



MCPHERSON'S

ACN 004 068 419

## Notice of Annual General Meeting

***Notice is hereby given that the Annual General Meeting of McPherson's Limited (the Company) will be held at the offices of Thomson Geer, Level 25, 1 O'Connell Street, Sydney, on Monday, 21 November 2016 at 11.00 a.m. (AEDT).***

### Agenda Items

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#### 1 Financial Statements and Reports

To consider the Financial Statements, the Directors' Report and the Auditor's Report for the Company for the year ended 30 June 2016.

#### 2 Remuneration Report

To adopt the Remuneration Report for the financial year ended 30 June 2016, which is set out on pages 24 to 33 of the Company's Annual Report. The Remuneration Report contains details of the Company's policy for determining the remuneration for Directors and Senior Executives. It includes information on the methodology adopted and the elements of remuneration which are fixed and those which are related to performance.

In accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**), this resolution is advisory only and does not bind the Company or the Directors.

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

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

"To elect, as a director of the Company, Mr. Graham Cubbin, who retires as a Director in accordance with the Company's Constitution and the ASX Listing Rules and offers himself for re-election."

Relevant information about Mr. Cubbin is set out on page 12 of the Annual Report.

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

#### 4 Retirement as Managing Director – Mr. Paul Maguire – Approval of Termination Payment

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

"That, for the purposes of sections 200B and 200E of the *Corporations Act 2001* (Cth) (**Corporations Act**), approval is given to Mr. Paul Maguire being paid the amount specified in the explanatory notes accompanying the notice of this meeting in connection with his retirement as Managing Director of the Company following his employment in that role since 2009 (being a termination benefit for the purposes of the Corporations Act)."

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

**5 Approval of Issue of Performance Rights to incoming Managing Director, Mr. Laurie McAllister, under the McPherson's Limited Performance Rights Plan**

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

"That for the purposes of Part 2E.1 and sections 200B, 200C and 200E of the Corporations Act and ASX Listing Rule 10.14, the grant of performance rights and shares on exercise of such performance rights to Mr. Laurie McAllister, the new Managing Director of the Company, under the McPherson's Limited Performance Rights Plan and his employment contract with the Company, is approved on the terms set out in the explanatory notes accompanying the notice convening this meeting."

None of the Directors has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, the Directors will not be making recommendations as to voting on this resolution.

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

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

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

Other than Mr. Maguire (who is a current participant in the PR Plan), no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

## **Voting Exclusion Statements**

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**(a) Agenda Item 2**

In accordance with the Corporations Act, the Company will disregard any votes cast in respect of Agenda Item 2 (Remuneration Report):

- (i) by or on behalf of a member of a key management personnel of the Company whose remuneration is disclosed in the Remuneration Report and a closely related party of such key management personnel; and
- (ii) by a proxy who is a member or a closely related party of any key management personnel of the Company (see explanation as to whom is included in these expressions in (e) below).

However, the Company need not disregard a vote if:

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

(b) **Agenda Item 4**

In accordance with the Corporations Act, the Company will disregard any votes cast in respect of Agenda Item 4 (Retirement as Managing Director – Mr. Paul Maguire – Approval of Termination Payment) by:

- (i) Mr. Paul Maguire and any of his associates; and
- (ii) a proxy who is a member or a closely related party of a key management personnel of the Company (see explanation as to whom is included in these expressions in (e) below).

However, the Company need not disregard a vote if:

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

(c) **Agenda Item 5**

In accordance with the Corporations Act and the ASX Listing Rules, the Company will disregard any votes cast in respect of Agenda Item 5 (Approval of Issue of Performance Rights to incoming Managing Director, Mr. Laurie McAllister, under the McPherson's Limited Performance Rights Plan) by:

- (i) Mr. Laurie McAllister and any director of the Company who is eligible to participate in the PR Plan and any of their respective associates; and
- (ii) a proxy who is a member or a closely related party of any key management personnel of the Company (see explanation as to whom is included in these expressions in (e) below).

