with reference to the consumer price index (CPI) plus 1%. On the third, sixth and ninth anniversaries of the commencement date, the rent will be increased with reference to the current market rent
Rent for the option periods	Market reviews on exercise of each option period, with rent increases at 3% per annum	N/A – no option periods
Outgoings	Nick Scali is liable for 100% of total outgoings for the proportion that the lettable area of the premises bears to the aggregate of the lettable areas of the building in which the Auburn Store is located. Management have advised that this is approximately \$45,000 per annum ²	Nick Scali is liable for 100% of total outgoings for the proportion that the lettable area of the premises bears to the aggregate of the lettable areas of the building in which the Auburn Store is located
Rent incentive	Three month rent free period from the commencement of the lease	N/A – no rental incentive
Permitted use	Retail sale of furniture, bedding, soft furnishings, lighting, homeware, home entertainment equipment and accessories including televisions	Retail sale of furniture, bedding, soft furnishings, lighting, homeware, home entertainment equipment and accessories including televisions

Source: Original Lease, Proposed Rental Agreement

Notes:

1. the lease expired on 28 February 2014 and is currently on a month-to-month tenancy
2. this equates to \$18 per square metre per annum for outgoings.

Outside of the terms set out above, the terms of the Proposed Rental Agreement are generic and the Law Society of NSW's template lease agreement has been used as the basis of the Proposed Rental Agreement.

We understand that Nick Scali had also entered into a licence agreement (**Side Deed**) with Scali Consolidated to occupy the First Floor in exchange for a licence fee of \$6,301 per month (**Licence Fee**). Management has advised that the Side Deed will be terminated by the end of April 2017, at which point Nick Scali will have to vacate the First Floor.

The key terms of the Proposed Rental Agreement are discussed in greater detail below.

5.2.1 Lettable area and car parking

The total lettable area and car parking available under the Proposed Rental Agreement and the Original Lease are identical. Management has indicated that the store is an ideal size and that it will be adequate for the Company's purposes for at least the initial term, based upon the current strategy.

However as noted above, the Side Deed is not being renewed and therefore Nick Scali will not have access or the ability to sub-lease the First Floor. Management has advised that the surrender of the First Floor will not impact negatively on the profitability of the Auburn Store.

A lack of parking can impact upon the number of customers visiting the precinct. However, the Auburn Premises has adequate parking, even allowing for increased trading levels for the tenants of the First Floor.

5.2.2 Lease term (including option periods)

The Proposed Rental Agreement allows for an initial term of eight years, with two options to renew the lease for a further five years each (a potential term of 18 years in totality). The total term under the Proposed Rental Agreement is eight years longer than the Original Lease.

The increased term of the lease will provide Nick Scali with greater security over a store in a desirable location and which has been profitable historically. The renewal of the lease is consistent with the Company's overall strategy, which is focused on maintaining and developing a presence in key large format retailing precincts.

As with all industries, there is threat of 'digital or technological disruption'. Management is of the opinion that whilst virtual and augmented reality may impact upon the longer term requirements for a physical footprint, it is expected to take time before this occurs. Management does not foresee any material disruption occurring during the first term of the lease. The proposed structure of the lease therefore provides an appropriate balance, namely security of tenure and the ability to manage longer term trends that may develop.

The lease does contain a redevelopment/demolition clause allowing the landlord to terminate the lease early so it can carry out major works to renovate or redevelop the premises, but only after the initial term. There is therefore no guarantee that the options will be capable of being exercised. Such a clause is relatively common in retail leases (as advised by CKC and based on our own experience). Under the redevelopment clause, the lessor (Scali Consolidated) is required to give not less than twelve months prior notice, after which time the lessee is required to cease trading in and vacate the premises³. Where the demolition clause is invoked, the lessor is required to pay the lessee \$100,000 (plus GST).

The initial term does not appear unreasonable in light of the level of investment that Nick Scali has made in relation to the Auburn Store to refurbish it to an appropriate standard⁴. We have been advised that the Company refurbishes its stores approximately every five years or at the commencement of an option period.

5.2.3 Gross rental amount and rental incentives

5.2.3.1 Market rental assessment undertaken by CKC

CKC was engaged to prepare a report which assesses what the market rent would be for the Ground Floor of the Auburn Premises. We have relied on CKC's assessment for the purposes of our report. We consider CKC's Rental Assessment Report appropriate for our purposes for the following reasons:

- CKC is independent of Nick Scali, in accordance with the requirements of RG 112
- whilst CKC was engaged by Nick Scali, CKC has undertaken their work under our instructions
- there was no restriction on the scope of CKC's work

³ Clause 10 of the Proposed Rental Agreement.

⁴ We have been advised that Nick Scali spent approximately \$250,000 in the 2016 financial year on refurbishing the Auburn store.

- the assessment undertaken by CKC was completed explicitly for the purposes of this IER
- the assessment was undertaken by a person who holds the appropriate qualifications and has experience in valuing and undertaking rental assessments in respect of large format retail properties
- the methodology used in undertaking the rental assessment is consistent with methodologies generally applied in the industry. CKC has utilised the direct comparison approach by analysing the market rental rate per square metre per annum for comparable properties. CKC has undertaken the analysis on a gross effective rental basis; that is, the rental is expressed inclusive of outgoings and, where applicable, has been adjusted to reflect any rental incentives received by the tenant
- we have reviewed CKC’s work, which also included holding discussions with them, and nothing has come to our attention with respect to the methodologies, assumptions and inputs used that would cause us to question their work or their assessment.

For the purposes of its assessment, CKC has adopted the following definition of market rent:

The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Scali Consolidated is currently undertaking certain upgrades to the buildings (**the Works**). At a high level, the proposed changes to the building include the following:

- moving and updating the building entrance
- a full update of the external façade
- the provision of new external signage
- updating the goods receiving area
- creating two separate and distinct tenancies for Nick Scali and first floor tenants
- the installation of an escalator allowing access to the First Floor
- the installation of a lift allowing access from the underground parking.

In undertaking its assessment of what constitutes a market rent for the Ground Floor, CKC has assumed that the Works have been completed.

CKC has considered the following comparable leasing transactions, as presented in the table below. All rental amounts are considered on a ‘gross effective’ basis, meaning that the rental amount is expressed inclusive of all outgoings and has been adjusted to reflect any incentives received by the tenant, if any.

Table 4: Comparable leasing transactions

Location	Building area (square metre)	Gross effective rent per square metre per annum
126 Parramatta Road, Auburn	1,000	\$ 330 ¹
Red Yard, 100 Parramatta Road, Auburn	1,300	\$ 315 ¹
233-239 Parramatta Road, Auburn (Lighting Mall)	233	\$ 308 ²
233-239 Parramatta Road, Auburn (Super Cheap Auto)	894	\$ 275 ²
315 Parramatta Road, Auburn	8,451	\$ 248 ²
9 Parramatta Road, Lidcombe	580	\$ 235 ¹
1 Duck Street, Auburn	852	\$ 225 ¹
233-239 Parramatta Road, Auburn (Carpet Court)	595	\$ 191 ¹
Building B, 290 Parramatta Road, Auburn	1,260	\$ 156 ¹

Source: CKC Rental Assessment dated 6 April 2017

Notes:

1. effective rental
2. passing rental.

