



**THE CITADEL GROUP LIMITED  
ACN 127 151 026**

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**NOTICE OF ANNUAL GENERAL MEETING  
and  
EXPLANATORY MEMORANDUM**

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**DATE OF MEETING**

Wednesday, 9 November 2016

**TIME OF MEETING**

5.00pm (AEDT)

**PLACE OF MEETING**

Citadel House,  
Level 1, 11-13 Faulding Street, Symonston, ACT

**This Notice of Annual General Meeting and Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.**





**citadel group**  
MANAGING COMPLEXITY

### **MEETING REGISTRATION**

If you (or your proxy or attorney) will be attending the Meeting, please RSVP via email to [CGL.agm@citadelgroup.com.au](mailto:CGL.agm@citadelgroup.com.au) by **Friday, 28 October 2016**. Please bring the proxy form with you to facilitate registration and entry to the Meeting. We suggest that you arrive at least fifteen minutes before the Meeting commencement time to allow sufficient time to complete the registration process.



## **AGENDA**

### **BUSINESS:**

An Explanatory Memorandum containing information in relation to each of the following Resolutions accompanies, and forms part of, this Notice of Meeting.

### **FINANCIAL STATEMENTS AND REPORTS:**

To receive and consider the Annual Financial Report together with the Directors' and Auditor's reports for the year ended 30 June 2016.

### **RESOLUTION 1 – Adoption of Remuneration Report**

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

*"That for the purposes of section 250R(2) of the Corporations Act the Shareholders of the Company adopt the Remuneration Report for the financial year ended 30 June 2016."*

### **RESOLUTION 2 – Re-Election of Professor Peter Leahy AC as a Director of the Company**

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

*"That Professor Peter Leahy AC, being a Director, who retires by rotation in accordance with Rule 50.2 of the Company's Constitution and being eligible, be re-elected as a Director."*

### **RESOLUTION 3 – Non-executive Directors' Remuneration**

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

*"That, for the purposes of Listing Rule 10.17 and for all other purposes, effective from the close of the Meeting the total amount that may be paid in aggregate and in any one year by the Company to the Non-executive Directors as remuneration for services be increased by \$200,000, from \$300,000 to \$500,000."*

### **RESOLUTION 4 – Ratification of prior Issue of Shares**

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

*"That for the purposes of Listing Rule 7.4, and for all other purposes, Shareholders approve and ratify the issue of 948,950 Shares to PJA Australia Pty Ltd as trustee for PJA Investment Trust on 7 October 2016 for the purposes and on the terms set out in the Explanatory Memorandum."*

### **RESOLUTION 5 – Approval of Issue of Share Rights to Miles Jakeman under the Equity Plan**

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

*"That for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the Company to issue 21,928 Share Rights to Miles Jakeman, under the Equity Plan on the basis of the terms set out in the Explanatory Memorandum."*



### **RESOLUTION 6 – Approval of 10% Placement Facility**

To consider and if thought fit, pass the following resolution as a **special resolution**

*"That for the purposes of Listing Rule 7.1A, the Directors are authorised to issue up to 10% of the Company's share capital calculated in accordance with Listing Rule 7.1A and otherwise on the terms and conditions set out in the Explanatory Memorandum."*

### **RESOLUTION 7 - Financial Assistance**

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

*"That, for the purposes of section 260B(2) of the Corporations Act 2001 (Cth), approval is given for the financial assistance provided in connection with the Company's acquisition of PJA Solutions Pty Ltd, Kapish Pty Ltd and Kapish Services Pty as described in the Explanatory Notes."*

### **Voting exclusions:**

1. In relation to Resolution, 1 the Company will disregard any votes cast:
  - by or on behalf of a member of the key management personnel of the Company (**KMP Member**) named in the remuneration report for the year ended 30 June 2016, or that KMP Member's closely related parties, regardless of the capacity in which the vote is cast; and
  - as proxy by, a KMP Member at the date of the meeting, or that KMP Member's closely related parties, unless the vote is cast as a proxy for a person who is entitled to vote on this resolution:
    - in accordance with their directions of how to vote as set out in the proxy form; or
    - by the person chairing the meeting pursuant to an express authorisation on the proxy form to vote on an undirected proxy.

If you are a KMP Member or a closely related party of a KMP Member (or are acting on behalf of any such person) and purport to cast a vote that will be disregarded by the Company (as described above), you may commit an offence by breaching the voting restrictions that apply to you under the Corporations Act.

