

## **Notice of Annual General Meeting**

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

Date: 26 October 2017

Time: 12 pm

Venue: Nick Scali Head Office, Level 7, Trinita 2, 39 Delhi Road, North Ryde NSW 2113

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

### **1. AGENDA**

#### **Consideration of Reports**

To receive and consider the Financial Report, the Directors' Report and the Independent Audit Report of the Company for the financial year ended 30 June 2017.

#### **Ordinary Business**

##### **Resolution 1 – Remuneration Report**

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

*"To adopt the Remuneration Report of the Company for the year ended 30 June 2017 as set out on pages 9 to 14 of the Annual Report."*

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

##### **Resolution 2 – Re-election of Director Carole Molyneux-Richards**

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

*"That Ms Carole Molyneux-Richards, who retires by rotation in accordance with the Company's Constitution rule 7.1(f), be re-elected as a Director of the Company."*

#### **Other Business**

##### **Resolution 3 - Approval for the acquisition of the Auburn Property from Scali Consolidated**

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

*"That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to acquire the property contained in Lot 100 in Deposited Plan 800560, being the property of which the Company's Auburn Store forms part, from Scali Consolidated Pty Ltd (ACN 002 410 559), on the terms and conditions summarised in the Explanatory Memorandum accompanying the Notice of Meeting."*

## 2. VOTING EXCLUSION STATEMENTS

### Resolution 1 – Remuneration Report

The Company will disregard any votes cast (in any capacity) on Resolution 1 by or on behalf of:

- a) a member of the Key Management Personnel as disclosed in the Remuneration Report; and
- b) a Closely Related Party of those persons.

### Resolution 3 - Approval for the acquisition of the Auburn Property from Scali Consolidated

The Company will disregard any votes cast on Resolution 3 by Scali Consolidated and any associate of Scali Consolidated.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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

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

## 3. ENTITLEMENT TO ATTEND AND VOTE

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) and the ASX Settlement Operating Rules, Company shares will be taken to be held by persons who are registered as Shareholders at 7:00pm (AEST) on 24 October 2017. Accordingly, transfers of shares in the Company registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By Order of the Board

Kevin Fine



Company Secretary

22 September 2017

## Notes

### 1. Proxies

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

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

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

### 2. Proxy Delivery

Proxies given by post, fax, delivery or online must be received by the Company's share registrar, Link Market Services Limited, by no later than 12:00pm (Sydney time) on 24 October 2017, being 48 hours before the AGM:

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

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

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

or

Level 12, 680 George Street  
Sydney South NSW 2000

Online [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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

### 3. Voting at the meeting

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

# Annual General Meeting – Explanatory Memorandum

## 1. Ordinary Business

### 1.1 Consideration of the Reports

In accordance with the requirements of the Corporations Act, the Financial Report, Directors' Report and Independent Auditor's Report of the Company for the most recent financial year, which are included in the Company's Annual Report, will be laid before the meeting. Shareholders will be provided with the opportunity to ask questions about the reports or about the Company generally, but there will be no formal resolution put to the meeting. The Auditor will be available at the meeting to answer any questions in relation to the Auditor's Report or the conduct of the audit of the Financial Report.

### 1.2 Resolution 1 – Remuneration Report

The Corporations Act requires listed companies to put a Remuneration Report relating to director and executive remuneration for each financial year to a resolution of members at their Annual General Meeting. The Remuneration Report is included on pages 9 to 14 of the Company's Annual Report, which accompanies this Notice of Meeting.

The Remuneration Report outlines the remuneration arrangements in place for directors and executives of the Company, and summarises the Company's remuneration philosophy as well as providing details of the Remuneration and Human Resources Committee, which is a Board sub-committee.

Under section 250R(3) of the Corporations Act, the vote on the Remuneration Report is advisory only and does not bind the Directors or the Company. However, under changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on the resolution are voted against adoption of the Remuneration Report at the meeting and that occurs again at the 2018 Annual General Meeting, the Company will be required to put to shareholders a resolution at the 2018 Annual General Meeting proposing the calling of an extraordinary general meeting to consider the election of directors of the Company ("spill resolution").

If more than 50% of shareholders vote in favour of the spill resolution, the Company must convene the extraordinary general meeting ("spill meeting") within 90 days of the 2018 Annual General Meeting. All of the Directors who were in office when the 2018 Directors' Report was considered at the 2018 Annual General Meeting, other than the Managing Director, will cease to hold office immediately before the end of the spill meeting but may stand for reelection at the spill meeting. Following the spill meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

**The Chairman intends to vote all undirected proxies in favour of Resolution 1.**

### 1.3 Resolution 2 – Re-election of Director Carole Molyneux-Richards

In accordance with rule 7.1(f) of the Company's Constitution, Ms Carole Molyneux-Richards retires from office at this General Meeting, and being eligible to do so, offers herself for re-election.

#### **Ms Carole Molyneux-Richards – Independent Non-Executive Director**

Ms Molyneux-Richards was appointed to the Board on 26 June 2014. She is a member of the Audit Committee and is the Chairperson of the Remuneration and Human Resources Committee. Carole has extensive experience in retail and was the Chief Executive Officer of Suzanne Grae, (part of the Sussan Retail Group), for eighteen years until 2013.

**The Chairman intends to vote all undirected proxies in favour of Resolution 2.**

## 2. Other Business

### 2.1 Background to Resolution 3 - Approval for the acquisition of the Auburn Property from Scali Consolidated

On 5 June 2017 shareholders of the Company (**Shareholders**) approved the Company entering a new lease agreement (the **New Lease**) with Scali Consolidated Pty Ltd (**Scali Consolidated**) for the premises at Ground Floor, 222-246 Parramatta Road, Auburn NSW (**Auburn Leased Premises**), on which the Company operates its Auburn store (the **Auburn Store**).