CKC is of the view that an appropriate gross market rental rate for the Auburn Premises would range from \$280 to \$300 per square metre per annum, having regard to the following factors:

- the size of the tenancy
- Nick Scali will occupy the Ground Floor

- the Auburn Premises has a prominent corner position with a high level of exposure to Parramatta Road
- there is adequate on-site car parking
- the building (albeit an older style building) is being upgraded and refurbished.

Under the terms of the Proposed Rental Agreement, Nick Scali will be responsible for the outgoings based on the lettable area (as a proportion of the entire Auburn Premises) Nick Scali occupies. This term is consistent with the Original Lease and is not uncommon nor unreasonable for leases of this nature. Management has advised that current outgoings proposed for the new lease are \$45,356 per annum.

CKC has calculated a net market rental amount per square metre of \$272 per square metre per annum, as calculated in the table below:

Table 5: Market rental assessment by CKC

	Annual rental amount		
	Low	Mid	High
Lettable area (square metres)	2,561	2,561	2,561
CKC's assessment of market rent	\$ 280	\$ 290	\$ 300
Adopted market gross rental amount	\$ 717,080	\$ 742,690	\$ 768,300
Less: outgoings ¹	\$ (45,356)	\$ (45,356)	\$ (45,356)
Assessed market net rental amount	\$ 671,724	\$ 697,334	\$ 722,944
Adopted market net rental amount		\$ 697,350	
Adopted market net rental amount per square metre		\$ 272	

Source: CKC Rental Assessment Report dated 6 April 2017

Notes:

1. as advised by Management.

5.2.3.2 Calculation of net effective rental amount under the Proposed Rental Agreement

Under the terms of the Proposed Rental Agreement, Nick Scali is entitled to a three month rent free period from February 2017 to April 2017. This equates to a benefit of approximately \$176,000 or equivalent to \$9 of rental incentives per square metre per annum⁵.

Based on the above, the implied net effective rental amount under the Proposed Rental Agreement is \$682,260 per annum as presented in the table below.

Table 6: Net effective rental amount under the Proposed Rental Agreement

	Annual amount
Net rental amount	\$ 704,268 ¹
Less: rental incentives received	\$ (22,008) ²
Implied net effective rental amount	\$ 682,260

Source: CKC Rental Assessment dated 6 April 2017, Deloitte Corporate Finance analysis

Notes:

1. based on 2,561 square metres

2. under the Proposed Rental Agreement, Nick Scali will receive approximately \$176,000 worth of rental incentives. This equates to \$22,008 per annum if amortised over the initial term, being eight years.

The proposed rent for the Auburn Store of \$682,260 per annum is below the mid-point of the range assessed by CKC of \$697,350 per annum.

On a per square metre basis, the gross rental amount equates to \$293⁶ which also falls within the range observed for comparable Nick Scali stores. As noted in Section 5.1 above:

⁵ The rental incentives per square metre per annum is calculated as follows: net rental per month of \$58,689 x 3 months / 8 years of the initial lease term = \$8.59 per square metre per annum.

⁶ The gross rental per square metre per annum is calculated as follows: net rental per annum of \$704,268 plus outgoings per annum of \$45,356 / 2,561 square metres = \$292.71 per square metre per annum.

- the current average and median gross rent per square metre at comparable Nick Scali stores is \$372 and \$310 respectively
- the current average and median gross rental per square metre for Nick Scali stores across New South Wales is \$297 and \$237 respectively, noting that the location of the Auburn Store is considered to be superior as compared to the location of the majority of the other Nick Scali stores located in New South Wales.

5.2.4 Future escalations

Under the Proposed Rental Agreement, the rent will increase by 3% on each anniversary date of the commencement date. Based on CKC's market analysis, annual increases are generally negotiated at between 3.0% and 3.5% for medium to high quality properties, such as the Auburn Premises. On this basis, the 3% escalation clause appears to be in line with market. Notwithstanding CKC's advice, we note that many of Nick Scali's leases provide for increases at the consumer price index.

5.3 Other options available to Nick Scali

As noted in Section 5.1 above, the IBC considered the possibility of moving the store to an alternate location but concluded that there were no suitable properties in the vicinity of the current Auburn Store with high exposure on Parramatta Road, offering a floor space greater than 2,000 square metres and having sufficient parking for that scale of building⁷.

The IBC also considered and entered into negotiations with Scali Consolidated to purchase the property but as the parties were unable to agree a price for the Auburn Premises, the IBC concluded that the most appropriate course of action for the Company was the negotiation of a new lease for the Ground Floor. The independent Directors concluded that there were no other properties with similar characteristics (either for development or leasing purposes) which would render them equally as suitable for the business as the Auburn Store.

We note that if the Proposed Rental Agreement is not approved, Nick Scali would have to relocate the Auburn Store to other premises, which might have adverse consequences for the Company's profitability. In addition, and for the sake of completeness, closure of the store is not a valid option given its profitability and importance to Nick Scali.

5.4 Other factors

Under the Original Lease and the month-to-month tenancy, most recently, Nick Scali has been paying approximately \$740,000 per annum (excluding the Licence Fee). This is higher than the initial rental amount under the Proposed Rental Agreement. Under the Original Lease, the commencing rent was \$620,000 per annum as at 1 March 2004. The commencing rent under the Proposed Rental Agreement is \$704,000 per annum implying inflation of 1.0% per annum. Such a rate of inflation is significantly lower than general product and services price inflation experienced over the same period of 2.5% per annum.

The Proposed Rental Agreement is also more advantageous than the Original Lease when considering the following:

- no payments for the options. The Original Lease was for a fixed term of 10 years whilst the Proposed Rental Agreement is for a period of eight years with two five year options to extend without any additional payment for these options
- the Original Lease allowed for CPI plus 1% increases during certain years (whilst during other years, the rent would be increased with reference to the market). The Proposed Rental Agreement allows for a fixed rate of 3% per annum during all years (with reset to market at the beginning of the option period). During the period of the Original Lease, CPI plus 1% would have equated to more than 3% over the term of the Proposed Rental Agreement. As such, this factor (the growth in rent) could be viewed as more advantageous
- the Proposed Rental Agreement has a rent incentive of three months which was not provided under the Original Lease.

⁷ CKC identified one property available for lease which could have provided a comparable quality and exposure to Parramatta Road. However, the size of this premises was in excess of 4,000 square metres and therefore is arguably too large for the purposes of the Auburn Store.

6 Summary and conclusion

6.1 Summary

In our opinion, **the Proposed Rental Agreement is fair and reasonable to the Non-Associated Shareholders.** In arriving at this opinion, we have had regard to the following factors.

Fairness

The terms of the Proposed Rental Agreement are market related

CKC's assessment of the net market rental that would be appropriate for the Ground Floor of \$697,350 per annum is higher than the rental under the Proposed Rental Agreement of \$682,260 (net of incentives). Accordingly, it is our opinion that the rental amount under the Proposed Rental Agreement is fair.