However, the Company need not disregard a vote if:

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

(d) **Agenda Item 6**

In accordance with the Corporations Act and the ASX Listing Rules, the Company will disregard any votes cast in respect of Agenda Item 6 (General approval of issue of securities (being Performance Rights and Shares on the exercise of such Performance Rights) under the McPherson's Limited Performance Rights Plan) by:

- (i) Mr. Laurie McAllister and any director of the Company (except a director who is ineligible to participate in any employee incentive scheme in relation to the Company) and any of their respective associates; and
- (ii) a proxy who is a member or a closely related party of any key management personnel of the Company (see explanation as to whom is included in these expressions in (e) below).

However, the Company need not disregard a vote if:

- (i) It is cast by a person (including the key management personnel or their closely related parties) as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (ii) It is cast by a person chairing the meeting as proxy for a person who is entitled to vote, where the proxy form does not specify the way the proxy is to vote on the relevant Agenda Item but expressly authorises the person chairing the meeting to exercise the proxy even if the relevant Agenda Item is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company. The person chairing the meeting intends to vote all available proxies in favour of Agenda Item 6.

(e) **"Key management personnel" and "closely related parties"**

For the purposes of these voting exclusions, "key management personnel" are the directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. The Company's Remuneration Report for the financial year ended 30 June 2016 identifies the Company's key management personnel for that financial year. Their "closely related parties" are defined in the Corporations Act, and include certain of their family members, dependants and companies they control.

## **Voting and Proxies**

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The Company has determined in accordance with the Corporations Act that for the purpose of voting at the meeting or adjourned meeting, shares will be taken to be held by those persons recorded in the Company's Register of Members as at 7.00 p.m. (AEDT) on Saturday 19 November 2016.

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

### **By Order of the Board**



P.R. Bennett  
Secretary  
Dated: 21 October 2016

# Annual General Meeting - Explanatory Notes for Shareholders

## 1 Background

As announced on 22 August 2016, the Company is implementing a leadership transition pursuant to which Mr. Paul Maguire is to resign as Managing Director of the Company and Mr. Laurie McAllister is to be appointed to that position with effect from the conclusion of the Company's 2016 Annual General Meeting.

In that regard the Company has entered into an agreement with Mr. Maguire in relation to his resignation and as required under the Corporations Act, the approval of shareholders is sought under Agenda Item 4 to a certain limited contracted payment to be made to him in relation to his retirement. The Company has entered into an agreement with Mr. McAllister in relation to his appointment, and as required under the Corporations Act and the ASX Listing Rules, shareholder approval is sought under Agenda Item 5 for certain benefits to be provided to him in connection with his appointment.

Finally, the Company is seeking under Agenda Item 6 shareholder approval for the issue of securities under its Performance Rights Plan in accordance with and as provided for in the ASX Listing Rules.

Further and comprehensive details with respect to each of these 3 Agenda Items are set out below.

## 2 Agenda Item 4: Retirement as Managing Director – Mr. Paul Maguire – Approval of Termination Payment

Under Mr. Maguire's employment contract with the Company (entered into in 2009 and effectively updated in 2014), he is contractually entitled to 12 months' notice of termination or payment in lieu of such notice. As Mr. McAllister commences employment on 1 November 2016, formal notice of termination will be given to Mr. Maguire on 1 November 2016 and as such, as at 21 November 2016 the effective notice period outstanding in relation to Mr. Maguire's service will be 11 months and 9 days.

In this context the Company has agreed with Mr. Maguire that he would receive payment in lieu of the relevant notice period of 11 months and 9 days, being a payment of A\$556,055 (**Notice Payment**), to be payable to him on the date of termination of his employment, namely on 21 November 2016, the day of the Company's 2016 Annual General Meeting.

Shareholder approval to the Notice Payment is also necessary because, although Mr Maguire is contractually entitled to the payment, under section 200B of the Corporations Act the Company may only give a benefit in connection with a person ceasing to hold a managerial office in the company, such as the proposed Notice Payment, if that benefit is (also) approved by shareholders (unless one of 2 narrow exemptions apply, neither of which are applicable in these circumstances).