A closely related party of a KMP Member means any of the following:

- a spouse or child of the KMP Member;
  - a child of the KMP Member's spouse;
  - a dependent of the KMP Member or of the KMP Member's spouse;
  - anyone else who is one of the KMP Member's family and may be expected to influence the KMP Member, or be influenced by the KMP Member, in the KMP Member's dealings with the entity; or
  - a company the KMP Member controls.
2. In relation to Resolution 3, for the purposes of Listing Rule 10.17, the Company will disregard any votes cast:
    - by any Director of the Company and any of their associates; and



- as a proxy, by a person who is a KMP Member at the date of the meeting, or by any of their closely related parties,

unless the vote is cast by a person as a proxy for a person who is entitled to vote on Resolution 3:

- in accordance with a direction on the proxy form; or
  - by the person chairing the meeting pursuant to an express authorisation in the proxy form to vote an undirected proxy.
3. In relation to Resolution 4, for the purposes of Listing Rule 7.4, the Company will disregard any votes cast on this Resolution by Mr Philip J Allison and any of his associates, unless 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
  - 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).
4. In relation to Resolution 5, for the purposes of Listing Rule 10.14, the Company will disregard any votes cast on this resolution:
- by a Director or an associate of a Director; or
  - as a proxy, by a KMP Member or a KMP Member's closely related party, unless the vote is cast as a proxy for a person who is entitled to vote on this resolution:
    - in accordance with their directions of how to vote as set out in the proxy appointment; or
    - by the person chairing the meeting pursuant to an express authorisation on the proxy form.
5. In relation to Resolution 6, for the purposes of Listing Rule 7.3A, the Company will disregard any votes cast on Resolution 6 by a person who may participate in any proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder or ordinary securities if the resolution is passed, or their associates. 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
  - by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the form to vote as the proxy decides).

At this stage, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of Shares under Resolution 6.

This Notice of Meeting should be read in conjunction with the accompanying Explanatory Memorandum which forms part of this Notice of Meeting.

By order of the Board,

**Company Secretary**  
Robert Burns

## EXPLANATORY MEMORANDUM

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This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the accompanying Notice of Annual General Meeting (“**Notice**”) of The Citadel Group Limited (“**Company**”).

The Directors recommend Shareholders read this Explanatory Memorandum in full before making any decision in relation to the Resolutions.

The following information should be noted in respect of the various matters contained in the accompanying Notice:

### **RESOLUTION 1 - Remuneration Report**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 1. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

Pursuant to section 250R(2) of the Corporations Act, a resolution adopting the Remuneration Report contained within the Directors’ Report must be put to a vote.

Shareholders are advised that pursuant to section 250R(3) of the Corporations Act, this Resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report is set out within the Directors’ Report in the Company’s 2016 Annual Report which is available on the Company’s website: [www.citadelgroup.com.au](http://www.citadelgroup.com.au). The Board is presenting the Remuneration Report (which forms part of the Directors’ Report) to Shareholders for adoption, as required by the Corporations Act. The Remuneration Report sets out details of the Company’s remuneration policies and practices, as well as the remuneration of the Directors and specified executives.

However, if at least 25% of the votes cast are against adoption of the Remuneration Report at the 2016 Annual General Meeting, and then again at the 2017 Annual General Meeting, the Company will be required to put a resolution to the 2017 Annual General Meeting, to approve calling a general meeting (**spill resolution**). If 50% or more of eligible votes cast are in favour of the spill resolution, the Company must convene a general meeting (**spill meeting**) within 90 days of the 2017 Annual General Meeting. All of the Directors who were in office when the 2017 Directors’ Report was approved, other than the Managing Director, will need to stand for re-election at the spill meeting.

Note that a voting exclusion applies to Resolution 1 in the terms set out in the Notice of Meeting. In particular, the Directors and other restricted voters may not vote on this Resolution and may not cast a vote as proxy, unless the appointment gives a direction on how to vote.

Shareholders are urged to carefully read the proxy form and provide a direction to the proxy on how to vote on this Resolution.

**Shareholders should note that the Chairman will vote all available proxies in favour of Resolution 1. If you appoint the Chairman as your proxy, and you do not direct your proxy how to vote on Resolution 1 on the proxy form, you will be expressly authorizing the Chairman of the Meeting to exercise the proxy even if the resolution is connected, directly or indirectly, with the remuneration of the KMP Members which include the Chairman.**

Shareholders will also be provided with a reasonable opportunity to ask questions about or make comments on the Remuneration Report, which forms part of the 2016 Annual Report.

## **RESOLUTION 2 – Re-election of Professor Peter Leahy AC as a Director of the Company**

**Board recommendation and undirected proxies.** The Board (with Professor Peter Leahy AC abstaining) unanimously recommends that Shareholders vote in **FAVOUR** of Resolution 2. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 2.

Rule 50.2 of the Company's Constitution provides that at every Annual General Meeting of the Company one-third of the Directors or nearest to one-third if not a whole number (other than the Managing Director) shall retire from office. The Directors to retire at an Annual General Meeting are those who have been longest in office since their last election. A retiring Director is eligible for re-election.