We also note the following:

- the proposed rental charge per square metres falls within the range observed for comparable Nick Scali stores
- the terms of the Proposed Rental Agreement, including term and escalation clauses, are consistent with the terms upon which retail leases are generally concluded.

Reasonableness

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Rental Agreement is reasonable. We also note the following factors relevant to the reasonableness of the Proposed Rental Agreement.

Nick Scali followed a robust process in negotiating the Proposed Rental Agreement

An independent board committee was established for the purposes of assessing the alternatives available to the Company. The IBC has been advised by property and legal experts through the process. In undertaking the negotiations, the IBC had regard to the profitability and importance of the Auburn Store to Nick Scali, the Original Lease, CKC's Advisory Report, the rental arrangements for comparable Nick Scali stores (which are leased from third parties) and legal advice received from Ashurst in relation to the terms under the Proposed Rental Agreement.

Nick Scali has the option to renew the lease for a further two five year periods following the initial term

The Proposed Rental Agreement will provide Nick Scali with security of tenure over the location of its Auburn Store for at least eight years and a maximum period of 18 years (with two five year renewal options). The structure of the lease provides an appropriate balance between security of tenure and the ability to manage longer term trends that may develop through the exercise or non-exercise of the options.

The Auburn Store is an iconic store

The Auburn Store is seen as an iconic store for the following reasons:

- the Auburn Premises was the location of one of Nick Scali's first stores
- the Auburn Store is one of the largest (in terms of revenue) and most profitable (in terms of EBITDA) stores
- the site has a large frontage on Parramatta Road, which provides high visibility for market purposes and has sufficient undercover off street parking
- there are no better alternatives currently available for Nick Scali in terms of locating substitute premises in the area.

Nick Scali has recently refurbished the Auburn Store

Nick Scali recently undertook internal refurbishment work at the Auburn Store at a cost of approximately \$250,000 to ensure that the store is consistent with the image it wishes to portray. If the Proposed Rental

Agreement is not approved, Nick Scali will have to relocate its Auburn Store and will be unable to benefit from the investment in the store.

Scali Consolidated is undertaking the Works which will improve the Auburn Store

Under the Proposed Rental Agreement, Scali Consolidated is required to undertake the Works, which will improve the existing store, which will assist Nick Scali in remaining competitive and drawing customers to the Auburn Store.

There will be greater alignment between Nick Scali and Scali Consolidated

If the Proposed Rental Agreement is approved, it should result in greater alignment between Nick Scali and Scali Consolidated and should remove any potential conflicts of interest and allow for a greater focus on business operations.

Nick Scali may be unable to locate equally suitable premises if required to relocate

In the event that the Proposed Rental Agreement is not approved, Nick Scali would have to relocate the Auburn Store to other premises. The independent Directors are of the opinion that there are no other properties with similar characteristics (either for development or leasing purposes) which would render them equally as suitable for the business as the Auburn Store.

The Proposed Rental Agreement appears to be the best option available to Nick Scali

The IBC has considered the alternative options available to Nick Scali and has concluded that the Proposed Rental Agreement represents the best option available to the Company at the present time. The possibility of purchasing the Auburn Premises at a future point in time remains.

6.2 Conclusion

Having regard to the above, we are of the opinion that the Proposed Rental Agreement is fair and reasonable to the Non-Associated Shareholders of Nick Scali.

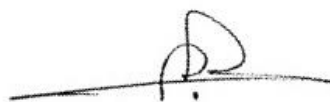
This report should be read in conjunction with Appendix A and Annexure A which contains the CKC Rental Assessment Report.

Yours faithfully



Tapan Parekh

Authorised Representative Number: 461009



Robin Polson

Authorised Representative Number: 461010

Appendix A: Context to the Report

Individual circumstances

We have evaluated the Proposed Rental Agreement for Non-Associated Shareholders as a whole and have not considered the effect of the Proposed Rental Agreement on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Rental Agreement from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Rental Agreement is fair and reasonable to Non-Associated Shareholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of Nick Scali and is to be included in the Explanatory Memorandum to be given to Non-Associated Shareholders for approval of the Proposed Rental Agreement in accordance with ASX Listing Rule 10. Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Rental Agreement outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Nick Scali, in respect of this report, including for any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Rental Agreement.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Nick Scali and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Nick Scali management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Nick Scali and its officers, employees, agents or advisors, Nick Scali has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Nick Scali may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Nick Scali and its officers, employees, agents or advisors or the failure by Nick Scali and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Rental Agreement.

Deloitte Corporate Finance has relied on the CKC Rental Assessment Report. Deloitte Corporate Finance has received consent from CKC to rely on their report and to append it to our IER (refer Annexure A).

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Tapan Parekh, B.Bus, M.Comm, CA, F.Fin and Robin Polson, B.Comm, G. Dip. App Fin, FINSIA. Each have many years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 225 George Street, Sydney, NSW, 2000 acknowledges that:

- Nick Scali proposes to issue an Explanatory Memorandum in respect of the Proposed Rental Agreement between Nick Scali and Scali Consolidated
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum (draft Explanatory Memorandum) for review

- it is named in the Explanatory Memorandum as the ‘independent expert’ and the Explanatory Memorandum includes its independent expert’s report in Section A of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert’s report in Section A of the Explanatory Memorandum and to all references to its independent expert’s report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert’s report as included in Section A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- audited financial statements for Nick Scali for the years ending 30 June 2014, 30 June 2015 and 30 June 2016
- reviewed financial statements for Nick Scali for the six months ending 31 December 2016
- Original Lease dated 20 May 2004
- Side Deed dated 20 May 2004
- draft of the Proposed Rental Agreement
- minutes of the IBC meetings dated 10 May 2016, 14 September 2016 and 18 November 2016
- property register for comparable Nick Scali stores
- unaudited statement of profit and loss, broken down by each Nick Scali store, for the years ending 30 June 2014, 30 June 2015, 30 June 2016 and the 7 months ended 28 February 2017
- draft CKC Advisory Report, dated September 2016
- CKC Rental Assessment Report dated April 2017
- company website for Nick Scali.

In addition, we have had discussions and correspondence with certain directors and executives, including John Ingram, Chairman; Greg Laurie, Independent Director; Carole Molyneux, Independent Director; and Kevin Fine, CFO and Company Secretary; in relation to the above information and to current operations and prospects.

Annexure A: CKC Rental Assessment Report

Rental Assessment

Ground Floor,
222 – 246 Parramatta Road,
Auburn

Sam Barrow
Director
sam.barrow@charterkc.com.au

charterkc.com.au

Leaders in
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PROJECTS.

Rental Assessment Executive Summary

Ground Floor, 222 - 246 Parramatta Road, Auburn



Property Description.

Property Type Ground floor of two level large format retail building. Undercover secure parking provided for 97 vehicles.

Building Area - GLAR 2,561 sq.m.

Occupancy Summary (Proposed Lease).

Lessee Nick Scali Limited ACN 000 403 896

Term 8 + 5 + 5 years

Commencement Date 1 November 2016

Commencing Rental \$704,268 p.a. (exclusive of GST)

Reviews Fixed annual increases of 3% with a market review at the commencement of the further term.

Outgoings Lessee responsibility

Instructions.