In recognition of Mr. Maguire's significant contribution to the Company, the length of his tenure, his assistance in transitioning his role to Mr. McAllister and customary market practice, the Board (other than Mr. Maguire) has determined Mr. Maguire's exit arrangements including the quantum of the Notice Payment to be appropriate and reasonable in the circumstances. Importantly, it is also noted that the quantum of the Notice Payment to be paid to Mr. Maguire is less than the statutory maximum payment that may be made by way of a retirement benefit if one of the exemptions to shareholder approval referred to above had applied.

Finally it is noted that if shareholder approval were not obtained the Company could be liable for a claim for breach of contract from Mr. Maguire and shareholder approval in this regard will eliminate that prospect entirely.

Accordingly, for the purposes of sections 200B and 200E of the Corporations Act, shareholder approval is sought to authorise the Company to pay the Notice Payment to Mr. Maguire on the basis referred to above.

Other than Mr. Maguire, no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.

### **3 McPherson's Performance Rights Plan**

#### **3.1 Background to the McPherson's Performance Rights Plan/Protection of Shareholder Interests**

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

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

The PR Plan was approved by the Board on 20 September 2013 and was approved by shareholders at the Company's annual general meeting held on 20 November 2013.

In relation to employee incentive schemes such as the PR Plan, ASX Listing Rule 7.2 (Exception 9) provides an exception to the requirement to obtain shareholder approval each time securities are issued under the PR Plan. For this exception to apply however, the ASX Listing Rules require shareholder approval in respect of any issues under the PR Plan to be "refreshed" every 3 years, which is the reason for the inclusion of the proposed resolution in Agenda Item 6 (in addition to the resolution in Agenda Item 5).

As a prudent measure, with a view to safeguarding the interests of shareholders and minimising the risk of proposed (performance based) Rights remaining available to senior executives in circumstances where the Board has concluded that would be inappropriate, the Board may, in its discretion:

- Cancel or require forfeiture of some or all of a relevant executive's performance Rights;
- Adjust the executive's future performance based remuneration;
- Take legal action against the executive; and/or

- Take such other action as the Board considers appropriate in any relevant circumstances as permitted to it by law.

This clawback policy applies to awards of Rights made in the financial year commencing on 1 July 2016 and each financial year following, but not in respect of Rights awarded in any prior financial year.

### 3.2 **Agenda Item 5: Approval of Issue of Performance Rights to incoming Managing Director, Mr. Laurie McAllister, under the McPherson's Limited Performance Rights Plan**

#### (a) **Introduction**

As announced on 22 August 2016, the Board has appointed Mr. McAllister as Managing Director. As indicated in the announcement, substantial progress has been made on reshaping the business with the most recent results providing good evidence of this. In the next stage of company development, our key focus is to achieve accelerated growth off this foundation with a view to delivering significantly enhanced financial outcomes and additional shareholder value. Consistent with this drive for exceptional growth, the Board has carefully constructed a benchmarked remuneration package designed to align Mr. McAllister's remuneration, and in particular the long term incentive component, with the expected significant improvement in Company performance.

The Company has entered into an agreement with Mr. McAllister in relation to his appointment as Managing Director of the Company, and has agreed to provide certain benefits to him subject to shareholder approval as summarised in the Company's ASX announcement of 22 August 2016.

One of those benefits is the granting of Rights to Mr. McAllister under the PR Plan, subject to shareholder approval. Agenda Item 5 seeks shareholder approval for the grant of Rights to Mr. McAllister under the PR Plan for the purposes of the ASX Listing Rules and the Corporations Act.

The Directors note that the grant of the Rights under the PR Plan and, correspondingly, the Company agreeing to a provision in Mr. McAllister's employment contract pursuant to which the Company commits to grant such Rights to him, constitutes the giving of a financial benefit to a related party of the Company under Part 2E.1 of the Corporations Act, which requires the approval of shareholders in general meeting.

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

The following information is accordingly provided to shareholders to enable shareholders to consider Agenda Item 5.