Professor Peter Leahy AC who retires by rotation in accordance with the Company's Constitution and, being eligible for re-election, offers himself for re-election as a Director.

Peter retired from the Army in July 2008 after a 37 year career as a soldier. He concluded his career in the Army with the rank of Lieutenant General after a six year appointment as the Chief of Army. In this appointment he was directly responsible for the Army's \$6bn annual budget. His responsibilities included the detailed management of personnel, operating and capital cost centres and the direct responsibility to raise, train and sustain the Army. He was the principle adviser to the Chief of the Defence Force on strategic matters related to the deployment of the Army on global combat operations.

Since leaving the Army, Peter has joined the University of Canberra as a Professor and Foundation Director of the National Security Institute where he teaches, writes and commentates on defence and security matters. He is a member of the Australian Institute of Company Directors and has been appointed to the Boards of Codan Limited and Electro Optic Systems Holdings Limited. He supports the Government of South Australia as a member of the Defence South Australia Advisory Board. He is also involved in charities as the Chairman of Soldier On, the Salvation Army Red Shield Appeal Committee for the Australian Capital Territory and the Australian International Military Games (Invictus). He is also a Trustee of the Prince's Charities Australia. In 2014 he was appointed by the Minister for Defence as a member of the First Principles Review of the Department of Defence.

Peter was awarded the Companion of the Order of Australia in 2007 for eminent service to the Australian Defence Force in command of the Australian Army and strategic staff appointments.

Peter's extensive skills are considered an asset to the Board, in particular his experience in managing a \$6bn annual budget in his role as Chief of Army and his ability to provide insights into the Department of Defence procurement needs.

## **RESOLUTION 3 – Non-executive Directors' Remuneration**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 3. The Chairman of the meeting intends to vote all undirected proxies in **FAVOUR** of Resolution 3.

It is proposed to increase the maximum aggregate remuneration that may be paid to non-executive Directors by \$200,000, from \$300,000 per annum to \$500,000 per annum. The board has not approved and has no current intention of approving an increase in fees paid to non-executive directors in the 2017 fiscal year. The proposed increase in the maximum aggregate amount payable to non-executive Directors will ensure fiscal year 2018 fees are in line with future market rates and enable non-executive Directors' fees to be paid to any incoming Directors.

The proposed increase will allow for sufficient headroom given the recent change in status from executive to non-executive director of Mr Mark McConnell as well as giving the board the option to appoint up to two additional non-executive Director's board's discretion.





It is the Board's policy that the remuneration of non-executive Directors should accord with market rates and the level of responsibilities involved with each Board position.

Shareholder approval of this proposal is sought under article 55.5 of the Company's Constitution and under ASX Listing Rule 10.17.

For the purposes of ASX Listing Rule 10.17, no securities have been issued to non-executive Directors at any time over the last three years under rule 10.11 or 10.14.

#### **RESOLUTION 4 – Ratification of prior Issue of Shares**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 4. The Chairman of the meeting intends to vote all undirected proxies in **FAVOUR** of Resolution 4.

The Company issued 948,950 Shares to PJA Australia Pty Ltd as trustee for PJA Investment Trust on 7 October 2016 at an issue price of \$5.27 per Share under its 15% placement capacity and now seeks, pursuant to Resolution 4 of the Notice, to ratify the allotment and issue of those Shares.

Listing Rule 7.4 permits the ratification of previous issues of securities made without prior Shareholder approval provided the issue did not breach the 15% threshold set by Listing Rule 7.1. The purpose and effect of such a ratification is to restore the Company's discretionary power to issue further shares up to 15% of the issued capital of the Company without requiring Shareholder approval.

The Company proposes Resolution 4 to ratify a previous issue of Shares in accordance with Listing Rule 7.4. The Company confirms that the allotment and issue of Shares the subject of Resolution 4 did not breach Listing Rule 7.1.

#### **Information required by Listing Rule 7.5**

The following information is provided to Shareholders for the purposes of Listing Rule 7.5.

- a) 948,950 Shares were allotted and issued by the Company;
- b) the issue price per Share was \$5.27;
- c) the Shares allotted were fully paid ordinary shares which rank equally with all other fully paid ordinary shares on issue;
- d) the Shares were allotted to PJA Australia Pty Ltd as trustee for PJA Investment Trust;
- e) the Shares were issued as part consideration for the acquisition of PJA Solutions Pty Ltd; and
- f) a voting exclusion statement is included in the Notice.

#### **RESOLUTION 5 – Approval of Issue of Share Rights to Miles Jakeman under the Equity Plan**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 5. The Chairman of the meeting intends to vote undirected proxies in **FAVOUR** of Resolution 5.

The Company's Equity Plan was established prior to the Company's listing in 2014. A summary of the Equity Plan was set out in the Company's Prospectus at the time of the Company's listing on ASX.