Instructing Party Deloitte Corporate Finance Pty Limited

Assessment Summary.

Date of Inspection 6 April 2017
Refer to Assumptions / Qualifications
- Date of Assessment

Date of Assessment 1 November 2016
Refer to Assumptions / Qualifications
- Date of Assessment

Rental Assessment **\$697,350 p.a. Net**
(Exclusive of GST)
Six Hundred and Ninety Seven Thousand,
Three Hundred and Fifty Dollars Per
Annum Net

Purpose.

Purpose Independent Market Rental Advice

Prepared By.

Charter Keck Cramer (Sydney) Pty Ltd
T/A Charter Keck Cramer

A handwritten signature in black ink, appearing to read 'Sam Barrow'.

Sam Barrow, AAPI
Certified Practising Valuer
API Member No 70101
Director

Leaders in Property Intelligence.

Rental Assessment

Ground Floor, 222 - 246 Parramatta Road, Auburn

Contents.

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Assessment Rationale.....	13
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Assumptions / Qualifications.....	15

Instructions.

Instructing Party

I have been appointed by Deloitte Corporate Finance to undertake a Market Rental assessment relating to the Ground Floor of 222 - 246 Parramatta Road, Auburn.

I confirm that my role in this matter is to act as an expert, rather than an arbitrator, forming my own opinion, but taking into account the relevant documentation provided to me.

Refer to Assumptions / Qualifications - Definition of Current Market Rent

Our Reference

NICAUB_SB0417

O:\3. CURRENT PROJECTS\NICK SCALI_AUBURN_222-246 PARRAMATTA ROAD (X000000)\APRIL 2017\NICK SCALI RENTAL VALUATION FINAL.DOCX

Liability limited by a scheme approved under Professional Standards Legislation.

Background.

Summary

Nick Scali Limited intends to enter into a new rental agreement to occupy the Ground Floor of 222 - 246 Parramatta Road, Auburn ("The Property").

In order to do so Nick Scali Limited is required to obtain shareholder approval as the owner of the store is associated with Mr Anthony Scali (the Managing Director of Nick Scali Limited) and as such the new lease is considered to be a related party transaction.

According to a letter from Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance), Deloitte Corporate Finance *"has been engaged by Nick Scali Limited to prepare an Independent Expert's Report (the IER) addressed to the independent directors of Nick Scali and for the benefit of those shareholders of Nick Scali not associated with Mr Anthony Scali and Scali Consolidated Pty Limited (Scali Consolidated) (Non-Associated Shareholders) advising whether the terms of the proposed rental agreement in respect of the Auburn store with Scali Consolidated (the Proposed Rental Agreement) is fair and reasonable to Non-Associated Shareholders."*

I have been contacted by management of Nick Scali, at the request of Deloitte Corporate Finance, to provide technical specialist support with respect to the assessment of Market Rent for the Ground Floor of the property at 222 - 246 Parramatta Road, Auburn. Further, I refer to my instruction from Deloitte (dated 20 March 2017) and note that this assessment has been completed in accordance with these instructions.

Deloitte Corporate Finance has provided the following documents for review and comment herein.

- Current Proposed Lease: Annexure A 12.3.17
- Side Deed 13.3.17: Prepared by Ashurst lawyers

The assessment in question relates to a new lease and assumes completion of various works, which are detailed hereunder. As detailed above, I have been provided with a copy of the proposed lease and note, in brief, the document proposes a new term of eight years with two further options of five years each. The proposed rent is \$704,268 p.a. net (\$275 p.s.m.p.a.) with annual reviews of 3% and an incentive of three months rent free.

I note that the lessor has proposed to complete various upgrades to the building and my assessment is undertaken on the basis these upgrades have been completed. At the highest level, the proposed changes to the building are as follows:

1. Full update of the external façade
2. New external signage
3. Update goods receiving area
4. Create 2 separate/distinct tenancies [1x ground floor and 1x level1]
5. Move/update of the building entrance
6. Lifts from parking to ground and level 1
7. Access to level 1 from within Nick Scali ground floor tenancy removed

Qualifications & Experience My background qualifications and experience are as follows:

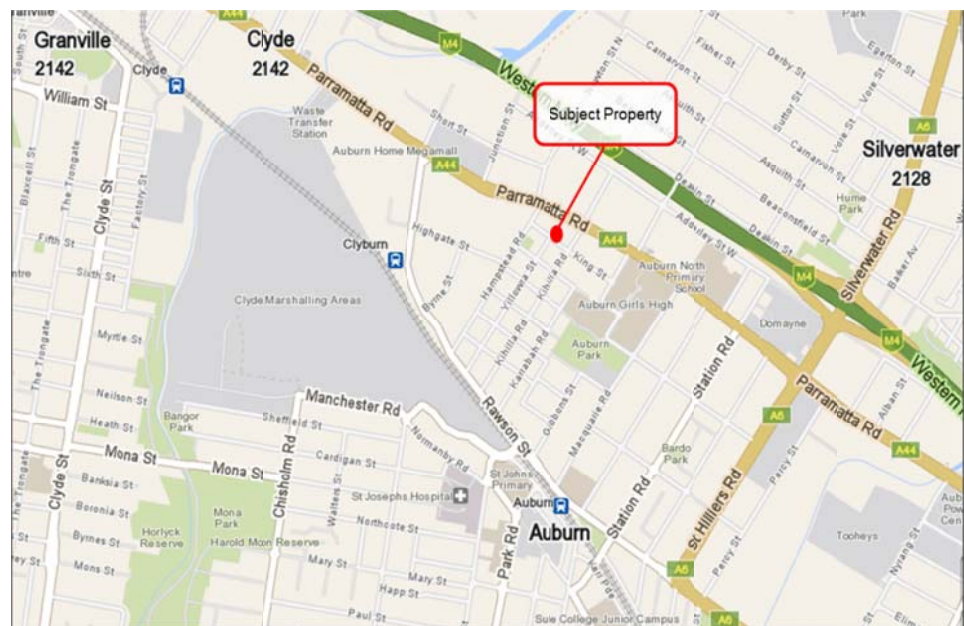
- Bachelor of Business (Property).
- Certified Practising Valuer.
- Associate of the Australian Property Institute - API Member 70101.

I am Director of Charter Keck Cramer and have been involved in the property industry since 2007, over which time I have had significant experience providing valuation and advisory services relating to large format retail ("bulky goods") properties in Sydney.

Locality.