#### (b) **Mr. McAllister's remuneration**

On commencement of his employment, Mr. McAllister's annual total remuneration package will comprise the following elements:

- (i) Base remuneration: \$700,000 per annum including superannuation, plus a motor vehicle allowance of \$50,000 per annum. Mr. McAllister's base remuneration is subject to annual review;
- (ii) Short Term Incentive (**STI**): up to a maximum cash bonus of 50% of base remuneration. Actual bonus payments will be determined based on the achievement of financial and non-financial performance criteria which will be set by the Board; and
- (iii) Long Term Incentive (**LTI**): it is proposed that Mr. McAllister is awarded Rights under the PR Plan with a face value of up to a maximum of \$1 million per annum. The proportion of Rights that vest to Mr. McAllister will be determined based on achievement of challenging performance measures set by the Board. If the minimum performance measures are not achieved all Rights will lapse.

The Board considers it is important to align the Managing Director's remuneration with shareholder value creation and as such, a considerable part of Mr McAllister's total remuneration package has been allocated to variable reward, with a particular focus on equity awards under the LTI.

If shareholders do not approve the granting of Rights to Mr. McAllister, his contract requires the Company to provide a comparable cash-based LTI scheme. The Board considers the grant of Rights is preferable to additional cash remuneration as vesting of these Rights, subject to the targets set being met, will more closely align the value of Mr. McAllister's remuneration with shareholder value creation.

**(c) Rights to be granted to Mr. McAllister on commencement**

If this resolution is passed the Company will grant Mr. McAllister performance rights with a face value of \$300,000 on commencement of his employment with the Company, as follows:

- (i) The number of Rights to be granted on commencement of Mr. McAllister's employment is 263,000. This number has been determined by dividing \$300,000 by the volume weighted average price (**VWAP**) of the Company's shares over the 20 trading days ending at close of trade on 19 August 2016 (i.e. \$1.1406 per share), rounded to the nearest thousand;
- (i) The Company's agreed arrangement with Mr. McAllister to issue these Rights to him on commencement of his employment is subject to approval by the Company's shareholders (i.e. the passing of the resolutions set out in Agenda Items 5 and 6);
- (ii) Each Right will entitle Mr. McAllister to subscribe for one ordinary share subject to the Plan Rules.
- (iii) These Rights will be granted at a nil issue price and on a vested basis. Vested Rights may accordingly be exercised at nil exercise price and no funds will be raised by the issue or exercise of Rights.
- (iv) These Rights may be exercised after 1 November 2019 until 1 November 2024, provided Mr. McAllister continues to be the Managing Director of the Company at that time.

**(d) Rights to be granted as a long term incentive on an annual basis**

In addition to Rights granted on commencement of his employment, it is also proposed that Mr. McAllister will be entitled to participate in the Long Term Incentive (LTI) plan. If this resolution is passed then, on an annual basis, Rights may be granted to Mr. McAllister with vesting conditional upon the achievement of certain performance conditions, as outlined below.

No Rights granted as a result of this approval will be issued on a date later than the third anniversary of the date of this Meeting i.e. after 21 November 2019.

The LTI Rights, if the required resolutions are passed, will be divided into two components which will each be subject to a separate performance hurdle, as follows:

- (i) High Level Performance (**HLP**): Rights with a face value of 50% of base remuneration will be subject to a target "earnings per Share compound annual growth rate" (**EPS CAGR**) hurdle, measured over a **three** year performance period;
- (ii) Exceptional Level Performance (**ELP**): the balance of the LTI opportunity will be subject to an absolute "total shareholder return" (**TSR**) hurdle, measured on a compounding basis, over a **four** year performance period.



The following paragraphs identify the basis for determining the award of each of the two categories of LTI Rights to Mr. McAllister as referred to above, and then the conditions applicable to both, as required under the Corporations Act and the ASX Listing Rules.

(iii) **High Level of Performance Rights (HLP Rights)**

The Company will annually grant Mr. McAllister Rights with a face value of 50% of base remuneration. Further information relating to the manner in which the number of HLP Rights granted is calculated and their conditions are set out below:

(A) *HLP Rights to be granted in 2016*

The number of Rights to be granted to Mr. McAllister in 2016 as HLP Rights is 318,000. This number has been determined by dividing \$350,000 by the VWAP of the Company's shares over the 20 trading days ending at close of trade on 15 September 2016 (i.e. \$1.1022 per share), rounded to the nearest thousand.