The Company seeks Shareholder approval for the issue of Share Rights under the Equity Plan to Miles Jakeman, Executive Director.

For the year ending 30 June 2017, remuneration for Dr Jakeman comprises the following components:

	<b>Fixed Remuneration, (including statutory superannuation)</b>	<b>Short Tem Incentive</b>	<b>Long Term Incentive</b>
<b>Miles Jakeman</b>	\$290,000 per annum (from November 2016)	An at-risk short term incentive of up to 47% of fixed remuneration as a maximum	An at-risk long term incentive of up to 40% of fixed remuneration in Share Rights

#### **Key terms of Shares**

A Share Right will vest and become exercisable to the extent that the applicable performance conditions detailed below are satisfied at the end of the relevant performance period (being 1 July 2016 to 30 June 2019).

#### **Performance conditions**

The Board has agreed to change the Performance Conditions for FY17 grants under the Equity Plan.

The previous Relative TSR metric we have used was deemed an ineffective means of motivating key executives, who had little influence over this measure. As a result, the Board has proposed, with advice from independent remuneration consultants to establish metrics that are more closely aligned to the business growth strategy based on scalable intellectual property and capital that is reproducible and non-resource constrained.

The rationale for replacing the Relative TSR metric is:

- The ASX Small Ordinaries Accumulation Index is not a relevant index to measure performance against our peers. The Board also considered a bespoke basket involving a small group of companies.
- The limited liquidity of the register means the Company has limited predictability based on market trends.
- TSR is not motivating the management team's performance.

The Share Rights are subject to the following Performance Conditions:

- Group Revenue Growth and EBITDA Growth matrix (50% of award) (**Revenue and EBITDA Matrix Performance Condition**); and,
- Underlying Cash Earnings per Share (**CEPS Performance Condition**).

The Revenue & EBITDA Matrix Performance Condition and the CEPS Performance Condition are independent of each other and will be assessed separately.

The Board has adopted these performance conditions as they both reflect the primary objectives of sustained profitable growth resulting in free cash flow in the most efficient way possible.

The revenue growth and EBITDA growth matrix is directly linked to the objective of sustained profitable growth.

Underlying EPS hold executives accountable for the capital management and cash generation of the business. The underlying EPS brings in to account the management of the weighted cost of capital (being both debt and equity), the more cash generated in the business the lower the debt and lower the interest paid as well the less reliant the business is on the issuing of equity which demands a higher rate of return

### Revenue and EBITDA Matrix Performance Condition

- Fifty percent of the Share Rights in the FY2017 LTI grant will be tested against two related measures – Revenue and EBITDA growth from FY2016.
- The table below reflects the assessment of this Performance Condition, with Revenue and EBITDA being total of these measures over the 3-year performance period.
- The 3 year target for both Revenue and EBITDA is established based on the business strategy, existing growth profiles and expected growth rates.
- The 3 year target for both Revenue and EBITDA approved by the board reflects a compound annual growth rate of greater than 10%.
- The 3 year target is to be modified for the expected Revenue and EBITDA of any major acquisitions over the remaining proportion of the Performance Period from the date of completion for the acquisition.
- The Board in its absolute discretion may adjust the achieved revenue growth by up to 15% if the Board determines the quality of the revenue is lower than expectation.

The Board has discretion to determine the proportion of award allocated to each Performance Condition, but not exceed 30% for any one measure.

		3 Year Total EBITDA as a % of Target									
%of LTI Award		90%	95%	100%	105%	110%	115%	120%	125%	130%	
3 Year Total Revenue as a % of Target	90%	55%	60%	65%	70%	75%	80%	85%	90%	95%	
	95%	60%	65%	70%	75%	80%	85%	90%	95%	100%	
	100%	65%	70%	75%	80%	85%	90%	95%	100%	100%	
	105%	70%	75%	80%	85%	90%	95%	100%	100%	100%	
	110%	75%	80%	85%	90%	95%	100%	100%	100%	100%	
	115%	80%	85%	90%	95%	100%	100%	100%	100%	100%	
	120%	85%	90%	95%	100%	100%	100%	100%	100%	100%	
	125%	90%	95%	100%	100%	100%	100%	100%	100%	100%	
	130%	95%	100%	100%	100%	100%	100%	100%	100%	100%	

### CEPS Performance Condition

- Fifty percent of the Share Rights in the FY2017 LTI grant will be tested against the CEPS Performance Condition

The definition used for CEPS is basic EPS per Australian Accounting Standards adjusted for Non-Cash accounting adjustments:

1. The tax adjusted amortisation of acquired intangible assets
  2. The tax adjusted finance expense relating to deferred consideration.
- The CEPS measure calculated inclusive of any asset impairment or accelerated amortisation:
  - The CEPS Performance Criteria is based on the achievement of a Board determined compound average growth rate of the CEPS over the three year performance period.
  - Underlying EPS Share Rights will vest on the following basis:

	Compound annual growth rate in Citadel's underlying EPS	% of Underlying EPS Share Rights that vest	% of total Share Rights that vest*
<b>BELOW THRESHOLD:</b>	<10%	0%	0%
<b>THRESHOLD:</b>	10%	50%	25%
<b>TARGET:</b>	15%	75%	37.5%
<b>MAXIMUM:</b>	20%	100%	50%

Upon satisfaction of all performance and vesting conditions, each Share Right will, at the Company's election, convert to a Share on a one-for-one basis or entitle the participant to receive cash to the value of a Share.

Each vested Share Right also entitles a participant to receive a cash amount equivalent to the value of any dividend or distribution paid on a Share on or after the date of grant.

Share Rights do not carry any voting rights.

### Shareholder approval – ASX Listing Rules

ASX Listing Rule 10.14 requires Shareholder approval before a Director can acquire securities or rights to securities under an employee incentive scheme. Approval from Shareholders is being sought to grant rights to Dr Jakeman, under the Equity Plan in respect of the period immediately following this Meeting, with any Share Rights issued within 12 months after the date of this Meeting.

### Information required by Listing Rule 10.14

The following information is provided to Shareholders for the purposes of Listing Rule 10.14:

- a) The Share Rights to be issued under Resolution 5 will be issued to Miles Jakeman.



- b) The maximum number of Share Rights that may be issued to Miles Jakeman pursuant to Resolution 5 is 21,928 Share Rights.
- c) No payments for the Share Rights or upon vesting of the Share Rights is required by the executives;
- d) Share Rights previously issued under the Equity Plan are as follows:
  - o 16,526 Share Rights to Mark McConnell; and
  - o 59,974 Share Rights to Miles Jakeman;both of which were approved at the 2015 AGM.
- e) The persons referred to in ASX Listing Rule 10.14 who are entitled to participate in the plan are all Executive Directors of the Company, with Dr Jakeman the only current Executive Director participant in the Equity Plan.
- f) A voting exclusion statement has been included in relation to Resolution 5;
- g) No loans are being provided in respect of the issue of the Share Rights; and
- h) The Company will issue the Share Rights no later than 12 months after the date of the Meeting.

#### **RESOLUTION 6 – Approval of 10% Placement Facility**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 6. The Chairman of the meeting intends to vote all undirected proxies in **FAVOUR** of Resolution 6.

#### **General**

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its AGM to allow it to issue Equity Securities up to 10% of its issued capital (**10% Placement Capacity**). If Shareholders approve Resolution 6, the number of Equity Securities the Company may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 6 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the meeting, without Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 6 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of this resolution for it to be passed.

#### **10% Placement Capacity**

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek Shareholder approval at its AGM to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) Is not included in the A&P/ASX 300 Index; and
- (b) Has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the A&P/ASX 300 Index and has a current market capitalisation as at 8 September 2016 of \$243,070,048.

The Equity Securities must be in the same class as an existing class of quoted Equity Securities. The Company currently has three classes of Equity Securities on issue, being quoted ordinary shares, performance rights and unlisted options.

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A is outlined in Listing Rule 7.2A.2. This rule provides that Eligible Entities which have obtained Shareholder approval at an AGM, may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated according to the following formula:

$$(A \times D) - E$$

Where:

- A is the number of Shares on issue 12 months before the date of issue or agreement:
- (a) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
  - (b) plus the number of partly paid shares that became fully paid in the previous 12 months;
  - (c) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4. This does not include an issue of fully paid ordinary shares under the entity's 15% placement capacity without Shareholder approval; and
  - (d) less the number of Shares cancelled in the previous 12 months.
- D is 10%
- E is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of ordinary shares under ASX Listing Rule 7.1 or 7.4.

#### **Technical information required by ASX Listing Rule 7.1A**

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this resolution.



**(a) Minimum Price**

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 (five) ASX trading days of the date in paragraph 6.3(a)(i), the date on which the Equity Securities are issued.

**(b) Date of Issue**

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (A) 12 months after the date of this Meeting; and
- (B) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking) (after which date, an approval under Listing Rule 7.1A ceases to be valid).