Locality & Surrounding Development

Physical Location	South -eastern corner of the intersection of Parramatta Road and Kihilla Road.
Surrounding Development	<p>The subject property is located on Parramatta Rd within a precinct that includes a range of large format retail/showroom, light industrial and various other non-residential land uses.</p> <p>Prominent large format retail properties in the immediate area include Harvey Norman, Super Cheap Auto, Demir Leather, Officeworks and the Primewest Auburn Megamall (includes Freedom, The Good Guys, Fantastic Furniture and By Design)</p> <p>Auburn Town Centre which is located approximately 1.3 kilometres south of the subject property and offers a Woolworths, Big W, branches of the big 4 banks as well as restaurants and cafes.</p>
Services	<p>The subject property is considered to have good transport amenity being approximately 1.3 kilometres north of Auburn Railway Station which is serviced by the T2 Airport, Inner West & South Line. Services from this station are available to a number of town centres including; Parramatta, Clyde, Burwood, Ashfield and Sydney CBD.</p> <p>Additionally, the subject property has frontage to Parramatta Road which is a major east west arterial road for Metropolitan Sydney.</p> <p>Further, the M4 Motorway is located in close proximity to the subject property. The M4 Motorway is the main motorway connecting Western Sydney and is currently undergoing significant upgrades provided by way of the WestConnex project.</p> <p>Further transport amenity is provided by the bus stop located in front of the subject property and along Parramatta Road which provide access to Parramatta with services heading to Bankstown and Sutherland available from the northern side of the road.</p>



SOURCE - Charter Keck Cramer, Wherels

Improvements.

Description

Erected on the site is an older style two storey showroom and warehouse building with 97 basement parking spaces, loading dock and basic landscaping.

The subject property comprises the Ground Floor showroom of 222 - 246 Parramatta Road, Auburn.

The property includes 97 car spaces which are considered common areas for use by the various tenants of the parent building on a non-exclusive basis.

The construction generally comprises concrete and glass with tilt up concrete panels forming the rear warehouse component of the property. All roofing appears to be galvanised iron.

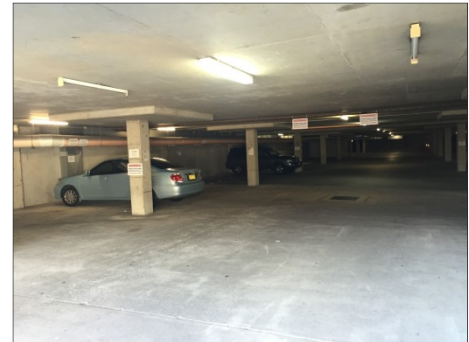
Internal finishes generally comprise tiled or carpet flooring with acoustic ceiling tiles and down lighting throughout the showrooms.

The building is considered to be in a satisfactory condition and not requiring any significant repair beyond that expected of a building of this type and age.

Sample photographs of the accommodation are provided below:



Street Frontage



Parking



Showroom

Floor Area

I have been provided with lettable area plans prepared by Realserve which identify the spaces within the building and detail a Gross Lettable Area Retail (GLAR) of 2,561 sq.m. for the subject property

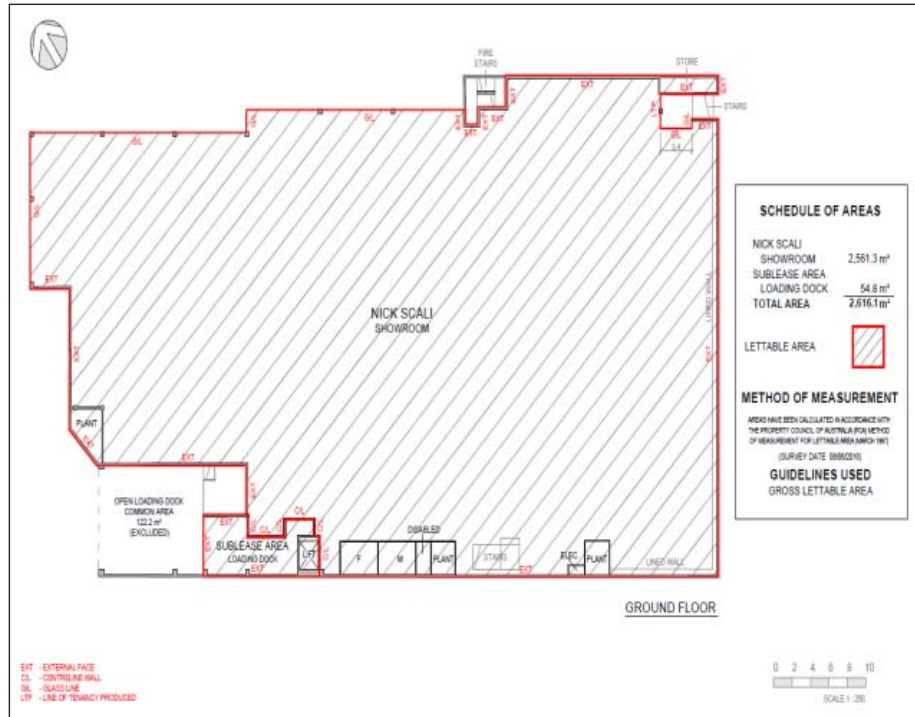
I provide a summary of areas within the table below:

Subject Property	
Level	Gross Lettable Area Retail (sq.m.)
Basement Level (Shared)	Car Parking Level (97 Spaces)
Ground Level - Showroom 1	2,561.3

I note the entire building provides total of 4,970 sq.m. of GLAR.

Provided below is an extract from the building floor plans provided:

Ground Floor Plan



I have adopted the surveyed areas in undertaking my assessment.

Occupancy Details.

Status

I have been provided with a copy of the proposed lease and Side Deed prepared by Ashurst lawyers and summarise the proposed terms hereunder:

Summary of Proposed Lease	
Lessor	Scali Consolidated Pty Ltd ACN 002 410 559
Lessee	Nick Scali Limited ACN 000 403 896
Premises	Ground Floor and Loading Dock. 222 to 246 Parramatta Road, Auburn Car Parking: Access to basement parking for 97 vehicles on a non-exclusive basis. The parking is considered common area within the parent building.
Commencement Date	1 November 2016
Term	Eight years
Further Term	Two further terms of five years each.
Commencing Annual Rental	The proposed lease notes a rental of \$275 p.s.m.p.a. (exclusive of GST) The proposed lease does not identify a total rent per annum however the Side Deed notes a monthly rental of \$58,689 which equates to an annual rental of \$704,268 per annum.
Rental Reviews	3% per annum.
Incentive	According to the Side Deed no rent is payable for the months of February 2017, March 2017 and April 2017. The incentive equates to 3.13%
Outgoings	Paid by Lessee.
Permitted Use	Showroom for the display and retail sale of furniture and ancillary products, bedding, soft furnishings, lighting, homewares, home entertainment equipment including televisions and accessories and electrical goods.
Lessor Works	I note that the lessor has proposed to complete various upgrades to the building and my assessment is undertaken on the basis these upgrades have been completed. At the highest level, the proposed changes to the building are as follows: <ul style="list-style-type: none">- Full update of the external façade- New external signage- Update goods receiving area- Create 2 separate/distinct tenancies [1x ground floor and 1x level1]- Move/update of the building entrance- Lifts from parking to ground and level 1- Access to level 1 from within Nick Scali ground floor tenancy removed

Outgoings

In accordance with information provided by Nick Scali management, the current outgoings proposed for the new lease are \$3,779.67 per month or \$45,356 per annum. This equates to \$18 p.s.m.p.a.

I have adopted the outgoings as detailed above in undertaking my assessment.

Rental Assessment Considerations.