(B) *HLP Rights to be granted in subsequent years*

The number of Rights to be granted in each year following 2016 as Mr. McAllister's HLP Rights will be calculated by applying the following formula on the date of issue:

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

(C) *Performance Period*

The HLP Rights performance hurdle will be measured over a three year Performance Period. The Performance Period for the 2016 HLP Rights is 1 July 2016 to 30 June 2019. At the end of this three year period the performance conditions, as outlined below, will be tested.

(D) *Performance Conditions*

The proportion of HLP Rights that vest will be measured based on the EPS CAGR over a three year performance period. EPS CAGR was selected by the Board as an appropriate performance hurdle to ensure continued focus on growth and earnings generation.

For the 2016 grant, the proportion of HLP Rights that will vest will be determined as follows:

| EPS CAGR        | HLP Rights that Vest                |
|-----------------|-------------------------------------|
| 3.0% or less    | 0%                                  |
| > 3.0 % to 8.0% | 0% to 100% on a straight line basis |
| 8.0% or more    | 100%                                |

In determining EPS CAGR performance results for the Performance Period, the Board may make adjustments where it considers necessary or appropriate to reflect one off or extraordinary events. It is anticipated that the Board will only exercise discretion to ensure the LTI is not acting as a barrier to participants in pursuing opportunities that are in the long-term interests of shareholders. The Board shall only exercise discretion in a manner that rewards performance consistent with shareholder expectations and the intent and purpose of the LTI plan and EPS CAGR targets.

(E) *Performance Assessment – 2016 HLP Rights*

Assessment of performance outcomes for the 2016 HLP Rights will be evaluated on 24 September 2019. The relevant proportion of Rights will vest on 25 September 2019, and will be exercisable between 25 September 2019 and 25 September 2024.

Any HLP Rights not vested on 25 September 2019 or which have vested but not been exercised by 5.00pm (Sydney time) on 25 September 2024 will lapse.

(F) *Performance Assessment – subsequent years*

For HLP Rights granted in each year following 2016 (**Relevant Year**) vesting criteria will be assessed on 24 September of the third year after the Relevant Year (**Third Year**). The relevant proportion of the HLP Rights granted will vest on 25 September of the Third Year, and will be exercisable between 25 September of the Third Year and 25 September of the eighth year after the Relevant Year (**Eighth Year**). Any HLP Rights not vested on 25 September of the Third Year, or which have vested but not exercised by 5.00pm (Sydney time) on 25 September of the Eighth Year will lapse.

(iv) **Exceptional Level of Performance Rights (ELP Rights)**

The Company will annually grant Mr. McAllister certain Rights which will vest only if the Company achieves exceptional performance outcomes. The purpose of the ELP Rights is to reward the achievement of exceptional performance outcomes only and the Board have set appropriately stretching targets which must be achieved before any ELP Rights vest.

Further information relating to the manner in which the number of ELP Rights granted will be calculated and their conditions are set out below:

(A) *ELP Rights to be granted in 2016*

The number of Rights to be granted in 2016 as Mr. McAllister's ELP Rights is 590,000. This number has been determined by dividing \$650,000 by the VWAP of the Company's shares over the 20 trading days ending at close of trade on 15 September 2016 (i.e. \$1.1022 per share), rounded to the nearest thousand.

(B) *ELP Rights to be granted in subsequent years*

The number of Rights to be granted in each year following 2016 as Mr. McAllister's ELP Rights will be calculated by applying the following formula on the date of issue:

$$\text{Number of Rights} = \frac{\$1,000,000 - (\text{Base remuneration at the offer date} \times 50\%)}{\text{VWAP of the Company's shares over 20 trading days ending at close of trade on the day which is 2 days before the date of issue}}$$

(C) *Performance Period*

The ELP Rights performance hurdle will be measured over a four year Performance Period. The Performance Period for the 2016 ELP Rights is 1 July 2016 to 30 June 2020. At the end of this four year period performance conditions, as outlined below, will be tested.