**(10% Placement Capacity Period).**

**(c) Risk of voting dilution**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If the resolution in Item 6 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated in accordance with the formula outlined in ASX Listing Rule 7.1A2, on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (Variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Number of Shares on Issue (at 8 September 2016)		Dilution		
		\$2.600 50% decrease in Issue Price	\$5.200 Issue Price	\$10.400 100% increase in Issue Price
Current Variable A 46,696,238	10% Voting dilution	4,669,623	4,669,623	4,669,623
	Funds raised	\$12,141,021	\$ 24,282,043	\$ 48,564,087



<b>50% increase in current Variable A</b> 70,044,357	<b>10% Voting dilution</b>	7,004,435	7,004,435	7,004,435
	<b>Funds raised</b>	\$18,211,532	\$ 36,423,065	\$ 72,846,131
<b>100% increase in current Variable A</b> 93,392,476	<b>10% Voting dilution</b>	9,339,247	9,339,247	9,339,247
	<b>Funds raised</b>	\$\$ 24,282,043	\$ 48,564,087	\$97,128,175

\* The number of shares on issue (Variable A in the formula) could increase as a result of the issue of shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issue under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

**The table above has been prepared on the following assumptions:**

1. Variable A is 46,696,238 which equates to the Shares currently on issue at 8 September 2016, less shares issued under ASX Listing Rule 7.1 and not approved by Shareholders of 60,955.
2. The market price set out above is the closing price of the Shares on the ASX on 8 September 2016.
3. The Company issues the maximum possible number of shares under the 10% Placement Capacity.
4. The Company has issued shares in the previous 12 months. The Company has issued 60,955 Shares to employees as part of their recruitment. Variable A excludes these 60,955 Shares.
5. The issue of Equity Securities under the 10% Placement Capacity consists only of Shares.
6. The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
7. This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.
8. The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.



9. The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Capacity, based on that Shareholder's holding at the date of the Meeting.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

**(d) Purpose of issue under 10% Placement Capacity**

The Company may seek to issue Equity Securities under the 10% Placement Capacity for the following purposes:

- (i) as cash consideration in which case the Company intends to use funds raised for working capital purposes or potential acquisitions; or
- (ii) as non-cash consideration for services, equipment or product. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3. The minimum issue price limitation as set out in Listing Rule 7.1A3 applies to issues for non-cash consideration.

The Company will comply with the disclosure obligations under Listing Rules 7.1A4 and 3.10.5A upon issue of any Equity Securities.

**(e) Allocation under the 10% Placement Capacity**

The allottees of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the allottees of Equity Securities could consist of current Shareholders or new investors (or both).

The Company will determine the allottees at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (i) The purpose of the issue;
- (ii) Alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;
- (iii) The effect of the issue of the Equity Securities on the control of the Company;
- (iv) The circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (v) Prevailing market conditions; and
- (vi) Advice from corporate, financial and broking advisers (if applicable).

**(f) Previous Approval under ASX Listing Rule 7.1A**

The Company previously obtained approval under ASX Listing Rule 7.1A on 11 November 2015. No shares have been issued under ASX Listing Rule 7.1A since the approval was obtained.

996,952 shares have been issued in the 12 months preceding this meeting and 76,500 share rights have also been issued in this period. A total of 1,073,452 equity securities. This represents 2.25% of the equity securities on issue at the commencement of this period (47,795,864 securities).

The following represents details of the ordinary share issues:

Date	Number of Ordinary Shares	Reason for Issue	Consideration per share	Total Consideration	Allotted to
15 November 2015	32,051	Issued as part of recruitment process for senior executives	Nil	Nil	Darren Stanley
31 December 2016	1,089*	Shares purchased as part of the employee salary sacrifice scheme	Nil	Nil	Shares purchased by an employee who is a participant in the employee salary sacrifice scheme
17 August 2016	14,862*	Shares purchased as part of the employee salary sacrifice scheme	Nil	Nil	Shares purchased by 17 employees who are participants in the employee salary sacrifice scheme.
7 October 2016	948,950	Issued as part consideration for the acquisition of PJA Solutions Pty Ltd. **	\$5.2690	\$5,000,000	PJA Australia Pty Ltd as trustee for PJA



					Investment Trust
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\* These ordinary shares rank equally to ordinary shares with the same rights to voting and dividends, however the holders of these shares are restricted from trade for a period of three years (or cessation of employment, if earlier).

\*\* In 2015 CGL acquired 100% of PJA Solutions Pty Ltd for \$45.356 million. Part of this total consideration was agreed to be paid on the finalisation of the 30 June 2016 Financial Statements and a total of \$5million was able to be paid via the issue of shares at market value. The value of the PJA Solutions Pty Ltd acquired was tested for impairment at 30 June 2016 and no impairment was noted. The current value of the PJA Solutions Pty Ltd is at least equal to its value at acquisition of \$45.356million.

In addition to ordinary shares on the 11 November 2015, 76,500 share rights were issued to Directors following approval at last year's AGM as follows:

- o 16,526 Share Rights to Mark McConnell; and
- o 59,974 Share Rights to Miles Jakeman.