Scali Consolidated is the owner of an economic interest representing more than 25% of the Company. Scali Consolidated is controlled by Mr Anthony Scali, who is the Managing Director of the Company. Scali Consolidated owns the land and buildings at the Auburn Leased Premises from which the Auburn Store operates. Accordingly, Scali Consolidated is considered to be a related party to the Company.

Details of the New Lease are set out in the Notice of Meeting and Explanatory Statement dated 4 May 2017 (the **NOM**).

The material terms of the New Lease are summarised in the following table:

<b>Lessor</b>	Scali Consolidated
<b>Rent</b>	Approximately \$699,325 (excluding GST and outgoings) per annum*  * Based on a rental of \$275 per square metre across the 2,543 square metre premises  Under incentive arrangements entered into by the Company and Scali Consolidated, the Company was not required to rent for the months of February, March and April 2017.  The Rent will increase by 3% annually during the Term.
<b>Term</b>	Eight (8) years commencing on 1 November 2016.  In addition, the Company has two (2) options to renew for a period of five (5) years each.

As noted in the Independent Expert's Report accompanying the NOM, the Company opted to pursue a lease of the Auburn Leased Premises rather than a purchase of the Auburn Property because the Independent Board Committee established by the Board (the **IBC**) was unable to agree to a purchase price with Scali Consolidated. In these circumstances, the IBC formed the view that, in the absence of a purchase of the Auburn Property, the most appropriate course of action was to enter into the New Lease with Scali Consolidated, subject to Shareholder approval.

Shareholder approval having been obtained, the New Lease was entered into on or about 28 June 2017.

Scali Consolidated has since indicated its intention to sell the Auburn Property and invited the Company to make an offer to purchase the Auburn Property. The previously established IBC, led by the Independent Chairman, Mr John Ingram and Non-Executive Directors, Mr Greg Laurie and Ms Carole Molyneux-Richards, was convened to consider Scali Consolidated's invitation and, if considered appropriate, to formulate the terms of any offer. The IBC, having taken independent advice, has determined it to be in the best interests of the Company to make an offer to purchase the Auburn Property (the **Proposed Acquisition**) on the terms summarised in Section 2.2 below.

## 2.2 Key terms of the Proposed Acquisition

The key terms of the Proposed Acquisition are summarised in the following table:

<b>Vendor</b>	Scali Consolidated
<b>Purchase Price</b>	\$22 million
<b>Other key terms</b>	Please refer to Section 5 of the Independent Expert's Report

The Company proposes to fund the payment of the Purchase Price through a combination of debt and cash.

Please refer to the Independent Expert's Report for further information on the terms of purchase.

## 2.3 Reasons for purchase

The Company considers the Auburn Property to be strategically important for a number of reasons, including:

- the Auburn Store is one of Nick Scali's original stores with landmark significance to the Company;
- the Auburn Store is one of the largest (in terms of revenue) and most profitable (in terms of EBITDA) stores;
- the Auburn Property is located within the bulky goods and large format retail precinct of Auburn; and
- the Auburn Property has a large frontage on Parramatta Road, which provides high visibility for marketing purposes and significant undercover off-street parking.

The Company now has the opportunity to purchase the Auburn Property. While the Company has the benefit of the New Lease, the Proposed Acquisition has a number of other advantages for the Company, including:

- a) owning the Auburn Property gives the Company direct ownership and control of it, meaning that (amongst other things) the Company will no longer have to pay rent; and
- b) a lease of the upper level of the Auburn Property to JCF commenced on or about 2 September 2017 and will provide an additional revenue stream to the Company.

## 2.4 Reason why shareholder approval is required

### 2.4.1 Listing Rule 10.1

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

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

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

#### **2.4.2 Application of Listing Rule 10.1**

The Vendor is a substantial holder in the Company.

The total equity interests of the Company as at 30 June 2017 (as contained in the Appendix 4E lodged with ASX on 10 August 2017, being the latest accounts given to ASX under the Listing Rules), is \$70,384,000. 5% of the equity interests of the Company as at 31 December 2016 is \$3,519,200.

As the Purchase Price (as set out in Section 2.2 above) exceeds this amount, Listing Rule 10.1 is to apply to the Proposed Acquisition. The Company therefore is seeking Shareholder approval for the Proposed Acquisition to comply with Listing Rule 10.1.

#### **2.4.3 Independent Expert's Report**

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

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

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

#### **2.5 Board recommendation**

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

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

**The Chairman intends to vote all undirected proxies in favour of Resolution 3.**

### 3. Glossary

**ASX** means the Australian Securities Exchange.

**Listing Rules** means the listing rules of the ASX.

**Auburn Leased Premises** means Ground Floor, 222-246 Parramatta Road, Auburn NSW.

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

**Auburn Property** means the property situated at 222-246 Parramatta Road Auburn NSW.

**New Lease** means the new lease dated on or about 28 June 2017 between the Company and Scali Consolidated in respect of the Auburn Leased Premises.

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

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

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

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

**Board** means the Board of Directors of the Company.

**Proposed Acquisition** means the proposed acquisition by the Company of the Auburn Property from Scali Consolidated.

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

**Resolution** means the resolution in the Notice of Meeting.

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

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

**JCF** means John Cootes Furniture.

**Shareholders** means a person who holds shares in the Company.



**Attachment A – Independent Expert's Report**

**Attachment B – Proxy Form**