(D) *Performance Conditions*

The proportion of ELP Rights that vest will depend on the Company achieving exceptional performance as determined by the Board. In order

for any ELP Rights to vest, the Company will be required to achieve a TSR over the Performance Period that exceeds a threshold set by the Board. Total shareholder return will be calculated based on movements in the Company's share price and total dividends paid during the four year performance period.

Any ELP Rights issued in consequence of this approval will vest subject to the achievement of challenging TSR performance targets to be set by the Board. In setting TSR targets, the Board will have regard to prevailing market factors and recent Company performance at the time of grant. Any ELP Rights granted in consequence of this approval will require a minimum TSR of at least 10% annual return, on a compounded basis, over the performance period before any ELP Rights may vest.

In order for any 2016 ELP Rights to vest, the Company must achieve a TSR over the Performance Period equal to at least 15% annual return on a compounded basis. Where this 15% threshold is achieved, 25% of ELP Rights will vest. Vesting will be calculated on a straight line basis with 100% of ELP Rights vesting where the TSR achieved over the Performance Period is equal to or exceeds 25% annual return on a compounded basis.

(E) *Performance Assessment – 2016 ELP Rights*

For the 2016 ELP Rights, performance criteria will be assessed on 24 September 2020. The relevant proportion of the ELP Rights granted will vest on 25 September 2020, and will be exercisable between 25 September 2020 and 25 September 2025. Any ELP Rights not vested on 25 September 2020 or which have vested but not exercised by 5.00pm (Sydney time) on 25 September 2025 will lapse.

(F) *Performance Assessment – subsequent years*

In respect of the ELP Rights proposed to be granted in each year following 2016 (**Relevant Year**): Achievement of the applicable vesting criteria will be assessed on 24 September of the fourth year after the Relevant Year (**Fourth Year**). The relevant proportion of the ELP Rights granted will vest on 25 September of the Fourth Year, and will be exercisable between 25 September of the Fourth Year and 25 September of the ninth year after the Relevant Year (**Ninth Year**). Any ELP Rights not vested on 25 September of the Fourth Year, or which have vested but not exercised by 5.00pm (Sydney time) on 25 September of the Ninth Year will lapse.

(v) **Conditions applicable to the vesting of both HLP Rights and ELP Rights**

The Company's agreed arrangement with Mr. McAllister to issue him HLP Rights and ELP Rights in 2016 is subject to approval by the Company's shareholders (i.e. the passing of the resolutions set out in Agenda Items 5 and 6). Further:

- (A) The Company's agreed arrangement with Mr. McAllister to issue Rights to him in each year following 2016 is subject to the following conditions being satisfied:
- (I) approval by the Board to the number of such Rights and the issue of such Rights to Mr. McAllister in each year after 2016;
  - (II) Mr. McAllister continuing to be the Managing Director of the Company;
  - (III) the passing of the resolutions set out in Agenda Items 5 and 6; and

(IV) approval by the Company's shareholders of the grant of Rights to Mr. McAllister for the purposes of the ASX Listing Rules being "refreshed" every 3 years.

- (B) Each Right will entitle Mr. McAllister to subscribe for one ordinary share subject to the Plan Rules.
- (C) The Rights will be granted at nil issue price. Vested Rights may be exercised at nil exercise price. No funds are expected to be raised by the issue or exercise of Rights.
- (D) The Rights to be granted in 2016, 2017 and 2018 will be issued not more than 3 years after the date of the Company's 2016 Annual General Meeting.