In arriving at my assessment, I have taken into account a number of factors including the following:

Basis of Determination	This assessment have been prepared in accordance with the <i>Retail Leases Act 1994</i> and the Australian Property Institute <i>Definition of Market Rent</i> .
Market Rent	<p>I have undertaken my assessment having regard to the Australian Property Institutes definition of Market Rent:</p> <p><i>The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.</i></p>
Retail Leases Act 1994	I note that according to section 5(a) of the Retail Leases Act 1994 the subject property does not fall under the provisions of the Act as it has an area larger than 1,000 sq.m. Notwithstanding I have had general regard to the Act whilst preparing this assessment.
Terms	I have taken into consideration the proposed term of eight years, with two options of five years each, and note these terms are considered generally in line with typical terms and are common for national retailers such as Nick Scali.
Rental Review Provisions	The proposed lease provides that rent will be subject to fixed annual increases of 3% for the duration of the term which I note with reference to the comparable evidence detailed herein is generally in line with market, the evidence indicating a range of 2.5% - 4.00% p.a.
Incentives	I have taken into consideration the proposed incentive of 3 months' rent free or 3.13%. This incentive falls within the lower end of an acceptable range for typical incentives however is considered reasonable given the Lessee's existing tenure, the length of the initial term and the proposed works. For my assessment I have considered incentives granted within the marketplace and (where applicable) made appropriate adjustments to arrive at an effective market rent.
Outgoings	In undertaking my assessment, I have adopted the current outgoings as advised by Nick Scali management.
GST	I have concluded my assessment of the current market rent on a GST exclusive basis.
Permitted Use	In accordance with the permitted use identified in the proposed lease I have undertaken my assessment on the basis the permitted use is as follows or similar: <i>Showroom for the display and retail sale of furniture and ancillary products, bedding, soft furnishings, lighting, homewares, home entertainment equipment including televisions and accessories and electrical goods.</i> In undertaking my determination I have had appropriate regard to the permitted use under the Leases and that of comparative leasing evidence.
Demolition Clause	I note the proposed lease includes a demolition clause. The clause is applicable only to the option periods and as such provides for security of tenure during the initial term. A clause of this nature is common within lease agreements relating to properties of this type.
Lease Agreement	The proposed lease agreement appears to be generally written/structured in accordance with typical lease agreements for properties of this type however I recommend review by a lawyer expert in the in lease agreements.
Current Market Rental Evidence	I have undertaken my own investigations of leasing transactions as well as sought independent confirmation of the information provided where appropriate.

Market Evidence.

Market Overview

The leasing conditions for large format retail properties in Sydney are considered to be strong, against a backdrop of strong housing growth, improving household goods retail trade and low vacancies. These conditions have led to a rise in rents and a tightening of incentives. I am advised by local leasing agents that incentives are generally around 2.5 -10% for medium to high quality properties and annual reviews are typically negotiated to circa 3% - 3.5% increases.

In relation to Auburn specifically, the rental market for large format retail properties is currently considered strong. There is a limited supply of quality tenancies with Parramatta Road frontage or within the broader Parramatta Road corridor which has created a relatively tight leasing market. A large portion of new lease transactions relate to retention of existing tenants which provides a guide to the strength of the market within the Auburn Parramatta Road Corridor. Further, I note that the ongoing renewal and redevelopment of large land holdings (e.g. Wentworth Point and Sydney Olympic Park) is continuing to add significantly to the residential population in the greater area which is subsequently increasing the retail demand for products offered by large format retailers.

Comparative Rental Evidence

I consider the most relevant evidence to be that of retail premises within the immediate environs of the subject property. A summary of that evidence is detailed below.

Rental Schedule				
		Building Area sq.m.	Gross / Net Rental p.a.	Gross / Net Rental Rate p.s.m.p.a.
126 Parramatta Road, Auburn (Nike Factory Outlet)				
Lessee	Nike Factory Outlet	1,500	\$495,000 (gross)	\$330 (gross) - face
Commencement Date	1 March 2017			
Relevant Rental Date	1 March 2017			
Term	6 + 6 years			\$330 (gross) - effective
Reviews	2.5% p.a. Market at option			
Outgoings	Lessor responsibility			
Other	Represents a new lease to the existing tenant. No Incentive was provided.			
Description	Ground floor tenancy with corner position on the southern side of Parramatta Road. The accommodation provided is modern retail showroom space in good condition and is utilised for the sale of Nike sports clothing and associated products.			
1 Duck Street, Auburn (Anna Wang)				
Lessee	Anna Wang (Event and Wedding Stylist)	852	\$200,000 (gross)	\$235 (gross) - face
Commencement Date	1 December 2016			
Relevant Rental Date	1 December 2016			
Term	4 + 3 years			\$225 (gross) - effective
Reviews	Not confirmed.			
Outgoings	Lessor responsibility			
Other	2 month rent free incentive provided.			
Description	Ground floor tenancy positioned on the south western corner of Duck and Short Streets. The location has an inferior level of exposure to those properties on Parramatta Road. The accommodation provided is retail showroom space (70%) and warehouse (30%). The property is utilised as a showroom and storage facility for an event and wedding stylist.			
Building B, 290 Parramatta Road, Auburn				
Lessee	Daikin Air-Conditioning	1,260	\$216,976 (gross)	\$172 (gross) - face
Commencement Date	25 January 2017			
Relevant Rental Date	25 January 2017		\$169,965 (net)	
Term	2 years			\$156 (gross) - effective
Reviews	CPI + 1% p.a. Market at option			
Outgoings	Lessee responsibility - \$37 p.s.m.p.a.			
Other	2 month rent free incentive provided.			
Description	Ground floor tenancy with access from Parramatta Road, albeit not direct exposure to Parramatta Road. The tenancy forms part of a larger complex with the accommodation provided a mix of retail showroom and warehouse space. The property is utilised as for warehousing and sale of Daikin Air-conditioning units.			