The rights were issued for nil consideration and have a vesting period which ends on 30 September 2018. In addition, certain performance conditions must be met (being shareholders return relative to movements in the S&P/ASX 300 All Ordinaries Accumulation Index between 1 October 2015 and 30 September 2018, and compound annual growth in the Company's basic EPS between 1 October 2015 and 30 June 2018 relative to the 30 June 2015 basic EPS) before the rights can vest.

Upon satisfaction of any performance and vesting conditions, each Share Right will, at the Company's election, convert to a Share on a one-for-one basis or entitle the participant to receive cash to the value of a Share.

Each vested Share Right also entitles a participant to receive a cash amount equivalent to the value of any dividend or distribution paid on a Share on or after the date of grant.

Share Rights do not carry any voting rights.

**(g) Compliance with ASX Listing Rules 7.1A.4 and 3.10.5A**

When the Company issues Equity Securities pursuant to the 10% Placement Capacity, it will give to ASX:

- (i) A list of the allottees of the Equity Securities and the number of Equity Securities allotted to each (not for release to the market), in accordance with Listing Rule 7.1A.4; and
- (ii) The information required by Listing Rule 3.10.5A for release to the market.

## **RESOLUTION 7 – Financial Assistance**

**Board recommendation and undirected proxies.** The Board recommends that Shareholders vote in **FAVOUR** of Resolution 7. The Chairman of the meeting intends to vote all undirected proxies in **FAVOUR** of Resolution 7.

### **Background**

Tranche 2 of the deferred consideration in relation to the acquisition of PJA Solutions Pty Ltd (**PJA**) in May 2015 is anticipated to become payable in or around September 2017. Additionally, both tranches of the deferred consideration payable in connection with the Company's acquisition of Kapish Pty Ltd (**Kapish**) and Kapish Services Pty Ltd (**Kapish Services**) are likely to become payable in May 2017 and May 2018.

In order to assist the financing of payment of the deferred consideration for the acquisitions, as well as to refinance existing debt facilities provided by ANZ Bank, the Company intends to use funds to be drawn under a new debt facility (**Facility Agreement**). A number of the subsidiaries of the Company will provide unlimited guarantees, security over all of their assets and various undertakings to the financiers as security for the proposed facilities under the Facility Agreement. It is proposed that the Company and all wholly owned subsidiaries (including PJA, Kapish and Kapish Services) will accede to the Facility Agreement as a guarantor. As the funding under the Facility Agreement will be used to fund the Group's general corporate activities in to the future the amount provided under the Facility Agreement, and therefore secured under the guarantees and the securities, will vary in accordance with the Group's funding needs from time to time.

### **Financial assistance**

The accession of PJA, Kapish and Kapish Services to the Facility Agreement and other finance documents, the provision by PJA, Kapish and Kapish Services of the guarantees and indemnities contained in the Facility Agreement and the security over all of their assets and the performance by PJA, Kapish and Kapish Services of their rights and obligations under the Facility Agreement and other finance documents constitutes the giving of financial assistance in connection with the Company's acquisition of those companies (within the meaning of Part 2J.3 of the Corporations Act) as could any refinancing of those facilities in the future.

### **Reasons for resolution**

Under section 260A(1) of the Corporations Act, any such financial assistance may be approved by the Shareholders by a special resolution passed at a general meeting of that company. Furthermore, if, immediately after the acquisition, a company will be a subsidiary of another corporation that is listed in Australia, then the financial assistance must also be approved by a special resolution passed under section 260B(2) of the Corporations Act at a general meeting of shareholders of that company.

Pursuant to section 260B(2) of the Corporations Act, it is proposed that the provision of financial assistance is approved by a special resolution passed at the annual general meeting of the Company.

The reason for the giving of the financial assistance described above is to enable the Company to comply with what the Company anticipates to be certain obligations under the Facility Agreement, in particular, the obligation to procure certain subsidiaries to guarantee the obligations of Group Companies that are borrowers and guarantors under the Facility Agreement. If such obligations are not complied with, an 'event of default' may occur under the Facility Agreement and the funding may be required to be repaid. Alternatively, it may be a condition precedent to such funding and, if such obligations are not complied with, funding may be refused. The Facility Agreement will provide finance to the Company to enable the Group Companies to fund their activities.

It is common for newly acquired subsidiaries to provide guarantees, security and undertakings of the type outlined above so that financiers of the Group Companies have security which extends to all of the assets of the Group Companies. The Directors are of the view that the giving of financial assistance as described in this Explanatory Memorandum is unlikely to have an adverse effect on PJA, Kapish and Kapish Services because the Company does not expect any default to arise under the financing facilities and therefore does not expect that any guarantees or securities of the Group Companies to be enforced by the financiers. On the other hand, the financing facilities will assist the Group Companies (including PJA, Kapish and Kapish Services) in conducting and expanding their businesses moving forward under their ownership of the Group.