(e) **Company's share trading history**

The trading history of the Company's shares on the ASX in the 12 months to 15 September 2016 is as follows:

|                              | Price   | Date              |
|------------------------------|---------|-------------------|
| <b>Highest closing price</b> | \$1.235 | 19 August 2016    |
| <b>Lowest closing price</b>  | \$0.63  | 23 September 2015 |
| <b>Last closing price</b>    | \$1.11  | 15 September 2016 |

(f) **Valuation of the financial benefit**

The total indicative value of the Rights to be issued to Mr. McAllister at the date the offer of the Rights was made has been determined to be \$834,537 adopting a discounted cash flow methodology for the Rights issued on commencement and the HLP Rights, and a Monte-Carlo simulation based on the Black-Scholes methodology for the ELP Rights. In calculating the value of these Rights, the following inputs were used:

|   |                   |
|---|-------------------|
| <b>Valuation date</b>                                   | 19 August 2016    |
| <b>Share price on the valuation date</b>                | \$1.235           |
| <b>Vesting date – Commencement Rights</b>               | 1 November 2019   |
| <b>Vesting date – HLP Rights</b>                        | 25 September 2019 |
| <b>Vesting date – ELP Rights</b>                        | 25 September 2020 |
| <b>Dividend yield per annum</b>                         | 8.0%              |
| <b>Risk free rate (applies to ELP Rights only)</b>      | 1.45%             |
| <b>Volatility (applies to ELP Rights only)</b>          | 42%               |
| <b>Indicative value per Right – Commencement Rights</b> | \$0.956           |
| <b>Indicative value per Right – HLP Rights</b>          | \$0.964           |
| <b>Indicative value per Right – ELP Rights</b>          | \$0.469           |
| <b>Total value of Rights to be issued</b>               | \$834,537         |

(g) **Mr. McAllister's current interest in the Company's securities**

Mr. McAllister holds no interests in fully paid ordinary shares in the capital of the Company (**Shares**) or other securities of the Company.

(h) **Impact of issue of Rights to Mr. McAllister**

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

- (i) If all of the Rights granted to Mr. McAllister in 2016 vest and are exercised, based on the current number of issued shares in the Company, he would hold an interest in approximately 1.12% of the issued shares in the Company on a fully diluted basis, as illustrated in the following table:

| MCP ordinary shareholder  | Before conversion of 2016 Rights to be issued to Mr. McAllister <sup>2</sup> |  | After conversion of 2016 Rights to be issued to Mr. McAllister <sup>2,3</sup> |  |
|---|--|--|---|--|
|   | Number of MCP ordinary shares  | Percentage of total MCP ordinary shares <sup>1</sup> | Number of MCP ordinary shares   | Percentage of total MCP ordinary shares <sup>1</sup> |
| Laurie McAllister and his associates  | Nil  | Nil %  | 1,171,000   | 1.12%  |
| All MCP ordinary shareholders other than Laurie McAllister and his associates | 103,318,229  | 100.0%   | 103,318,229   | 98.88%   |
| <b>TOTAL</b>  | <b>103,318,229</b>   | <b>100.0%</b>  | <b>104,489,229</b>  | <b>100.0%</b>  |

Notes:

1. Approximate figures.

2. Assuming the Company does not issue any other equity securities, and assuming neither Mr. McAllister nor his associates acquire any other equity securities in the Company.

3. Assuming the 2016 Rights referred to in this resolution are issued to Mr. McAllister, fully vested and exercised on a one-for-one basis.

- (ii) Given that the number of Rights that may be issued to Mr. McAllister in each year following 2016 is subject to certain conditions and is calculated based on the Company's VWAP and his annual base salary at that time, it is not possible to determine the exact percentage interest that Mr. McAllister would have (on a fully diluted basis) if those Rights are exercised. This may be determined by applying the following formula, assuming that Rights are exercisable on a one-for-one basis, and with all elements of the formula as at the same relevant date:

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

(i) **Benefits on change in control or termination**

This Agenda Item also seeks shareholder approval of a potential benefit that may be provided to Mr. McAllister in the future where the Board exercises its discretion under the PR Plan in the event of:

- (i) a change of control of the Company or equivalent event determined by the Board (**Event**); and/or
- (ii) Mr. McAllister ceasing employment with the Company due to redundancy, retirement, death, permanent incapacity or other circumstances determined by the Board.

This potential benefit is the early vesting of the Rights (and the receipt of Shares upon exercise of the Rights) or the adjustment of the vesting conditions, if determined appropriate by the Board at that time. In making such determination, the Board will have regard to shareholders' best interests, the relevant circumstances at the time and appropriate independent advice. As stated above, in any event, the PR Plan limits the number of Rights that the Company may issue, such that the sum of all Rights and options on issue and offered under all employee incentive schemes of the Company does not, if they are all exercised, equate to more than 5% of the ordinary shares on issue by the Company.