Rental Schedule

		Building Area sq.m.	Gross / Net Rental p.a.	Gross / Net Rental Rate p.s.m.p.a.
233 - 239 Parramatta Road, Auburn (Super Cheap Auto)				
Lessee	Super Cheap Auto	894	\$245,864 (gross)	\$275 (gross)
Commencement Date	17 April 2013			- passing
Relevant Rental Date	17 April 2017			
Term	7 + 3 years			
Reviews	3% p.a. Market at option.			
Outgoings	Lessor responsibility			
Other	Lease variation 17 April 2013. Incentive of 1 month rent free was granted on commencement of the variation.			
Description	Ground floor tenancy with corner position on the northern side of Parramatta Road. The tenancy forms part of a larger complex with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale car accessories and similar products.			
233 – 239 Parramatta Road, Auburn (Carpet Court)				
Lessee	Carpet Court	595	\$118,373 (gross)	\$199 (gross)
Commencement Date	6 January 2016			- face
Relevant Rental Date	6 January 2016		\$90,563 (net)	
Term	5 + 5 years			\$191 (gross)
Reviews	CPI. Market at option.			- effective
Outgoings	Lessor responsibility – circa \$46 p.s.m.			
Other	3.5% management fee is accounted for in the rental.			
Description	Ground floor tenancy with internal position within a larger complex with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale carpet and similar products.			
9 Parramatta Road, Lidcombe (99 Bikes)				
Lessee	99 Bikes	580	\$141,000 (gross)	\$243 (gross)
Commencement Date	1 March 2016			- face
Relevant Rental Date	1 March 2016			
Term	7.5 + 10 years			\$235 (gross)
Reviews	3.5% p.a. Market at option			- effective
Outgoings	Lessor responsibility			
Other	3 months rent free incentive.			
Description	Ground floor tenancy within a larger complex with the accommodation provided being retail showroom space in good condition. The property has exposure to Parramatta Road albeit the frontage is relatively small. The premise is utilised for the sale bicycles and associated products.			
233 – 239 Parramatta Road, Auburn (Lighting Mall)				
Lessee	Lighting Mall (Fantastic International Pty Ltd)	233	\$71,792 (gross)	\$308 (gross)
Commencement Date	19 September 2016			- passing
Relevant Rental Date	19 September 2016			
Term	5 + 5 years			
Reviews	4% p.a. Market at option			
Outgoings	Lessor responsibility			
Other	Relates to the variation of an existing lease. Current outgoings estimated based on 2013 estimate detailed in lease agreement. 3% management fee is accounted for in the rental.			
Description	Ground floor tenancy with internal position within a larger complex with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale furniture and similar products.			
315 Parramatta Rd, Auburn (Super A Mart)				
Lessee	Super A Mart	8,451	\$2,096,293 (est. gross)	\$248 (est. gross)
Commencement Date	10 October 2013			-passing
Relevant Rental Date	10 October 2016		\$1,800,508 (net)	
Term	10 + 5 years			\$213 (net)
Reviews	CPI. Market at option			- passing
Outgoings	Lessee responsibility			
Other	In order to estimate the gross rental outgoings have been estimated \$35 p.s.m.p.a. This has regard to the advertised outgoings within a 2014 Information Memorandum prepared for the sale of the property.			
Description	Large format retail building with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale a range of products including furniture. The property benefits from car parking for 344 vehicles, which is considered high.			

Rental Schedule

		Building Area sq.m.	Gross / Net Rental p.a.	Gross / Net Rental Rate p.s.m.p.a.
Primewest Auburn Megamall, 265 Parramatta Rd, Auburn (The Sleeping Giant)				
Lessee	The Sleeping Giant	735	\$278,105 (net)	\$378 (net)
Commencement Date	17 September 2012			- passing
Relevant Rental Date	17 September 2016			
Term	10 years			
Reviews	CPI. Market at option			
Outgoings	Lessee responsibility			
Other	I have been unable to ascertain the current outgoings.			
Description	Ground floor tenancy within prominent Primewest Auburn Megamall.			
Primewest Auburn Megamall, 265 Parramatta Rd, Auburn (Fantastic Furniture)				
Lessee	Fantastic Furniture (Fantastic International Pty Ltd)	2,059	\$319,312 (net)	\$155 (net)
Commencement Date	1 July 2014			- passing
Relevant Rental Date	1 July 2016			
Term	8 + 7 years			
Reviews	CPI. Market at option			
Outgoings	Lessee responsibility			
Other	I have been unable to ascertain the current outgoings.			
Description	First floor tenancy within prominent Primewest Auburn Megamall.			
Primewest Auburn Megamall, 265 Parramatta Rd, Auburn (Original Mattress Factory)				
Lessee	Original Mattress Factory (Fantastic International Pty Ltd)	391	\$96,558 (net)	\$247 (net)
Commencement Date	1 July 2014			- passing
Relevant Rental Date	1 July 2016			
Term	8 + 7 years			
Reviews	CPI. Market at option			
Outgoings	Lessee responsibility			
Other	I have been unable to ascertain the current outgoings.			
Description	First floor tenancy within prominent Primewest Auburn Megamall.			
Red Yard, 100 Parramatta Rd, Auburn (Body Fit Fitness Centre)				
Lessee	Body Fit Fitness Centre	1,300	\$409,500 (gross)	\$315 (gross)
Commencement Date	8 September 2016			- face
Relevant Rental Date	8 September 2016			
Term	10 years			\$315 (gross)
Reviews	Unknown.			- effective
Outgoings	Lessor responsibility.			
Other	I have been unable to identify the annual reviews. No incentives relating to this lease.			
Description	Corner position within prominent complex accessed from Parramatta Road. The accommodation provided being showroom style space in good condition. The premise is utilised as a gymnasium.			

Discussion of Rental Evidence.

In consideration of the rental evidence summarised in the schedule above I make the following comments.

- **Nike - 126 Parramatta Road, Auburn**
\$330 p.s.m.p.a. gross effective

Similar showroom style accommodation. Similar Parramatta Road ground floor tenancy with corner position. Smaller space with a more intense use, given clothing retail over a predominately ground floor tenancy. Overall considered superior.

- **Anna Wang - 1 Duck Street Auburn**
\$225 p.s.m.p.a. gross effective

Ground floor tenancy positioned on the south western corner of Duck and Short Streets which is considered to offer an inferior level of exposure compared to the subject property. Smaller level of accommodation with a lower intensity use given 30% of the property is utilised for warehousing. Overall considered inferior.

- **Daikin Air-Conditioning - Building B, 290 Parramatta Road, Auburn**
\$156 p.s.m.p.a. gross effective

Similar showroom style accommodation however with greater portion of warehousing. Smaller ground floor tenancy with access from Parramatta Road, albeit not direct exposure to Parramatta Road and as such has inferior exposure when compared to the subject property. Overall considered inferior.

- **Super Cheap Auto – 233 - 239 Parramatta Road, Auburn**
\$275 p.s.m.p.a. gross passing

Ground floor tenancy with corner position on the northern side of Parramatta Road. Similar showroom style accommodation. Overall considered slightly inferior.

- **Carpet Court - 233 - 239 Parramatta Road, Auburn**
\$185 p.s.m.p.a. gross effective

Similar showroom style accommodation. Smaller ground floor tenancy with access from Parramatta Road, albeit no direct exposure to Parramatta Road and as such has inferior exposure when compared to the subject property. Overall considered inferior.

- **99 Bikes - 9 Parramatta Road, Lidcombe**
\$235 p.s.m.p.a. gross effective

Smaller ground floor tenancy with inferior exposure to Parramatta Road albeit the frontage is relatively small. Overall considered inferior.

- **Lighting Mall – 233 - 239 Parramatta Road, Auburn**
\$308 p.s.m.p.a. gross passing

Small ground floor tenancy with internal position within a larger complex with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale of lights and associated products and is generally considered inferior, however the passing rental rate is considered high as it reflects the smaller size of the premise.

- **Super A Mart - 315 Parramatta Rd, Auburn**
\$248 p.s.m.p.a. gross passing (estimated)

Large format retail building with the accommodation provided being basic retail showroom space in good condition. The premise is utilised for the sale a range of products including furniture. Benefits from a high level of onsite parking. Overall considered inferior due to size and exposure.

- **The Sleeping Giant – Primewest Auburn Megamall, 265 Parramatta Road, Auburn**
\$378 p.s.m.p.a. net passing

Ground floor tenancy within Primewest Auburn Megamall complex with the accommodation provided being high quality retail showroom space in good condition. Overall considered superior due to the ground floor centre location and quality of complex.