#### **Disclosure**

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could be reasonably required by a shareholder in deciding how to vote on this proposed resolution, other than information that would be unreasonable to require the Company to disclose because the Company has previously disclosed that information to its shareholders.



### **Questions and Comments by Shareholders at the Meeting**

In accordance with the Corporations Act, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions or make comments on the management of the Company at the Annual General Meeting.

Similarly, a reasonable opportunity will be given to Shareholders - as a whole - to ask questions of the Company's external Auditor, PricewaterhouseCoopers relevant to:

- (a) the conduct of the audit;
- (b) the preparation and contents of the audit;
- (c) the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- (d) the independence of the Auditor in relation to the conduct of the audit.

Shareholders may also submit a written question to PricewaterhouseCoopers if the question is relevant to the content of PricewaterhouseCoopers' audit report or the conduct of its audit of the Company's financial report for the year ended 30 June 2016.

Relevant written questions to PricewaterhouseCoopers must be made no later than 7:00pm (AEDT) on **17 October 2016**. A list of those questions will be made available to Shareholders attending the meeting. PricewaterhouseCoopers will either answer questions at the meeting or table written answers to them at the meeting. If written answers are tabled at the meeting, they will be made available to Shareholders as soon as practicable after the meeting.

### **Please send written questions for PricewaterhouseCoopers marked to:**

- 1. Facsimile: +61 (2) 6271 3999; or
- 2. Post to: Attention David Murphy  
PricewaterhouseCoopers  
GPO Box 447  
Canberra ACT 2601

**by no later than 7:00pm (AEDT) on 2 November 2016.**

## GLOSSARY

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"**ASX**" means ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

"**Company**" means The Citadel Group Limited ACN 127 151 236;

"**Corporations Act**" means *Corporations Act 2001* (Cth);

"**Director**" means a director of the Company;

"**Equity Plan**" means the employee share option plan of the Company, a summary of which was set out in the Prospectus issued by the Company dated 23 October 2014;

"**Group Companies**" means the Company and each of its wholly owned subsidiaries from time to time;

"**Kapish**" means Kapish Pty Ltd (ACN 116 017 728);

"**Kapish Services**" means Kapish Services Pty Ltd (ACN 144 850 162);

"**KMP Members**" means members of the key management personnel of the Company being the Directors and the key management personnel members as disclosed in the remuneration report which forms part of the Company's annual report for the year ended 30 June 2016) other than the chairman;

"**Listing Rules**" means the Listing Rules of the ASX;

"**Notice**" means the Notice of General Meeting accompanying this Explanatory Memorandum;

"**PJA**" means PJA Solutions Pty Ltd (ACN 007 229 923);

"**Share**" means a fully paid ordinary shares in the Company.

"**Shareholders**" mean holders of Shares; and

"**Share Right**" means a share right issued under the Employee Share Option Plan.

## PROXY AND VOTING INSTRUCTIONS

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For the purpose of determining a person's entitlement to vote at the Meeting, a person will be recognised as a Shareholder if that person is registered as a holder of Shares at **7.00pm (AEDT) on 7 November 2016**.

A Shareholder entitled to attend and vote at the Meeting may appoint one or two proxies to attend and vote on their behalf. Where two proxies are appointed, each proxy may be appointed to represent a specific proportion of the Shareholder's voting rights. If the appointment does not specify the proportion or number of votes, each proxy may exercise half of the votes (in which case any fraction of votes will be disregarded). Each proxy will have the right to vote on a poll and also to speak at the Meeting

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) must be completed and returned to the Company no later than **5.00 pm (AEDT) on Monday, 7 November 2016** by:

- lodging it with Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138;
- posting it in the reply paid envelope to The Citadel Group Limited, Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235; or
- faxing it to 61 2 9287 0309.

Any Proxy Form received after that time will not be valid for the scheduled meeting.

The proxy form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a corporation, in a manner permitted by the Corporations Act. A proxy given by a foreign corporation must be executed in accordance with the laws of that corporation's place of incorporation. The proxy may, but need not, be a Shareholder of the Company. A proxy form is attached to this Notice of Meeting.

### Statement regarding undirected proxies

As disclosed on the proxy form it is the intention of the Chairman of the Meeting to vote any undirected proxies in favour of all resolutions. Pursuant to the Listing Rules the proxy form is required to contain certain disclosures regarding the voting intentions of the Chairman regarding undirected proxies. Shareholders are advised to read the proxy form carefully.

### Corporate representatives

Any corporation which is a Shareholder of the Company may authorise (by certificate under common seal or other form of execution authorised by the laws of that corporation's place of incorporation, or in any other manner satisfactory to the Chairman of the Meeting) a natural person to act as its representative at the Meeting.

### Voting entitlement

On a poll, Shareholders have one vote for every fully paid ordinary Share held.