Under sections 200B and 200C of the Corporations Act, a company may only give a benefit in connection with:

- (i) a person ceasing to hold a managerial or executive office in the company or a related body corporate; or
- (ii) the transfer of the whole or any part of the undertaking or property of the company,

if the benefit is approved by shareholders or an exemption applies. The term “benefit” has a wide operation and could include the early vesting of Rights or adjustment to vesting conditions under the Plan Rules.

Accordingly, shareholder approval is being sought for the purposes of sections 200B, 200C and 200E of the Corporations Act for the potential benefit to him in relation to the Rights to be granted to him under the PR Plan in accordance with his employment contract with the Company, which would be in addition to any employment, statutory or other benefits that may be available to him at the time.

The value of the potential benefit cannot presently be ascertained but matters, events and circumstances that will, or are likely to, affect the calculation of that value include:

- (i) the number of Rights held by Mr. McAllister prior to cessation of his employment and/or the Event (as the case may be);
- (ii) the number of Rights that vest (which could be up to, but not more than, all of the Rights held by Mr. McAllister at the time). The Board’s decision in that regard will depend on, among other things, the circumstances of Mr. McAllister’s cessation of employment, the type of Event and its implications for the Company, the Board’s assessment of Mr. McAllister’s performance since commencement of his employment, the degree to which the vesting conditions have been met at the relevant time and the effect of any potential change in those vesting conditions, and the duration of Mr. McAllister’s employment; and
- (iii) the market price of Shares on ASX at the time and (if applicable) the value of the Shares implied by the Event.

**(j) Additional information**

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

As at the date of this Notice of Meeting, none of the Directors (other than the Managing Director) is entitled to participate in the PR Plan.

Since the date when the Company last obtained approval for the Managing Director’s participation in the PR Plan for the purposes of ASX Listing Rule 10.14, up to the date of this notice, the Company has issued 863,000 Rights to Mr. Paul Maguire, the Managing Director as at the date of this Notice, at nil issue price and no Shares have been allotted pursuant to any exercise of such Rights.

If any Director other than the Managing Director (or an associate of such Director) becomes entitled to participate in the PR Plan after this resolution 5 is approved and that person is not named in this Notice of Meeting, then that person will not participate in the PR Plan until the Company’s shareholders approve such participation for the purposes of ASX Listing Rule 10.14.

None of the Directors has an interest in the outcome of this resolution. However, as the Directors are “Key Management Personnel” for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, the Directors will not be making recommendations as to voting on this resolution.

3.3 **Agenda Item 6: General approval of issue of securities (being Performance Rights and Shares on the exercise of such Performance Rights) under the McPherson's Limited Performance Rights Plan**

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

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

A summary of the PR Plan is set out in paragraph 3.1 above. Since the PR Plan was approved in 2013 for the purposes of ASX Listing Rule 7.2 Exception 9, 1,751,000 Rights have been issued to eligible participants and no Shares have been allotted on exercise of vested Rights.

The proposed issue of Rights to Mr. McAllister as contemplated in Agenda Item 5 would not exceed the threshold set out in ASX Listing Rule 7.1. However, approval is sought under Exception 9 to ASX Listing Rule 7.2 so that any issue under the PR Plan in the next 3 years (including the Rights, and Shares on exercise of such Rights, proposed to be issued to Mr. McAllister and generally to other non-director executives as contemplated in Agenda Item 6) is disregarded in determining in the future whether the Company has reached that threshold in accordance with the ASX Listing Rules.

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

Other than Mr. Maguire (who is a current participant in the PR Plan), no other Director has an interest in the outcome of this resolution. However, as the other Directors are "Key Management Personnel" for the purposes of the Corporations Act, a voting exclusion statement applies as set out on page 3 of this Notice of Meeting. For those reasons, Mr. Maguire and the other Directors will not be making recommendations as to voting on this resolution.