- **Fantastic Furniture – Primewest Auburn Megamall, 265 Parramatta Road, Auburn**
\$155 p.s.m.p.a. net passing

First floor tenancy within Primewest Auburn Megamall complex with the accommodation provided being high quality retail showroom space in good condition. The rent is considered low however may factor in the large size of space and anchor tenant profile of Fantastic Furniture. Further, I note that the outgoings for this centre are significantly higher than the subject property and as such I would anticipate this property to have a significantly higher rent if considered on a gross basis.

- **Original Mattress Factory – Primewest Auburn Megamall, 265 Parramatta Road, Auburn**
\$247 p.s.m.p.a. net passing

First floor tenancy within Primewest Auburn Megamall complex larger complex with the accommodation provided being high quality retail showroom space in good condition. The rent is considered to reflect the smaller size of space and first floor position.

- **Body Fit Fitness Centre – Red Yard, 100 Parramatta Road, Auburn**
\$315 p.s.m.p.a. gross effective

Corner position within prominent complex with good exposure and accessed from Parramatta Road. The accommodation provided is showroom style space in good condition. The premise is utilised as a gymnasium and is considered similar to the subject property.

Assessment Rationale.

In assessing the market rental rate at the relevant date I have adopted the direct comparison approach, analysing the evidence in varying degrees comparable on a rental rate per square metre per annum. Whilst the prevailing Lease is structured on a net basis, in order to compare like with like, I have carried out my analysis on a full and uniform all inclusive gross basis. Where possible, for that evidence of leases structured on a net basis I have added the recoverable outgoings to arrive at a gross rental.

It is often the case that there are few examples of evidence directly comparable to any one particular occupancy. Accordingly it is usual and necessary to make adjustments in relation to factors such as location, occupancy size, street frontage / exposure, lease duration, adjustment for the timing of transactions (noting the relevant date of 1 November 2016), and other broader considerations. The market does not always transact in such a sophisticated manner so as to reveal the precise adjustments undertaken, although such adjustments are generally required to be made in order to improve the degree of comparability of evidence.

In arriving at my assessment of the current market rent I have had regard to the following factors considered relevant to the subject property.

- Prominent corner position with a high level of exposure to Parramatta Road.
- Adequate on site car-parking.
- Older style building in good condition.
- Proposed building upgrades and refinishments.
- Regular configuration that maximises street frontage.
- Ground floor tenancy.
- At 2,561 sq.m. the space is considered significantly larger than the majority of other showroom accommodation in this market.

Having considered the matter in depth I am of the opinion that a rental rate of \$280 to \$300 p.s.m.p.a. gross, say \$290 p.s.m.p.a. gross is applicable for property, which when applied to the GLAR equates to an annual rent of \$742,690 p.a. gross. From this I have deducted the recoverable outgoings of \$45,356 p.a. to arrive at an annual rental of \$697,350 p.a. net (exclusive of GST), which I have adopted for practical assessment purposes.

A summary of my calculations may be shown as follows:

GLAR	2,561 sq.m. @ \$290 p.s.m.p.a. gross	\$742,690
Less	Recoverable Outgoings	\$45,356
Assessment		\$697,354
For Practical Assessment Purposes, Say \$697,350 p.a. net (Exclusive of GST)		

An assessed net market rental of \$697,350 equates to \$272 p.s.m.p.a. net.

Alternatively I have considered the current market rent on a rate p.s.m. basis in the context of the identified evidence on both a gross effective, and where applicable a gross passing basis. Where I have been unable to identify a gross rental I have not included the property in the below table.

Address	Floor Area sq.m.	Effective Gross Rental p.s.m.p.a
126 Parramatta Road, Auburn (Nike Factory Outlet)	1,000	\$330*
Red Yard, 100 Parramatta Rd, Auburn (Body Fit Fitness Centre)	1,300	\$315*
233 – 239 Parramatta Road, Auburn (Lighting Mall)	233	\$308**
Subject Property	2,561	\$290
233 – 239 Parramatta Road, Auburn (Super Cheap Auto)	894	\$275**
315 Parramatta Road, Auburn (Super A Mart)	8,451	\$248**
9 Parramatta Road, Lidcombe (99 Bikes)	580	\$235*
1 Duck Street, Auburn (Anna Wang)	852	\$225*
233 – 239 Parramatta Road, Auburn (Carpet Court)	595	\$191*
Building B, 290 Parramatta Road, Auburn (Daikin air-conditioning)	1,260	\$156*

*Effective Rental

**Passing Rental

Assessment & Compliance Statement.

Current Market Rent Assessment

I advise that I have inspected the premise and have investigated and considered rental evidence in varying degrees comparable. Pursuant to such undertakings I have assessed the current market rent of the premises, in accordance with the terms and conditions of the proposed lease, with a relevant date of 1 November 2016 (exclusive of GST) at:

\$697,350 p.a. Net

Six Hundred and Ninety Seven Thousand, Three Hundred and Fifty Dollars Per Annum Net

Prepared by
Charter Keck Cramer



Sam Barrow, AAPI
Certified Practising Valuer
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Director
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Date of Issue of the Rental Assessment - 26 April 2017

Liability limited by a scheme approved under Professional Standards Legislation.

Compliance Statement

Charter Keck Cramer confirms that:

- The statements of fact presented in the report are correct to the best of the Valuer's knowledge.
- The analyses and conclusions are limited only by the reported assumptions and conditions.
- The Valuer has no interest in the subject property.
- The Valuer's fee is not contingent upon any aspect of the report.
- The determination was performed in accordance with an ethical code and performance standards.
- The Valuer has satisfied professional education requirements.
- The Valuer has experience in the location and category of the property being valued.
- The Valuer has made a personal inspection of the property.
- No one, except those specified in this report, has provided professional assistance in preparing the report.

I confirm that neither Charter Keck Cramer nor any of its Directors or employees has any pecuniary interest that could conflict with the proper determination of this property.

Charter Keck Cramer consents for this report to be referenced within and/or annexed to the Deloitte Corporate Finance Independent Experts Report.

Refer to Assumptions / Qualifications - Third Party Disclaimer

Assumptions / Qualifications.

Legend

square metres	sq.m.
gross lettable area - retail	GLAR
per annum	p.a.
per square metre	p.s.m.
per square metre per annum	p.s.m.p.a.

Definition of Current Market Rent

In undertaking my assessment, I have had regard to the definition of market rent as detailed by the Australian Property Institute:

“The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

Date of Assessment

Due to possible changes in market forces and circumstances in relation to the subject property, this report can only be regarded as relevant as at the date of assessment.

Third Party Disclaimer

This Determination is for the use only of the party to whom it is addressed and for no other purpose. No responsibility is accepted for any third party who may use or rely on the whole or any part of the content of this Determination. No responsibility will be accepted for photocopied signatures. It should be noted that any subsequent amendments or changes in any form to the Determination would only be notified to and known by the parties to whom it is addressed. This Rental Determination and is not intended as a structural survey. Charter Keck Cramer prohibit publication of this Determination in whole or in part, or any reference thereto, or to the assessment contained herein, or to the names and professional affiliation of the Valuers, without the written approval of the Valuer.

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